

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the 2014 Notes (including original issue discount treated as interest) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating alternative minimum taxable income. Bond Counsel also is of the opinion that, under existing laws of the Commonwealth of Kentucky, interest on the 2014 Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the 2014 Notes are exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments, and by all political subdivisions thereof. See "CERTAIN FEDERAL INCOME TAX CONSEQUENCES" herein for a more complete description of the opinion of Bond Counsel and additional federal tax law consequences.

\$132,175,000

**KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2014 FEDERAL HIGHWAY TRUST FUND FIRST SERIES A**

and

\$39,765,000

**KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2014 FEDERAL HIGHWAY TRUST FUND FIRST REFUNDING SERIES B**

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Project Notes, 2014 Federal Highway Trust Fund First Series A (the "2014A Notes") and Project Notes, 2014 Federal Highway Trust Fund First Refunding Series B (the "2014B Notes," and together with the 2014A Notes, the "2014 Notes"), will be issued only as fully registered notes, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2014 Notes. Purchasers will not receive certificates representing their ownership interest in the 2014 Notes purchased. So long as DTC or its nominee is the registered owner of the 2014 Notes, payments of the principal of and interest due on the 2014 Notes will be made directly to DTC. The 2014 Notes will be issued in denominations of \$5,000 or any integral multiples thereof. Principal of and interest on the 2014 Notes will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee" and "Paying Agent").

The 2014 Notes will bear interest payable on each March 1 and September 1, commencing on September 1, 2014. The 2014 Notes are in the amounts, bear interest at the rates per annum and have the prices and yields as shown on the inside cover.

The 2014A Notes are subject to redemption prior to maturity, under certain circumstances, as set forth herein. See "THE 2014 NOTES – Redemption."

The Kentucky Asset/Liability Commission (the "Commission") is issuing the 2014 Notes pursuant to a Resolution of the Commission adopted February 14, 2014, to pay (i) the costs of portions of the Project (as described and defined herein), (ii) the costs of refunding in advance of maturity the Commission's outstanding Project Notes, 2005 Federal Highway Trust Fund First Series maturing on September 1, 2015 through September 1, 2017, inclusive (the "Refunded Notes"), and (iii) the costs of issuing the 2014 Notes. See "THE PROJECT AND PLAN OF REFUNDING" herein. The 2014A Notes are being issued as Additional Notes (as defined herein) and the 2014B Notes are being issued as Refunding Notes (as defined herein) pursuant to the Master Trust Indenture dated as of May 1, 2005, as previously supplemented by a Series Trust Indenture dated as of May 1, 2005, a Series Trust Indenture dated as of September 1, 2007, a Series Trust Indenture dated as of March 1, 2010, a Series Trust Indenture dated as of August 1, 2013, and as further supplemented by a Series Trust Indenture dated as of March 1, 2014 (as so supplemented, the "Indenture"), each between the Commission and the Trustee, See "THE 2014 NOTES" herein.

The 2014 Notes together with the Commission's outstanding Project Notes, 2005 Federal Highway Trust Fund First Series (the "2005 Notes"), 2007 Federal Highway Trust Fund First Series (the "2007 Notes"), 2010 Federal Highway Trust Fund First Series A (the "2010 Notes"), 2013 Federal Highway Trust Fund First Series A (the "2013 Notes") and any Additional Notes issued under the Indenture (collectively, the "Notes") and any interest due thereon, are payable solely from a special fund created under the Indenture and defined therein as the Note Payment Fund (the "Note Payment Fund"), into which payments received from the Transportation Cabinet (the "State Agency"), a department and agency of the Commonwealth of Kentucky (the "Commonwealth"), are to be deposited. Such payments arise under a Financing/Lease Agreement dated as of May 1, 2005, as supplemented and amended by a First Supplement to Financing/Lease Agreement dated as of September 1, 2007, a Second Supplement to Financing/Lease Agreement dated as of March 1, 2010, a Third Supplement to Financing/Lease Agreement dated as of August 1, 2013 and a Fourth Supplement to Financing/Lease Agreement dated as of March 1, 2014 (as so supplemented and amended, the "Financing Agreement"), each by and among the Commission, the State Agency and the Commonwealth of Kentucky Finance and Administration Cabinet. The Kentucky General Assembly has appropriated to the State Agency, from Federal Highway Administration ("FHWA") funds described below, amounts projected to be sufficient to meet principal and interest requirements on the Notes through June 30, 2014. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary session of the Kentucky General Assembly. There can be no assurance that (i) the FHWA funds that are available will be appropriated 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. See "SECURITY FOR THE 2014 NOTES" and "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE FINANCING AGREEMENT" herein.

The State Agency has entered into the Memorandum of Agreement (as defined herein) with the FHWA. The Memorandum of Agreement provides that FHWA will reimburse the State Agency for debt service and costs incurred for the Notes, including principal, interest and other bond related costs, as provided in Title 23, Section 122, United States Code. Payments by the State Agency under the Financing Agreement ("Financing Payments") are payable solely from FHWA Funds (as defined herein) that are paid to the State Agency pursuant to the Memorandum of Agreement and in accordance with Title 23 (as defined herein).

THE NOTES ARE SPECIAL OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE COMMONWEALTH, THE COMMISSION, OR ANY OTHER AGENCY OR POLITICAL SUBDIVISION OF THE COMMONWEALTH, WITHIN THE MEANING OF THE CONSTITUTION OR STATUTES OF THE COMMONWEALTH, AND NEITHER THE FAITH OR CREDIT, NOR THE TAXING POWER OF ANY OF THE FOREGOING ARE PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTES.

The 2014 Notes are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams, A division of Dinsmore & Shohl LLP, Covington, Kentucky. It is expected that delivery of the 2014 Notes will be made on or about March 19, 2014, through the facilities of DTC, against payment therefor.

Goldman, Sachs & Co.

Citigroup

J.J.B. Hilliard, W.L. Lyons, LLC
PNC Capital Markets LLC
Fifth Third Securities

Raymond James & Associates, Inc.
First Kentucky Securities Corp.
Sterne, Agee & Leach, Inc.

Dated: March 5, 2014.

\$132,175,000
KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2014 FEDERAL HIGHWAY TRUST FUND FIRST SERIES A

Dated: Date of delivery

Maturity: September 1, as shown below

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2023	\$625,000	3.000%	2.810%	49118N EJ0
2023	23,200,000	5.000	2.810	49118N EN1
2024	6,765,000	3.250	3.000	49118N EK7
2024	18,240,000	5.000	3.000	49118N EP6
2025	5,800,000	3.500	3.180	49118N EL5
2025	20,330,000	5.000	3.180	49118N EQ4
2026	6,780,000	3.750	3.350	49118N EM3
2026	50,435,000	5.000	3.350	49118N ER2

\$39,765,000
KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2014 FEDERAL HIGHWAY TRUST FUND FIRST REFUNDING SERIES B

Dated: Date of delivery

Maturity: September 1, as shown below

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2015	\$850,000	1.000%	0.270%	49118N ES0
2015	11,785,000	5.000	0.270	49118N EV3
2016	50,000	1.000	0.420	49118N ET8
2016	13,185,000	5.000	0.420	49118N EW1
2017	600,000	1.000	0.660	49118N EU5
2017	13,295,000	5.000	0.660	49118N EX9

* Copyright 2013, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the Noteholders only at the time of issuance of the Notes and the Commission does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Notes as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Notes.

This Official Statement does not constitute an offer to sell the 2014 Notes to any person, or the solicitation of an offer from any person to buy the 2014 Notes, in any jurisdiction where such offer or such solicitation of an offer to buy would be unlawful. The information set forth herein is provided by the Commonwealth of Kentucky from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriters. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Commonwealth of Kentucky or the Underwriters. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any 2014 Notes shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. This Official Statement is submitted in connection with the issuance of the 2014 Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE 2014 NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON CERTAIN EXEMPTIONS CONTAINED IN SUCH FEDERAL LAWS. THE 2014 NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE 2014 NOTES ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

KENTUCKY ASSET/LIABILITY COMMISSION

COMMISSION MEMBERS

Lori H. Flanery, Secretary of the Finance and Administration Cabinet, Chairperson
Jack Conway, Attorney General
Todd Hollenbach, State Treasurer
Edgar C. Ross, State Controller
Jane Driskell, State Budget Director

SECRETARY TO THE COMMISSION

Ryan Barrow, Executive Director of the Office of Financial Management

TRUSTEE AND PAYING AGENT

The Bank of New York Mellon Trust Company, N.A.
Louisville, Kentucky

BOND COUNSEL

Kutak Rock LLP
Omaha, Nebraska

UNDERWRITERS' COUNSEL

Peck, Shaffer & Williams, a division of Dinsmore & Shohl LLP
Covington, Kentucky

TABLE OF CONTENTS

	Page
SUMMARY	S-1
INTRODUCTION	1
THE 2014 NOTES	2
General.....	2
Redemption.....	2
Book-Entry-Only System	3
Authorization	3
SECURITY FOR THE 2014 NOTES.....	3
General.....	3
Additional Notes	4
THE PROJECT AND PLAN OF REFUNDING.....	5
The Project.....	5
Plan of Refunding.....	6
ESTIMATED SOURCES AND USES OF FUNDS	7
INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS.....	7
The Federal-Aid Highway Program	7
Reauthorization.....	8
The Federal Highway Trust Fund.....	9
Rescission	11
Operations.....	12
The Memorandum of Agreement	19
STIP and Long Range Plan Conformity with Federal Clean Air Requirements	20
FEDERAL AID REVENUES.....	20
DEBT SERVICE REQUIREMENTS FOR THE NOTES	22
THE STATE AGENCY AND MANAGEMENT OF STATE HIGHWAY PROGRAM.....	22
The State Agency.....	22
Management of the State Highway Program.....	23
THE KENTUCKY ASSET/LIABILITY COMMISSION	23
General Information.....	23
Financings of the Commission	24
Future Financings	26
THE FINANCE AND ADMINISTRATION CABINET	27
THE COMMONWEALTH	27
Financial Information Regarding the Commonwealth	28
Certain Financial Information Incorporated by Reference	29
Budgetary Process in the Commonwealth	29
Investment Policy	29
SUMMARY OF CERTAIN PROVISIONS OF	
THE MASTER INDENTURE AND THE FINANCING AGREEMENT	31
Definitions	31
The Master Indenture.....	37
The Financing Agreement	52
CERTAIN FEDERAL INCOME TAX CONSEQUENCES.....	55
General.....	55
Tax Treatment of Original Issue Discount	55
Tax Treatment of Original Issue Premium	56
Backup Withholding.....	56
Exemption Under State Tax Law.....	56
Changes in Federal and State Tax Law	57
LITIGATION.....	57

TABLE OF CONTENTS

(continued)

	Page
APPROVAL OF LEGALITY.....	57
RATINGS	57
CONTINUING DISCLOSURE.....	57
VERIFICATION OF MATHEMATICAL COMPUTATIONS.....	58
UNDERWRITING	59
MISCELLANEOUS	60
EXHIBIT A - DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY	
EXHIBIT B - MEMORANDUM OF AGREEMENT (KENTUCKY LAKE AND LAKE BARKLEY PROJECT) AND POLICY STATEMENT	
EXHIBIT C - FORM OF BOND COUNSEL OPINION FOR THE 2014 NOTES	
EXHIBIT D - BOOK-ENTRY-ONLY SYSTEM	

SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Kentucky Asset/Liability Commission (the "Commission"), the Commonwealth of Kentucky Transportation Cabinet (the "State Agency") and the 2014 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 2014 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 2014 Notes unless the entire Official Statement is delivered in connection therewith.

- The Commission** The Commission is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE KENTUCKY ASSET/LIABILITY COMMISSION" herein.
- The State Agency** The State Agency is a department and agency of the Commonwealth responsible for the management of the State Highway Program. See "THE STATE AGENCY AND MANAGEMENT OF STATE HIGHWAY PROGRAM" herein.
- The Offering** The Commission is offering its \$132,175,000 Project Notes, 2014 Federal Highway Trust Fund First Series A (the "2014A Notes") and \$39,765,000 Project Notes, 2014 Federal Highway Trust Fund First Refunding Series B (the "2014B Notes," and together with the 2014A Notes, the "2014 Notes"). See "THE 2014 NOTES" herein.
- Authority** The 2014 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 February 14, 2014, the Master Trust Indenture dated as of May 1, 2005, as previously supplemented by a Series Trust Indenture dated as of May 1, 2005, a Series Trust Indenture dated as of September 1, 2007, a Series Trust Indenture dated as of March 1, 2010, a Series Trust Indenture dated as of August 1, 2013, and as further supplemented by a Series Trust Indenture dated as of March 1, 2014 (as so supplemented, the "Indenture"), between the Commission and The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as successor trustee and paying agent (the "Trustee" and "Paying Agent"). The State Property and Buildings Commission of the Commonwealth also approved the issuance of the 2014 Notes on February 14, 2014.
- Use of Proceeds** The proceeds of the 2014A Notes, together with other funds, will be used by the Commission to (i) pay the costs of a portion of the Project, and (ii) pay the costs of issuing the 2014A Notes. The proceeds of the 2014B Notes, together with other funds, will be used by the Commission to (i) pay the costs of refunding in advance of maturity the Commission's outstanding Project Notes, 2005 Federal Highway Trust Fund First Series maturing on September 1, 2015 through September 1, 2017, inclusive (the "Refunded Notes"), and (ii) pay the costs of issuing the 2014B Notes. See "THE PROJECT AND PLAN OF REFUNDING" herein.
- Features** The 2014 Notes will be dated as of the date of delivery, and will bear interest on each March 1 and September 1, commencing September 1, 2014, at the rates set

forth on the inside cover page of this Official Statement and will mature on the dates set forth on the inside cover page of this Official Statement. The 2014A Notes are subject to redemption prior to their respective maturities as described herein. The 2014B Notes are not subject to redemption prior to their respective maturities. See "THE 2014 NOTES – Redemption."

The 2014 Notes are issuable only as fully registered Notes, without coupons.

The 2014 Notes are being offered in the authorized denominations of \$5,000 or any integral multiples thereof, at the rates shown on the inside cover page hereof. The 2014 Notes, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2014 Notes. Purchasers will not receive certificates representing their ownership interest in the 2014 Notes purchased. So long as DTC or its nominee is the registered owner of the 2014 Notes, payments of the principal of and interest due on the 2014 Notes will be made directly to DTC.

Principal of and interest on the 2014 Notes will be paid directly to DTC by the Trustee.

It is expected that delivery of the 2014 Notes will be made on or about March 19, 2014, through the facilities of DTC, against payment therefor.

Security

The 2014A Notes are being issued as Additional Notes and the 2014B Notes are being issued as Refunding Notes under the Indenture and are secured by a pledge of the Pledged Receipts on a parity with the Commission's outstanding Project Notes, 2005 Federal Highway Trust Fund First Series (the "2005 Notes"), its Project Notes, 2007 Federal Highway Trust Fund First Series (the "2007 Notes"), its Project Notes 2010 Federal Highway Trust Fund First Series A (the "2010 Notes") and its Project Notes 2013 Federal Highway Trust Fund First Series A (the "2013 Notes"). See "SECURITY FOR THE 2014 NOTES – Additional Notes." The Notes (including the 2005 Notes, the 2007 Notes, the 2010 Notes, the 2013 Notes, the 2014 Notes and any Additional Notes) and any interest due thereon are payable solely and only from a special fund created under the Indenture and defined therein as the Note Payment Fund (the "Note Payment Fund"), into which payments received from the State Agency are to be deposited. Such payments arise under a Financing/Lease Agreement dated as of May 1, 2005 (the "Original Financing Agreement"), as supplemented and amended by the First Supplement to Financing/Lease Agreement, dated as of September 1, 2007 (the "First Supplemental Financing Agreement"), the Second Supplement to Financing/Lease Agreement, dated as of March 1, 2010 (the "Second Supplemental Financing Agreement"), the Third Supplement to Financing/Lease Agreement, dated as of August 1, 2013 (the "Third Supplemental Financing Agreement") and the Fourth Supplement to Financing/Lease Agreement, dated as of March 1, 2014 (the "Fourth Supplemental Financing Agreement" and, together with the Original Financing Agreement, and the First Supplemental Financing Agreement, the Second Supplemental Financing Agreement and the Third Supplemental Financing Agreement, the "Financing Agreement"), by and among the Commission, the State Agency and the Commonwealth of Kentucky Finance and Administration Cabinet.

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

The Kentucky General Assembly has appropriated to the State Agency, from Federal Highway Administration ("FHWA") funds described below, amounts projected to be sufficient to meet principal and interest requirements on the Notes through June 30, 2014. 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) THE FHWA FUNDS THAT ARE AVAILABLE WILL BE APPROPRIATED 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.

Appropriations to the State Agency to pay amounts due under the Financing Agreement are to be made solely from FHWA funds that are available to the State Agency, pursuant to the Memorandum of Agreement (as defined herein), under Section 122 of Title 23, United States Code, Highways, for such purpose. See "INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS" herein for information regarding these funds. Under the Financing Agreement, the State Agency is not obligated to request an appropriation of funds (for the payment of amounts due) from any other source.

The Notes are also secured by certain other funds and accounts pledged therefore and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE FINANCING AGREEMENT" herein.

The Commission may issue Additional Notes on a parity basis with the 2014 Notes under certain circumstances. See "SECURITY FOR THE 2014 NOTES – Additional Notes" herein.

THE 2014 NOTES ARE SPECIAL OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE COMMONWEALTH, THE COMMISSION, OR ANY OTHER AGENCY OR POLITICAL SUBDIVISION OF THE COMMONWEALTH WITHIN THE MEANING OF THE CONSTITUTION OR STATUTES OF THE COMMONWEALTH, AND NEITHER THE FAITH OR CREDIT, NOR THE TAXING POWER OF ANY OF THE FOREGOING ARE PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE 2014 NOTES.

Tax Status

Subject to compliance by the Commission, the Cabinet and others with certain covenants, in the opinion of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel, under present law, interest on the 2014 Notes (including original issue discount treated as interest) is (i) excluded from gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, except that such interest must be included in the "adjusted current

earnings" of certain corporations for purposes of calculating alternative minimum taxable income. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the 2014 Notes is exempt from Kentucky income tax and the 2014 Notes are exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments, and by all political subdivisions thereof. See "CERTAIN FEDERAL INCOME TAX CONSEQUENCES" herein and "EXHIBIT C – FORM OF BOND COUNSEL OPINION FOR THE 2014 NOTES" for a more complete description of the opinions of Bond Counsel and additional federal tax law consequences.

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 audited financial information, and 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 "Continuing Disclosure Agreement") with the Trustee.

General

This Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in this 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.

Information

Information regarding the 2014 Notes is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924 or the Underwriter, Goldman, Sachs & Co., 200 West Street, New York, New York 10282 (917) 343-7900.

OFFICIAL STATEMENT

\$132,175,000

**KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2014 FEDERAL HIGHWAY TRUST FUND FIRST SERIES A**

and

\$39,765,000

**KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2014 FEDERAL HIGHWAY TRUST FUND FIRST REFUNDING SERIES B**

INTRODUCTION

This Official Statement ("Official Statement"), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission") to furnish information to the purchasers of its \$132,175,000 Project Notes, 2014 Federal Highway Trust Fund First Series A (the "2014A Notes") and \$39,765,000 Project Notes, 2014 Federal Highway Trust Fund First Series B (the "2014B Notes," and together with the 2014A Notes, the "2014 Notes"). The 2014 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 February 14, 2014 (the "Resolution"), the Master Trust Indenture dated as of May 1, 2005, as previously supplemented by a Series Trust Indenture (the "2005 Series Indenture") dated as of May 1, 2005, a Series Trust Indenture (the "2007 Series Indenture") dated as of September 1, 2007, a Series Trust Indenture (the "2010 Series Indenture") dated as of March 1, 2010, a Series Trust Indenture (the "2013 Series Indenture") dated as of August 1, 2013 and as further supplemented by a Series Trust Indenture (the "2014 Series Indenture") dated as of March 1, 2014 (as so supplemented, the "Indenture"), each between the Commission and The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as successor trustee and paying agent (the "Trustee" and "Paying Agent").

The proceeds of the 2014A Notes, together with other funds, will be used to (i) pay the costs of a portion of the Project and (ii) pay the costs of issuing the 2014A Notes. The proceeds of the 2014B Notes, together with other funds, will be used to (i) pay the costs of refunding in advance of maturity the Commission's outstanding Project Notes, 2005 Federal Highway Trust Fund First Series maturing on September 1, 2015 through September 1, 2017, inclusive (the "Refunded Notes"), and (ii) pay the costs of issuing the 2014B Notes. See "THE PROJECT AND PLAN OF REFUNDING" herein.

The Commission previously has issued its Project Notes, 2005 Federal Highway Trust Fund First Series, in the original aggregate principal amount of \$139,635,000 (the "2005 Notes"), its Project Notes, 2007 Federal Highway Trust Fund First Series, in the original aggregate principal amount of \$277,910,000 (the "2007 Notes"), its Project Notes, 2010 Federal Highway Trust Fund First Series A, in the original aggregate principal amount of \$89,710,000 (the "2010 Notes") and its Project Notes, 2013 Federal Highway Trust Fund First Series A, in the original aggregate principal amount of \$212,545,000 (the "2013 Notes"), pursuant to the Indenture. The 2014A Notes are being issued as Additional Notes and the 2014B Notes are being issued as Refunding Notes under the Indenture secured by a pledge of the Pledged Receipts on a parity with the 2005 Notes, the 2007 Notes, the 2010 Notes and the 2013 Notes. The 2005 Notes, the 2007 Notes, the 2010 Notes, the 2013 Notes and the 2014 Notes and any Series of Additional Notes issued under the Indenture are referred to in this Official Statement as "the Notes."

The 2014 Notes and the interest thereon are payable solely from payments of Financing Payments (as defined herein) to be made by the Kentucky Transportation Cabinet (the "State Agency") to the Commission under the Financing/Lease Agreement dated as of May 1, 2005 (the "Original Financing Agreement"), as supplemented and amended by the First Supplement to Financing/Lease Agreement dated as of September 1, 2007, the Second Supplement to Financing/Lease Agreement, dated as of March 1, 2010, the Third

Supplement to Financing/Lease Agreement, dated as of August 1, 2013 and the Fourth Supplement to Financing/Lease Agreement, dated as of March 1, 2014 (the "Supplemental Financing Agreements" and, together with the Original Financing Agreement, the "Financing Agreement"), each by and among the Commission, the Commonwealth of Kentucky Finance and Administration Cabinet (the "Cabinet") and the State Agency. Financing Payments due from the State Agency under the Financing Agreement are payable solely from FHWA Funds (as defined herein) that are paid to the State Agency in accordance with Title 23 (as defined herein) under the Memorandum of Agreement executed in April of 2005 between the State Agency and the Federal Highway Administration ("FHWA"), as supplemented and amended from time to time (the "Memorandum of Agreement"). The 2014 Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SECURITY FOR THE 2014 NOTES" herein.

The summaries and references to the 2014 Notes, the Act, the Indenture and the Financing Agreement 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 ("OFM"), 702 Capitol Avenue, Room 76, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of the Underwriter, Goldman, Sachs & Co., 200 West Street, New York, New York 10282 (917) 343-7900.

Capitalized terms used in this Official Statement and not otherwise defined will have the meanings given them under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE FINANCING AGREEMENT - Definitions" herein, in the Indenture or in the Financing Agreement.

THE 2014 NOTES

General

The 2014 Notes are issuable only as fully registered Notes. The 2014 Notes will be issuable in the denominations of \$5,000 or any integral multiples thereof, will be dated as of the date of delivery, will bear interest payable on each March 1 and September 1, commencing September 1, 2014, at the rates set forth on the inside cover page of this Official Statement and will mature on the dates set forth on the inside cover page of this Official Statement. Principal of and interest on the 2014 Notes are payable in lawful money of the United States to the registered owner of the 2014 Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York, pursuant to the global book-entry system operated by DTC. See "EXHIBIT D – BOOK-ENTRY-ONLY SYSTEM."

Redemption

The 2014A Notes maturing on or prior to September 1, 2024 and the 2014B Notes are not subject to optional redemption prior to maturity. The 2014A Notes maturing on or after September 1, 2025 are subject to redemption at the option of the Commission on or after September 1, 2024, in whole or in part at any time, at a redemption price equal to 100% of the principal amount of the 2014A Notes to be redeemed, plus accrued interest to the date fixed for redemption.

