

**NEW ISSUE**

DTC Book-Entry Only

See "THE NOTES" herein

MOODY'S: Aa1/VMIG1

FITCH IBCA: AA+/F1+

S&amp;P: AA+/A-1+

(See "Ratings" herein)

*In the opinion of Bond Counsel for the Notes, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, and subject to the conditions and limitations set forth herein under the caption "TAX TREATMENT," interest on the Notes is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Notes is exempt from Kentucky income tax and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.*

## NOT TO EXCEED \$135,000,000

### KENTUCKY ASSET/LIABILITY COMMISSION

### PROJECT NOTES, 1999 GENERAL FUND SECOND SERIES A

**Dated: Date of Delivery****Price of all Notes: 100%****Final Maturity: June 30, 2003**

The Kentucky Asset/Liability Commission (the "Commission") is issuing its Project Notes, 1999 General Fund Second Series A (the "Notes") to provide interim financing for certain Projects (defined herein) in anticipation of bonds to be issued by the State Property and Buildings Commission (the "SPBC").

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

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

**CREDIT LOCAL de FRANCE, New York Agency**

as Credit Facility Provider (the "Credit Facility Provider"). The Credit Facility permits the Trustee to draw funds sufficient to pay the principal of, and interest on, the Notes when due and to purchase tendered Notes which are not remarketed, all as more fully described herein. The Credit Facility expires on August 5, 2001. The Credit Facility may be replaced by another irrevocable letter of credit, a bond insurance policy or a surety bond, or a standby note purchase agreement or similar liquidity enhancement and support facility. See "THE CREDIT FACILITY" herein.

The Commission is obligated to reimburse the Credit Facility Provider for draws on the Credit Facility pursuant to the terms and limitations set forth in a Reimbursement Agreement dated as of July 1, 1999 (the "Credit Facility Agreement"). The Commission has pledged to the payment of its obligations under the Credit Facility Agreement, payments to be received by the Commission pursuant to a Financing/Lease Agreement (the "Financing Agreement") among the Commission, the SPBC and the Commonwealth of Kentucky Finance and Administration Cabinet (the "Cabinet"). The Kentucky General Assembly has appropriated to the Cabinet and various State Agencies amounts projected to be sufficient to meet interest requirements on the Notes through June 30, 2000. There can be no assurance that such appropriations will be forthcoming in the biennium beginning July 1, 2000 or in future biennia or that the Governor, in the performance of his or her obligation to balance the Commonwealth of Kentucky's annual budget, will not reduce or eliminate such appropriations. **The Notes are special obligations of the Commission and are payable solely from the revenues and funds specifically pledged by the Commission for the payment of the principal of, premium, if any, and interest on the Notes.** See "SECURITY FOR THE NOTES" and "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT" herein.

The Notes are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Brown, Todd & Heyburn PLLC, Louisville, Kentucky, and for the Credit Facility Provider by its counsel, Chapman and Cutler, Chicago, Illinois. It is expected that the initial tranche of Notes in definitive form will be available for delivery in New York, New York, on or about August 25, 1999.

## Merrill Lynch & Co.

August 25, 1999

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

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

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

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

## TABLE OF CONTENTS

### Page

SUMMARY .....	1
INTRODUCTION .....	1
THE NOTES .....	2
General.....	2
Interest Rate Modes.....	2
Failure to Determine Interest Rate .....	4
Conversion to Other Interest Rate Modes .....	5
Purchase of Notes.....	6
Redemption of Notes.....	9
Remarketing of Notes.....	10
General Provisions .....	10
Book-Entry-Only System .....	10
Authorization .....	13
THE CREDIT FACILITY .....	13
The Credit Facility.....	13
Reimbursement .....	14
Certain Affirmative and Negative Covenants.....	14
Events of Default Under the Credit Facility Agreement .....	15
Remedies.....	17
Alternate Liquidity or Credit Facility.....	17
Information on Credit Facility Provider .....	18
SECURITY FOR THE NOTES .....	19
General.....	19
PLAN OF FINANCE.....	20
THE PROJECT.....	20
THE KENTUCKY ASSET/LIABILITY COMMISSION .....	21
General Information .....	21
Other Personnel of the Commission.....	21
Prior and Current Financings of the Commission.....	22
THE STATE PROPERTY AND BUILDINGS COMMISSION.....	24
THE FINANCE AND ADMINISTRATION CABINET .....	24
THE STATE AGENCIES.....	25
Justice Cabinet .....	25

Postsecondary Education .....	25	
THE COMMONWEALTH .....	28	
Financial Information Regarding the Commonwealth .....	28	
Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the Commonwealth .....	29	
Fiscal Year 1996 .....	30	
Fiscal Year 1997 .....	31	
Fiscal Year 1998 .....	32	
Fiscal Year 1999 (Unaudited) .....	33	
Investment Policy .....	34	
Year 2000 Compliance .....	36	
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT .....	36	
Definitions .....	36	
The Indenture .....	45	
The Financing Agreement .....	57	
TAX TREATMENT .....	59	
ABSENCE OF MATERIAL LITIGATION .....	60	
APPROVAL OF LEGALITY .....	60	
RATINGS .....	61	
CONTINUING DISCLOSURE .....	61	
UNDERWRITING .....	61	
MISCELLANEOUS .....	62	
EXHIBITS		
DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY		EXHIBIT A
FORM OF BOND COUNSEL OPINION		EXHIBIT B