The Paying Agent shall 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 all Holders of 2014A 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 2014A Note will affect the validity of the redemption of any other 2014A Note with respect to which such notice was properly given. Any such notice shall (i) identify the 2014A Notes to be redeemed (and, in the case of partial redemption of any 2014A Notes, the principal amounts thereof to be redeemed), (ii) specify the Redemption Date and the redemption price, and (iii) state that on the Redemption Date the 2014A Notes (or portions of 2014A 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 2014A Notes will cease to accrue.

Book-Entry-Only System

The 2014 Notes initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by DTC. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Notes and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the 2014 Notes under the Indenture. For additional information about DTC and the book-entry-only system see "EXHIBIT D – BOOK-ENTRY-ONLY SYSTEM."

Authorization

The Commission, at a meeting on February 14, 2014, adopted the Resolution, which, among other things (i) authorized the 2014 Series Indenture, (ii) authorized and approved the issuance of the 2014 Notes, subject to approval by a representative of OFM acting as authorized officer of the Commission (the "Authorized Officer"), (iii) authorized the Fourth Supplemental Financing Agreement and (iv) directed the preparation and distribution of this Official Statement.

The State Property and Buildings Commission of the Commonwealth also approved the issuance of the 2014 Notes at its meeting on February 14, 2014.

SECURITY FOR THE 2014 NOTES

General

The Notes, including the 2005 Notes, the 2007 Notes, the 2010 Notes, the 2013 Notes and the 2014 Notes and any Additional Notes, and any interest due thereon are payable solely and only from a special fund created under the Indenture defined therein as the Note Payment Fund (the "Note Payment Fund"). Pursuant to the Indenture, payments received from the State Agency arising under the Financing Agreement are to be deposited into the Note Payment Fund.

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

The Kentucky General Assembly has appropriated to the State Agency, from FHWA Funds defined below under "Additional Notes," amounts sufficient to meet the Financing Payments under the Financing Agreement and therefore to permit the Commission to meet the debt service requirements of the 2014 Notes, through June 30, 2014. The availability of funds to pay Financing Payments under the Financing Agreement are (i) dependent on the availability of a sufficient amount of FHWA Funds and (ii) the appropriation of a sufficient amount of those FHWA Funds. See "INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS" herein for information regarding FHWA Funds. The appropriation of FHWA Funds that are available to the State Agency is 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) the FHWA funds that are available will be appropriated 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. FAILURE OF THE STATE AGENCY TO RECEIVE FHWA FUNDS OR TO HAVE AVAILABLE FHWA FUNDS APPROPRIATED FOR THE PAYMENT OF

FINANCING PAYMENTS WILL HAVE A MATERIAL ADVERSE EFFECT ON THE COMMISSION'S ABILITY TO PAY THE PRINCIPAL OF AND INTEREST ON THE 2014 NOTES.

The State Agency has entered into, and the Commission and the Cabinet have acknowledged, the Memorandum of Agreement. Under the Memorandum of Agreement, FHWA has agreed to make payments to the State Agency and the State Agency has agreed, subject to appropriation, to remit to the Trustee, when due, an amount equal to the debt service on all outstanding grant anticipation revenue vehicle bonds ("GARVEE Bonds"), including the 2014 Notes. Under the Memorandum of Agreement, the State Agency has agreed to convert the amount of Advance Construction funds (as hereinafter described) necessary to pay such debt service in that Federal Fiscal Year. If only a portion of the annual Obligation Authority (as hereinafter described) is provided, the State Agency will reserve the same pro-rata share of that portion of the Obligation Authority for debt service payments for that year until the full annual Obligation Authority is provided. Furthermore, the State Agency has adopted a Policy Statement to the effect that, if new Obligation Authority is insufficient to pay debt service on GARVEE Bonds, it will evaluate the balances of existing federally-funded projects and take action to de-obligate funds from those projects and re-program those funds to pay debt service, when due. See "INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS – The Federal-Aid Highway Program and The Memorandum of Agreement," herein. See also "EXHIBIT B – MEMORANDUM OF AGREEMENT (KENTUCKY LAKE AND LAKE BARKLEY PROJECT) AND POLICY STATEMENT," herein.

The Notes are also secured by certain other funds and accounts pledged therefore and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE FINANCING AGREEMENT" herein.

THE 2014 NOTES ARE SPECIAL OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE COMMONWEALTH, THE COMMISSION, OR ANY OTHER AGENCY OR POLITICAL SUBDIVISION OF THE COMMONWEALTH WITHIN THE MEANING OF THE CONSTITUTION OR STATUTES OF THE COMMONWEALTH, AND NEITHER THE FAITH OR CREDIT, NOR THE TAXING POWER OF ANY OF THE FOREGOING ARE PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE 2014 NOTES.

Additional Notes

Under the Indenture, the Commission has reserved the right and authority to issue Additional Notes if it has received a certificate of an Authorized Representative of the State Agency stating that the amount of FHWA Funds received during the most recently completed Federal Fiscal Year was equal to at least 400% of the Maximum Annual Debt Service for all Notes Outstanding in the current and each future Federal Fiscal Year including the Additional Notes proposed to be issued, but in the case of a Series of Additional Notes to be issued for refunding purposes, excluding the Note Payments on the Notes to be refunded, with:

"Federal Fiscal Year" defined as, the period commencing October 1 of any year and ending September 30 of the ensuing year, or any other fiscal year of the FHWA.

"FHWA Funds" defined as, all amounts available to the State Agency to pay amounts due with respect to an Eligible Debt Financing Instrument, as defined in Section 122 of Title 23, or amounts under any similar or successor provisions of law regarding the use of funds payable to the State Agency by FHWA.

"Maximum Annual Debt Service" defined as, the sum of all amounts required to be paid, during the current or any future Federal Fiscal Year commencing after the date of such calculation, or set aside during such Federal Fiscal Year, for payment of debt service on all Outstanding Notes.

For the purpose of determining the Maximum Annual Debt Service, variable rate Notes are deemed to bear interest at the maximum rate of interest applicable to such variable rate Notes; provided however that if

such maximum rate of interest is less than the interest rate quoted in *The Bond Buyer 25 Revenue Bond Index* (the "Index Rate") as published in *The Bond Buyer* for the last week of the month preceding the date of issuance of such variable rate Notes, then the interest rate on such variable rate Notes shall be deemed to be the Index Rate. If *The Bond Buyer 25 Revenue Bond Index* is no longer published, an index that is deemed to be substantially equivalent by nationally recognized bond counsel may be substituted therefore. Also for the purpose of determining the Maximum Annual Debt Service, any Note scheduled to be Outstanding during such period that is subject to tender at the option of the Holder will be assumed to mature on the stated maturity date or mandatory sinking fund payment date thereof.

The Commission has also reserved the right to issue notes that are secured by a pledge of the Pledged Receipts that is subordinate to the pledge created by the Indenture, and that do not rank on a basis of equality and parity with the Notes, but only if such subordinate notes are issued in express recognition of the priorities, liens and rights created and existing for the security and source of payment and protection of the Notes.

In addition, the Commission has reserved the right, in addition to issuing Notes as described in the first paragraph under this heading, to issue Refunding Notes which may be on a parity as to security with the Notes in order to refund any Notes then Outstanding, so long as Maximum Annual Debt Service is not increased as a result of issuing such Refunding Notes.

Furthermore, whenever the Commission has authorized or made provision for the authorization of the issuance of a Series of Notes, the Commission also reserved the right in the Indenture to authorize the issuance of Construction Notes in anticipation of the sale of that Series of Notes in a principal amount not exceeding the principal amount of that Series of Notes. The principal or any interest on such Construction Notes and renewals thereof may be payable from and secured by a pledge of Pledged Receipts that is (i) subordinate to the pledge of such Pledged Receipts as security for Outstanding Notes or (ii) on a parity with the pledge of such Pledged Receipts securing Outstanding Notes, but, as to any parity pledge, only if the requirements described under this heading for the issuance of Additional Notes would be satisfied assuming the principal amount of such Construction Notes would be amortized over 20 years on a level payment basis at prevailing market interest rates existing at the time of the issuance of the Construction Notes.

THE PROJECT AND PLAN OF REFUNDING

The Project

A portion of the proceeds of the 2014A Notes will be used to finance the Project. The Project consists of, collectively, the "Bond Financed Projects" as described in the Memorandum of Agreement, which are also described in the Financing Agreement and in the Budget Act, enacted by the General Assembly of the Commonwealth with respect to Fiscal Years 2013 and 2014 (the "Budget Act"), and the portion thereof to be funded in part by the 2014A Notes consists of the reconstruction of US 68/US 80 from Aurora to Cadiz Kentucky and the construction of two projects known as the "Kentucky Lake Project" and the "Lake Barkley Project".

The Kentucky Lake Project is comprised of the construction of a new bridge over Kentucky Lake and the widening of approximately 2 miles of US 68/KY 80 from two lanes to four lanes. The alignment will be generally parallel to and just north of the existing bridge. The western project terminus is in Aurora at the US 68/KY 80 split. The eastern project terminus is just east of Kentucky Lake where it will connect to the four lane roadway in the Land Between the Lakes ("LBL"). The existing crossing includes six through truss bridge spans totaling more than 1,600 feet, 1,800 feet of approach bridge spans and two causeways totaling around 2,900 feet. The longest truss span is 368 feet. The existing bridge is known as the Eggners Ferry Bridge and crosses the Tennessee River. It was built in the early 1930s prior to the river being dammed and lake being formed. The bridge was raised in the early 1940s to make room for the lake.

The Lake Barkley Project is comprised of the construction of a new bridge over Lake Barkley and the widening of approximately 1.5 miles of US 68/KY 80 from two lanes to four lanes. The alignment will be generally parallel to and just north of the existing bridge. The western project terminus is just west of Lake Barkley where this project will connect to the four lane roadway in the LBL. The eastern project terminus is just east of the lake where this project will connect to the future four-lane widening in Canton. The existing crossing includes two 321'-6" through truss bridge spans, two 121 foot deck truss spans, more than 2,100 feet of approach bridge spans and two causeways totaling around 1,400 feet. The bridge is known as the Lawrence Memorial Bridge and crosses the Cumberland River. Like the Eggners Ferry Bridge, it too was built in the early 1930s prior to the river being dammed and lake being formed. The bridge was also raised in the early 1940s to make room for the lake.

The FHWA approved the Initial Financial Plan for the Kentucky Lake Project and the Lake Barkley Project on September 27, 2012.

Plan of Refunding

A portion of the proceeds of the 2014B Notes will be used to refund in advance of maturity the Commission's outstanding Project Notes, 2005 Federal Highway Trust Fund First Series maturing on September 1, 2015 through September 1, 2017, inclusive (the "Refunded Notes"). The maturity dates, interest rates, par amounts, redemption dates and redemption prices of the Refunded Notes are set forth below:

<u>Project Notes, 2005 Federal Highway Trust Fund First Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Redemption Date</u>	<u>Call Price</u>
	September 1, 2015	3.625%	\$650,000	March 1, 2015	100.000%
	September 1, 2015	5.000%	12,620,000	March 1, 2015	100.000%
	September 1, 2016	5.000%	13,925,000	March 1, 2015	100.000%
	September 1, 2017	5.000%	14,620,000	March 1, 2015	100.000%

To provide for the refunding of the Refunded Notes, on the date of issuance of the 2014B Notes, certain proceeds of the 2014B Notes will be deposited with the Trustee in an Escrow Fund created under an Escrow Trust Agreement dated as of March 1, 2014 (the "Escrow Agreement") between the Commission and the Trustee, and will be held in cash or used to purchase investments (the "Escrow Obligations") permitted by the Resolution, the Escrow Agreement and the resolution authorizing the Refunded Notes, the principal of and interest on which will be sufficient to pay principal of and interest on the Refunded Notes, when due, on September 1, 2014 and on the date of redemption of the Refunded Notes (the "Refunded Notes Payment Dates"). There are no redemption premiums applicable to the Refunded Notes being redeemed in advance of their maturity. See VERIFICATION OF MATHEMATICAL COMPUTATIONS herein.

Neither the Escrow Obligations nor the interest earned thereon will serve as security or be available for the payment of the principal of or interest on any of the 2014 Notes.

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ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds are to be applied as follows:

Sources

Par Amount of Notes	\$171,940,000.00
Net Original Issue Premium	<u>22,814,042.30</u>
Total Sources	\$194,754,042.30

Uses

Deposit to Project Fund	\$150,000,000.00
Deposit to Escrow Fund	43,855,829.77
Cost of Issuance*	<u>898,212.53</u>
Total Uses	\$194,754,042.30

*Includes underwriter's discount, legal, printing, rating agency fees, trustee fees, and other expenses of the issuance and offering of the 2014 Notes.

INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS

The Federal-Aid Highway Program

The Federal-Aid Highway Program ("FAHP") is an "umbrella" term that encompasses most of the federal programs providing highway funds to the states. The Federal Highway Administration ("FHWA") is the federal agency within the U.S. Department of Transportation responsible for administering the FAHP. The FAHP is financed from the transportation user-related revenues deposited in the Federal Highway Trust Fund. The primary source of revenues in the Federal Highway Trust Fund is derived from the federal excise taxes on motor fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes.

Prior to enactment of the most recent FAHP authorization referred to as MAP-21 (see "MAP-21" below), the FAHP included the Interstate Maintenance Program, the Bridge Program, and the National Highway System Program, among others. MAP-21 consolidates many of these programs into the following core funding programs: the National Highway Performance Program, the Surface Transportation Program, the Congestion Mitigation and Air Quality Improvement Program, the Highway Safety Improvement Program, the Railway-Highway Crossings Program and the Metropolitan Planning Program.

It should be noted that the terms and conditions of participation in the FAHP as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the FAHP will not be changed in the future in a manner that may adversely affect the ability of the Commonwealth to receive adequate FHWA Funds to pay the debt service on the Bonds. The current authorization for the Program, MAP-21, provides for funding through September 30, 2014.

Certain FAHP features or requirements are explained or further defined where they appear below but are introduced here for reference:

- *The Federal Highway Trust Fund* (the "HTF"): The HTF is a dedicated federal fund with dedicated revenues held in trust for reimbursement of expenditures by the states for costs of eligible transportation projects, including highway projects.
- *Authorization*: "Authorization" is the process by which Congress authorizes the expenditure of federal revenues on federal programs. For the FAHP, authorization historically has been

provided on a multi-year basis. This, together with the availability of HTF revenues and future HTF collections permits states more certainty in planning long-term highway projects. The current multi-year authorization, MAP-21, became effective on October 1, 2012 and expires on September 30, 2014. See "MAP-21" below.

- *Apportionment*: For each Federal Fiscal Year, the FHWA apportions the authorized funding among the states according to formulas that are established in authorizing statutes. The distribution of federal funds that do not have a statutory formula is called "allocation" rather than "apportionment."
- *Obligation Authority*: "Obligation" is the commitment of the federal government to pay, through reimbursements to a state, its share of the eligible expenditures on an approved project. The amount of such federal revenues that a state can obligate in a given Federal Fiscal Year is called its "Obligation Authority."
- *Advance Construction*: The Advance Construction procedure allows states to commence eligible projects without first having to obligate the federal government's share of expenditures. Thus, states may begin a project before amassing all of the Obligation Authority needed to cover the federal government's share. The Project is an Advance Construction Project.
- *Partial conversion of Advance Construction*: Under partial conversion of Advance Construction, in a given year a state may convert Advance Construction to Obligation Authority and thus be eligible for reimbursement for a portion of the federal share of an Advance Construction project in that or in a subsequent Federal Fiscal Year. This removes any requirement for the state to wait for reimbursements until the full amount of Obligation Authority needed for the entire project is available.

These features of the FAHP work in a complementary fashion to provide a regular flow of federal reimbursements over the years to state highway projects.

The participation of the State in such reimbursements, and the role of such participation in providing payment and security for the Bonds, is discussed in "FEDERAL AID REVENUES" herein.

Although FHWA provides funding for eligible highway projects, federal-aid highways are under the administrative control of the state or local government responsible for their operation and maintenance.

Title 23, United States Code, entitled "Highways", includes most of the laws that govern the FAHP arranged systematically or codified. Generally, Title 23 embodies those substantive provisions of highway law that Congress considers to be continuing and which need not be reenacted each time the FAHP is reauthorized. Periodically, sections of Title 23 may be amended or repealed through surface transportation acts.

Reauthorization

The FAHP must be periodically reauthorized by Congress. Following a number of prior multi-year authorizations, the Transportation Equity Act for the 21st Century ("TEA-21") was enacted in 1998 and authorized programs over the six-year period from Federal Fiscal Years 1998 through 2003.

SAFETEA-LU. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU") became law on August 10, 2005, and authorized programs over the four-year period from Federal Fiscal Years 2006 through 2009. Between the expiration of TEA-21 in September 2003, and the enactment of SAFETEA-LU in August 2005, Congress enacted 12 interim authorization measures for varying

periods. Since the expiration of SAFETEA-LU in September 2009, Congress has enacted 10 interim authorization measures.

MAP-21. The Moving Ahead for Progress in the 21st Century Act ("MAP-21") was signed into law on July 6, 2012. MAP-21 extends SAFETEA-LU through the end of Federal Fiscal Year 2012. MAP-21 authorizes funding for the FAHP of approximately \$37.5 billion for Federal Fiscal Year 2013 and \$37.8 billion for Federal Fiscal Year 2014. MAP-21 extends the imposition of the highway-user taxes, generally at the rates that were in place when the legislation was enacted, through September 30, 2016. In addition, it extends the provision for deposit of almost all of the highway-user taxes into the HTF through September 30, 2016.

MAP-21 restructures the core federal highway programs. Activities previously carried out under the National Highway System Program, the Interstate Maintenance Program and the Highway Bridge Program, among others, are incorporated by MAP-21 into the following new core formula programs: National Highway Performance Program, Surface Transportation Program, Congestion Mitigation and Air Quality Improvement Program, Highway Safety Improvement Program, Railway-Highway Crossings and Metropolitan Planning.

ALTHOUGH MEASURES HAVE BEEN ENACTED BY CONGRESS IN THE PAST, NO ASSURANCE CAN BE GIVEN THAT SUCH MEASURES WOULD OR COULD BE ENACTED IN THE FUTURE TO MAINTAIN THE FLOW OF FEDERAL-AID FUNDING UPON TERMINATION OF EITHER A SHORT-TERM OR MULTI-YEAR AUTHORIZATION PERIOD.

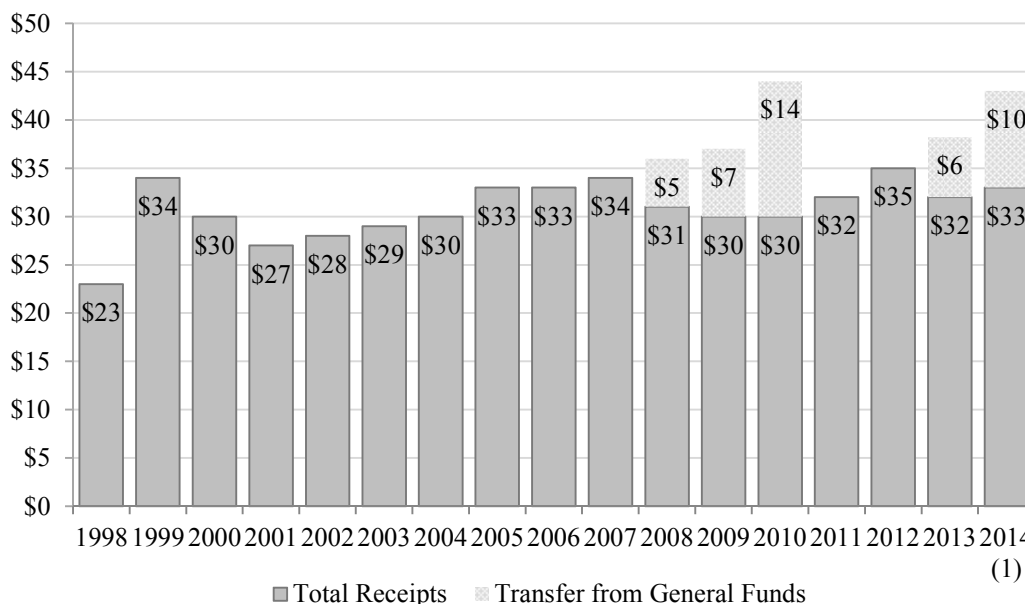
The Federal Highway Trust Fund

The HTF provides the primary funding for the FAHP. Funded by a collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a fund established by law to hold dedicated highway-user revenues that are used for reimbursement of the state's cost of eligible transportation projects (which may include debt service on obligations issued to finance a federal-aid project), including highway projects. The HTF is composed of two accounts: the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel revenues, with the remaining share of such revenues deposited in the Mass Transit Account.

Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account. The table below shows annual and projected HTF collections in the Highway Account for the Federal Fiscal Years 1998 through 2014.

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**Payments into the Highway Trust Fund
Highway Account Receipts - Federal Fiscal Years 1998-2014 (in billions)**



Sources: Federal Fiscal Year 1998 through Federal Fiscal Year 2012, Highway Statistics 2012, Office of Highway Policy Information, FHWA, Table FE-210; Federal Fiscal Year 2013, Status of Highway Trust Fund – Fiscal Year 2013, FHWA, Table FE-1 as of January 21, 2014.

Excludes interest on balances and TIFIA loan repayments. Shaded bars in Federal Fiscal Years 2008, 2009, 2010, 2013 and 2014 represent transfers and expected transfers from the U.S. General Fund (see INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS – Federal Highway Trust Fund).

(1) Federal Fiscal Year 2014 estimates are based on MAP-21 Funding Tables.

The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates which must be extended periodically. The life of the HTF has been extended several times since its inception, most recently by MAP-21 (as described above). The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

As part of its annual budget forecast issued on January 24, 2007, the nonpartisan Congressional Budget Office ("CBO") reported that if Congress adhered to the highway and safety spending levels authorized in SAFETEA-LU, absent other measures, the Highway Account of the HTF would go into deficit early in Federal Fiscal Year 2009, before SAFETEA-LU expired. The CBO baseline projected that if the SAFETEA-LU spending levels were maintained for Federal Fiscal Years 2007-2009 there would be a deficit in the Highway Account at the end of Federal Fiscal Year 2009 in the amount of \$3.616 billion. The President's budget proposal in February 2008 projected that the HTF would show a deficit of at least \$3.3 billion in Federal Fiscal Year 2009.

In response to shortfalls predicted by the CBO as well as other governmental entities, Congress transferred from the federal general fund to the HTF in Federal Fiscal Years 2008, 2009 and 2010 an aggregate total of approximately \$34.5 billion, of which approximately \$5 billion was provided to the Mass Transit Account within the HTF. These actions allowed state departments of transportation to continue to meet their financial obligations and sustain hundreds of millions of dollars of construction projects that had been put on hold after U.S. Secretary of Transportation Mary Peters announced on September 5, 2008 that federal-aid payments to the states would be partially withheld because of a shortage of funds.

MAP-21 provides for additional transfers from the federal general fund of \$6.2 billion in Federal Fiscal Year 2013 and \$12.8 billion in Federal Fiscal Year 2014 to the HTF, of which \$2.2 billion is provided to the Mass Transit Account within the HTF. In addition, MAP-21 transferred \$2.4 billion from the Leaking Underground Storage Tank Trust Fund to the HTF.

Amounts in the HTF can be affected by the rate of expenditure of money in the fund as well as a number of revenue-impacting factors. One significant factor is the decline in vehicle miles traveled (VMT) since 2007, which impacts revenue from gasoline and diesel sales. It cannot be determined whether any further decline in VMT and increases in vehicle fuel economy will have an adverse impact on the HTF or the availability of Federal Transportation Funds to pay debt service on the 2014 Notes.

Various proposals are being considered to address the Highway Trust Fund's future funding, including an increase in fuel taxes, a variety of new taxes (including a tax on VMT) and other funding sources for the Highway Trust Fund. There can be no assurance that any of these proposals will be enacted by Congress.

The Office of Management and Budget issued a report pursuant to the Sequestration Transparency Act of 2012 (P. L. 112-155) on the consequences of sequestration for governmental operations. The mandate from the Budget Control Act of 2011 (P. L. 112-25) requires, among other things, a reduction for certain non-exempt defense discretionary programs, beginning in 2013. However, the Highway Trust Fund is not included in the sequestration process and is therefore exempt from reduction. While the Highway Trust Fund is not included in sequestration, general fund transfers into the trust fund resulting from the recently enacted MAP-21 would be cut by approximately \$471 million, hastening the date when the trust fund will be unable to support annual funding levels without action by Congress. HTF revenue is sufficient to fund the program in FY 2013. Transit program new start capital grants, which are supported from general fund revenue will be cut by \$156 million. In addition, FHWA emergency relief funds would be cut \$136 million and TIGER grants would be reduced by \$41 million. These construction accounts, including HTF accounts, could face cuts in later fiscal years to help ensure that federal spending does not exceed the Budget Control Act enacted budget caps.

Rescission

Since 2005, Congress has taken action to reduce unobligated balances of previously authorized funds by issuing certain rescissions. All of those rescissions were spread among the 50 states on a proportional basis, the first three based on certain Federal Fiscal Year 2006 apportionments, the fourth and fifth on certain Federal Fiscal Year 2007 apportionments, the sixth on certain Federal Fiscal Year 2008 apportionments, the seventh and eighth on certain Federal Fiscal Year 2009 apportionments, the ninth and tenth on certain Federal Fiscal Year 2010 apportionments, the eleventh on certain Federal Fiscal Year 2011 apportionments and the twelfth and thirteenth on certain Federal Fiscal Year 2013 apportionments. Further rescissions are possible and may have a more adverse effect on the Commonwealth and its highway program. Although rescissions could be large enough to impact Obligation Authority, to date they have not.

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Kentucky's Share of Federal-Aid Apportionments Rescissions

DATE	FHWA Notice No.	Kentucky Rescission Amount	National Total Rescissions Amount	Percentage of KY Rescission/National Total Rescissions
December 28, 2005	4510.578	\$31,511,454	\$1,999,999,000	1.58%
March 21, 2006	4510.588	18,010,022	1,143,000,000	1.58
July 5, 2006	4510.606	11,066,985	702,362,500	1.58
March 19, 2007	4510.643	55,213,815	3,471,582,000	1.59
June 20, 2007	4510.647	13,853,179	871,022,000	1.59
March 4, 2008	4510.673	49,444,690	3,150,000,000	1.57
April 13, 2009	4510.707	52,476,786	3,150,000,000	1.67
August 31, 2009	4510.711	151,094,681	8,708,000,000	1.73
April 20, 2010	4510.724	-151,094,681	-8,708,000,000	1.73
August 13, 2010	4510.729	36,652,357	2,200,000,000	1.67
June 30, 2011	4510.735	41,397,498	2,500,000,000	1.66
March 22, 2013	4510.762	485,036	32,589,000	1.49
April 24, 2013	4510.763	1,198,822	73,675,639	1.63
TOTAL		\$311,310,644	\$19,294,230,139	1.61%

Operations

The present FAHP continues to reimburse a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that:

- The FAHP is based on dedicated revenues, from a user-tax source, deposited in a dedicated trust fund (the HTF);
- The budget and contract authority of the FHWA is typically established by a multi-year authorization act rather than annually through appropriation acts; and
- Contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs), although an appropriations act is required in order to liquidate obligations.

The process for reimbursing state expenditures may be summarized in three steps: authorization, obligation and program implementation. The authorization step is the most critical step in establishing overall spending authority for federal highway funding. Authorizing legislation extends the life of the FAHP and the

collections that fund the HTF, sets FAHP objectives and provides formulas for determining the distribution or apportionment of available resources among the states. The existence of the dedicated revenues in the Highway Account of the HTF and the existence of multi-year (or under interim authorizations, multi-month) contract authorizations are designed to help to make available a predictable and uninterrupted flow of reimbursements to the states. The risk of contract authority lapsing between authorizing acts is minimal since sufficient unobligated balances generally exist that cover gaps in coverage between multi-year (or multi-month) reauthorization acts.

The second step, obligation, is the process through which states make use of, or "obligate," the contract authority that has been apportioned or allocated to them in the authorization process (Step 1). Congress typically limits the amount of Obligation Authority that states may use annually. To whatever extent that a state's Obligation Authority is set below its authorization, the unobligated balance for that state is increased. These unobligated balances provide available funds, from which the FHWA allows states to draw, when there is a lapse period between authorization acts. But under current law the unobligated balances do not otherwise entitle the states to additional funds.

The third step, program implementation, leads to actual receipt of federal funds by states. FAHP implementation methods vary state-by-state. States are permitted to make use of Advance Construction and partial conversion of Advance Construction in order to obligate varying amounts of federal funds to an eligible project from Federal Fiscal Year to Federal Fiscal Year, depending on how much of the state's Obligation Authority is available from the FAHP and is desired for such use by the state.

Step 1: Authorization. The first step, and the most crucial in financing the FAHP, is the multi-year (or under interim authorizations, multi-month), authorizing legislation. Such highway authorization acts:

- Establish the taxes that fund the HTF and extend their life (reauthorization);
- Establish the specific programs and procedures through which states receive federal financial assistance for their highway programs; and
- Set upper limits on funding for specific programs and for overall FAHP.

Lapsing of Authorization. All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. Indeed, for most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the FAHP, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide Obligation Authority by administrative action.

Though recent multi-year federal surface transportation legislation has been authorized for four to six years at a time, there occasionally have been periods in which the previous authorizing legislation had expired and the future multi-year legislation had yet to be enacted. In such circumstances, Congress and/or the FHWA have found ways to avoid disruptions to state highway programs and, more importantly, have been able to maintain the flow of federal revenues to states in each instance. Two mechanisms in particular have kept revenues flowing:

- Access to Unobligated Balances: The 1987 Surface Transportation and Uniform Relocation Assistance Act ("STURAA") expired on September 30, 1991 and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal-aid funding flowing because states could use their unobligated balances to provide contract authority to use new Obligation Authority.

- Short-Term Authorization: ISTEA expired on September 30, 1997 and until approval of TEA 21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on Obligation Authority through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997 Congress passed the Surface Transportation Extension Act of 1997 ("STEA"), which provided a six-month authorization for highway funding and established a limit on the amount of new Obligation Authority states could use at funding levels equal to about a quarter of Federal Fiscal Year 1997 authorization levels. Since most states had unobligated balances of at least half their normal annual Obligation Authority levels and an authorization act need not be in place for the FHWA to give states new Obligation Authority, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated Obligation Authority. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the HTF. (See "Step 2 – Obligation," below, for further explanation of Obligation Authority and unobligated balances.) Similarly, TEA 21 expired on September 30, 2003 and Congress enacted nine interim authorization measures for varying periods over twenty-two months until the enactment of SAFETEA-LU on August 11, 2005.

ALTHOUGH THESE MEASURES HAVE BEEN ENACTED BY CONGRESS AND/OR FHWA IN THE PAST, NO ASSURANCE CAN BE GIVEN THAT SUCH MEASURES WOULD OR COULD BE ENACTED IN THE FUTURE TO MAINTAIN THE FLOW OF FEDERAL-AID FUNDING UPON TERMINATION OF AN AUTHORIZATION PERIOD.

Annual Distributions. For most components of the FAHP, the authorization acts set the distribution of spending authority among states. The primary methods used to distribute authorized federal highway revenues are "apportionment" and "allocation":

- Apportionments. The contract authority created by authorization acts such as SAFETEA-LU and MAP-21 is distributed annually among the 50 states, the District of Columbia, and Puerto Rico using a process called apportionment of revenues. Apportionments indicate the maximum amount of contract authority that each state can expend for eligible projects in specific programs. For each Federal Fiscal Year, the FHWA has responsibility for apportioning authorized funding for the various programs among the states according to formulas established in the authorizing statute. Annual apportionments are generally made on the first day of the Federal Fiscal Year, which is October 1.
- Allocations. While most highway revenues are distributed to states through apportionments, some funding categories do not contain legislatively-mandated apportionment formulas. Distribution of revenues where there are no statutory formulas is called "allocation" or "discretionary allocation". In most cases, allocated federal funding is divided among states using criteria determined administratively by the federal Department of Transportation or as provided in a statute, often through competitive grant procedures.

Apportionment formulas have been designed historically to ensure distribution of federal revenues among states according to program needs, but are also increasingly intended to provide states a share of total HTF expenditures relatively close to their payments into the HTF.

Availability of Federal Highway Revenues. Federal-aid highway revenues are available to states for use for more than one year. Their availability does not terminate at the end of the Federal Fiscal Year, as is the case with many other federal programs. Consequently, when new apportionments or allocations are made, the amounts are added to a state's unused apportionments and allocations from the previous Federal Fiscal Year. Should a state fail to *obligate* (commit to spend) a year's apportionments and allocations within the period of availability specified for a given program, however, the authority to obligate any remaining amount

lapses—that is, it is no longer available except for a few programs which receive indefinite, or "no-year" Obligation Authority.

Matching Requirements. With a few exceptions, the federal government does not pay for the entire cost of construction or improvement of federal-aid highways. Federal reimbursements are typically matched with state and/or local government revenues to account for the necessary dollars to complete the project. The maximum federal share is specified in the legislation authorizing the program. Most projects have an 80% federal share while interstate construction and maintenance projects typically have been funded with a 90% federal share.

Step 2: Obligation. The second step of the federal-aid funding process occurs when revenues that have been authorized by legislation, and either apportioned or allocated to individual states, are obligated for a specific purpose. As noted in the previous section, Congress uses annual appropriations acts to control actual annual obligation of funds in the HTF. Appropriations acts limit the amount of federal money that actually will be obligated and thus ultimately spent, and these annual amounts may be less than the authorized amount. This ceiling on the amount of contract authority that states may use is called the "annual obligation limit."

Obligation is the commitment of the federal government to pay, through reimbursement to a state, the federal government's share of an approved project's eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. From the federal perspective, obligations made are the outlays the federal government has committed to make from the HTF in the future. Once an obligation is made, the federal government reimburses the states when bills or payments become due.

Once Congress establishes an overall obligation limitation, the FHWA distributes Obligation Authority to states proportionately based on each state's share of apportioned and allocated revenues. The actual ratio of Obligation Authority to apportionments and allocations may vary from state to state because some federal-aid programs are exempt from the obligation limitation. Once each state's Obligation Authority is set, states then submit requests to the FHWA to obligate revenues representing the federal share of specific projects throughout the years. (A further description of this process is included in Step 3.) As a state obligates revenues, its balance of Obligation Authority is commensurately reduced, although additional Obligation Authority may be received (*e.g.*, via re-allocation from other states).

A state's Obligation Authority (unlike its apportionments and allocations of authorized funding) must be used before the end of the Federal Fiscal Year for which it is made available; if not, it will be distributed to other states. The FHWA closely monitors each state's plans for use of Obligation Authority. In mid-summer, the FHWA collects any Obligation Authority from states that do not plan to obligate all of their available Obligation Authority before the end of the Federal Fiscal Year, and redistributes it to other states that can obligate the revenues. This reallocation of Obligation Authority is known as the August redistribution.

Unobligated Balances. Because congressional authorization of federal-aid highway revenues represents a commitment to make all authorized revenues available to states for highway purposes, any shortfall between the limit on Obligation Authority created through the annual appropriations process and the amount of contract authority apportioned and allocated to states does not disappear. Instead, the difference between obligation limitations and authorization levels creates what are known as "unobligated balances."

Although most federal-aid apportionments lapse after four years, this rarely happens with apportioned highway revenues because old apportionments are always spent before new apportionments. That is, when a state receives new apportionments and Obligation Authority at the beginning of a Federal Fiscal Year, obligations are first made against remaining prior year apportionments plus allocation until these are depleted.

The net effect of this process, in conjunction with the year-to-year establishment of obligation limitations, has been that states have amassed considerable unobligated balances.

As explained in Step 1, above, unobligated balances permit the FAHP to continue to fund state highway projects during periods in which Congress fails to enact a reauthorization law before the expiration of the previous authorization period. In such periods, the unobligated balances allow states to continue to fund their programs for several months, or even longer, after an authorization act has expired.

Step 3: Program Implementation. The third and final step in the overall federal-aid highway funding process—program implementation—occurs after authorized revenues have been distributed to states, and after states have had the opportunity to obligate those revenues. Once federal-aid highway revenues have been authorized and obligated, states must have developed highway programs that describe, at a project-by-project level, exactly how federal reimbursements will be earned. The process of developing and implementing state highway programs has three broad stages:

- Budgeting;
- Planning and Programming; and
- Fiscal Management and Federal Highway Reimbursements.

Each stage helps to ensure that states develop programs which match funding availability, and that the FHWA is able to distribute federal reimbursements to states in a timely manner.

Budgeting. Budgetary information about availability of funding is crucial to the development of state highway programs. Projected state and federal funding levels are used to budget transportation needs. Consequently, state transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. States must estimate the availability of short and long-term state and federal funding in order to plan their highway programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming. In Kentucky, the State Agency's budget for the biennium period is prepared in accordance with Chapter 48 of the Kentucky Revised Statutes and based on two-year projections made in light of long-range program requirements and revenue estimates for both state and federal funds. The biennial budget request is prepared by the State Agency and presented to the Governor for submission to the Kentucky General Assembly at its biennial session. The estimates of state revenues are made by the consensus forecasting process as prescribed by Chapter 48.115 of the Kentucky Revised Statutes. The estimates for federal funds are made by the State Agency.

Planning and Programming. The Commonwealth's road planning process is structured to ensure the development of a continuous and credible highway improvement program that complements the Commonwealth's overall transportation system. The process and its products have evolved considerably in recent years as the State Agency has lengthened its planning horizon and the General Assembly has assumed a more participatory role.

Prior to 1982, the State Agency had internally identified, planned, and designed potential projects. Those projects which were approved by the Secretary were made a part of the State Agency's five-year program and moved to construction as funds became available. In the 1982 Regular Session of the Kentucky General Assembly, legislation was enacted calling upon the State Agency to present each regular session of the General Assembly with a proposed highway construction program for the next three biennial periods. This proposed program for the three biennial periods is referred to as the "Six-Year Plan."

The Six-Year Plan consists of a biennial construction program and a four-year preconstruction planning document. It is through this plan that legislative involvement in the project development process has been assured. In recent years, the Six-Year Plan has formed the foundation for development by the State

Agency of a more forward-looking transportation planning tool, which is formally known as the "Statewide Transportation Plan." This plan, required first by ISTEA in 1991 and continued by TEA-21 in 1998, and SAFETEA-LU in 2005, integrates all modes of transportation and expands the horizon of project needs identification beyond the six-year period prescribed by Kentucky statutes and allows a more far-sighted approach to transportation planning.

Highway Plan Development. Beginning with an unconstrained list of potential projects, the planning process, utilizing input from local citizens and officials, Area Development District Public Involvement Committees, Metropolitan Planning Organization Committees, and Cabinet staff, sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years and approved by the Kentucky Legislature every two years, represent the highest priority projects and constitute the Six-Year Plan. The remaining projects are prioritized and selected every four years for the long range Statewide Transportation Plan and for possible inclusion in later Six-Year Plans. The most current Six-Year Plan consists of approximately 1,325 roadway projects that are eligible for state and federal funding. Each project has been evaluated, based on its relative contribution toward the satisfaction of four goal-oriented criteria. These goals focus on: (1) preservation and management of the existing transportation system, (2) providing system connectivity of the individual modes to promote economic development, (3) coordination and cooperation among a wide variety of interests in the transportation planning process, and (4) enhancement of transportation system safety and convenience for the benefit of its many users.

In preparing the Six-Year Plan, the State Agency projects anticipated future funding levels against which future projects can be established. An effort is made to identify annual funding ceilings within each funding category and to budget proposed highway activities against those dollars expected to be available during the period. Once anticipated funding levels are set, projects are included in each funding category.

Needs Identification. To assist in the identification of highway needs across the Commonwealth, the State Agency conducts an on-going roadway inventory program. The data gathered through the inventory process is wide-ranging and includes such criteria as traffic volumes, physical roadway features (pavement width, pavement condition, bridge conditions, etc.), accident statistics, and average travel speeds. This information is analyzed to arrive at a relative assessment of the service provided by each roadway section.

In addition to the evaluation of roadway inventory data, the State Agency relies heavily upon input from the Commonwealth's 15 Area Development Districts, the nine Metropolitan Planning Organizations, members of the General Assembly, public involvement and community action committees and the leaders of city and county governments for project needs identification. This "partnership" involving participants from the local, regional, and state levels provides information to the State Agency concerning growth trends, connectivity and access issues and economic development efforts to which the highway infrastructure must respond. Additionally, the State Agency's engineering and technical staff performs travel demand and traffic forecasting and systems analysis to allow application of those key elements in the identification of projects.

Implementation of the Six-Year Plan. Kentucky's Six-Year Highway Plan is funded through the use of Commonwealth and federal highway dollars. Commonwealth funds are generally derived from fuel and motor vehicle excise taxes and other revenues to the Road Fund, plus the proceeds from road bonds issued by the Turnpike Authority of Kentucky. Commonwealth funds are allocated to the State Agency on a biennial basis and are used to finance state-funded projects or to match federal aid funds at various participation ratios dictated by the federal government. In addition to Commonwealth funds, Kentucky utilizes toll credits to match federal aid funds.

The majority of Kentucky's federal-aid highway funds are appropriated annually from the Federal Highway Trust Fund operated by the U.S. Department of Transportation. As an Appalachian state, the Commonwealth receives, in addition to standard apportionments, an annual apportionment of Appalachian highway funds from the Federal Highway Trust Fund. Regardless of origin, all federal dollars must be spent within the appropriate funding category and cannot be transferred for use in other federal-aid categories

except as specifically permitted by federal legislation. The annual program of federal-aid projects is excerpted from the State Agency's Six Year Highway Plan and presented in the Statewide Transportation Improvement Plan ("STIP"). The STIP incorporates the nine Metropolitan Planning Organization's TIPs and represents the means through which the State Agency and FHWA jointly administer Kentucky's annual federal-aid transportation program.

Fiscal Management and Federal Highway Reimbursements. Once budgeting, planning and programming are complete, projects move into a fiscal management phase. This fiscal management process is the third element of the implementation step in the overall federal highway funding process. A state-led fiscal management system—conducted in accordance with FHWA requirements—is used to determine exactly how much federal funding will be received for each project, to obtain final FHWA authorization before projects are implemented, and to ensure timely federal reimbursement of state expenditures on contractor costs. In Kentucky, these activities are jointly performed by the State Agency's Department of Highway's Division of Program Management and the Department of Budget and Fiscal Management's Division of Accounts.

States must follow federal fiscal management procedures as they implement projects that have passed through the approval and programming processes. These fiscal management procedures ensure that the FHWA and states are able to manage the process efficiently, from project authorization to actual payment of Federal Highway Reimbursements to the state.

In the traditional approach, a state simply obligates the full federal share of available funding at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funding on a project. The project sponsor (e.g., the State Agency) submits plans, specifications and estimates ("PS&Es") for a project to the FHWA division office, and requests that the FHWA approve the use of federal funding for the appropriate federal share of the project. The project must be in the STIP and the PS&Es must identify the category of federal funding that will be used.

The FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements (e.g., design standards). Provided that all requirements are satisfied, the FHWA authorizes federal participation in the project, and obligates the federal share of project costs. By obligating the revenues, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of that state's Obligation Authority, and also sets aside an equivalent amount of apportioned revenues by program (or programs). Accordingly, the state must have sufficient Obligation Authority to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. Based on actual costs identified in bids, the state awards the contract to the lowest qualified bidder and submits a request to the FHWA asking for any necessary adjustments to federal obligations for the project. If approved, the amounts agreed to are included in a project agreement which identifies the revenues that will be encumbered by the state (formally applied against the state's resources), and the amount that will be reimbursed by the federal government.

Construction begins, and contractors submit bills to the state as work is completed. A state pays its contractor's bills with cash from the state treasury; the state bills the FHWA electronically for the federal share of completed work for which payment has been made; and the FHWA makes payment to the state via electronic transfer. This FHWA reimbursement to the state liquidates its obligation for the federal share of the costs incurred to that point. As project work continues and state expenditures are reported to the FHWA, federal reimbursements are made. In Kentucky, reimbursement requests are submitted weekly and reimbursements are made by wire transfer generally within one to two days. The Commonwealth's systems and management in general, are highly automated, leading to a routine flow of Federal Highway Reimbursements based on actual spending on approved projects.

Innovative variations on this fiscal management approach include Advance Construction and partial conversion of Advance Construction. These variations complement one another to provide a state with additional flexibility in managing its Obligation Authority and cash.

The Advance Construction approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the federal share of costs at the outset of the project. This allows states to begin a project before amassing all of the Obligation Authority needed to cover the federal share of that project. As with the traditional approach, the state submits PS&Es to the FHWA and requests project authorization. Under Advance Construction, however, the FHWA is asked to authorize the project without obligating federal revenues. As a result, the state will cover the entire cost of the project and later may request the obligation of revenues, when sufficient Obligation Authority is available and is desired by the state. Further, the state may then take credit for state expenditures, made from project approval to that date, as a basis for earning reimbursements.

Once the FHWA authorizes a project for federal assistance, the state follows the same procedure to advertise a project, to award the contract, and to reconcile the level of state and federal funding required. The state may request that the FHWA convert its Advance Construction amount to an obligation at any time, provided the state has sufficient Obligation Authority. This conversion of Advance Construction to Obligation Authority must occur in order for the state to be reimbursed for the federal share of the project. The state can convert Advance Construction to Obligation Authority long after state expenditures are made.

Under partial conversion of Advance Construction, moreover, a state follows the steps to apply for Advance Construction but converts, obligates, and receives reimbursement for only a portion of its funding of an Advance Construction project in a given year. This removes any requirement to wait until the full amount of Obligation Authority is available. The state can thus obligate varying amounts for the project's eligible cost in each year, depending on how much of the state's Obligation Authority is available and desired by the state.

States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states. The State Agency uses a statewide computer-based project accounting, reporting and billing system to track encumbrances and expenditures for all projects, including highway projects, administered by the Commonwealth.

The Commission has been made aware that FHWA will not provide federal-aid highway reimbursements or payments for any debt service payments intercepted by the U.S. Treasury Offset Program for monies owed by the State to the federal government. No guidance has been given to the Commission by FHWA with respect to the U.S. Treasury Offset Program. No prior payments from FHWA to the Commission have been delayed or withheld as a result of the U.S. Treasury Offset Program.

The Memorandum of Agreement

Under the Memorandum of Agreement, FHWA has agreed to make payments to the State Agency and the State Agency has agreed, subject to appropriation, to remit to the Trustee, when due, an amount equal to the debt service on all outstanding GARVEE Bonds, including the 2014 Notes. Under the Financing Agreement, the State Agency covenants to comply with applicable law and the Memorandum of Agreement to the extent required for the State Agency to receive on behalf of the Commonwealth all revenues from the FHWA under the Memorandum of Agreement. Under the Memorandum of Agreement, the State Agency has agreed to convert the amount of Advance Construction funds necessary to pay such debt service in that Federal Fiscal Year. If only a portion of the annual Obligation Authority is provided, the State Agency will reserve the same pro-rata share of that portion of the Obligation Authority for debt service payments for that year until the full annual Obligation Authority is provided. Furthermore, the State Agency has adopted a Policy Statement to the effect that, if new Obligation Authority is insufficient to pay debt service on GARVEE Bonds, it will evaluate the balances of existing federally-funded projects and take action to de-

obligate funds from those projects and re-program those funds to pay debt service, when due. See "EXHIBIT B – MEMORANDUM OF AGREEMENT (KENTUCKY LAKE AND LAKE BARKLEY PROJECT) AND POLICY STATEMENT," herein.

The Memorandum of Agreement does not constitute a commitment, guarantee or obligation on the part of the United States to provide for the payment of Financing Payments under the Financing Agreement or debt service on outstanding GARVEE Bonds, including the 2014 Notes.

STIP and Long Range Plan Conformity with Federal Clean Air Requirements

The Commonwealth Counties of Boone, Kenton, and Campbell, are all partially designated as nonattainment for the 2008 8-hour ozone standard with an area classification of "marginal." The counties of Jefferson, Bullitt, Oldham, Boyd, and Christian still retain their approved maintenance plans from the 1997 8-hour ozone standard, but are not required to do conformity. Their maintenance plans will help in preventing them from backsliding.

The Commonwealth Counties of Jefferson and Bullitt are designated as nonattainment for the 1997 fine particulate matter (PM_{2.5}) standard. The counties of Boone, Kenton, Campbell, Boyd, and a portion of Lawrence were redesignated to attainment with an approved maintenance plan for the 1997 PM_{2.5} standard.

In summary, Boone, Kenton, Campbell, Jefferson, Bullitt, Boyd, and Lawrence Counties are required to analyze all projects; all other Kentucky counties are considered unclassifiable or attainment for regional air quality programs.