# **KENTUCKY ASSET/LIABILITY COMMISSION**

## **COMMISSION MEMBERS**

John P. McCarty, Secretary of the Finance and Administration Cabinet, Chairman  
A.B. Chandler, III, Attorney General  
John K. Hamilton, State Treasurer  
Sarah Jane Schaaf, Secretary of the Revenue Cabinet  
Dr. James R. Ramsey, State Budget Director

## **SECRETARY TO THE COMMISSION**

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

## **TRUSTEE**

Bank One, Kentucky, NA  
Lexington, Kentucky

## **CREDIT FACILITY PROVIDER**

Credit Local de France, New York Agency

## **REMARKETING AGENT**

Merrill Lynch & Co.

## **BOND COUNSEL**

Peck, Shaffer & Williams LLP  
Covington, Kentucky

## **UNDERWRITERS' COUNSEL**

Brown, Todd & Heyburn PLLC  
Louisville, Kentucky

## SUMMARY

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

- |                 |   |
|-----------------|---|
| The Commission  | The Kentucky Asset/Liability Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE KENTUCKY ASSET/LIABILITY COMMISSION" herein.   |
| The Offering    | The Commission is offering its Project Notes, 1999 General Fund Second Series A (the "Notes"). The Notes are issuable in a total amount not to exceed \$135,000,000, over a period of time beginning with the date of this Official Statement and ending on or before June 30, 2003. The final maturity of any Notes issued under the Indenture cannot extend beyond June 30, 2003.             |
| Authority       | The Notes are being issued pursuant to Section 56.860 <i>et seq.</i> of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on July 16, 1999 (the "Resolution"), and the Trust Indenture dated as of July 1, 1999 (the "Indenture"), between the Commission and Bank One, Kentucky, NA, Lexington, Kentucky as trustee (the "Trustee").                           |
| Use of Proceeds | The proceeds of the Notes will be used by the Commonwealth to provide interim financing for certain Projects (defined herein) in anticipation of the issuance of Bonds to be issued by the State Property and Buildings Commission (the "SPBC").  |
| Security        | The primary source of moneys for payment of principal of and interest on the Notes is an irrevocable direct pay letter of credit (the "Credit Facility") to be issued by Credit Local de France, acting through its New York Agency, as Credit Facility Provider (collectively, the "Credit Facility Provider"). See "THE CREDIT FACILITY" herein. The Commission is obligated to reimburse the |

Credit Facility Provider for draws on the Credit Facility pursuant to the terms and limitations set forth in a Reimbursement Agreement dated as of July 1, 1999 (the "Credit Facility Agreement") between the Commission and the Credit Facility Provider. The Commission has pledged to the payment of its obligations under the Credit Facility Agreement, payments to be received by the Commission pursuant to a Financing/Lease Agreement dated as of July 1, 1999 (the "Financing Agreement") among the Commission, the SPBC and the Commonwealth's Finance and Administration Cabinet (the "Cabinet"). The Kentucky General Assembly has appropriated to the Cabinet and the certain State Agencies, amounts projected to be sufficient to meet interest requirements on the Notes through June 30, 2000. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

Under the provisions of the Constitution of the Commonwealth, the Cabinet and State Agencies are 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 Cabinet to not so renew is given to the Commission and the SPBC by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. The Commission may issue Additional Notes on a parity basis with the Notes under the circumstances outlined in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT" herein.

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

#### Features

The Notes may bear interest in any of four different interest rate modes: the Commercial Paper Rate (defined herein), the Daily Rate (defined herein), the Weekly Rate (defined herein) or the Fixed Rate

(defined herein). The interest rate mode of the Notes may be converted to any of the other interest rate modes under the provisions described herein. See "THE NOTES" herein for a description of the interest rate provisions for the Notes. The remarketing agent for the Notes is Merrill Lynch & Co., New York, New York (the "Remarketing Agent").

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

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

#### **Purchase and Redemption**

Notes bearing interest at the Commercial Paper Rate, the Daily Rate and the Weekly Rate may be subject to mandatory purchase prior to maturity under some circumstances. Notes bearing interest at the Daily Rate and the Weekly Rate may be subject to optional tender and purchase under some circumstances, but Notes bearing interest at the Commercial Paper Rate or the Fixed Rate will not be subject to optional tender and purchase. See "THE NOTES - Purchase of Notes" herein. Notes bearing interest at the Commercial Paper Rate will not be subject to optional redemption prior to maturity, but Notes bearing interest at the Daily Rate or Weekly Rate may, under some circumstances, be subject to optional redemption prior to maturity. Notes bearing interest at the Fixed Rate will only be subject to redemption under the circumstances as may be described in a Certificate of Award with respect to such Notes or a certificate issued by the Commission upon conversion of Notes to a Fixed Rate. See "THE NOTES - Redemption" herein.

#### **Tax Status**

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Notes is excludable from gross income for Federal income tax purposes. Bond Counsel for the Notes is also of the opinion that interest on the Notes is not a specific item of tax preference under

Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX TREATMENT" herein, and Exhibit B.

**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 "Disclosure Agreement") with the Trustee.

**General**

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

**Information**

Information regarding the Notes is available by contacting the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924, or, during the initial offering period, the Underwriters, Merrill Lynch & Co., 250 Vesey Street, New York, New York 10281-1309, (212) 449-0704.

## OFFICIAL STATEMENT

Not To Exceed  
\$135,000,000

### KENTUCKY ASSET/LIABILITY COMMISSION PROJECT NOTES, 1999 GENERAL FUND SECOND SERIES A

#### INTRODUCTION

This Official Statement (this "Official Statement"), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission") to furnish pertinent information to the purchasers of not to exceed \$135,000,000 aggregate principal amount of its Project Notes, 1999 General Fund Second Series A (the "Notes"). The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on July 16, 1999 (the "Resolution"), and the Trust Indenture dated as of July 1, 1999 (the "Indenture"), between the Commission and Bank One, Kentucky, NA, Lexington, Kentucky, as trustee (the "Trustee").

The proceeds of the Notes will be used by the Commonwealth of Kentucky (the "Commonwealth") to provide interim financing for the Project (defined herein) in anticipation of Bonds to be issued by the State Property and Buildings Commission (the "SPBC").

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

The summaries and references to the Act, the Indenture, the Financing Agreement and the Notes included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and references are qualified in their entirety by reference to each such document, copies of which are available for inspection at the Office of Financial Management and Economic Analysis ("OFMEA"), 702 Capitol Avenue, Room 261, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of Merrill Lynch & Co., 250 Vesey Street, New York, New York 10281-1309, (212) 449-0704.

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

## THE NOTES

### General

The Notes will be offered incrementally over a period of time beginning with the date of this Official Statement and ending on or before June 30, 2003, in a total amount not to exceed \$135,000,000. The size of each offering will be determined by the expected expenditures toward the Project.

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

### Interest Rate Modes

**Commercial Paper Rate Mode.** Notes that bear interest in the Commercial Paper Rate Mode ("Commercial Paper Rate Mode") are those Notes that bear interest that is determined at the commencement of a period of not less than one day to not more than 270 days, ending on or before June 30, 2003, that will be established by the Remarketing Agent (a "Commercial Paper Period"). The interest rate for Notes in the Commercial Paper Rate Mode and the Commercial Paper Period will be determined by the Remarketing Agent no later than 1:00 p.m. (New York City time), on the first day of the Commercial Paper Period (an "Interest Rate Determination Date" with respect to Commercial Paper Rate Notes). Notwithstanding the foregoing, any Series of Notes bearing interest at a Commercial Paper Rate (defined below) purchased on behalf of the Commission and remaining unsold by the Remarketing Agent as of the close of business on the first day of a Commercial Paper Period for such Series of Notes are required to have a Commercial Paper Period of one day or, if that Commercial Paper Period would not end on a day before a Business Day, a Commercial Paper Period of the shortest possible duration greater than one day and ending on a day before a Business Day. The Remarketing Agent is required to make the Commercial Paper Rate available by telephone to any Holder requesting such rate after 5:00 p.m. (New York City time) on any Interest Rate Determination Date with respect to Notes in the Commercial Paper Rate Mode.

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

Interest on Notes that bear interest in the Commercial Paper Rate Mode will be payable on the first Business Day after the end of the Commercial Paper Period (an "Interest Payment Date" with respect to Commercial Paper Rate Notes) unless the Commercial Paper Period exceeds 182 days, in which case there will be an additional Interest Payment Date on the day that is 182 days after the commencement of that Commercial Paper Period (or the first Business Day thereafter if such day is not a Business Day). All computations of interest on any Notes that bear interest in the Commercial Paper Rate Mode shall be based on a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

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

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

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

**Weekly Rate Mode.** Notes that bear interest in the Weekly Rate Mode (the "Weekly Rate Mode") are those Notes that bear interest that is adjusted on a weekly basis. The interest rate for Notes in the Weekly Rate Mode will be established by the Remarketing Agent no later than 4:30 p.m. (New York City time) on each Tuesday (or, if such Tuesday is not a Business Day, then the next preceding Business Day) (an "Interest Rate Determination Date" with respect to Weekly Rate Notes) for so long as such Series of Notes are to bear interest in the Weekly Rate Mode. Each Weekly Rate (defined below) will apply to (i) the period beginning on the Wednesday of the week in which such Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on such Series of Notes or (ii) the period beginning on the effective date of a change to a Weekly Rate and ending on the next Tuesday. The Remarketing Agent is required to make the Weekly Rate available by telephone to any Holder requesting such rate after 5:00 p.m. (New York City time) on any Interest Rate Determination Date with respect to Notes in the Weekly



Rate Mode.

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

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

**Fixed Rate Mode.** Notes in the Fixed Rate Mode (the "Fixed Rate Mode") are those Notes that bear interest at a fixed interest rate. The interest rate for Notes in the Fixed Rate Mode for a specific Fixed Rate Period (defined below) will be established by the Remarketing Agent on the Interest Rate Determination Date (defined below) for so long as such Series of Notes are to bear interest in the Fixed Rate Mode. The "Fixed Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at a fixed rate to maturity at a price equal to the principal amount of such Notes. The Remarketing Agent is required to make the Fixed Rate available by telephone to any Holder requesting such rate after 5:00 p.m. (New York City time) on any Interest Rate Determination Date with respect to Notes in the Fixed Rate Mode.