EPA's air quality conformity regulations require that the State Transportation Improvement Program (STIP) and the Long Range Plan (LRP) are to be evaluated for emission impacts in both nonattainment and maintenance areas. The Kentucky STIP and LRP are analyzed to evaluate changes in ozone precursors (Volatile Organic Compounds (VOC) and oxides of nitrogen (NO_x)) and PM_{2.5} emissions. The air quality analysis demonstrates that implementation of the Commonwealth's STIP and LRP are consistent with federal air quality conformity criteria and regulations, which conform to the air quality goals in Kentucky's State Air Quality Implementation Plan. See "THE STATE AGENCY AND MANAGEMENT OF STATE HIGHWAY PROGRAM."

FEDERAL AID REVENUES

Below are tables prepared by the State Agency identifying prior Apportionments, Obligation Authority and Receipts of Federal Aid Revenues by the State Agency from Federal Fiscal Year 1998 through the Federal Aid Authorization ending September 30, 2014. The ability to pay debt service on the 2014 Notes will depend upon the amount of funding provided to the Commonwealth under the FAHP and the Commonwealth's ability to use such funding. The State Agency has been informed by FHWA that it's Apportionment for the period October 1, 2013 to September 30, 2014 is \$641,045,338. Obligation authority for this period is \$608,236,104. These amounts are based on information received as of February 12, 2014 and are subject to change.

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**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY
 Under Prior Federal Aid Authorization Periods
 (Transportation Equity Act for the 21st Century)
 Federal Fiscal Years 1998 Through 2004**

<u>Federal Fiscal Year</u>	<u>Apportionments</u>	<u>Obligation Authority</u>	<u>Actual Receipts (State Fiscal Year)</u>
1998	\$437,545,989	\$398,509,664	\$317,707,557
1999	462,449,235	408,005,511	363,772,286
2000	525,960,359	462,329,857	507,798,074
2001	588,422,708	524,762,964	485,240,901
2002	597,401,435	560,721,883	537,622,783
2003	542,835,750	568,620,816	475,614,887
2004	<u>567,206,194</u>	<u>550,393,468</u>	<u>481,741,077</u>
Totals	\$3,721,821,670	\$3,473,344,163	\$3,169,497,565
(1998 – 2004) Annual Average (1998-2004)	\$531,688,810	\$496,192,023	\$452,785,366

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY AND RECEIPTS
 FOR THE TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY
 Under Prior Federal Aid Authorization Periods
 (Safe, Accountable, Flexible, Efficient Transportation Equity
 Act: A Legacy for Users ("SAFETEA-LU"))
 Federal Fiscal Years 2005 Through 2012**

<u>Federal Fiscal Year</u>	<u>Apportionments</u>	<u>Obligation Authority</u>	<u>Actual Receipts (State Fiscal Year)</u>
2005	\$585,282,683	\$523,769,262	\$454,508,681
2006	596,610,213	576,310,659	548,610,716
2007	681,436,962	634,576,333	594,314,227
2008	684,084,052	660,423,220	678,986,207
2009	612,012,570	710,357,193	531,140,081
2010*	841,730,088	726,285,405	534,366,847
2011	662,099,517	672,213,578	512,140,890
2012	<u>660,955,626</u>	<u>647,539,114</u>	<u>680,676,924</u>
Totals	\$5,324,211,711	\$5,151,474,764	\$4,534,744,573
(2005 – 2012) Annual Average (2005-2012)	\$665,526,464	\$643,934,346	\$566,843,072

*includes recession returns from 2009 recession

**FEDERAL AID REVENUES
 APPORTIONMENTS, OBLIGATION AUTHORITY, RECEIPTS
 FOR THE TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY
 Under Current Federal Aid Authorization Period
 (Moving Ahead for Progress in the 21st Century Act ("MAP-21"))
 Federal Fiscal Years 2013 and 2014**

<u>Federal Fiscal Year</u>	<u>Apportionments</u>	<u>Obligation Authority</u>	<u>Actual Receipts (State Fiscal Year)</u>
2013	\$697,342,221	\$641,407,821	\$673,854,986
2014	<u>641,045,338</u>	<u>608,236,104</u>	NOT AVAILABLE
Totals	\$1,338,387,559	\$1,249,643,925	
(2013–2014)			

NOTE: Apportionment and Obligation Authority for Federal Fiscal Year 2014 are based on Federal Fiscal Year to date notices of funding from FHWA through February 12, 2014 and are subject to change before the end of Federal Fiscal Year 2014 on September 30, 2014.

DEBT SERVICE REQUIREMENTS FOR THE NOTES

The following table shows the debt service requirements for the Notes, including the 2014 Notes. In order to issue Additional Notes the Commission will be required to comply with certain debt service coverage tests. See "SECURITY FOR THE 2014 NOTES - Additional Notes."

<u>Federal Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Outstanding Note Debt Service⁽¹⁾</u>	<u>Total Debt Service</u>
2013	-	-	\$48,916,606	\$48,916,606
2014	-	\$3,705,463	58,882,899	62,588,362
2015	\$12,635,000	8,234,363	43,909,776	64,779,138
2016	13,235,000	7,636,613	43,907,513	64,779,126
2017	13,895,000	6,976,863	63,427,863	84,299,726
2018	-	6,306,113	78,778,938	85,085,051
2019	-	6,306,113	78,774,725	85,080,838
2020	-	6,306,113	62,738,665	69,044,778
2021	-	6,306,113	62,737,350	69,043,463
2022	-	6,306,113	62,736,625	69,042,738
2023	23,825,000	6,306,113	29,860,250	59,991,363
2024	25,005,000	5,127,363	29,858,388	59,990,751
2025	26,130,000	3,995,500	29,860,900	59,986,400
2026	57,215,000	2,776,000	-	59,991,000

⁽¹⁾ Net of Refunded Notes Debt Service funded through Escrow Fund

THE STATE AGENCY AND MANAGEMENT OF STATE HIGHWAY PROGRAM

The State Agency

General. The Department of Highways was established as an agency of the Commonwealth by the 1912 General Assembly. Pursuant to Executive Orders 72-288 and 73-543, confirmed by the Kentucky General Assembly by legislation enacted in 1974, the Department of Transportation (the "Department"), predecessor to the State Agency, was created as the successor to, and represented a reorganization and consolidation of, the Departments of Highways, Motor Transportation and Aeronautics. The Department also succeeded to certain specific functions and responsibilities of the Department of Public Safety and the Department of Revenue as such functions and responsibilities related to transportation. Pursuant to legislation enacted in 1982, the State Agency was created as a successor to and succeeded to all duties of the Department.

The State Agency is responsible for the construction, reconstruction and maintenance of the Commonwealth's primary road system, which carries an estimated 85% of the Commonwealth's motor vehicle traffic. This represents nearly 40.8 billion vehicle miles of travel. The system consists of some 28,237 miles of roads, interstate highways, resource recovery roads, the economic development road system, primary roads, secondary roads, rural secondary roads and supplemental roads, and includes approximately 9,000 bridges. Additionally, the Transportation Cabinet provides direction for licensed airports and heliports throughout the Commonwealth.

The State Agency also regulates the operation of motor vehicles upon Kentucky's public highways and registers approximately 4.0 million vehicles and licenses 3.0 million drivers. The Commonwealth's Justice Cabinet is responsible for administratively enforcing Kentucky and federal laws and regulations

pertaining to commercial vehicles in regard to weight and size limits, operating authority, safety, and tax compliance.

Organization and Management. The State Agency is organized into four major operating departments: Highways, Rural and Municipal Aid, Vehicle Regulation, and Aviation. Eleven offices perform staff functions: Office of the Secretary, Budget and Fiscal Management, Legal Services, Inspector General, Information Technology, Support Services, Audits, Human Resources Management, Transportation Delivery, Civil Rights and Small Business Development and Public Affairs. The Transportation Cabinet employs approximately 4,700 people on a full-time basis.

The State Agency is headed by a Secretary of Transportation, who is appointed by the Governor. Each Department is organized under an appointed Commissioner and each Office is supervised by an Executive Director. The engineering functions of the organization are under the supervision of a Commissioner of Highways, a State Highway Engineer and four Executive Directors, who also serve at the pleasure of the Governor. Middle management of the State Agency is composed primarily of career employees, most of whom are members of the classified service, which is the Commonwealth's merit system for employees. Virtually all engineering personnel are protected under the classified service, assuring stability and continuity in the programs of the State Agency.

Management of the State Highway Program

Operations and Maintenance. The State Agency provides transportation services to the traveling public through a network of highly developed programs and operating units. To assure prompt and efficient delivery of services across the Commonwealth, the State Agency operates 12 regional district offices, and highway maintenance facilities in each of the 120 counties.

The State Agency relies on automated systems for tracking and assessing the activities in virtually all functional areas. The State Agency uses a sophisticated automated maintenance management system that provides managers with performance data on all aspects of roadway maintenance work. The State Agency also maintains an extensive and detailed database of the Commonwealth's highway infrastructure.

The State Agency is committed to efficiency and cost containment. First, the Commonwealth has made an effort over the past decade to restrain growth in government employment levels. The State Agency has been among the most successful state agencies in actually reducing personnel levels. Second, the State Agency has sought to use private contractors to perform maintenance and other functions where economies can and have been realized. Finally, the State Agency's enhanced program of resurfacing and major road construction and reconstruction has reduced the need for day-to-day maintenance on many routes.

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. Under the Act, the members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairperson; the Attorney General; the State Treasurer; the State Budget Director; and the State Controller. The Secretary of the Commission is the Executive Director of the Cabinet's Office of Financial Management ("OFM").

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The current members of the Commission are as follows:

Lori H. Flanery	Secretary of the Finance and Administration Cabinet, Chairperson
Jack Conway	Attorney General
Todd Hollenbach	State Treasurer
Edgar C. Ross	State Controller
Jane Driskell	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 and certain other obligations relating to the Commonwealth's Teachers' Retirement System. OFM, which is in the Cabinet, serves as staff to the Commission.

Financings of the Commission

General. The Commission has had outstanding obligations in several different forms, including tax and revenue anticipation notes and project notes. Project notes have been issued as General Fund Series, Agency Fund Series, Road Fund Series and Federal Highway Trust Fund Series depending upon the appropriation fund source that is being used to fund the payments under the related financing/lease agreement. Each type of obligation, described below, is secured by the trust indenture to which such types of obligations relate, and holders of notes issued under a particular trust indenture do not have any claim on the pledged receipts of the Commission arising under any other trust indenture.

The holders of the Notes do not have a claim against the moneys pledged under the trust indenture related to any other project notes issued as General Fund Series, Agency Fund Series, Road Fund Series or Federal Highway Trust Fund Series. The indentures for each particular type of notes issued by the Commission generally allow the issuance of additional notes on parity with the outstanding notes of the same type. The Commission's outstanding obligations as of March 1, 2014 are described below.

General Fund Tax and Revenue Anticipation Notes. Since 1997, with the exception of 2003 and 2009, the Commission has issued General Fund Tax and Revenue Anticipation Notes ("TRANs") on an annual basis corresponding with its fiscal year. The TRANs are payable from taxes and certain revenues collected by the Commonwealth in the Fiscal Year in which they are issued. There is no TRAN currently outstanding.

Project Notes, General Fund Series. The Commission from time to time issues separate series of project notes, the proceeds of which are used to fund capital projects (the "General Fund Project Notes") authorized by the General Assembly. All General Fund Project Notes are payable from payments to be received by the Commission under separate financing/lease agreements and, as to bond anticipation notes, the issuance of bonds by the State Property and Buildings Commission. These payments are ultimately dependent upon General Fund appropriations by the General Assembly of the Commonwealth. The Commission has the following General Fund Project Notes outstanding:

<u>General Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2005 General Fund First Series	\$81,850,000	\$57,480,000
2007 General Fund FRN Series A	100,835,000	67,375,000
2007 General Fund FRN Series B	<u>142,245,000</u>	<u>137,245,000</u>
Total	\$324,930,000	\$262,100,000

Project Notes, Agency Fund Series. The Commission from time to time also issues separate series of project notes (the "Agency Fund Project Notes"), which are payable from payments to be received by the Commission under financing/lease agreements with various state agencies and from proceeds of bonds to be issued by the State Property and Buildings Commission or a state agency. The payments used to pay Agency Fund Project Notes are ultimately dependent upon Agency Fund appropriations by the General Assembly of the Commonwealth.

<u>Agency Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2005 Agency Fund Taxable First Series	\$11,275,000	\$8,215,000
2005 UK General Receipts Series A	107,540,000	83,865,000
2006 UK General Receipts Series A	66,305,000	44,775,000
2007 UK General Receipts Series A	77,905,000	66,090,000
2007 UK General Receipts Series B	<u>80,245,000</u>	<u>70,450,000</u>
Total	\$343,270,000	\$273,395,000

Project Notes, Road Fund Series. The Commission has previously issued Road Fund Project Notes supported by Road Fund Appropriations to provide interim financing. No Road Fund Project Notes are currently outstanding.

Project Notes, Federal Highway Trust Fund Series. In addition to the 2014 Notes, the following Notes are outstanding:

<u>Federal Highway Trust Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding⁽¹⁾</u>
2005 First Series	\$139,635,000	\$12,640,000
2007 First Series	277,910,000	171,650,000
2010 First Series	89,710,000	89,710,000
2013 First Series	<u>212,545,000</u>	<u>212,545,000</u>
Total	\$719,800,000	\$486,545,000

⁽¹⁾ Net of Refunded Notes

Funding Notes, General Fund Series. The Commission is authorized to issue funding notes (the "General Fund Funding Notes"), the proceeds of which are to be used for the purpose of funding judgments against the Commonwealth or any state agency or to be used to finance or refinance obligations owed to the Teachers' Retirement System of Kentucky ("KTRS"). All General Fund Funding Notes are payable from payments to be received by the Commission under separate financing/lease agreements with KTRS or other state agencies. The Commission has the following General Fund Funding Notes outstanding:

<u>Funding Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2010 First Series	\$467,555,000	\$306,750,000
2011 First Series	269,815,000	232,445,000
2013 First Series	<u>153,290,000</u>	<u>153,290,000</u>
Total	\$890,660,000	\$692,485,000

Future Financings

The 2010 Extraordinary (Special) Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. Governor Beshear took final action on the bills on June 4, 2010. Together, the bills authorize bond financing for projects totaling \$1,980.2 million to support various capital initiatives of the Commonwealth. Of the total authorization, \$507.4 million is General Fund supported, \$515.3 million is Agency Restricted Fund supported, \$522.5 million is supported by Road Fund appropriations and \$435 million is Federal Highway Trust Fund supported through GARVEE Bonds for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Bridges Ohio River Bridges Project. A portion of the General Fund, Agency Restricted Fund, Road Fund and Federal Fund authorizations have been permanently financed.

The 2012 Regular Session of the General Assembly delivered House Bill 265 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 30, 2012 and House Bill 2 (Kentucky Transportation Cabinet Budget) to the Governor on April 20, 2012, establishing an Executive Branch Budget for the biennium ending June 30, 2014. Governor Beshear took final action on House Bill 265 on April 13, 2012 and took final action on House Bill 2 on May 2, 2012. Together, the bills authorize bond financing for projects totaling \$238.86 million to support various capital initiatives of the Commonwealth. Of the total authorization, \$182.86 million is General Fund supported, \$12.5 million is supported by Road Fund appropriations, \$43.5 million is Agency Restricted Fund supported. A portion of the General Fund and the Agency Restricted Fund authorization listed above has been permanently financed.

The balance of bond authorizations of the General Assembly prior to and including the 2012 Regular Session totals \$800.15 million. Of these prior authorizations, \$214.169 million is General Fund supported, \$32.98 million is Agency Fund supported, \$223 million is supported by Road Fund appropriations and \$330 million is Federal Highway Trust Fund supported. Approximately \$150 million of the Federal Highway Trust Fund supported authorization is being funded with the 2014 Notes.

The 2013 Regular Session of the General Assembly delivered House Bill 7 to the Governor on February 20, 2013 authorizing a list of capital projects for the Kentucky state universities. Governor Beshear took final action on House Bill 7 on February 21, 2013. The bill authorizes bond financing for various university capital projects totaling \$363.3 million to support various capital initiatives of the state universities, which are Agency Fund supported. Of such authorization, \$9.6 will remain authorized to be issued following the delivery of bonds of the University of Kentucky on March 18, 2014 utilizing \$250 of such authorization.

In addition, House Bill 238 was signed by the Governor on March 22, 2013 authorizing an Agency Fund bond supported capital project for the Judicial Branch in conjunction with the Administrative Office of the Courts for financing of Phase I E-Case and Docket Management system capital project totaling \$28.1 million to be issued through Kentucky State Property and Buildings Commission or the Kentucky Asset/Liability Commission.

Governor Beshear introduced his proposed state budget for the Fiscal Year 2015 - Fiscal Year 2016 biennium at the State Budget Address on January 21, 2014. His proposed biennial budget includes \$1,089.4 million in General Fund supported debt authorization, \$5.0 million of Road Fund supported debt authorization, and \$974.2 million of Agency Fund supported debt authorization.

The General Assembly may authorize debt financing to support various capital initiatives or funding obligations of the Commonwealth in future sessions, which may result in the issuance of additional notes by the Commission. Notes may also be issued to refund outstanding Commission notes. The Commission may also issue TRANs as funding needs arise. The Commission may also enter into interest rate swaps or other agreements to manage the state's interest rate risk profile and/or hedge the future issuance of bonds authorized by the General Assembly.

THE FINANCE AND ADMINISTRATION CABINET

General. The 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. Cabinet functions include: (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) construction, maintenance and operation of public buildings, except those provided for the exclusive use of certain agencies; (5) providing administrative services of a financial nature to other agencies of state government; (6) investment and management of all Commonwealth funds other than pension funds; and (7) oversight of the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

Department of Facilities and Support Services. The Department of Facilities and Support Services is responsible for the Commonwealth's capital construction program; real property acquisition, disposition and leasing services; the daily operation and maintenance of state-owned office properties and surplus property services.

Department of Revenue. The Department of Revenue is responsible for the administration and enforcement of all state revenue laws and for the assessment and collection of state taxes. The Department of Revenue bills and collects the tax revenue necessary to support the state services provided by the Commonwealth.

Commonwealth Office of Technology ("COT"). The Commonwealth Office of Technology is headed by the Commonwealth's Chief Information Officer (and Commissioner of Technology). The agency carries out the functions necessary for the efficient, effective and economical administration of information technology and resources within the Executive Branch. These duties include overseeing shared Information Technology ("IT") infrastructure resources and services; developing and implementing statewide IT applications; establishing IT policy and standards, strategic and tactical IT planning, assessing; recommending and implementing IT governance and organization design; and establishing partnerships and alliances for effective implementation of IT projects.

Office of the Controller. The Office of the Controller is responsible for all state accounting policies and procedures, cash management and strategic financial planning. The Controller serves as the Commonwealth's chief accounting officer. The office maintains internal accounting controls, operates the statewide accounting system and reports the results of financial operations to management and the public. The office works closely with other agencies to coordinate the program, budget, and cost management components of the Commonwealth long-range business planning process.

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 Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified, modern, international economy -- illustrated by the fact that Kentucky's manufacturing employment concentration as a percentage of non-farm employment is now higher than the national average, and recessionary employment declines in these sectors were more muted in Kentucky than the national equivalent. 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.

By most accounts, the losses endured by Kentucky from the national recession that ended in June 2009 were less severe than most states. The loss of household wealth was muted in Kentucky since the Commonwealth did not experience a pronounced run-up in home values. Additionally, Kentucky's abundance of coal provided stable employment and wealth in the mining sector throughout the recession. Finally, Kentucky has a broad mix of manufacturing employment rather than an overreliance in a single industry. The automobile industry was one of the first sectors to rebound from the recession, and Kentucky is overrepresented in the automotive industries.

Like most states, Kentucky non-farm employment was particularly hard hit by the 2007 recession. After peaking almost simultaneously with the start of the recession, the trough occurred in the third quarter of Fiscal Year 2010, nine quarters later. The weakness in employment has been stubborn across nearly every sector of Kentucky employment, with mining being the primary exception.

For the first half of Fiscal Year 2014, as expected, Kentucky posted growth in most every measure of economic activity, such as state consumption or wages and salary income. However, Kentucky is repeating the recovery path seen in the previous two recessions, whereby the economic and revenue rebound fail to keep pace with comparable national data. A large part of the perceived underperformance in state measures comes from the fact that Kentucky experienced a more modest peak-to-trough drop when compared to states that were hit the hardest during the recession. Post-recession growth rates tend to be more robust in states that suffered the most during the downturn. In aggregate, Kentucky has surpassed nominal levels that prevailed prior to the recession and is now posed to produce economic and revenue growth over the next biennium.

Financial Information Regarding the Commonwealth

Information regarding the debt issuing authorities of the Commonwealth is included in EXHIBIT A.

The Commonwealth annually publishes The Kentucky Comprehensive Annual Financial Report with respect to the Fiscal Year of the Commonwealth most recently ended. The CAFR includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to Financial Statements as set forth in the CAFR contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of the CAFR 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. Recent data indicates that Kentucky may rebound more quickly than other states if the resurgence of the domestic auto industry can be sustained, if Kentucky's expanded role in auto parts manufacturing remains, and if Kentucky's relative insulation from the catastrophic losses of household wealth brought about by the national housing bubble continues.

Certain Financial Information Incorporated by Reference

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2013 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2013 with the following Nationally Recognized Municipal Securities Information Repository ("NRMSIR") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"):

Municipal Securities Rulemaking Board
Electronic Municipal Market Access System ("EMMA")
Internet: <http://emma.msrb.org>

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2013 may be obtained from EMMA or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502)564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2013 and certain other fiscal years may be found on the Internet at:

<http://finance.ky.gov/services/statewideacct/Pages/ReportsandPublications.aspx>

Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

The Commission will enter into a Continuing Disclosure Agreement (as hereinafter defined) in order to enable the purchaser of the Notes to comply with the provisions of Rule 15c2-12. See "CONTINUING DISCLOSURE" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report and Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with EMMA as required under Rule 15c2-12.

Budgetary Process in the Commonwealth

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two year period beginning the following July 1.

In the absence of a legislatively enacted budget, the Supreme Court has ruled that the Governor has no authority to spend money from the state treasury except where there is a statutory, constitutional or federal mandate and the Commonwealth may be prevented from expending funds for certain state governmental functions, including the ability to pay principal of and interest, when due, on obligations that are subject to appropriation. The Notes are obligations that are subject to appropriation.

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day to day investment management to the Office of Financial Management. OFM engaged PFM Asset Management LLC ("PFM") to conduct an evaluation of existing statutes and regulations, general investment functions, and portfolio performance benchmarks reporting and suggested best practices.

PFM has made its recommendations to OFM and the State Investment Commission, and some recommendations are being implemented. The Kentucky State Investment Commission Investment Program Review dated March 22, 2012 prepared by PFM may be found on the Internet at:

<http://finance.ky.gov/services/ofm/Documents/SIC%20Invest%20Prog%20Rev.pdf>

At February 28, 2014, the Commonwealth's operating portfolio was approximately \$3.891 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (38%); securities issued by agencies and instrumentalities of the United States Government (16%); mortgage-backed securities and collateralized mortgage obligations (10%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (1%); and corporate and asset-backed securities, including money market securities (22%). The portfolio had a current yield of 0.40% and an effective duration of 0.90 years.

The Commonwealth's investments are currently categorized into four investment pools; the Short Term, Limited Term, Intermediate Term, and the Bridges Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short Term Pool consists primarily of the General Fund and related accounts. The Limited Term Pool is a money market like pool which focuses on principal protection for certain agency funds. The Intermediate Term Pool represents a combination of Agency Fund investments, state held component unit funds, fiduciary funds held for the benefit of others, and also bond proceeds for capital construction projects, held until spent for their intended purpose. Bond proceeds were previously invested separately until July 2010 when they were added into the Intermediate Term Pool to provide additional economies of scale. The Bridges Pool consists of bond proceeds for the Louisville-Southern Indiana Ohio River Bridges capital construction project.

The Commonwealth 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 State 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, interest rate swaps, mortgage-backed securities, collateralized mortgage obligations and asset-backed securities.

The Commonwealth has used over the counter treasury options since the mid 1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than 20% 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 no options positions outstanding since April 2004.

The Commonwealth has had a securities lending program since the mid 1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth 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. In an agent program the agent, Deutsche Bank, lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in Eligible Collateral authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth.

On June 30, 2003, the State Investment Commission adopted Resolution No. 03-03, which amended the Commonwealth's investment policy concerning asset based interest rate swaps. The change modifies the exposure limits from a \$200 million notional amount to a net market value approach, the absolute value of which cannot exceed \$50 million for all counterparties. The Commonwealth engages in asset based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. The Commonwealth has not had any asset-based interest rate swaps outstanding since June 2006.

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 with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, including sovereign and supranational governments, 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. The Commonwealth currently holds several asset-backed securities that have been downgraded from the highest rating category.