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

Interest on Notes in the Fixed Rate Mode will be payable on the date(s) set forth in the Certificate of Award for such Notes, provided that, if such Series of Notes is secured by a Credit Facility, there shall be an Interest Payment Date on the first day of a month that is no more than 182 days after the Fixed Rate Commencement Date and at least semi-annually thereafter (an "Interest Payment Date" with respect to Fixed Rate Notes). All computations of interest on any Notes in the Fixed Rate Mode shall be based on a 360-day year of twelve 30-day months.

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

#### **Failure to Determine Interest Rate**

In the event that (i) the Remarketing Agent has been removed or has resigned and no

successor has been appointed or the Remarketing Agent has failed to announce the appropriate interest rate (or the Commercial Paper Period, as appropriate) by the time required hereunder, or (ii) the method of determining the interest rate(s) with respect to the Notes shall be held to be unenforceable by a court of law of competent jurisdiction, or (iii) the appropriate interest rate cannot be determined for whatever reason, the Notes shall thereupon convert to bear interest at the Weekly Rate (unless they are already bearing interest at the Weekly Rate), until such time as the Remarketing Agent again makes such determination or until there is delivered a Counsel's Opinion to the effect that the method of determining such rate is enforceable, bear interest from the last date on which such rate was determined in the case of clauses (i) and (iii), and from the date on which interest was legally paid in the case of clause (ii), at the Alternate Rate (defined below).

"Alternate Rate" means, on any Interest Rate Determination Date, the rate that is equal to the 30-day LIBOR rate as available on Telerate page 3750, through Bloomberg or such other interest rate information service on such Interest Rate Determination Date, multiplied by 65%.

In the event that the LIBOR rate is no longer published, the Alternate Rate in respect of an Interest Rate Determination Date will be a comparable index selected by the Remarketing Agent, and agreed to by the Commission and the Liquidity Provider (if any) or Credit Facility Provider (if any) for the applicable Series of Notes.

A conversion to the Weekly Rate Mode under these provisions will not be deemed to cause a mandatory purchase of the Notes under the Indenture.

### **Conversion to Other Interest Rate Modes**

The interest rate on any Series of Notes bearing interest at a Daily Rate, Weekly Rate or Commercial Paper Rate may be converted to a different Interest Rate Mode.

To effect a conversion of an Interest Rate Mode, the Commission is required to provide the Trustee and the Remarketing Agent with a written direction, not less than 20 days prior to an Interest Rate Adjustment Date, to convert the interest rate on such Series of Notes to an Interest Rate Mode other than the Interest Rate Mode then in effect. Except when converting from the Weekly Rate Mode, no Interest Rate Adjustment Date will be earlier than the day after the end of the last Interest Rate Period for the Interest Rate Mode in effect on the date of such direction from the Commission, the end of such Interest Rate Period to be determined as if such direction had not been given.

The direction to convert the interest rate on a Series of Notes to a different Interest Rate Mode must be accompanied by (a) a Counsel's Opinion delivered to the Trustee and the Remarketing Agent stating that such conversion to the specified Interest Rate Mode will not adversely affect the exclusion of the interest on such Series of Notes from gross income for federal income tax purposes and (b) a written certificate of the Commission setting forth the applicable Interest Payment Dates for any Fixed Rate Notes and stating that the amount available to be drawn under any Liquidity Facility or Credit Facility relating to such Series of Notes is not less than the

principal amount of the Notes outstanding, plus an amount equal to the Maximum Rate on such principal amount for a period equal to the Applicable Interest Period, and that the Expiration Date is no earlier than 5 days after the end of the new Interest Rate Period. Notwithstanding the foregoing, no conversion will be effective (i) if the Commission makes an election on, or prior to, the day immediately succeeding any Interest Rate Determination Date not to proceed with the proposed conversion or (ii) if the Trustee has not received on the effective date of such conversion, a Counsel Opinion to the same effect as described in clause (a) of this paragraph above. In either such event, the Interest Rate Mode for the affected Series of Notes will remain as the Interest Rate Mode then in effect for such Series of Notes without regard to any proposed conversion. Such Series of Notes will continue to be subject to tender for purchase on the scheduled effective date of the proposed conversion without regard to the failure of such proposed conversion (see "THE NOTES - Purchase of Notes"). If the Trustee has sent any notice to Holders regarding the proposed conversion then in the event of a failure of such conversion, as specified above, the Trustee is required to promptly notify all Holders of such failure, of the reason for such failure, and of the continuation of the Interest Rate Mode then in effect.

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

### **Purchase of Notes**

**Mandatory Tender and Purchase of Notes in the Commercial Paper Rate Mode on Interest Payment Date.** All Notes in the Commercial Paper Rate Mode are subject to mandatory tender by the Holders thereof for purchase on the final Interest Payment Date for such Notes (a "Mandatory Purchase Date" with respect to such Notes) at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Mandatory Purchase Date. The Trustee is not required to give notice of such mandatory tender. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent in Lexington, Kentucky, at or before 12:00 noon (New York City time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

**Mandatory Tender and Purchase of Notes Upon Conversion of Interest Rate Mode.** If at any time the Commission converts the Interest Rate Mode on a Series of Notes to a different Interest Rate Mode in accordance with the provisions of the Indenture described above (see "THE NOTES - Conversion to Other Interest Rate Modes"), all Notes of such Series shall be subject to mandatory tender by the Holders thereof for purchase on the Interest Rate Adjustment Date upon which such conversion is to be effective (a "Mandatory Purchase Date" with respect

to such Notes), at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Mandatory Purchase Date. The Trustee is required to give notice of such mandatory purchase by mail to the Holders of such Series of Notes subject to mandatory purchase no less than 15 days prior to the Mandatory Purchase Date. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent in Lexington, Kentucky, at or before 12:00 noon (New York City time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

**Mandatory Tender and Purchase of Notes in Regard to Replacement of Liquidity Facility or Credit Facility.** In the event that a Liquidity Facility or Credit Facility is to be substituted for another Liquidity Facility or Credit Facility on a certain date (the "Substitution Date"), the Daily Rate Notes and Weekly Rate Notes of any Series secured by such Liquidity Facility or Credit Facility are subject to mandatory purchase on the date five Business Days prior to the Substitution Date (the "Substitution Tender Date" or the "Mandatory Purchase Date" with respect to such Notes) at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Substitution Tender Date. The Trustee is required to give notice of such mandatory purchase by mail to the Holders of such Series of Notes subject to mandatory purchase no less than 30 days prior to the Mandatory Purchase Date. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent in Lexington, Kentucky, at or before 12:00 noon (New York City time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

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

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

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

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

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

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

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

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

The determination of the Paying Agent as to whether a Notice of Tender has been properly delivered will be conclusive and binding upon the Holder. Any Notes described in a Notice of Tender that are not timely delivered to the Paying Agent and for which there has been irrevocably deposited with the Trustee or the Paying Agent, an amount in the Purchase Account of the Note Payment Fund which is sufficient to pay the purchase price thereof ("Undelivered Notes") will be deemed to be purchased by the Paying Agent pursuant to the provisions of the Indenture, provided that Deposited Funds may be deposited by the Paying Agent or the Trustee in a segregated account for such purpose. In the event of a failure by any Holder to deliver its Note or Notes on or prior to the Purchase Date, such Holder will not be entitled to any payment (including any interest to accrue subsequent to such Purchase Date) other than the Purchase Price for such Undelivered Notes.

#### **Redemption of Notes**

**No Optional Redemption of Commercial Paper Rate Notes.** Notes of any Series bearing interest at the Commercial Paper Rate will not be subject to optional redemption prior to maturity.

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

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

### **Remarketing of Notes**

Notes will be remarketed by Merrill Lynch & Co., as Remarketing Agent under the Indenture and pursuant to a Remarketing Agreement with the Commission. A successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement. Notes that are not remarketed by the Remarketing Agent will be purchased with the Credit Facility under the terms of the Credit Facility Agreement. The principal office of Merrill Lynch & Co., is 250 Vesey Street, New York, New York 10281-1309.

### **General Provisions**

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

### **Book-Entry-Only System**

*General.* The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Note certificate will be issued on each date Notes are issued, in the aggregate principal amount being issued on such date, and will be deposited with DTC.

DTC 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 § 17A of the

Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each 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, but Beneficial Owners are 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 Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The 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.

Redemption notices shall be sent to Cede & Co. If less than all of the Notes within an issue 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. will consent or vote with respect to the Notes. 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 the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities 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, the Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 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, Note certificates will be printed and delivered. In either such event, the principal on the Notes will be payable in lawful money of the United States of America at the principal office of the Paying Agent upon presentation and surrender thereof. Interest on the Notes will be paid by check or draft mailed on each Interest Payment Date to the Holder as of the Record Date, at such address as shall be shown by the registration records of the Registrar or at such other address as is furnished to the Paying Agent in writing by such Holder. Notwithstanding the foregoing, payment of interest on the Notes, at the option of a Holder of at least \$1,000,000 in principal amount of Notes, may be by wire transfer to such Holder upon the written request of such Holder delivered to the Paying Agent at least three Business Days prior to the Record Date (as defined herein), to the bank account number specified by such Holder.

*DTC Year 2000 Efforts.* DTC management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including date before, on, and after January 1, 2000, may encounter "Year 2000 problems," DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments to security holders, book-entry deliveries, and settlement of trades within DTC ("DTC Services")), continue to function appropriately. This program includes a technical assessment and a remediation plan each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that is contracting (and will continue to contract) third party vendors from whom DTC acquires services to (i) impress upon them the importance of such services being Year 2000 compliant; and (ii) determining the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

*The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission believes to be reliable, but the Commission takes no responsibility for the accuracy thereof.*

### **Authorization**

The General Assembly of the Commonwealth of Kentucky (the "General Assembly") enacted the Act at its Extraordinary Session in May, 1997. The Act was codified at Section 56.860 *et seq.* of the Kentucky Revised Statutes. The Commission held its initial meeting on June 18, 1997. The Commission, at a meeting on July 16, 1999 adopted the Resolution, which (i) authorized the Indenture, (ii) authorized and approved the issuance of not to exceed \$135,000,000 in outstanding principal amount of Notes, subject to approval by a representative of OFMEA acting as authorized officer of the Commission (the "Authorized Officer") and (iii) directed the preparation and distribution of this Official Statement. Issuance and delivery of each new principal amount of Notes will be further authorized by a Certificate of Award issued under the Indenture.