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to \$25 million per issuer and a stated final maturity of five years or less. Money market securities rated A1 P1 or higher are limited to 20% of the investment pools. Asset-Backed Securities ("ABS") are limited to 20% of the investment pools. Mortgage-Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25% of the investment pools. ABS, MBS and CMO must have a weighted average life of four years or less at time of purchase. Changes have been proposed for these regulations which generally would tighten the securities eligible for purchase while allowing a larger position certain of those security types.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE FINANCING AGREEMENT

Definitions

Set forth below are the definitions of some of the terms used in this Official Statement, the Master Indenture and the Financing Agreement, each as supplemented and amended to date. Reference is made to the Master Indenture and the Financing Agreement for a complete recital of the terms defined therein.

"Act" shall mean Section 56.860 et seq. of the Kentucky Revised Statutes, as amended.

"Additional Notes" shall mean notes issued under the provisions of Section 2.06(1) of the Master Indenture.

"Additional Payments" shall mean the Additional Payments payable under the Financing Agreement.

"Authorized Denominations" shall mean \$5,000 and integral multiples thereof.

"Authorized Officer" shall mean, as to the Cabinet or the Commission, the Executive Director of the Office of Financial Management and any other officer, member or employee of the Office of Financial Management 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 and as to the State Agency, its Secretary and any other officer, member or employee of the State Agency authorized by a certificate of its Secretary to perform the act or sign the document in question.

"Budget Act" shall mean the Executive Branch Budget of the Commonwealth authorizing the related Project.

"Business Day" shall mean any day other than (i) a day on which the Trustee or the Paying 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.

"Cabinet" shall mean the Finance and Administration Cabinet of the Commonwealth.

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

"Commission" shall mean the Kentucky Asset/Liability Commission.

"Construction Notes" shall mean Project Notes issued in accordance with the Act to pay the costs of a Project that are issued in anticipation of the issuance of Notes to provide permanent financing for that Project.

"Cost of Issuance Fund" shall mean the Fund so designated which is established and created by Sections 5.03 and 5.04 of the Master Indenture.

"Costs of Issuance" shall mean 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 and such other fees and expenses normally attendant to an issue of the 2014 Notes.

"Counsel" or "Counsel's Opinion" shall mean 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.

"Counterparty Exchange Payment" shall mean a payment due from an Exchange Counterparty to the Trustee or the Commission pursuant to the applicable Exchange Agreement (including, but not limited to, payments in respect of any early termination, as provided in the applicable Exchange Agreement).

"Credit Facility" shall mean, with respect to any Series of Notes, a letter of credit, bond insurance policy, surety bond or similar instrument to be issued by a Credit Facility Provider having such terms as are set forth in the related Series Indenture.

"Credit Facility Agreement" shall mean the reimbursement agreement, bond insurance agreement or similar agreement between the Commission and any Credit Facility Provider.

"Credit Facility Provider" shall mean the provider of a Credit Facility with respect to any Series of Notes.

"Debt Servicing Date" shall mean any Interest Payment Date, as defined in the Master Indenture.

"Debt Servicing Obligation" shall mean the aggregate amounts required to be paid in respect of the Notes on any Debt Servicing Date, including (i) the scheduled maturity of principal of any Notes maturing on such Debt Servicing Date and the principal amount of Notes, if any, called for redemption on such Debt Servicing Date, and the premium, if any, with respect to such Notes, (ii) the interest required or estimated (by the Commission) to be paid on the Notes, and (iii) the reasonable and agreed fees of the Trustee, the Paying Agent and the Registrar, but only to the extent not otherwise paid directly by the Cabinet. The Cabinet shall be entitled to a credit against the Debt Servicing Obligation otherwise required to be paid on any Debt Servicing Date, to the extent there are funds in the Interest Account of the Note Payment Fund prior to the payment of the Debt Servicing Obligation hereunder which, under the terms of the Master Indenture and applicable law, can be used to meet the Debt Servicing Obligation. It is understood that, pursuant to the Master Indenture, all income derived from investment of the Project Fund may, at the discretion of the Cabinet, be transferred to the Note Payment Fund and, if so transferred, shall be a credit against Financing Payments due and payable by the Cabinet. Amounts transferred from the Cost of Issuance Fund, established by the Master Indenture, to the Note Payment Fund, shall be a further credit against Financing Payments due and payable by the Cabinet.

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

"Escrow Agent" means the Escrow Agent under the Escrow Agreement or any other bank or trust company which meets the requirements of the last paragraph of Section 10.09 of the Master Indenture,

appointed to serve as Escrow Agent in conjunction with the refunding of all or a portion of the Refunded Notes or any other obligations of the Commission.

"Escrow Agreement" means the Escrow Agreement dated as of March 1, 2014, by and between the Commission and the Trustee, as Escrow Agent.

"Escrow Fund" means the escrow fund or funds, account or accounts, or subaccount or subaccounts, designated as such and created by the Escrow Agreement for the Refunded Notes.

"Exchange Agreement" shall mean an interest rate exchange agreement between the Commission or the Trustee and an Exchange Counterparty, as originally executed and as amended or supplemented, or a similar interest rate hedge agreement, as originally executed and as amended or supplemented.

"Exchange Counterparty" shall mean any party with whom the Commission or the Trustee shall, from time to time, enter into an Exchange Agreement.

"Exchange Payment" shall mean a payment due from the Commission or the Trustee to an Exchange Counterparty, pursuant to the applicable Exchange Agreement, excluding, however, any payments in respect of any early termination other than amounts payable as accrued payments that would have been due had no early termination occurred.

"Executive Officer" shall mean the Chairman of the Commission.

"Federal Fiscal Year" shall mean the period commencing October 1 of any year and ending September 30 of the ensuing year, or any other fiscal year of the FHWA.

"FHWA" shall mean the Federal Highway Administration.

"FHWA Funds" shall mean all amounts available to the State Agency to pay amounts due with respect to an Eligible Debt Financing Instrument, as defined in Section 122 of Title 23, or amounts under any similar or successor provisions of law regarding the use of funds payable to the State Agency by FHWA.

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

"Financing Agreement" shall mean the Original Financing Agreement, as supplemented and amended from time to time.

"Financing Payments" shall mean Financing Payments payable under the Financing Agreement.

"Fitch" shall mean Fitch Ratings.

"Funds and Accounts" shall mean the Cost of Issuance Fund, Note Payment Fund, Project Fund, Rebate Fund and any account thereof and any other fund or account established in accordance with the terms of the Master Indenture or a Series Indenture.

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

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

"Interest Payment Date" shall mean, for each Series of Notes, the date upon which interest on the Notes of such Series shall be payable as provided in the applicable Series Indenture. With respect to the 2014 Notes, the Interest Payment Date means each March 1 and September 1, beginning September 1, 2014.

"Liquidity Facility" shall mean, with respect to any Series of Notes, 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 to be issued by a Liquidity Facility Provider having such terms as are set forth in the related Series Indenture.

"Liquidity Facility Provider" shall mean the provider of a Liquidity Facility with respect to any Series of Notes.

"Master Indenture" shall mean the Master Trust Indenture, dated as of May 1, 2005, and entered into between the Commission and the Trustee, as amended or supplemented from time to time.

"Maximum Annual Debt Service" shall mean the sum of all amounts required to be paid, during the current or any future Federal Fiscal Year commencing after the date of such calculation, or set aside during such Federal Fiscal Year, for payment of debt service on all Outstanding Notes.

"Memorandum of Agreement" shall mean the Memorandum of Agreement, executed in April of 2005, between the State Agency and FHWA, and acknowledged by the Commission and the Cabinet, as amended or supplemented.

"Memorandum of Instructions" shall mean the Memorandum of Instructions Regarding Rebate or similar memorandum or agreement regarding compliance with the requirement of the Code, that may be delivered to the Commission and the Trustee at the time of the issuance and delivery of Notes, as the same may be amended or supplemented in accordance with its terms.

"Moody's" shall mean Moody's Investors Service, Inc.

"Note Payment Fund" shall mean the Fund so designated which is established and created by Sections 5.03 and 5.05 of the Master Indenture.

"Notes" shall mean Project Notes, Federal Highway Trust Fund Series, issued from time to time under the provisions of the Master Indenture and a Series Indenture.

"Original Financing Agreement" shall mean the Financing/Lease Agreement dated as of May 1, 2005 among the Commission, the Cabinet and the State Agency, as supplemented and amended by the First Supplement to Financing/Lease Agreement dated as of September 1, 2007, as supplemented by the Second Supplement to Financing/Lease Agreement dated as of March 1, 2010, as supplemented by the Third Supplement to Financing/Lease Agreement dated as of August 1, 2013, by which the Project is leased to the State Agency.

"Outstanding" when used with reference to Notes, shall mean, as of any date, all Notes theretofore or then being authenticated and delivered except:

(a) Notes cancelled upon surrender, exchange or transfer or cancelled 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 Master Indenture or any Notes which are deemed to have been paid pursuant to the provisions of the Master Indenture; and

(d) Notes in lieu of which others have been authenticated under Sections 3.07, 3.08 and 3.11 of the Master Indenture.

"Parity Obligations" shall mean obligations for borrowed money that are secured by a pledge of Revenues on a parity basis with the pledge of Revenues under the Financing Agreement, including, but not limited to, Additional Notes and Refunding Notes.

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

"Pledged Receipts" shall include:

(i) all of the Financing Payments (being all of the payments to be paid by FHWA under the Memorandum of Agreement) and Additional Payments, each as defined in the Financing Agreement, to be paid by the State Agency to the Commission pursuant to the Financing Agreement; and

(ii) all interest earned and gains realized on Eligible Investments (a) except for earnings and gains on any investment in the Rebate Fund and (b) unless the Master Indenture or any Series Indenture specifically requires such interest earned or gains realized to remain in a particular Fund or Account and does not therefore constitute a Pledged Receipt.

"Principal Account" shall mean the account by that name in the Note Payment Fund established under Section 5.05 of the Master Indenture.

"Project" shall mean, collectively, the "Bond Financed Projects" described in the Memorandum of Agreement or any amendments thereto, which are more particularly described in Exhibit A to the Financing Agreement, as amended, and any additional "Projects," as defined in the Act, to be financed with the proceeds of Additional Notes or Construction Notes.

"Project Fund" shall mean the Project Fund created by Sections 5.03 and 5.06 of the Master Indenture.

"Purchase Account" shall mean the account by that name within the Note Fund established under Section 5.05 of the Master Indenture.

"Purchase Date" shall mean the date set forth in a Series Indenture on which Notes of the Series authorized by such Series Indenture may be tendered for purchase.

"Purchase Price" shall mean an amount equal to the principal amount of any Notes purchased under the tender option terms of a Series Indenture, plus, accrued interest, if any, to the purchase date.

"Rating Service" shall mean 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 respective successors and assigns.

"Rebate Fund" shall mean the fund by that name established pursuant to Sections 5.03 and 5.07 of the Master Indenture.

"Record Date" shall mean the first day of the month next preceding the applicable Interest Payment Date.

"Redemption Date" shall mean the date set forth in a Series Indenture on which Notes of the Series authorized by such Series Indenture may be called for redemption.

"Refunded Notes" shall mean the Commission's outstanding Project Notes, 2005 Federal Highway Trust Fund First Series maturing on September 1, 2015 through September 1, 2017.

"Refunding Notes" shall mean notes issued under the provisions of Section 2.06(2) of the Master Indenture, the proceeds of which are used solely and only to refund a portion of the Notes then Outstanding under the Master Indenture and to pay the costs of issuing such Refunding Notes.

"Registrar" shall mean the registrar maintaining the registration books for any Series of Notes and unless otherwise provided in a Series Indenture shall mean the Trustee.

"Remarketing Agent" shall mean any Remarketing Agreement appointed under the terms of a Series Indenture.

"Resolution" shall mean the resolution of the Commission adopted February 14, 2014 authorizing the issuance of the 2014 Notes and the execution and delivery of the Series Indenture.

"S&P" shall mean Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc.

"Series" shall mean all of the Notes authenticated and delivered on original issuance in a simultaneous transaction under a particular Series Indenture, and any Notes thereafter authenticated and delivered in lieu of or in substitution for such Notes.

"Series Indenture" shall mean a trust indenture providing for the issuance of a particular Series of Notes.

"Series of Notes" or words of similar import, shall mean the Series of Notes issued pursuant to a particular Series Indenture authorized by a Series Resolution.

"Series Resolution" shall mean a resolution of the Commission authorizing the issuance of a Series of Notes in accordance with the terms and provisions hereof, adopted by the Commission in accordance with Section 2.04 of the Master Indenture.

"State" shall mean the Commonwealth of Kentucky.

"State Agency" shall mean the Transportation Cabinet of the Commonwealth of Kentucky.

"State Fiscal Year" shall mean any period commencing July 1 of any year and ending June 30 of the ensuing year, or any other fiscal year of the Commonwealth.

"Supplemental Financing Agreement" shall mean the Fourth Supplement to Financing/Lease Agreement dated as of March 1, 2014 among the Commission, the Cabinet and the State Agency by which, together with the Original Financing Agreement, the Project is leased to the State Agency.

"Supplemental Indenture" shall mean any trust indenture supplemental to or amendatory of the Master Indenture adopted by the Commission.

"Title 23" shall mean Chapter 1 of Title 23, United States Code, Highways, as amended and supplemented from time to time and any successor or replacement provision of law.

"Treasurer" shall mean the Treasurer of the State.

"Trust Estate" shall mean the trust estate created by the Master Indenture and by the pledges specifically set forth in Section 5.02 of the Master Indenture.

"Trustee" shall mean the Trustee appointed pursuant to Section 9.01 of the Master Indenture, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the Master Indenture or any Series Indenture.

2014 Notes shall mean, collectively, the Commission's \$132,175,000 Project Notes, 2014 Federal Highway Trust Fund First Series A and \$39,765,000 Project Notes, 2014 Federal Highway Trust Fund First Refunding Series B.

The Master Indenture

Authorization for Notes in Series. From time to time when authorized by the Master Indenture and subject to the terms, limitations and conditions established in the Master Indenture, the Commission may authorize the issuance of a Series of Notes upon adoption of a Series Resolution and execution of a Series Indenture, and the Notes of any such Series may be issued and delivered upon compliance with the provisions of Article II and Article VII of the Master Indenture. The Notes of each Series are required to bear the title "Project Notes, [year of issue] Federal Highway Trust Fund [number of issue for that year] Series," and, at the option of the Commission, such other designation as may be necessary to distinguish them from the Notes of other Series. Notes of any Series may be authorized to be issued in the form provided by the Series Indenture.

Each Series Indenture is required to specify and determine: (i) the authorized principal amount of that Series of Notes; (ii) the purpose for which that Series of Notes is being issued, which shall be to provide funds for the purposes authorized by the Act and the Master Indenture or a Series Indenture including one or more of the following: (A) for deposit in the account of the Project Fund established for such Series for purposes for which the Project Fund may be utilized, all as provided in Section 5.06 of the Master Indenture; (B) for the redemption of Construction Notes and related purposes or for payment of the principal of, premium and interest on any Construction Notes; and (C) for deposit in the Cost of Issuance Fund or Note Payment Fund; (iii) the title and designation of, the manner of numbering and lettering, and the denomination or denominations of the Notes of that Series; (iv) the date or dates of maturity and the amounts thereof, and the dated date of that Series; (v) the interest rate or rates or the manner of determining such rate or rates of the Notes of that Series and the Interest Payment Dates of those Notes; (vi) the redemption price or redemption prices and the Redemption Date or Redemption Dates and other terms (if any) of redemption of any of the Notes of such Series; (vii) the Purchase Price and the Purchase Dates and other terms (if any) for the tender of any of the Notes of such Series; (viii) if the Paying Agent is to be different from the Paying Agent then serving under the Master Indenture, the Paying Agent or Paying Agents for such Notes; (ix) the manner in which Notes of such Series are to be sold and provisions for the sale thereof; and (x) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Master Indenture or any existing Series Indenture.

Additional Notes; Refunding Notes. The Commission has the right and authority to issue Additional Notes if it has received a certificate of an Authorized Representative of the State Agency stating that the amount of FHWA Funds received during the most recently completed Federal Fiscal Year was equal to at least 400% of the Maximum Annual Debt Service for all Notes Outstanding in the current and each future

Federal Fiscal Year including the Additional Notes proposed to be issued, but in the case of a Series of Additional Notes to be issued for refunding purposes, excluding the Note Payments on the Notes to be refunded.

For the purpose of determining the Maximum Annual Debt Service, variable rate Notes will be deemed to bear interest at the maximum rate of interest applicable to such variable rate Notes; provided however that if such maximum rate of interest is less than the interest rate quoted in *The Bond Buyer 25 Revenue Bond Index* (the "Index Rate") as published in *The Bond Buyer* for the last week of the month preceding the date of issuance of such variable rate Notes, then the interest rate on such variable rate Notes shall be deemed to be the Index Rate. If *The Bond Buyer 25 Revenue Bond Index* is no longer published, an index that is deemed to be substantially equivalent by nationally recognized bond counsel may be substituted therefore. Also for the purpose of determining the Maximum Annual Debt Service, any Note scheduled to be Outstanding during such period that is subject to tender at the option of the Holder will be assumed to mature on the stated maturity date or mandatory sinking fund payment date thereof.

No Additional Notes on a parity as to security with the Notes for such specific purposes described above may be issued unless at such time the Commission is and has been in continuous compliance with all of the provisions with reference to the payment of the principal and interest with respect to the Notes and is and has been in continuous compliance with all of the covenants under the Master Indenture. If any Additional Notes for such purposes are issued on a basis of parity as to security with the Notes, the Financing Agreement is required to be amended to provide for payments sufficient to pay the principal and interest with respect to all Notes Outstanding under the Master Indenture and all Additional Notes.

No other Additional Notes may be issued at any time secured by the Pledged Receipts; provided that the Additional Notes, the issuance of which is herein conditioned and restricted, will be understood to mean Notes payable from the Pledged Receipts on a basis of parity and equality with Outstanding Notes, and will not be construed to include other notes, bonds or obligations, the security and source of payment of which are subordinate and subject to the priority of the Notes. The Commission has the right to issue notes that are secured by a pledge of the Pledged Receipts that is subordinate to the pledge created by the Master Indenture which do not rank on a basis of equality and parity with the Notes, but only if such subordinate notes are issued in express recognition of the priorities, liens and rights created and existing for the security and source of payment and protection of the Notes.

The Commission has reserved the right, in addition to issuing Notes as described above, to issue Refunding Notes which may be on a parity as to security with the Notes in order to refund any Notes then Outstanding under the Master Indenture, so long as Maximum Annual Debt Service is not increased as a result of issuing such Refunding Notes.

No Refunding Notes on a parity as to security with the Notes may be issued unless at such time the Commission is and has been in continuous compliance with all of the provisions with reference to the payment of the principal and interest with respect to the Notes and is and has been in continuous compliance with all of the covenants under the Master Indenture and no default exists under the Financing Agreement.

Whenever the Commission shall have authorized or made provision for the authorization of, the issuance of a Series of Notes, the Commission has the right, by Series Resolution, to authorize the issuance of Construction Notes in anticipation of the sale of such Series of Notes in a principal amount not exceeding the principal amount of such Series of Notes. The principal or any interest on such Construction Notes and renewals thereof may be payable from and secured by a pledge of Pledged Receipts that is (i) subordinate to the pledge of such Pledged Receipts as security for Outstanding Notes or (ii) on a parity with the pledge of such Pledged Receipts securing Outstanding Notes, but, as to any parity pledge, only if the requirements described under this heading for the issuance of Additional Notes would be satisfied assuming the principal amount of such Construction Notes would be amortized over twenty (20) years on a level payment basis at prevailing market interest rates existing at the time of the issuance of the Construction Notes. (Section 2.06)

The Pledge Effected By The Master Indenture. Pursuant to the Act and the Master Indenture, there are pledged for the payment of the principal of and interest on the Notes other than Construction Notes which have not been issued upon compliance with the requirements of Section 2.06(3)(ii) (the "Non-Parity Construction Notes"), and all obligations of the Commission under any Liquidity Facility, Credit Facility Agreement or Exchange Agreement payable in accordance with their respective terms and the provisions of the Master Indenture, subject only to the provisions of the Master Indenture and the Act permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Master Indenture and the Act, (i) the proceeds of sale of the Notes, other than the proceeds of Non-Parity Construction Notes, to the extent not required to be utilized for payment of Construction 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 Master Indenture and any Series Indenture, including moneys and securities therein.

Pursuant to the Act and the Master Indenture, there are pledged for the payment of the principal of and interest on a Series of Non-Parity Construction Notes, and all obligations of the Commission under any Liquidity Facility, Credit Facility Agreement or Exchange Agreement payable in accordance with their respective terms and the provisions of the Master Indenture that are related to that Series of Non-Parity Construction Notes, subject only to the provisions of the Master Indenture and the Act permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Master Indenture and the Act, (i) the proceeds of sale of the Non-Parity Construction Notes or any renewal Construction Notes issued to refund such Series of Non-Parity Construction Notes; (ii) Eligible Investments acquired from Non-Parity Construction Note proceeds or by application of moneys in the related series account of the Project Fund or related Note Payment Account (subject to the limitations of (iv) below); (iii) the Pledged Receipts, on a basis that is subordinate to the pledge thereof as security for Notes that are not Non-Parity Construction Notes; and (iv) all Funds and Accounts created and established with respect to that Series of Non-Parity Construction Notes pursuant to the Master Indenture and the related Series Indenture, including moneys and securities therein. (Section 5.02)

Establishment of Funds. The Master Indenture establishes (i) the Cost of Issuance Fund (Series); (ii) the Note Payment Fund; (iii) the Project Fund (Series); (iv) the Rebate Fund; and (v) such other Funds and Accounts which may be created from time to time as provided in the Master Indenture or in a Series Indenture in order to accomplish the purposes of the Act and the Master Indenture and which are not inconsistent with the requirements of the Master Indenture.

Each of the above Funds, in addition to other Funds and Accounts from time to time established, are required to be held and maintained by the Trustee pursuant to the provisions of the Master Indenture and any Series Indenture, except for the Project Fund, which is required to be held by the Treasurer. (Section 5.03)

Cost of Issuance Fund. The Master Indenture establishes and creates a separate Cost of Issuance Fund for each Series of Notes. There will be deposited in the Cost of Issuance Fund, the amount required by the applicable Series Indenture. The Trustee is required from time to time pay out, or permit the withdrawal of, moneys from the Cost of Issuance Fund, free and clear of any lien or pledge or assignment in trust created by the Master Indenture, for the purpose of paying, any Costs of Issuance, upon receipt by the Trustee of a written requisition of the Commission signed by an Authorized Officer of the Commission stating with respect to each payment to be made, the Costs of Issuance to be so paid.

If any moneys remain in an account of the Cost of Issuance Fund on the date which is five months from the date of issuance of the related Series of Notes, the Trustee is required to transfer such amounts to the Interest Account (or subaccount of a Note Redemption Account for Construction Notes) of the Note Payment Fund. (Section 5.04)

Note Payment Fund. The Master Indenture establishes and creates a separate Note Payment Fund. In addition to any other accounts deemed necessary by the Trustee, there will be established within the Note Payment Fund an Interest Account, a Purchase Account, a Principal Account, and a Credit Facility Account.

An Interest Account will be established, into which will be deposited all amounts: (i) received as accrued interest upon the sale and delivery of any Notes, (ii) transferred from the Proceeds Fund for the payment of interest on the Notes, (iii) received as the interest portion of Financing Payments (including any prepayments of the interest portion of Financing Payments), and (d) received as Counterparty Exchange Payments. Amounts in the Interest Account will be used to pay (i) interest on the Notes, unless draws have been made on a Credit Facility for such purpose, in which case, amounts corresponding to such draws will be paid to the Credit Facility Provider, (ii) any Exchange Payments then due and payable and (iii) the fees of any Remarketing Agent, Credit Facility Provider or Liquidity Provider.

A Purchase Account will be established, 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 will be deposited in a "Draw Subaccount." Amounts in a Purchase Account will be used to purchase Notes (related to the Credit Facility or Liquidity Facility for which the Purchase Account was created) which are tendered for purchase, subject to the provisions of the related Series Indenture.

A Principal Account will be established, into which will be deposited all amounts (i) transferred from the Proceeds Fund to pay principal of and premium, if any, on the Notes due at maturity, on a Redemption Date or upon acceleration and (ii) representing payments of principal and premium, if any, on Notes to pay such amounts at maturity, on a Redemption Date or upon acceleration. 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.