## **THE CREDIT FACILITY**

The following is a discussion of certain provisions of the Credit Facility and of the Credit Facility Agreement. This discussion is not intended to be a full summary or restatement of such documents. Copies of such documents are on file at the offices of the Commission and at the principal corporate trust office of the Trustee. Certain information concerning the Credit Facility Provider is set forth below.

### **The Credit Facility**

The Commission has requested the Credit Facility Provider to issue the Credit Facility to the Trustee pursuant to the Credit Facility Agreement. Credit Local de France, acting through its New York Agency, has agreed to issue the Credit Facility in the stated amount of \$143,654,795 (the "Stated Amount"). Pursuant to the terms of the Indenture and the Credit Facility Agreement, a Certificate of Award must be executed by the Commission as each tranche of Notes is issued, which Certificate of Award must contain, among other things, a representation by the Commission that the amount that may be drawn under the Credit Facility to pay principal and interest on the Notes is no less than the aggregate principal amount of all Notes Outstanding

(including the Notes to be so issued) plus interest on such Notes at the Maximum Interest Rate for the applicable Interest Period (as that term is defined in the Credit Facility Agreement).

The Credit Facility entitles the Trustee to make draws thereunder up to an amount sufficient to pay principal of the Notes and the designated days of interest thereon at the Maximum Interest Rate. The Commission is required to limit the issuance of the Notes pursuant to the Indenture so that the sum of the principal amount of Notes outstanding plus interest thereon for the designated number of days at the Maximum Interest Rate does not exceed the Stated Amount of the Credit Facility. Upon receipt from the Trustee of a demand in the prescribed form, the Credit Facility Provider will honor such demand on sight. The demands will be in the form of an Interest Drawing, Redemption Drawing, Liquidity Drawing, Acceleration Drawing or Stated Maturity Drawing (as such terms are defined in the Credit Facility). The obligation of the Credit Facility Provider to make payment under the Credit Facility will terminate upon the earliest of (i) August 5, 2001 (as extended from time to time, the "Stated Termination Date"), (ii) the date which is fifteen (15) days following receipt by the Credit Facility Provider of notice from the Trustee that no Notes remain outstanding, that all drawings available under the Credit Facility have been honored or that a letter of credit has been issued in substitution for the Credit Facility, (iii) the date on which an Acceleration Drawing is honored by the Credit Facility Provider, or (iv) the date which is fifteen (15) days following receipt by the Trustee of written notice from the Credit Facility Provider of the occurrence of an event of default under the Credit Facility Agreement. The Credit Facility may be extended at the election of the Credit Facility Provider (which it is under no obligation to so elect) beyond the Stated Termination Date or an Alternate Credit Facility may provide for an expiration date extending past the Stated Termination Date, although no assurance can be given that either of these events will occur.

### **Reimbursement**

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

### **Certain Affirmative and Negative Covenants**

The Commission covenants and agrees in the Credit Facility Agreement, so long as the Credit Facility remains outstanding or any Reimbursement Obligations remain unpaid, among other things: (i) to furnish certain financial information concerning the Commission to the Credit Facility Provider; (ii) not to amend, waive or modify any provision of any Related Document without the prior written consent of the Credit Facility Provider; (iii) to comply with the covenants, obligations and agreements of the Commission under the Related Documents, and all statutes and regulations binding the Commission relating to the Notes, the Credit Facility Agreement or the Related Documents; (iv) to notify the Credit Facility Provider of any Event of Default under the Credit Facility Agreement, or of certain litigation; (v) to cause the State

Property and Buildings Commission to issue bonds or renewal notes in amounts sufficient to pay all Outstanding Notes and all Reimbursement Obligations prior to the earlier of the final maturity of the Notes or the Stated Termination Date; (vi) to take all actions reasonably requested by the Credit Facility Provider to enforce the Related Documents; (vii) not to permit any pledge, lien or charge on the Pledged Receipts other than the lien in favor of the owners of the Notes; (viii) to request appropriations from the General Assembly of the Commonwealth of Kentucky sufficient to pay the Reimbursement Obligations and debt service on the Notes; (ix) to cause the Project to be maintained in good repair, working order and condition, and to cause all necessary and proper repairs, replacements, renewals, and maintenance to maintain the value of the Project; (x) to cause all taxes and utility charges assessed or levied against the Project to be paid; (xi) to maintain insurance on the Project; and (xii) to cause certain actions to be taken to address problems arising from the inability of computer systems to handle dates on and after January 1, 2000.

### **Events of Default Under the Credit Facility Agreement**

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

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

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

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

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

(e) (i) The Commonwealth, or any agency, department or division thereof shall (A) fail to make any payment on any Debt supported by payments from the general fund of the Commonwealth or in connection with any lease financing supported by payments from the general fund of the Commonwealth (other than the Notes) or any interest or premium thereon

when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise); or (B) fail to perform or observe any material term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any such Debt or such lease financing when required to be performed or observed; or (C) any such Debt or such lease financing shall be declared to be due and payable or be required to be prepaid (other than by a regularly scheduled required prepayment or an optional prepayment), prior to the stated maturity thereof; or (ii) the Commonwealth, or any agency, department or division thereof, shall fail to perform or observe any term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any Debt or lease financing when required to be performed or observed;

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

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

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

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

(j) Any Rating Agency shall have downgraded the obligations payable from the General Fund of the Commonwealth to below Investment Grade (as defined in the Credit Facility Agreement), or suspended or withdrawn its rating on such debt; or

(k) An event of default shall occur under any of the Related Documents or the Cabinet shall fail to make any payment under the Financing Agreement when and as due.

## **Remedies**

Upon the occurrence of any Event of Default, the Credit Facility Provider may exercise any one or more of the following remedies: (a) by written notice to the Commission require that the Commission immediately prepay to the Credit Facility Provider in immediately available funds an amount equal to the Available Amount (such amounts to be held by the Credit Facility Provider as collateral security for the Reimbursement Obligations), provided, however, that in the case of an Event of Default described in paragraph (f) or (g) above, such prepayment obligations shall automatically become immediately due and payable without any notice (unless the coming due of such obligations is waived by the Credit Facility Provider in writing); (b) by written notice to the Commission, declare all reimbursement obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the Commission, provided that upon the occurrence of an Event of Default under paragraph (f) or (g) above, such acceleration shall automatically occur (unless such automatic acceleration is waived by the Credit Facility Provider in writing); (c) give written notice of the occurrence of an Event of Default to the Trustee, directing the Trustee to accelerate the Notes thereby causing the Credit Facility to expire fifteen (15) days following the receipt of such notice; (d) give written notice of the occurrence of an Event of Default and prohibit the issuance of additional Notes under the Indenture; (e) pursue any rights and remedies it may have under the Indenture, the Financing Agreement and other related documents; or (f) pursue any other action available at law or in equity.

## **Alternate Liquidity or Credit Facility**

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

Expiration Date, the Trustee must have received a confirmation from the Rating Agency, if any, then rating the related Notes that the rating on such Notes immediately following delivery of the Alternate Liquidity Facility or Alternate Credit Facility will not be reduced or withdrawn as a result of the delivery of the Alternate Liquidity Facility or Alternate Credit Facility. The Trustee is obligated to notify DTC of the delivery of any Alternate Credit Facility or Alternate Liquidity Facility.

### **Information on Credit Facility Provider**

**Credit Local de France.** Credit Local de France ("CLF") is a specialized French financial institution, primarily dedicated to regional and municipal development financing. Its principal office is located in Paris, France. CLF conducts operations through branch offices and subsidiaries primarily in France. In issuing the Credit Facility, CLF will act through its New York Agency, which is licensed by the State of New York as an unincorporated agency of CLF, Paris, and is licensed by the Banking Department of the State of New York.

CLF is the leading local authority lender in France, funding its lending activities in 1998 primarily through the issuance of euro, Belgian franc and French franc denominated bonds. CLF was one of the largest bond issuers on the international markets in 1998.

In 1996, CLF and Credit Communal de Belgique ("CCB"), which were almost of equivalent size both with businesses based principally around the financing of public authorities, pooled their activities and formed a single group called Dexia. On October 23, 1996, CLF and CCB signed agreements formalizing their alliance. This strategic alliance led to the creation of the 22nd largest bank in the European Union, specialized in local authority financing and financing of local infrastructure projects.

CLF and CCB each transferred their existing assets, rights and obligations to two subsidiary operating companies that respectively carry out the pre-existing activities of CLF and CCB. The pre-existing CLF and CCB entities became holding companies renamed respectively Dexia France and Dexia Belgium. The share capital of CLF is held by Dexia France and Dexia Belgium who each hold a 50 percent share.

As of December 31, 1998, CLF had total consolidated assets of \$115.1 billion, loans to customers of approximately \$58.9 billion and shareholders' equity of nearly \$3.5 billion (Tier I plus Tier II), and for the year then ended had consolidated net income of \$354.1 million (assuming an exchange rate of 5.6221 French francs to one United States dollar, prevailing on December 31, 1998). These figures were determined in accordance with generally accepted accounting principles in France. CLF maintains its records and prepares its financial statements in euros and French francs. Amounts in U.S. dollars are included solely for the convenience of readers outside France. The inclusion of U.S. dollar amounts is not intended to imply that euros or French francs have been or could readily be converted, realized or settled in U.S. dollars at that rate or any other rate.

CLF is rated Aa1 long-term and P-1 short-term by Moody's Investors Service, Inc., AA+ long-term and A-1+ short-term by Standard & Poor's Corporation, and AA+ long-term and F1+ short-term by Fitch IBCA S.A.

CLF will provide without charge a copy of its most recent publicly available annual report. Written request should be directed to CLF, New York Agency, 450 Park Avenue, 3rd floor, New York, New York 10022, Attention: General Manager.

The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

## **SECURITY FOR THE NOTES**

### **General**

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

The Commission has pledged to the payment of its obligations under the Credit Facility Agreement, payments to be received by the Commission pursuant to a Financing/Lease Agreement dated as of July 1, 1999 (the "Financing Agreement") among the Commission, the SPBC and the Finance and Administration Cabinet (the "Cabinet"). The General Assembly has appropriated to the Cabinet and the State Agencies amounts projected to be sufficient to meet interest requirements on the Notes (and/or the interest component of the reimbursement obligations of the Commission to the Credit Facility Provider) through June 30, 2000. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary sessions of the General Assembly. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

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

Under the provisions of the Constitution of the Commonwealth, the Cabinet and State Agencies are 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 Cabinet to not so renew is given to the Commission and the SPBC by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

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



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

### PLAN OF FINANCE

The proceeds of the Notes will be used by the Commission to (i) pay the cost of constructing, acquiring, installing and equipping the Project in an amount up to \$133,902,000 and (ii) pay costs of issuance of the Notes.