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

Upon issuance of any Construction Notes, there will be established a separate and distinct "Note Redemption Account" of the Note Payment Fund and accounts, which will be subaccounts thereof, as described above for accounts of the Note Payment Fund, into which will be deposited the amounts described above that are related to such Construction Notes. In addition, there will be deposited in such Note Redemption Account (i) any accrued interest received upon the sale of such Construction Notes and (ii) sufficient proceeds of the Series of Notes authorized to be issued at the time of issuance of such Construction Notes, when issued, to provide for the payment-in-full of such Construction Notes. Amounts in subaccounts of a Note Redemption Account will be disbursed in the same manner described above for accounts of the Note Payment Fund.

The Trustee will transmit to any Paying Agent, as appropriate, from moneys in the Note Fund applicable thereto, amounts sufficient to make timely payments of principal of, Purchase Price of, interest on and premium, if any, on the Notes to be made by such Paying Agent and then due and payable.

Provisions regarding draws on any Credit Facility or Liquidity Facility pursuant to their terms, in the amounts and at the times necessary to pay the Purchase Price, principal of, interest on (and any related

Exchange Payments) and premium, if any, on any Notes will be set forth in the Series Indenture related to such Notes. (Section 5.05)

Project Fund. The Master Indenture establishes and creates a trust fund to be designated the Project Fund, which is required to be an account in the Commonwealth's management administrative and reporting system. The Project Fund is required to be separately identified from all other accounts in the Commonwealth's management administrative and reporting system and is required to be used solely for the purposes provided in the Master Indenture. A separate account of the Project Fund may be established for each separate component thereof. The amount required by each applicable Series Indenture will be deposited in the Project Fund. Under the Master Indenture, the Treasurer makes disbursements from each 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 an Authorized Officer of the State Agency and in accordance with the provisions of the Financing Agreement. The State Agency is required to keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom. All of the income derived from investment of each account of the Project Fund will, at the option of the 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 account and used for the purposes thereof. If any amount remains in an account of the Project Fund after an Authorized Officer of the State Agency certifies that the Project has been completed, such amount will be transferred to the Interest Account of the Note Payment Fund. (Section 5.06)

Rebate Fund. The Master Indenture establishes and creates a trust fund to be designated the Rebate Fund, which is established and maintained under the Master Indenture or under any laws governing the creation and use of funds by the Commission. If a Series of Notes is determined to be subject to the "rebate" requirements in favor of the United States of America imposed by the Code, 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 the transfer provisions provided in Section 5.07 of the Master Indenture, all money at any time deposited in the Rebate Fund will 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, nor the owner of any Notes will have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed by Article V of the Master Indenture, and by the Memorandum of Instructions. The Trustee will be deemed conclusively to have complied with such provisions if it follows the directions of the Commission including supplying all necessary information in the manner provided in the Memorandum of Instructions, and will have no liability or responsibility to enforce compliance by the Commission with the terms of the Memorandum of Instructions.

Upon the Commission's written direction, an amount is required to be deposited to the Rebate Fund by the Trustee from deposits by the Commission, if and to the extent required, so that the balance of the Rebate Fund after such deposit equals the Rebate Amount for the Bond Year (as such term is defined in the Memorandum of Instructions) calculated as of the most recent Calculation Date (as defined in the Memorandum of Instructions). Computations of the Rebate Amount are required to be furnished by or on behalf of the Commission in accordance with the Memorandum of Instructions.

The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to Section 5.07 of the Master Indenture, other than from moneys held in the Funds and Accounts or from other moneys provided to it by the Commission.

The Trustee is required, upon written direction, to invest all amounts held in the Rebate Fund, subject to the restrictions set forth in the Master Indenture for investments in other funds established in the Master Indenture and in the Memorandum of Instructions. The Trustee will retain all earnings (calculated by taking into account net gains or losses on sales or exchanges and taking into account amortized discount or premium as a gain or loss, respectively) on investments held in the Rebate Fund in the Rebate Fund. Moneys will not be transferred from the Rebate Fund except as provided in the following paragraph.

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 Funds or Accounts as directed by the Commission's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the 2014 Notes and payment and satisfaction of any Rebate Amount, or provision made therefore satisfactory to the Trustee shall be withdrawn and remitted to, or at the direction of, the Commission.

Notwithstanding any other provision of the Master Indenture, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of Section 5.07 of the Indenture and the Memorandum of Instructions will survive the defeasance or payment in full of the Notes. (Section 5.07)

Investment of Funds. The Master Indenture requires amounts on deposit in any Fund or Account to be invested in Eligible Investments, and for the Trustee to sell at the best price reasonably obtainable, or present for redemption or exchange, any Eligible Investments purchased by it as an investment pursuant to the Master Indenture or any Series 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. Except as otherwise provided in the Master 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 will become a part thereof for all purposes, except as otherwise provided in the Master Indenture. (Section 5.08)

Exchange Agreements; Counterparty Exchange Payments; Exchange Payments. The Commission has authorized the Trustee to enter into or to acknowledge and agree to any Exchange Agreement hereafter entered into by itself or the Commission and an Exchange Counterparty under which (a) there may be required to be made, from time to time, Exchange Payments and (b) the Trustee may receive, from time to time, Counterparty Exchange Payments. The Trustee is required to deposit all Counterparty Exchange Payments in the Interest Account of the Note Payment Fund to be applied in accordance with the provisions of Section 5.05 of the Master Indenture. Nothing in the Master Indenture requires that an Exchange Payment or Counterparty Exchange Payment be made on an Interest Payment Date. (Section 5.09)

Further Assurance. The Master Indenture requires the Commission, so far as it may be authorized by law, to pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues pledged and assigned, or intended so to be, or which the Commission may become bound to pledge or assign. (Section 6.04)

Powers as to Notes and Pledge. Under the Master Indenture and each Series Indenture, the Commission is authorized to issue the Notes and execute and deliver the Master Indenture and each Series Indenture and pledge the income, revenues and assets pledged by the Master Indenture and each Series Indenture in the manner and to the extent provided in the Master Indenture. The income, revenues and assets pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Master Indenture and each Series Indenture, and all official action on the part of the Commission to that end has been or will be duly and validly taken. The Notes and the provisions of the Master Indenture and each Series Indenture are and will be the valid and legally enforceable obligations of the Commission in accordance with their terms and the terms of the Master Indenture and each Series Indenture. The Budget Act includes authorization for the issuance of "bonds" (being the Notes) for the Project and includes adequate funds for the payment of Financing Payments and Additional Payments under the Financing Agreement. The Commission is required to at all times, to the extent permitted by law, defend, preserve and protect the pledge of the incomes, revenues and assets pledged under the Master Indenture and each Series Indenture and all the rights of the Holders under the Master

Indenture and each Series Indenture against all claims and demands therefore of all persons whomsoever. (Section 6.05)

Covenants as to Financing Payments and Additional Payments. The Master Indenture establishes that the Financing Agreement will continue to be maintained by the Commission. In the event the State Agency for any reason whatsoever fails to pay any Financing Payments or Additional Payments specified in the Financing Agreement, the Commission will use its best efforts to make or cause to be made payments of Financing Payments or Additional Payments so that the aggregate of the gross receipts and revenues from the Financing Agreement at all times will be sufficient to make such prescribed payments into the Note Payment Fund; provided, however, that (i) the Commission has no obligation to make financing payments from any source other than amounts payable by the FHWA under the Memorandum of Agreement and (ii) no action will be taken which, in Counsel's opinion, would have the effect of materially altering the federal income tax status of the interest earned on the Notes.

If, at any time, the prescribed Financing Payments under the Financing Agreement are not sufficient to pay the principal of and the interest on the Notes authorized in the Master Indenture or Additional Payments are not sufficient to pay fees and expenses related to the Notes, in accordance with the provisions of the Master Indenture, such Financing Payments or Additional Payments are required to be immediately adjusted in order to produce sufficient revenues for such purposes. (Section 6.08)

Covenant to Confer with Appropriate Officials Concerning Biennial Budget. The Commission will, prior to the beginning of each fiscal biennium confer with the proper officials of the State Agency to induce the State Agency to include in its budget such provisions and arrangements as may be required and appropriate to continue to pay the prescribed Financing Payments and Additional Payments during such biennial period. (Section 6.09)

Covenant to Enforce the Financing Agreement and Memorandum of Agreement. So long as any of the 2014 Notes are Outstanding and unpaid as to either principal or interest or any obligation of the Commission under a Credit Facility, Liquidity Facility, or Exchange Agreement remains unpaid, the Commission will continuously enforce the Financing Agreement and Memorandum of Agreement to the maximum extent permitted by law, and will not consent to any modification of the Financing Agreement or Memorandum of Agreement which would in any particular way impair the security created for the holders of the 2014 Notes a Credit Facility Provider, Liquidity Provider or Exchange Counterparty. (Section 6.10)

Tax Covenant. The Commission is required to do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Commission on the 2014 Notes will, for the purposes of federal income taxation, be excludable from gross income under any valid provision of law including but not limited to, provisions of the Code and Section 122 of Title 23, as applicable.

The Commission will not permit at any time or times any of the proceeds of the 2014 Notes to be used to acquire or to replace funds which were used directly or indirectly to acquire any securities or obligations which are "higher yielding investments" (as defined in the Code), the acquisition of which would cause any Note to be an "arbitrage bond" as defined in Sections 103(b)(2) and 148 of the Code as then in effect, unless, under any valid provision of law hereafter enacted (i) such action would not cause arbitrage bond status to occur, or (ii) the interest paid by the Commission on the 2014 Notes will be excludable from the gross income of a recipient thereof for federal income tax purposes without regard to compliance with the provisions of Section 103(a) of the Code.

In order to assure compliance with Section 6.11 of the Master Indenture, thereby better securing and protecting the 2014 Notes, the Commission from the date of adoption of the Master Indenture will not:

- (a) make or cause to be made any investment of Note proceeds that produces a yield in excess of such applicable maximum yield as may be permitted by the Code, and

(b) invest or cause the Trustee (or the Treasurer, as the case may be) to, and the Trustee (or the Treasurer, as the case may be) shall not, independent of any direction of the Commission, invest monies in any fund created under the Master Indenture in investment obligations that produce a yield in excess of such applicable maximum yield as may be permitted by the Code.

Prior to the issuance of any of the 2014 Notes and as a condition precedent to such issuance, the Commission is required to certify by issuance of a certificate by an Authorized Officer having responsibility for the receipt, disbursement, use and investment of the proceeds of the 2014 Notes that, on the basis of the facts, estimates and circumstances in existence on the date of issue of the 2014 Notes it is not expected that the proceeds of the 2014 Notes will be used in a manner that would cause such obligations to be arbitrage bonds.

The Commission is required to pay from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the 2014 Notes from time to time. This requirement will survive payment in full or defeasance of the 2014 Notes. The Commission is required to pay or cause to be paid to the United States at the times and in the amounts determined under Section 5.07 of the Master Indenture the Rebate Amounts, as described in the Memorandum of Instructions. The Trustee is required to comply with all instructions of the Commission given in accordance with the Memorandum of Instructions.

Notwithstanding any provision described under this heading, if the Commission provides to the Trustee a Counsel's opinion to the effect that any action required under Sections 6.11 and 5.07, of the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the 2014 Notes pursuant to Section 103(a) of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with those provisions. (Section 6.11)

Supplemental Trust Indentures Effective Without Consent of Holders. The Master Indenture prescribes procedures whereby the Commission may, with the written consent of the Trustee, execute and deliver at any time from time to time Supplemental Trust Indentures for any one or more of the following purposes; to further secure the payment of the Notes; to further limit and restrict the issuance of Notes and the incurring of indebtedness by the Commission; to surrender any right, power or privilege reserved to or conferred upon the Commission by the terms of the Master Indenture, to confirm any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Master Indenture; to modify any of the provisions of the Master Indenture or any Series 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 Indenture cease to be Outstanding; to cure any ambiguity or defect or inconsistent provision; to the extent not inconsistent with the terms of the Master Indenture, such provisions as may be necessary for the issuance of Additional Notes under the terms of the Master Indenture; to modify any provisions of the Master Indenture in order to obtain a Liquidity Facility, Credit Facility or Exchange Agreement, so long as such modifications affect only the Notes to which such Liquidity Facility, Credit Facility or Exchange Agreement relate; and for any other purpose provided that, in the opinion of Counsel, any such amendment or modification does not materially adversely affect the rights of Holders affected thereby.

A Supplemental Indenture for the purposes described above, becomes effective upon the execution thereof by the Commission and the Trustee and delivery thereof to the Trustee. At any time thereafter, notice stating in substance that the Supplemental Trust Indenture has been delivered to the Trustee and is effective pursuant to the Master Indenture, is required to be given to Holders by the Commission by mailing such notice to Holders by regular United States mail. (Section 7.01)

Supplemental Trust Indentures Effective with Consent of Holders. The Master Indenture or any Series Indenture may also be modified or amended at any time or from time to time by a Supplemental

Indenture, subject to the written consent of the Holders in accordance with and subject to the provisions of Article VIII of the Master Indenture. (Section 7.02)

Supplemental Trust Indentures Effective with Counsel's Opinion. A copy of every Supplemental Trust Indenture adopted by the Commission when filed with the Trustee is required to be accompanied by a Counsel's Opinion stating that such Supplemental Trust Indenture has been duly and lawfully adopted in accordance with the provisions of the Master Indenture, is authorized or permitted by the Master Indenture and is valid and binding upon the Commission and enforceable in accordance with its terms. (Section 7.03)

Limitations on Powers of Amendment. Any modification or amendment of the Master Indenture or any Series Indenture and of the rights and obligations of the Commission and of the Holders of the Notes pursuant to may be made by a Supplemental Trust Indenture, with the written consent given by the Holders of at least a majority in principal amount of the Notes Outstanding of each Series affected by such amendment at the time such consent is given. No modification or amendment may permit a change in the terms of redemption or maturity of the principal of any Outstanding Note or of any installment of interest thereon or a reduction in the principal amount thereof or in the rate of interest thereon without the consent of the Holder of such Note, or reduce the percentages or otherwise affect the classes of Notes the consent of the Holders of which is required to effect any such modification or amendment.

For the purposes of Section 8.01 of the Master Indenture, a Series will be deemed to be affected by a modification or amendment of the Master Indenture or any Series Indenture if the same adversely affects or diminishes the rights of the Holders of the Notes of such Series. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, Notes of any particular Series or maturity would be adversely affected by any modification or amendment of the Master Indenture and any such determination will be binding and conclusive on the Commission and all Holders of Notes. The Trustee may receive a Counsel's Opinion, as conclusive evidence as to whether Notes of any particular Series or maturity would be so affected by any such modification or amendment of the Master Indenture or any Series Indenture. (Section 8.01)

Consent of Holders. A copy of a Supplemental Indenture requiring consent of the Holders, or summary thereof, together with a request to the Holders must be mailed to the Holders. Such Supplemental Indenture will not be effective unless and until (a) there shall have been filed with the Trustee (i) the written consents of the proper percentage of Holders and (ii) a Counsel's Opinion, and (b) notice thereof must have been mailed to all Holders. Any such consent will be binding upon the Holder of the Notes giving such consent and, upon any subsequent Holder of such Notes and of any Notes issued in exchange therefore (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Notes giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee described in this paragraph is filed, such revocation.

At any time thereafter, notice, stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture adopted by the Commission on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Notes and will be effective as described in this paragraph, is required to be given to the Holders by the Commission by mailing such notice to the Holders. A transcript, consisting of the papers described in this paragraph to be filed with the Trustee, will be proof of the matters therein stated. Such Supplemental Indenture making such amendment or modification will be deemed conclusively binding upon the Commission, the Fiduciaries and the Holders of all Notes. (Section 8.02)

Events of Default. Each of the following events shall constitute an "Event of Default":

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

(2) payment of any installment of interest on any Note or any Exchange Payment is not be made when and as the same becomes due; or

(3) payment of any Note tendered to the Remarketing Agent for purchase is 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, any Liquidity Provider, any Credit Facility Provider, and the Commission; or

(4) the Commission fails or refuses to comply with the provisions of the Act, or defaults in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Master Indenture, any Series Indenture or the Notes and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by (i) a 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 or a Liquidity Facility if the Credit Facility Provider or the Liquidity Provider is not in default of its obligations under such Credit Facility or Liquidity Facility, as applicable; or

(5) receipt by the Trustee (i) from a Credit Facility Provider, within the time period specified in a Credit Facility, of notice that it will not reinstate amounts drawn on such Credit Facility to pay interest on the Notes or (ii) from a Liquidity Provider or Credit Facility Provider of notice that an Event of Default has occurred under a Liquidity Facility or Credit Facility Agreement. (Section 9.02)

Acceleration. Unless otherwise provided in the Series Indenture, subject to provisions described in this paragraph and upon the occurrence of an Event of Default as specified in paragraphs (1), (2), (3) or (5) 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 an Event of Default as specified in paragraph (4) above, the Trustee may, or at the direction of the Holders of not less than twenty-five percent (25%) of the Notes Outstanding 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 an Event of Default with respect to Notes secured by a Credit Facility or Liquidity Facility, the Trustee is required to make any such declaration only upon the written direction, or upon the written consent of the related Credit Facility Provider and the Liquidity Provider; provided that such consent shall only be required when the Event of Default is not described in clause (i) of paragraph (5) above and the applicable Credit Facility Provider or Liquidity Provider is not in default of its obligations under its Credit Facility or Liquidity Facility, as applicable.

Any such declaration is required to be by notice in writing to the Commission and any Remarketing Agent, Credit Facility Provider, Liquidity Provider, and Exchange Counterparty, and, upon said declaration, principal and interest on all Notes will become and be immediately due and payable. The Trustee immediately upon such declaration is required to give notice thereof in the same manner as provided in the Master 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. Nothing contained in the Master Indenture shall be construed to permit the acceleration of any payments of Financing Payments or Additional Payments by the State Agency beyond the current term of the Financing Agreement. (Section 9.03)

Other Remedies. Upon the occurrence of an Event of Default specified in paragraphs (1), (2), (3) or (5) above, the Trustee is required to proceed, or upon the happening and continuance of an Event of Default specified in paragraph (4) above, with the written consent of any Credit Facility Provider, any Exchange

Counterparty, and any Liquidity Provider the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) of the Outstanding Notes is required to proceed, in its own name, subject to the provisions described in this paragraph, 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 Master 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 Master Indenture.

Upon the occurrence of an Event of Default with respect to Notes secured by a Credit Facility or Liquidity Facility, the Trustee is required to make any such declaration only upon the written direction, or upon the written consent of the related Credit Facility Provider and Liquidity Provider; provided that such consent will only be required when the Event of Default is not described in clause (i) of paragraph (5) above and the applicable Credit Facility Provider or Liquidity Provider is not in default of its obligations under its Credit Facility or Liquidity Facility, as applicable. Any right of an Exchange Counterparty (whether as to request, consent or otherwise) under Article IX of the Master Indenture will be exercisable by the Exchange Counterparty only if (i) such Exchange Counterparty is not in default of its obligations under its Exchange Agreement and (ii) all obligations of the parties other than the Exchange Counterparty under such Exchange Agreement have not been satisfied.

In the enforcement of any rights and remedies under the Master Indenture or any Series 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 Master Indenture or any Series 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 Master Indenture and under 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 Master Indenture or any Series 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. (Section 9.04.)

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 Master Indenture, after making provision (i) for the payment of any expenses necessary in the opinion of the trustee to protect the interests of any Credit Facility Provider, and Liquidity Provider, any Exchange Counterparty, 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 the Master Trust Indenture or any Series Indenture, it being understood that amounts drawn on a Credit Facility will 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 (or Related Exchange Payments) 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 a 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 a 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 (or Related Exchange Payments) due and unpaid upon the Notes without preference or priority of principal over interest (or Related Exchange Payments) or of interest (or Related Exchange Payments) over principal, or of any installment of interest (or Related Exchange Payments) over any other installment of interest (or Related Exchange Payments), 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 and Liquidity 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 the Master 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. (Section 9.05)

Direction of Proceedings. Unless otherwise provided in a Series Indenture, anything in the Master Indenture or Series Indenture to the contrary notwithstanding, any Credit Facility Provider, any Liquidity Provider, any Exchange Counterparty, and the Holders of the majority in principal amount of Notes then Outstanding will have the right by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Master Indenture, provided that such direction will not be otherwise than in accordance with law or the provisions of the Master Indenture or any Series Indenture, and that the Trustee will have the right to decline to follow any such direction (i) which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction or (ii) there has not been offered to the Trustee reasonable security and indemnity against the cost, expenses (including reasonable legal expenses) and liabilities to be incurred with respect thereto. In the event of a conflict between directions from a Credit Facility Provider, a Liquidity Provider, an Exchange Counterparty and such Holders, directions is required to be followed in priority order as follows: (i) a Credit Facility Provider, so long as such Credit Facility Provider is not in default of its obligations under its Credit Facility Agreement; (ii) a Liquidity Provider, so long as such Liquidity Provider is not in default of its obligations under its Liquidity Facility, (iii) the Holders and (iv) an Exchange Counterparty, so long as such Exchange Counterparty is not in default of its obligations under its Exchange Agreement. (Section 9.07)

Limitation on Rights of Holders. No Holder of any Note will have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Master Indenture, or for the protection or enforcement of any right under the Master Indenture or any right under the law unless such Holder has given

to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five percent (25%) of the Notes then Outstanding have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, have occurred, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Master Indenture or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the cost, expenses (including reasonable legal expenses) and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time, it being understood that the Trustee is required to make all required draws on any Credit Facility in accordance with the applicable Series Indenture, make payments on the Notes as provided in the Master Indenture (to the extent funds are available for such purpose) and declare the Notes due and payable as provided in the Master Indenture, regardless of having received any indemnity or security; and such notification, request and offer of indemnity are in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Master Indenture or any Series Indenture or for any other remedy under the Master Indenture or under law. It is understood and intended that no one or more Holders of the Notes will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Indenture, or to enforce any right under the Master Indenture or under law with respect to the Notes or the Master Indenture or any Series Indenture, except in the manner provided in the Master Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Master Indenture and for the benefit of all Holders. Nothing in Article IX of the Master Indenture may affect or impair the right of any Holder to enforce the payment of the principal of and interest on its Notes, or the obligation of the Commission to pay the principal of and interest on each Note issued under the Master Indenture to the Holder thereof at the time and place stated in said Note.

Anything in the Master Indenture or Series Indenture to the contrary notwithstanding, each Holder of any Note by his acceptance thereof will be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Master Indenture or any Series Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable cost of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions described in this paragraph will not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding at least twenty-five percent (25%) of the Notes Outstanding, or to any suit instituted by any Holders for the enforcement of the payment of the principal of, premium, if any, or interest on any Note on or after the respective due date thereof expressed in such Note. (Section 9.08)

Trustee. Prior to the occurrence of an Event of Default, the Trustee is required to perform only those duties specifically set forth in the Master Indenture or the related Series Indenture. If an Event of Default, of which the Trustee has received notice, has occurred and is continuing, the Trustee is required to exercise its rights and powers and use the same degree of care and skill as a prudent man would exercise under the circumstances in the conduct of his own affairs. (Section 10.01)

Evidence on Which Fiduciaries May Act. Each Fiduciary will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the Commission, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Master Indenture in good faith and in accordance therewith. Whenever any Fiduciary will deem necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Master Indenture, including payment of moneys out of any Fund or Account, such matter (unless other evidence in respect thereof be specifically prescribed in the Master Indenture) may be deemed to be conclusively proved and established by a certificate signed by an Authorized Officer of the Commission, and such certificate will be full warrant for any action taken or suffered in good faith under the provisions of the Master Indenture and

any Series Indenture in which said Fiduciary has accepted said trust upon the faith thereof, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may deem reasonable. Except as otherwise expressly provided in the Master Indenture, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision of the Master Indenture by the Commission to any Fiduciary is required to be sufficiently executed if executed in the name of the Commission by an Authorized Officer of the Commission. (Section 10.04)

Permitted Acts and Functions. The Trustee and any Paying Agent may become the owner of any Note, with the same rights it would have if it were not such Fiduciary. Any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Holders or to effect or aid in any reorganization growing out of the enforcement of the Notes or the Master Indenture, whether or not any such committee is required to represent the Holders of a majority in principal amount of the Notes then Outstanding. (Section 10.06)

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Master Trust Indenture or any Series Indenture by giving not less than sixty (60) days' written notice to the Commission and by mailing notice (specifying the date such resignation is to take effect) through regular United States mail, postage prepaid, to each Holder of Notes, and such resignation will take effect upon the day specified in such notice unless (i) no successor has been appointed as provided in the Master Indenture, or (ii) previously a successor shall have been appointed, as provided in the Master Indenture, in which event such resignation will take effect immediately on the appointment of such successor. If a successor trustee is not appointed within sixty (60) days, the Trustee will be entitled to petition a court of competent jurisdiction to appoint a successor Trustee. (Section 10.07)

Removal of Trustee. The Trustee may and, if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Commission, and signed by the Holders of a majority in principal amount of the Notes then Outstanding or their attorneys-in-fact duly authorized, excluding any Notes held by or for the account of the Commission, is required to be removed by the Commission (so long as no Event of Default has occurred and is continuing) by an instrument or concurrent instruments in writing, filed with the Trustee and the Commission and signed by the Commission or the Holders of Notes, as appropriate. No such removal will be effective until a successor Trustee has been appointed and assumed the duties of Trustee as provided in the Master Indenture. (Section 10.08)

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Commission covenants and agrees that it will thereupon appoint a successor Trustee. The Commission is required to provide notice of any such appointment made by it within twenty (20) days after such appointment to Holders of Notes.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within forty-five (45) days after the Trustee shall have given to the Commission written, as provided in above, or after a vacancy in the office of the Trustee shall have occurred by reason of its removal or inability to act, the Trustee or the Holder of any Note may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed in succession to the Trustee is required to be a trust company or bank having the powers of a trust company within or outside the Commonwealth, having a capital and surplus aggregating at least Seventy-Five Million Dollars (\$75,000,000) if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Master Indenture or Series Indenture. (Section 10.09)

Defeasance. Notes or interest installments of particular Notes or Series of Notes for the payment or redemption of which moneys will have been set aside and are required to 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 above. Particular Notes or Series of Notes will, prior to the maturity or redemption thereof, be deemed to have been paid, 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 Master Indenture, and in the applicable Series Indenture, (b) there will have been deposited with the Trustee either moneys in an amount which shall 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 all amounts payable under any related Liquidity Facility, Credit Facility Agreement or Exchange Agreement, (c) in the event said Notes are not subject to redemption within the next sixty (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 herein provided for giving notice of redemption and (d) a Counsel's Opinion that the defeasance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Notes. Neither Defeasance Obligations or moneys deposited with the Trustee as described in this paragraph, nor principal or interest payments on any such obligations, may be withdrawn or used for any purpose other than, and must be held in trust for, the payment of the principal and interest on said Notes.

Anything in the Master Indenture or Series 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 Master 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:

(1) 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".

(2) 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;

(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; and

if the redemption date for the Notes to be discharged by the deposit of Defeasance Obligations is no later than ninety (90) days from the date of such deposit, "Defeasance Obligations" shall also include direct and general non-callable obligations of any Federally sponsored enterprise, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Land Banks, Federal Home Loan Banks, Bank for Cooperatives, Tennessee Valley Authority and any other similar institution. (Section 11.01)

The Financing Agreement

The Commission, the Cabinet and the State Agency have entered into the Financing Agreement which provides for (i) financing of the Project by issuance of the Notes by the Commission; and (ii) the leasing of the Project from the Commission to the State Agency to provide revenues for amortization of the Notes. As required by the Act, the Cabinet is also a party to the Financing Agreement.

Term, Renewals and Financing Payments. The Commission has agreed to provide financing for the Project to the State Agency, for an initial term ending June 30, 2014. The State Agency has the right to continue the Financing Agreement and have the Project for succeeding biennial periods. The State Agency is required to pay, as Financing Payments during the initial period ending on June 30, 2014, and for each Renewal Term, the Debt Servicing Obligation relating to the Notes so long as any Notes are Outstanding; provided that, the Debt Servicing Obligation is payable solely from FHWA Funds authorized to be expended for such purpose. The State Agency has the exclusive option to renew the 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 on the first June 30 of an even-numbered year occurring after there are no Notes outstanding under the Indenture. Each of the options to renew are deemed automatically exercised (and the Financing Agreement automatically renewed for the succeeding Renewal Term) unless a written notice of the State Agency's election not to renew is delivered to the Commission before the close of business on the last business day in May, immediately preceding the beginning of such succeeding Renewal Term.

Additional Payments. The State Agency covenants and agrees to pay "Additional Payments" for the term of the Financing Agreement and for any Renewal Term during which Notes are outstanding, as follows:

(1) To the Trustee, when due, all fees of the Trustee for services rendered, all fees and charges of any Paying Agent, Registrar, counsel, accountants, and others incurred in the performance on request of the Trustee of services for which the Trustee and such other persons are entitled to payment or reimbursement which are not paid as Financing Payments; and

(2) To the Commission, upon demand, all reasonable expenses incurred by it in relation to the Project which are not otherwise specifically identified and required to be paid by the Commission under the terms of the Financing Agreement (Section 5.06)

Effect of the State Agency's Election not to Renew. In the event the State Agency shall give written notice to the Commission of the State Agency's election not to renew the Financing Agreement for any ensuing optional biennial Renewal Term, prior to the automatic renewal, the State Agency is not obligated to pay Financing Payments or Additional Payments beyond the last day of the then current term, and the State Agency is required to forfeit all of its future options to renew and must peacefully surrender, to the Commission, possession of the Project on or prior to the last day of the then current term; provided, however,

an election on the part of the State Agency not to renew for a future term does not in any manner alter or diminish any obligation of the State Agency for the then current term; and does not preclude subsequent reinstatement of the Financing Agreement for any future renewal term, if agreed to by the Commission, upon the same terms and conditions as would have been applicable if the Financing Agreement had been renewed according to its provisions, except that if such reinstatement is sought when one or more installments of Financing Payments or any Additional Payments for such Renewal Term are overdue and unpaid, it is a condition of such reinstatement that such overdue Financing Payments or Additional Payments be tendered. (Section 7.01)

State Agency to Comply with Memorandum of Agreement; Appropriations. The State Agency has covenanted and agreed that it will comply with the terms of the Memorandum of Agreement, the provisions of Title 23, the regulations promulgated thereunder and all other federal laws and regulations related thereto.

The State Agency has also covenanted and agreed that on each and every occasion when appropriations bills are prepared for introduction in the various successive Sessions of the General Assembly of the Commonwealth, the State Agency will cause to be included in the appropriations proposed to be made for the State Agency, sufficient amounts in the aggregate (over and above all other requirements of the State Agency), but solely and only from FHWA Funds, to enable the State Agency to pay Financing Payments and Additional Payments and thereby provide to the Commission moneys sufficient for the payment of the principal and interest of the Notes as they mature. (Article IX)

Additional Notes. The State Agency may request that the Commission issue Additional Notes. Except as described below for Refunding Notes, before Additional Notes other than the 2005 Notes, the 2007 Notes, the 2010 Notes, the 2013 Notes and the 2014 Notes may be authenticated and delivered by the Commission, there shall be filed with the Commission a certificate of an Authorized Representative of the State Agency stating that the amount of FHWA Funds received during the most recently completed Federal Fiscal Year was equal to at least 400% of the Maximum Annual Debt Service for all Notes Outstanding in the current and each future State Fiscal Year including the Additional Notes proposed to be issued, but in the case of a Series of Additional Notes to be issued for refunding purposes, excluding the Note Payments on the Notes to be refunded.

For the purpose of determining the Maximum Annual Debt Service, variable rate Notes shall be deemed to bear interest at the maximum rate of interest applicable to such variable rate Notes; provided however that if such maximum rate of interest is less than the interest rate quoted in *The Bond Buyer 25 Revenue Bond Index* (the "Index Rate") as published in *The Bond Buyer* for the last week of the month preceding the date of issuance of such variable rate Notes, then the interest rate on such variable rate Notes shall be deemed to be the Index Rate. If *The Bond Buyer 25 Revenue Bond Index* is no longer published, an index that is deemed to be substantially equivalent by nationally recognized bond counsel may be substituted therefore. Also for the purpose of determining the Maximum Annual Debt Service, any Note scheduled to be Outstanding during such period that is subject to tender at the option of the Holder shall be assumed to mature on the stated maturity date or mandatory sinking fund payment date thereof.

The State Agency may not become obligated for the payment of any other borrowed money secured by the Pledged Receipts unless (i) such borrowed money constitutes Additional Notes or (ii) the certifications required in the first paragraph under this heading can be made as to the borrowed money to be paid by the State Agency and all Notes then Outstanding; provided that, the incurring of obligations with respect to borrowed money which is conditioned and restricted, shall be understood to mean borrowed money payable from the Pledged Receipts on a basis of parity and equality with Outstanding Notes, and shall not be construed to include other borrowed money, the security and source of payment of which are subordinate and subject to the priority of the Notes. The State Agency has reserved the right to become obligated for the payment of any other borrowed money that is secured by a pledge of the Pledged Receipts that is subordinate to the pledge created by the Master Indenture or any Series Indenture which does not rank on a basis of equality and parity with the Notes, but only if such subordinate obligation for the repayment of borrowed

money is incurred in express recognition of the priorities, liens and rights created and existing for the security and source of payment and protection of the Notes.

In addition to Additional Notes described above, the State Agency may become obligated for the payment of Refunding Notes issued on a parity as to security with the Notes in order to refund any Notes then Outstanding under the Master Indenture so long as (i) Maximum Annual Debt Service is not increased as a result of issuing such Refunding Notes and the State Agency is in compliance with all of the provisions with reference to the payment of Financing Payments and Additional Payments under the Financing Agreement and (ii) no default exists under the Financing Agreement.

In addition to Additional Notes and Refunding Notes, the State Agency may become obligated for the payment of Construction Notes to the extent that capitalized interest and proceeds of the related Series of Notes authorized by the Commission to pay the principal of, premium and interest on such Construction Notes will not be adequate for such purpose. (Article X)

Events of Default. Each of the following events constitute an "event of default":

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

(2) 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 Financing Payments or Additional Payments (but the State Agency will not be deemed to be in default if the State Agency commences to remedy said defaults other than related to payment of Financing Payments or Additional Payments within said thirty (30) day period, and proceed to and do remedy said default with due diligence).

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the State Agency terminate the Financing Agreement. No termination of the Financing Agreement will deprive the Commission of any of its remedies or actions against the State Agency. (Section 11.01)

Provisions of the Financing Agreement Benefit of the Holders of the Notes. All of the provisions contained in the Financing Agreement, are made for the benefit of each of the holders of the Notes. Each and all of the holders of the Notes, and the Trustee on behalf of the holders of the Notes, have the rights of third party beneficiaries to enforce all of the provisions of the Financing Agreement; subject, however, to the provisions of the Indenture with respect to enforcement of rights. (Section 12.01)

Tax Covenant. To the full extent that it has the legal right to do so, the State Agency, the Cabinet and the Commission have agreed to all of the provisions of the Master Indenture authorizing the Notes; and the State Agency, the Cabinet and the Commission will not take any action nor omit to take any action which taking or omission would result in the exclusion of the receipt of interest on any of the 2014 Notes from the treatment afforded by Section 103(a) of the Code, and Section 122 of Title 23, to the extent the interest on such 2014 Notes is intended to be excludible from gross income for federal income tax purposes, under the terms of the Master Indenture or Bond Resolution.

Nothing has been done or will be done by either the Commission, the Cabinet or the State Agency which will cause the 2014 Notes to be private activity bonds within the meaning of Section 141 of the Code, including performance of any of the covenants contained herein, to the extent the interest on such 2014 Notes is intended to be excludible from gross income for federal income tax purposes, under the terms of the Master Indenture. (Section 13)

Amendment. The Financing Agreement may be amended or supplemented from time to time by a writing duly executed by the parties thereto; subject, however, to the condition that any such amendment or

supplement will be consistent with the terms and conditions of the Master Indenture and not diminish the Financing Payments or Additional Payments payable under the provisions of the Financing Agreement for so long as any Notes are Outstanding. (Section 16.01)

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

General

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the 2014 Notes, under existing laws, regulations, rulings and judicial decisions, interest on the 2014 Notes (a) is excluded from gross income for federal income tax purposes and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the 2014 Notes, however, will be included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Internal Revenue Code of 1986, as amended (the "Code")) of certain corporations and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The Commission and the Cabinet have each covenanted to comply with all requirements that must be satisfied in order for the interest on the 2014 Notes to be excludible from gross income for federal tax purposes. The opinions set forth above are subject to continuing compliance by the Commission and the Cabinet and others with such covenants. Failure to comply with such covenants could cause interest on the 2014 Notes to be included in gross income retroactive to the date of issue of such 2014 Notes.

The accrual or receipt of interest on the 2014 Notes may otherwise affect the federal income tax liability of certain recipients such as banks, thrift institutions, property and casualty insurance companies, corporations (including S corporations and foreign corporations operating branches in the United States), Social Security or Railroad Retirement benefit recipients, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, among others. The extent of these other tax consequences will depend upon the recipients' particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences and investors should consult their own tax advisors regarding the tax consequences of purchasing or holding the 2014 Notes.

Tax Treatment of Original Issue Discount

The 2014 Notes that have an original yield above their interest rate, as shown on the inside cover, are being sold at a discount (the "Discounted Obligations"). The difference between the initial public offering prices, as set forth on the inside cover page hereof, of the Discounted Obligations and their stated amounts to be paid at maturity, constitutes original issue discount treated as interest which is not includible in gross income for federal income tax purposes.

In the case of an owner of a Discounted Obligation, the amount of original issue discount which is treated as having accrued with respect to such Discounted Obligation is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of a Discounted Obligation (including its sale or payment at maturity). Amounts received upon disposition of a Discounted Obligation which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discounted Obligation, on days which are determined by reference to

the maturity date of such Discounted Obligation. The amount treated as original issue discount on a Discounted Obligation for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discounted Obligation (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discounted Obligation at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discounted Obligation during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discounted Obligation the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If a Discounted Obligation is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The Code contains additional provisions relating to the accrual of original issue discount in the case of owners of a Discounted Obligation who purchase such Discounted Obligations after the initial offering. Owners of Discounted Obligations including purchasers of the Discounted Obligations in the secondary market should consult their own tax advisors with respect to the determination for federal income tax purposes of original issue discount accrued with respect to such obligations as of any date and with respect to the state and local tax consequences of owning a Discounted Obligation.

Tax Treatment of Original Issue Premium

The 2014 Notes that have an original yield below their interest rate, as shown on the inside cover, are being sold at a premium (collectively, the "Premium Obligations"). An amount equal to the excess of the issue price of a Premium Obligation over its stated redemption price at maturity constitutes premium on such Premium Obligation. An initial purchaser of such Premium Obligation must amortize any premium over such Premium Obligation's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Obligations callable prior to their maturity, by amortizing the premium to the call date, based upon the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, it offsets the interest allocable to the corresponding payment period and the purchaser's basis in such Premium Obligation is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Obligation prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. The same treatment is afforded to the Premium Obligations purchased at a premium in the secondary market. Purchasers of Premium Obligations should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning such Premium Obligations.

Backup Withholding

Certain purchasers may be subject to backup withholding at the application rate determined by statute with respect to interest paid with respect to the 2014 Notes if the purchasers, upon issuance, fail to supply the indenture trustee or their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide the indenture trustee with a certified statement, under penalty of perjury, that they are not subject to backup withholding. Information returns will be sent annually to the Service and to each purchaser setting forth the amount of interest paid with respect to the 2014 Notes and the amount of tax withheld thereon.

Exemption Under State Tax Law

In Bond Counsel's further opinion, under the existing laws of the Commonwealth, interest on the 2014 Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and

the 2014 Notes are exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments, and by all political subdivisions thereof.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the 2014 Notes. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the 2014 Notes. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2014 Notes or the market value thereof would be impacted thereby. Purchasers of the 2014 Notes should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2014 Notes and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

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 2014 Notes, or in any way contesting or affecting the validity of the 2014 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 2014 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 2014 Notes are subject to the unqualified approving opinion of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel to the Commission. Certain other legal matters will be passed on by Peck, Shaffer & Williams, a division of Dinsmore & Shohl LLP, Covington, Kentucky, counsel to the Underwriters.

RATINGS

Fitch, Moody's and Standard & Poor's (each a "Rating Agency") have assigned the 2014 Notes ratings of "A+", "A1" and "AA," respectively. 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 Ratings, One State Street Plaza, New York, New York 10004 (212) 908-0500; Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, (212) 553-0300; and Standard & Poor's, a Division of the McGraw-Hill Companies, 55 Water Street, New York, New York 10041 (212) 438-2124. A rating is a not recommendation to buy, sell or hold the 2014 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 effect on the market price of the 2014 Notes.

CONTINUING DISCLOSURE

The Commission will comply with the requirements of the Securities and Exchange Commission regarding secondary market disclosure as set forth in 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, not later than ten business days

after the event, to each nationally recognized municipal securities information repository ("NRMSIR") or the Municipal Securities Rulemaking Board (the "MSRB"), and the appropriate state information depository, if any, of any of the following types of events with respect to the Bonds (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security; (vii) modifications to rights of security holders, if material; (viii) bond calls (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the securities, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person); (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material. Effective on July 1, 2009, the MSRB became the sole NRMSIR and the Commission's filings with the MSRB will be in accordance with the MSRB's EMMA system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is providing ongoing market disclosure as required by the Rule pursuant to agreements entered into in connection with other outstanding securities, including timely notices of changes in the Commission's underlying ratings affecting its outstanding securities. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled The Kentucky Comprehensive Annual Financial Report and Supplementary Information to the Kentucky Comprehensive Annual Financial Report (or successor reports) with EMMA as required under Rule 15c2-12. The Commonwealth is required to make such filing no later than nine months after the end of each fiscal year. The Commonwealth and the Commission have recently learned that in some instances prior rating changes on certain securities issued by the Commonwealth and its agencies, including the Commission, resulting from rating downgrades on certain bond insurers, were not the subject of material event notices, due, in part, to the lack of any direct notification to the Commonwealth of the specific rating impact on such particular securities of the Commonwealth and its agencies. The Commonwealth and the Commission have taken necessary actions to assure compliance with Rule 15c2-12 with respect to such events. Additionally, the Commonwealth and the Commission are putting procedures in place to assure that future material event notices will be timely filed with respect to such events.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Concurrently with the delivery of the 2014B Notes, Samuel Klein and Partners, Certified Public Accountants (the "Verifier"), will deliver a verification report stating that they have verified the mathematical accuracy of certain computations relating to the sufficiency of the principal of and interest on certain United States Treasury Obligations to provide for the timely payment of the principal or respective redemption prices of and interest on the Refunded Notes as they become due as described above under the caption "PROJECT AND PLAN OF REFUNDING". Such computations will be based solely on assumptions and information supplied by the Underwriters on behalf of the Commonwealth. The Verifier will restrict its procedures to

verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the anticipated outcome.

UNDERWRITING

The Underwriters have agreed to purchase the 2014A Notes for a purchase price of \$150,213,514.40, which is an amount equal to the par amount of the 2014A Notes, plus net original issue premium of \$18,556,205.40, less underwriter's discount of \$517,691.00. The Underwriters are committed to purchase all of the 2014A Notes if any are purchased. The Underwriters have agreed to purchase the 2014B Notes for a purchase price of \$43,916,988.89, which is an amount equal to the par amount of the 2014B Notes, plus net original issue premium of \$4,257,836.90, less underwriter's discount of \$105,848.01. The Underwriters are committed to purchase all of the 2014B Notes if any are purchased.

The representative of the Underwriters has advised the Commission that the Underwriters intend to make a public offering of the 2014 Notes at the initial public offering prices or yields set forth on the inside cover page hereof; 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 2014 Notes.

Citigroup Global Markets Inc., an underwriter of the 2014 Notes, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the 2014 Notes.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Commission and to persons and entities with relationships with the Commission, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Commission (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Commission. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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 2014 Notes.

KENTUCKY ASSET/LIABILITY COMMISSION

By: /s/ Lori H. Flanery
Lori H. Flanery, Chairperson

By: /s/ Ryan Barrow
Ryan Barrow, Secretary

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet, has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists active issuing entities. OFM is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. OFM serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, the Turnpike Authority of Kentucky, and the Kentucky Local Correctional Facilities Construction Authority.

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt.

Appropriation supported debt carries the name of the Commonwealth and is either (i) a general obligation of the State, or (ii) a lease revenue obligation of one of its debt issuing agencies created by the General Assembly to finance various projects which is subject to state appropriation for all or a portion of the debt service on the bonds.

General obligation bonds pledge the full faith, credit and taxing power of the Commonwealth 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. Kentucky has not issued general obligation bonds since 1966. The Commonwealth has no general obligation bonds outstanding.

Project revenue notes and bonds are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenue debt is not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases the direct revenues generated from the project funded constitute the entire source of payment.

The payment of debt service by the state universities is enhanced by a state intercept provision that provides that in the event of a default, the Secretary of the Finance Cabinet is required to intercept any funds appropriated to the University but not yet disbursed and to remit those funds to the Trustee to remedy the default.

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds, Kentucky Infrastructure Authority Governmental Agencies Program bonds, Kentucky Infrastructure Authority Wastewater and Drinking Water Revolving Fund Revenue bonds and Kentucky Public Transportation Infrastructure Authority Toll Revenue bonds and bond anticipation notes are not moral obligation debt.

Default Record

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

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATINGS*</u>
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/A+
Kentucky Asset/Liability Commission	KRS 56.860 Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies***
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly	Aa2/AA+/A+
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low to moderate income residents of the State.	Limited to \$5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million.	Aa3/A+/A+** (Appropriation) Aaa/AAA/AAA (Leverage Loan)
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$5.0 billion of debt outstanding.	Varies
School Facilities Construction Commission	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance	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 state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baa1/A/NR (National Insured)
Kentucky Public Transportation Infrastructure Authority	KRS 175B.005-175B.115 Facilitate construction, financing, operation, and oversight of significant transportation projects within the Commonwealth by entering into bi-state agreements and by creating bi-state authorities and project authorities.	Cannot incur debt without prior approval of projects by General Assembly.	Investment Grade

* Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch. Certain State Property and Buildings Commission Agency and Road Fund Revenue Bonds may have ratings different from those identified above.

** The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers. The Kentucky Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A and Series 2012A are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.

*** On September 12, 2012, Fitch downgraded certain stand-alone GARVEE Bonds, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "AA-" to "A+" and changed the outlook from Negative to Stable. On February 18, 2014, Moody's downgraded certain stand-alone GARVEE Bonds, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "Aa3" to "A1" with a negative outlook.
NOTE: On November 8, 2012, Fitch downgraded the Commonwealth of Kentucky's General Fund and Road Fund appropriation supported obligations from "AA-" to "A+" and changed the outlook from Negative to Stable. Fitch also downgraded certain agency fund obligations from "A+" to "A" and changed the outlook from Negative to Stable.

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EXHIBIT B

**MEMORANDUM OF AGREEMENT (KENTUCKY LAKE AND LAKE BARKLEY PROJECT)
AND POLICY STATEMENT**

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**MEMORANDUM OF AGREEMENT
BETWEEN
FEDERAL HIGHWAY ADMINISTRATION
AND
COMMONWEALTH OF KENTUCKY TRANSPORTATION CABINET**

**US 68/KY 80 LAKE BARKLEY AND KENTUCKY LAKE BRIDGES REPLACEMENT
PROJECT
ACCOUNTING FOR DEBT SERVICE REIMBURSEMENT**

BACKGROUND

The Commonwealth of Kentucky's (Commonwealth) Transportation Cabinet (KYTC) and the Commonwealth's Finance and Administration Cabinet (Finance) propose to cause the Commonwealth's Asset/Liability Commission (ALCO) to issue GARVEE Bonds (Bonds) to provide funds necessary to accelerate the construction of specified projects, such Bonds being issued in anticipation of future federal funds being made available by the Federal Highway Administration (FHWA) to reimburse KYTC for debt service and costs incurred for those Bonds, including principal, interest, and other Bond-related costs. The federal legislation that enables reimbursement of such costs is found in Title 23, Section 122 U.S. Code.

This is the Third Memorandum of Agreement between the above referenced parties specific to the accounting for debt service reimbursement for GARVEE Bonds. The first agreement dated April 2005 and subsequent amendments were specific to the GARVEE Bonds issued to fund certain interstate rehabilitation highway projects on routes I65, I75 and I64; specifically, GARVEE Bond series of 2005 and 2007. Additionally, the First Memorandum of Agreement covered preconstruction project development activities for the Louisville-Southern Indiana Ohio River Bridges Project (LSIORBP) funded by GARVEE Bonds authorized by the 2008 General Assembly; specifically, the 2010 Series, which was the first tranche of the 2008 authorization of

GARVEE Bonds
Memorandum of Agreement
Page 2 of 6

\$231 million. The Second Memorandum of Agreement covers the unissued portion of the 2008 authorization for the LSIORBP, \$105 million in additional bonds authorized by the 2010 Special Session, and any future GARVEE Bond authorizations for the LSIORBP.

The KYTC has been authorized by the Kentucky General Assembly to issue up to \$330 million of Bonds to finance the US 68/KY 80 Lake Barkley and Kentucky Lake Bridges Replacement Project (Project), as described below:

- Reconstruction of US 68/KY 80 "Aurora, Kentucky to Cadiz, Kentucky" including the construction of new bridge over Kentucky Lake, the reconstruction of US 68/KY 80 from the east end of the new Kentucky Lake Bridge to the west end of the Lake Barkley Bridge, the construction of new bridge over Lake Barkley, and the reconstruction of US 68/KY 80 from the end of the new Lake Barkley Bridge to Cadiz, Kentucky.

The Bond Financed Project is eligible for Federal-aid funding under one or more program categories as set forth in Title 23, Section 115, and will be included in the Federal Statewide Transportation Improvement Program with defined beginning and ending limits, improvement types, and other required data.

PROJECT AGREEMENTS AND AUTHORIZATIONS

KYTC will establish Bond Financed Projects for this Project. The total amount of debt service costs (including principal, interest, and issuance cost on the date of the

GARVEE Bonds
Memorandum of Agreement
Page 3 of 6

pricing of each bond) attributable to each Bond Financed Project will be authorized and obligated in the Federal Financial Management Information System (FMIS) as Advanced Construction. **Attachment A** (document to follow) displays the projected Project costs distributions.

The current Federal-aid agreement/authorization process will be utilized for each project authorized. Subsequent changes will be established and obligated as advance construction using a modification agreement document, as appropriate. Future advance construction conversions will be processed as required by FHWA advance construction conversion procedures.

The Federal-aid agreement document will specify that the authorization is requested under Title 23, Section 122 (National Highway System (NHS) Act, Section 311). FMIS-required statistical data will be provided to FHWA at the time of agreement/authorization for the Project.

DEBT SERVICE PAYMENTS AND ACCOUNTING FOR PROJECT COSTS

KYTC will accumulate actual project costs of the Bond Financed Project in its financial accounting system and maintain supporting documentation in accordance with its normal accounting procedures.

Standard expenditure controls will be in place to ensure that all actual project costs are eligible for Federal-aid funding. The FHWA maintains authority to approve and/or review all costs incurred and billed by KYTC.

GARVEE Bonds
Memorandum of Agreement
Page 4 of 6

While Bonds are outstanding, at the beginning of each new Federal Fiscal Year, KYTC will convert the amount of advanced construction funds necessary to pay the scheduled debt service costs for each of the Bond Financed Projects based on the projects' prorated share of debt service obligations for that Federal Fiscal Year. The conversion of the advanced construction for this and all other GARVEE Bonds' debt service will be the first authorizations in that Federal Fiscal Year of funds legally available for that purpose.

In a new Federal Fiscal Year, if only a portion of the Annual Obligation Authority is provided, KYTC will reserve the same pro-rata share of that portion of the Obligation Authority for debt service payments for that year until the full annual Obligation Authority is provided.

Attachment A displays the projected distribution of costs and schedule of debt service payments which is subject to change upon each issuance of the Bonds.

KYTC, through the normal billing process, will bill the FHWA no less than four (4) business days prior to the scheduled due date of the debt service payment and FHWA will reimburse KYTC for those costs according to the normal accounting procedures in order for those funds to be deposited into the Commonwealth's State Treasury no earlier than four (4) business days prior to the date selected for making the scheduled debt service payment to the Bond Trustee. The schedule of debt service payments will be modified and updated as needed over the life of the Bond Financed Projects.

STATE CONTRIBUTION

KYTC will utilize toll credits to fund the State Portion of the Project. KYTC will continually manage the available toll credit amounts to ensure their availability to match federal funds requested for GARVEE Bond debt service and other eligible costs. Toll credit amounts will be set aside from the available balance in advance of the sale of GARVEE Bonds authorized by the Kentucky General Assembly. The amount of this set aside will be based on the required match of the estimated debt service and other eligible costs for those Bonds. After the issuance of each GARVEE Bond Series, the actual amount of toll credits required for each Advance Construction agreement will be reserved by deducting from the set aside credits to insure the matching amounts are available for future payments. KYTC will review the toll credit calculation periodically to ensure credits used correspond to capital expenditures on the Project. The state portion may be modified to comport with lawful requirements should the contemplated funds no longer be available or by modification to federal requirements.

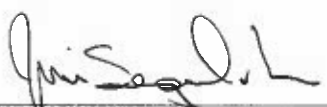
REPORTING REQUIREMENTS

KYTC will report on a quarterly basis to the FHWA Division Administrator all project expenditures for each of the Bond Financed Projects. The report will include expenditures to-date by type of work, percent of expenditures as they relate to the initial project bid, percent completion as it relates to the initial project allotted time or completion date, and number and costs of individual change orders. Each report will include the information above and the costs incurred for the quarter as well as cumulative expenditures for each project.

CLOSURE OF PROJECTS

The Bond Financed Projects shall remain open until the total amount of debt service costs attributable to each Bond Financed Project is retired. The closure of projects will follow the normal process for project closure. At closure, the sum of principal (excluding cost of issuance) attributable to each of the Bond Financed Projects shall not exceed the actual total cost of construction attributable to the project. Normal project closure documentation will be submitted to FHWA for each Bond Financed Project.


CONCURRENCE:



Jose Sepulveda
Division Administrator
Federal Highway Administration

11-13-13


Date



Michael Hancock
Secretary
Transportation Cabinet

11/12/13

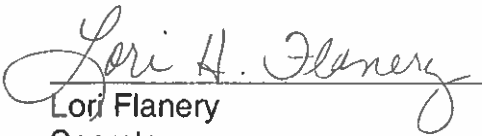
Date



Approved for Form and Legality
Rebecca Goodman
Transportation Cabinet
Office of Legal Services

11/12/13

Date



Lori Flanery
Secretary
Finance and Administration Cabinet
Chairman of the Asset and Liability
Commission

11/13/13

Date

Attachment A
GARVEE Memorandum of Agreement
For US 68/KY 80 Lake Barkley and Kentucky Lake Bridges Replacement Project

I. GARVEE Bond Sale Details:

- The 2010 Extraordinary Session of the General Assembly authorized the issuance of \$330 million GARVEE Bonds for reconstruction of US 68/KY 80 “Aurora, Kentucky to Cadiz, Kentucky” including the construction of a new bridge over Kentucky Lake, the reconstruction of US 68/KY 80 from the east end of the new Kentucky Lake Bridge to the west end of the Lake Barkley Bridge, the construction of a new bridge over Lake Barkley, and the reconstruction of US 68/KY 80 from the end of the new Lake Barkley Bridge to Cadiz, Kentucky (Project). It is planned the Bonds will be sold in at least two tranches to coordinate the funding needs of the Project during construction activities.
- Debt service anniversary dates for all of the above-described notes will be determined at a later date.
- The annual debt service payments will be balanced over the term of the two Bond issues so as to achieve level annual debt service payments. This will also be balanced in an attempt to level the use of annual federal obligation authority for debt service.
- As authorized by the General Assembly, net bond proceeds of all issues for project development activities will equal \$330 million.

II. GARVEE Bond Financed Project Details:

County	6YP Item #	Description	Estimated Cost as of October 2013 (\$ millions)
Marshall/ Trigg	1-180.70 (series)	Cadiz-Aurora Bridge of Kentucky Lake	180.7
Trigg	1-180.55 (series)	Land between the Lakes	1.1
Trigg	1-180.60 (series)	Cadiz-Aurora Bridge of Lake Barkley	204.3
Trigg	1-180.51 (series)	Cadiz-Aurora From East End of Lake Barkley to 200 meters west of KY-1489	10.1
Trigg	1-180.10 (series)	Cadiz-Aurora from 200 meters west of Pete Light Spring Road To Cadiz Bypass (Grade, Drain and Surface)	22.5
Trigg	1-180.11	East End Section	16.9
TOTAL			435.6

*The above are estimated costs at the time of this Agreement and may change over time as each section evolves to contract award and completion. It is anticipated that actual costs for the above that exceed the bond authorization will be funded with eligible annual federal obligation authority as those funds are available.

**Attachment A – GARVEE
Memorandum of Agreement
Page 2 of 2**

**III. Federal Highway Trust Fund First Series Debt Service (to be provide later)
(Amounts expressed in millions)**

Federal Fiscal Year	Total Debt Service	State Match (toll credits)	Federal
TOTAL			

Note: The above may differ from the actual debt payment schedules due to rounding.

Assumptions:

- The above debt service amounts will be provided upon the close of each Bond issuance.
- All project bonds/notes will be issued with a covenant that only future federal highway funds will be pledged to pay debt service and other debt financing costs; therefore, the above assumes that all future federal funds programmed to pay debt service will be matched with toll credits. The current appropriations act provides KYTC with the flexibility to match federal funds using either Road Fund appropriations or toll credits. Assuming that same flexibility is available in future appropriations acts, KYTC may in the future choose to use Road Fund appropriations in lieu of toll credits to match federal funds.
- Federal funding will be a combination of NHPP- National Highway Performance Projects and STP-Surface Transportation Program under MAP-21 or equivalent funding sources if authorized by future Federal Highway Program Congressional actions.



Commonwealth of Kentucky
TRANSPORTATION CABINET
Frankfort, KY 40601
www.kentucky.gov

Steven L. Beshear
Governor

Michael W. Hancock, P.E.
Secretary

POLICY STATEMENT

RE: KENTUCKY ASSET/LIABILITY COMMISSION PROJECT NOTES, 2005 FEDERAL HIGHWAY TRUST FUND FIRST SERIES, 2007 FEDERAL HIGHWAY TRUST FUND FIRST SERIES, 2010 FEDERAL HIGHWAY TRUST FUND FIRST SERIES, 2013 FEDERAL HIGHWAY TRUST FUND FIRST SERIES, AND 2014 FEDERAL HIGHWAY TRUST FUND FIRST SERIES

WHEREAS, Kentucky Revised Statute 56.860 permits the Asset/Liability Commission (Commission) to issue notes payable from receipts of federal transportation funds, and

WHEREAS, House Bill 267 enacted by the 2005 General Assembly, authorized the issuance of \$150 million in Grant Anticipation Revenue Vehicle (GARVEE) bonds, those having been issued and titled the 2005 Federal Highway Trust Fund First Series Project Notes, and

WHEREAS, House Bill 380 enacted by the 2006 General Assembly, authorized the issuance of \$290 million in additional GARVEE bonds, those having been issued and titled the 2007 Federal Highway Trust Fund First Series Project Notes, and

WHEREAS, House Bill 410 enacted by the 2008 General Assembly, authorized the issuance of \$231 million in additional GARVEE bonds. The proceeds of which are authorized to be expended under House Bill 330 of the 2009 General Assembly for projects related to the Louisville-Southern Indiana Ohio River Bridges Project (LSIORBP). One hundred million dollars of these bonds were issued and titled the 2010 Federal Highway Trust Fund First Series Project Notes. The remaining \$131 million of these bonds were a portion of those issued and titled the 2013 Federal highway Trust Fund Series A Project Notes in August 2013, and

WHEREAS, House Bill 3 enacted by the 2010 Extraordinary Session of the General Assembly, authorized the issuance of \$105 million in additional GARVEE bonds, the proceeds of which are authorized to be expended for projects related to the LSIORBP. These bonds were the remaining portion of those issued and titled the 2013 Federal highway Trust Fund Series A Project Notes. House Bill 3 also authorized \$330 million in GARVEE bonds, the proceeds of which are authorized to be expended for projects related to the US 68/KY 80 Lake Barkley and Kentucky Lake Bridges Replacement

**RE: KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2005 FEDERAL HIGHWAY
TRUST FUND FIRST SERIES, 2007 FEDERAL
HIGHWAY TRUST FUND FIRST SERIES, 2010
FEDERAL HIGHWAY TRUST FUND FIRST
SERIES, 2013 FEDERAL HIGHWAY TRUST
FUND FIRST SERIES, AND 2014 FEDERAL
HIGHWAY TRUST FUND FIRST SERIES**

Project (Lakes Bridges Project). These bonds are expected to be issued in March 2014 and titled 2014 Federal Highway Trust Fund First Series Project Notes, and

WHEREAS, House Bill 2 (Biennial Budget), enacted by the 2012 Extraordinary Session of the General Assembly, contained federal fund appropriations for the 2012 – 2014 fiscal biennium totaling \$79,687,100 in the first year and \$106,711,500 in the second year for debt service payments on the 2005 Federal Highway Trust Fund First Series Project Notes, the 2007 Federal Highway Trust Fund First Series Project Notes, the 2010 Federal Highway Trust Fund First Series Project Notes and the 2013 Federal Highway Trust Fund First Series Project Notes, and

WHEREAS, The Transportation Cabinet (Cabinet) is requesting the 2014 General Assembly to appropriate federal funds sufficient to cover required debt service payments on the existing 2005 Federal Highway Trust Fund First Series Project Notes, the 2007 Federal Highway Trust Fund First Series Project Notes, the 2010 Federal Highway Trust Fund First Series Project Notes, the 2013 Federal Highway Trust Fund First Series Project Notes and the anticipated 2014 Federal Highway Trust Fund First Series Project Notes, and

WHEREAS, the Cabinet, the Commission and the Federal Highway Administration (FHWA) entered into a Memorandum of Agreement (MOA) effective April 2005, as first amended June 2005, as second amended September 2007, as third amended December 2009, as fourth amended January 2011, and as fifth amended January 2013 for the issuance of bonds to finance the construction of three specific interstate widening and rehabilitation projects, as well as preconstruction project development and design-build construction activities related to the LSIORBP and to provide for the reimbursement of debt service and other bond-related costs from future Federal Highway Trust Fund apportionments to the Commonwealth, and

WHEREAS, the Cabinet, the Commission and FHWA entered into a second MOA effective January 2013 to cover the accounting for debt service reimbursement provisions of the remaining portion of the 2008 and 2010 authorizations and any future GARVEE Bond authorizations by the General Assembly for LSIORBP, and

WHEREAS, the Cabinet, the Commission and FHWA entered into a third MOA effective November 2013 to cover the accounting for debt service reimbursement provisions of the 2010 authorization and any future GARVEE Bond authorizations by the General Assembly for the Lakes Bridges Project, and

**RE: KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2005 FEDERAL HIGHWAY
TRUST FUND FIRST SERIES, 2007 FEDERAL
HIGHWAY TRUST FUND FIRST SERIES, 2010
FEDERAL HIGHWAY TRUST FUND FIRST
SERIES, 2013 FEDERAL HIGHWAY TRUST
FUND FIRST SERIES, AND 2014 FEDERAL
HIGHWAY TRUST FUND FIRST SERIES**

WHEREAS, the Cabinet will enter into a Financing Agreement with the Commission to provide future federal highway receipts to the Commission to amortize the debt on the notes, and

WHEREAS, the Cabinet covenants within the MOAs that while notes are outstanding, at the beginning of each new Federal Fiscal Year, the Cabinet will convert the amount of Advanced Construction funds necessary to pay the scheduled debt service costs for each of the projects based on the projects' prorated share of debt service obligations for that Federal Fiscal Year. The Cabinet further covenants that the conversion of the Advanced Construction will be the first authorization in that Federal Fiscal Year of funds legally available for that purpose, and


WHEREAS, the Commonwealth is committed to making its debt service payments when due and has historically met that commitment, and

WHEREAS, the Cabinet desires to reaffirm its previously established policy for action in the event that either Congress or FHWA fails to provide new obligation authority in any Federal Fiscal Year sufficient to pay debt service costs;

THEREFORE, in the event that new obligation authority in any Federal Fiscal Year is insufficient to pay debt service costs, the Cabinet will evaluate the balances of existing federally-funded projects and take action to de-obligate such funds that are legally available to pay debt service and re-program those funds to pay the scheduled debt service costs;

FURTHER, in the event that current legally available obligation authority is insufficient to permit the re-obligation of funds to pay debt service, the Cabinet will utilize other funds (if available) to pay debt service until new obligation authority is authorized.

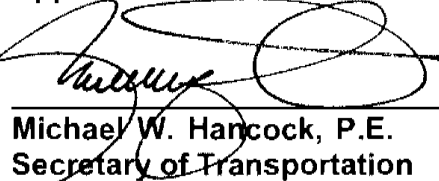
Recommended:



Steve Waddle
Commissioner of Highways

1/22/14
Date

Approved:



Michael W. Hancock, P.E.
Secretary of Transportation

1/23/14
Date

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EXHIBIT C

FORM OF BOND COUNSEL OPINION FOR THE 2014 NOTES

_____, 2014

Commonwealth of Kentucky
Kentucky Asset/Liability Commission
Frankfort, Kentucky

\$132,175,000
Commonwealth of Kentucky
Kentucky Asset/Liability Commission Project Notes
2014 Federal Highway Trust Fund First Series A

and

\$39,765,000
Commonwealth of Kentucky
Kentucky Asset/Liability Commission Project Notes
2014 Federal Highway Trust Fund First Refunding Series B

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Kentucky Asset/Liability Commission (the "Commission") of its \$132,175,000 Project Notes, 2014 Federal Highway Trust Fund First Series A (the "Series A Notes") and \$39,765,000 Project Notes, 2014 Federal Highway Trust Fund First Refunding Series B (the "Series B Notes," and together with the Series A Notes, the "2014 Notes"). The 2014 Notes are issuable as fully registered 2014 Notes without coupons dated as of their date of delivery in the denomination of \$5,000 or any integral multiple thereof, bearing interest payable semiannually on March 1 and September 1 of each year commencing on September 1, 2014, at the rates per annum set forth in the schedule below and maturing on the dates and in the principal amounts as follows:

2014 Federal Highway Trust Fund First Series A

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2023	\$625,000	3.000%
2023	23,200,000	5.000
2024	6,765,000	3.250
2024	18,240,000	5.000
2025	5,800,000	3.500
2025	20,330,000	5.000
2026	6,780,000	3.750
2026	50,435,000	5.000

2014 Federal Highway Trust Fund First Refunding Series B

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2015	\$850,000	1.000%
2015	11,785,000	5.000
2016	50,000	1.000
2016	13,185,000	5.000
2017	600,000	1.000
2017	13,295,000	5.000

The 2014 Notes are subject to redemption upon the terms and at the prices set forth therein and as set forth in the Indenture described below.

The 2014 Notes are being issued by the Commission, pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Sections 56.860 et seq. of the Kentucky Revised Statutes, as supplemented and amended (the "Act"), a resolution adopted by the Commission on February 14, 2014 (the "Resolution"), and a Master Trust Indenture, dated as of May 1, 2005, as supplemented and amended by a Series Trust Indenture, 2007 First Series, dated as of September 1, 2007, as further supplemented and amended by a Series Trust Indenture, 2010 First Series, dated as of March 1, 2010, as further supplemented and amended by a Series Trust Indenture, 2013 First Series, dated as of August 1, 2013 and as further supplemented and amended by a Series Trust Indenture, 2014 First Series, dated as of March 1, 2014 (collectively, the "Indenture"), each between the Commission and The Bank of New York Mellon Trust Company, N.A. having offices in Louisville, Kentucky, as trustee (as successor to J.P. Morgan Trust Company, National Association, and herein referred to as the "Trustee").

The Commission has covenanted in the Indenture to at all times do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the 2014 Notes shall, for purposes of federal income taxation, be excludable from the gross income of the recipient.

We have examined the laws of the Commonwealth of Kentucky, the Act, a certified copy of the Indenture, an executed counterpart of the Financing/Lease Agreement, dated as of May 1, 2005, as supplemented and amended by the First Supplement to Financing/Lease Agreement, dated as of September 1, 2007 (the "First Supplemental Lease"), the Second Supplement to Financing/Lease Agreement, dated as of March 1, 2010 (the "Second Supplemental Lease"), the Third Supplement to Financing/Lease Agreement, dated as of August 1, 2013 (the "Third Supplemental Lease") and the Fourth Supplement to Financing/Lease Agreement, dated as of March 1, 2014 (the "Fourth Supplemental Lease"), each by and among the Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") and the Transportation Cabinet (the "State Agency") (as so supplemented and amended, the "Lease"), an executed counterpart of the Escrow Agreement dated as of March 1, 2014, by and between the Commission and The Bank of New York Mellon Trust Company, N.A., as Escrow Agent (the "Escrow Agreement"), an executed counterpart of the Memorandum of Instructions Regarding Use of Proceeds and Arbitrage Compliance dated March __, 2014, as amended, of the Commission, certified copies of proceedings of the Commission authorizing the issuance of the 2014 Notes, a copy of an executed note of said issue, the Memorandum of Agreement, effective as of April 2005, as amended and supplemented (the "Memorandum of Agreement"), between the State Agency and the Federal Highway Administration and acknowledged by the Cabinet and the Commission, and such other documents, records, certificates and opinions as we have deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Indenture and the Resolution have been duly authorized, executed and delivered by the Commission, and constitute valid and binding obligations of the Commission enforceable in accordance with their respective terms.

2. The Lease has been duly authorized, executed and delivered by the Commission and the Cabinet, and constitutes the valid and binding obligation of the Commission and the Cabinet, as applicable, enforceable in accordance with its terms.

3. Assuming compliance by the Commission with certain covenants, including the covenant referred to in the fourth paragraph of this letter, under existing laws, regulations, rulings and judicial decisions, interest on the 2014 Notes (including any original issue discount properly allocable to the owners thereof) is excluded from gross income for federal income tax purposes and is not a special preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the 2014 Notes, however, will be included in the "adjusted current earnings" (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation's earnings and profits under Subchapter C of the Internal Revenue Code of 1986, as amended) of certain corporations and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the 2014 Notes may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences. Purchasers of the 2014 Notes, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or holding the 2014 Notes.

4. The 2014 Notes are payable as to principal, premium, if any, and interest from and are secured by a pledge of and a first lien on the Pledged Receipts, as defined in the Indenture. The 2014 Notes do not pledge the general credit or taxing power, if any, of the Commonwealth, the Commission, the Cabinet or any other agency or political subdivision of the Commonwealth.

5. The 2014 Notes are not secured by a pledge of or lien on the properties constituting the Project but are payable as to principal and interest solely and only from and are secured by the Pledged Receipts. The ability of the State Agency to make payments under the Lease is dependent upon legislative appropriations to the State Agency, which has leased the Project for a current term ending on June 30, 2014, with the right to renew for additional successive terms of two years each until the 2014 Notes and interest thereon have been paid and discharged.

6. Under the existing laws of the Commonwealth of Kentucky, interest on the 2014 Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the 2014 Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions and taxing authorities thereof.

The obligations of the Commission and the Cabinet, and the enforceability thereof, with respect to the 2014 Notes and the other documents described above are subject, in part, to the provisions of the bankruptcy laws of the United States of America and to other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally, now or hereafter in effect.

Certain of such obligations, and enforcement thereof, are also subject to general equity principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of such documents.

This opinion is based upon existing law as of the date of issuance and delivery of the 2014 Notes and we express no opinion as of any date subsequent thereto. We express no opinion as to the title to, or the sufficiency in the Indenture or otherwise of the description of, the Project, or the priority of any liens, charges or encumbrances on the Project.

Very truly yours,

EXHIBIT D

BOOK-ENTRY-ONLY SYSTEM

The 2014 Notes initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of 2014 Notes and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the 2014 Notes under the Resolution.

The following information about the book-entry-only system applicable to the 2014 Notes has been supplied by DTC. Neither the Commission nor the Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the 2014 Notes. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2014 Note certificate will be issued for each maturity of the 2014 Notes, in the aggregate principal amount of the 2014 Notes and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, 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 Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2014 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Notes on DTC's records. The ownership interest of each actual purchaser of each 2014 Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2014 Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2014 Notes, except in the event that use of the book-entry-only system for the 2014 Notes is discontinued.

To facilitate subsequent transfers, all 2014 Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2014 Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2014 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2014 Notes, such as redemptions, tenders, defaults, and proposed amendments to the 2014 Note documents. For example, Beneficial Owners of 2014 Notes may wish to ascertain that the nominee holding the 2014 Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2014 Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2014 Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2014 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the 2014 Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2014 Notes at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2014 Note certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2014 Note certificates will be printed and delivered.

NEITHER THE COMMISSION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE

TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE NOTES; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE NOTES; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT 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 Direct Participant or Indirect Participant acquires an interest in the 2014 Notes, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the 2014 Notes.

The Commission cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the 2014 Notes made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

The information in this EXHIBIT D concerning DTC and DTC's book-entry-only system has been obtained from sources that the Commission believes to be reliable, but neither the Commission nor the Underwriters take any responsibility for the accuracy thereof.

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