### THE PROJECT

The Cabinet will lease all of the facilities, renovations and improvements financed or refinanced with the proceeds of the Notes (collectively, the "Project") from the Commission and the SPBC under the Financing Agreement. Portions of the Project will be subleased to the respective State Agencies under subleases. Listed below are the respective authorized projects which collectively constitute the Project.

<u>Project</u>	<u>Project Amount</u>
<b>Finance and Administration Cabinet</b>	
State Office Building Asbestos Removal (Transportation)	\$11,900,000
<b>Justice Cabinet</b>	
<b>State Police</b>	
Integrated Criminal Apprehension Program Upgrade	1,583,000
Accident Reporting System	1,587,000
Basic Radio Replacement	20,082,000
LaGrange State Police Post Replacement	1,200,000
Hazard State Police Post	1,450,000
<b>Postsecondary Education</b>	
<b>Eastern Kentucky University</b>	
Student Service/Classroom Build	20,000,000
<b>Northern Kentucky University</b>	
Natural Science Building	36,500,000
<b>University of Kentucky</b>	
Aging/Allied Health Bldg Phase II	20,000,000
Mechanical Engineering Building	<u>19,600,000</u>
<b>Total</b>	<u>\$133,902,000</u>

## THE KENTUCKY ASSET/LIABILITY COMMISSION

### General Information

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

The current members of the Commission are as follows:

John P. McCarty	Secretary of the Finance and Administration Cabinet, Chairman
A.B. Chandler, III	Attorney General
John K. Hamilton	State Treasurer
Sarah Jane Schaaf	Secretary of the Revenue Cabinet
Dr. James R. Ramsey	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 State Agencies, 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.

### Other Personnel of the Commission

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

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

**Terri Fugate**, is a financial analyst for OFMEA. A Certified Public Accountant, Ms. Fugate has served as OFMEA's debt accountant since 1993. She has worked for the Auditor of Public Accounts and has 14 years of experience in state government. Ms. Fugate holds a Bachelor of Arts degree from Western Kentucky University.

#### **Prior and Current Financings of the Commission.**

**General.** The Commission has or will have issued and outstanding obligations in several different forms, including Tax and Revenue Anticipation Notes and three different series of Project Notes. Project Notes are issued as General Fund Series, Agency Fund Series and Road Fund Series depending upon the appropriation fund source that is being used to fund the payments under a financing/lease agreement. Each type of obligation, described below, is secured by the trust indenture to which such type of obligation relates, and holders of notes issued under a particular trust indenture do not have any claim on the pledged receipts of the Commission arising under another trust indenture.

For example, the holders of the Notes do not have a claim against the moneys pledged under the trust indenture related to any other Project Notes, General Fund Series (described below). Nor do the holders of the Notes have any claim to moneys pledged under a trust indenture related to any other Project Notes issued for the Agency Fund Series or the Road Fund Series (defined below). 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 are described below.

**Project Notes, General Fund Series.** The Commission has outstanding three issues of Project Notes, excluding these Notes. The proceeds of which were 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.

<u>Series</u>	<u>Amount Outstanding as of July 31, 1999</u>
1998 General Fund	\$134,400,000
1998 General Fund Second Series	126,500,000
1999 General Fund First Series	<u>49,195,000</u>
Total	\$310,095,000

**Project Notes, Agency Fund Series.** The Commission in September 1998 authorized the issuance of \$110,000,000 of Project Notes, 1998 Agency Fund Series (the "Agency Fund Project Notes"), in a series of tranches beginning on the date of issuance and ending on or before June 30, 2002. The Agency Fund Project Notes are payable from a direct pay letter of credit, 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. These payments are ultimately dependent upon Agency Fund appropriations by the General Assembly of the Commonwealth. To date, \$28,305,000 in principal amount of the Agency Fund Project Notes has been issued and are outstanding.

**General Fund Tax and Revenue Anticipation Notes.** 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 are currently \$300,000,000 of TRANs outstanding.

**Pending Transactions.** On July 16, 1999 the Commission authorized the issuance of the Notes and the General Fund Third Series Notes in amounts not to exceed \$135 million and \$138 million, respectively. It is anticipated, that the Commission will authorize additional project notes to fund the remaining balance of capital projects authorized in the 1998-2000 Biennial Budget of the Commonwealth for the General Fund and the Road Fund prior to the end of calendar 1999. The General Fund Fourth Series is expected to be approximately \$133 million and the three Road Fund Series are expected to total approximately \$269 million. The Commission's practice has been to raise funds gradually based upon the amount needed to fund the projects over a period of time.

## THE STATE PROPERTY AND BUILDINGS COMMISSION

The SPBC is composed of the Governor (who is the Chairman of the SPBC), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the SPBC), the Secretary of the Cabinet for Economic Development and the Secretary of the Revenue Cabinet. The Office of Financial Management and Economic Analysis (the "Office") in the Finance and Administration Cabinet serves as staff to the SPBC and the Executive Director of the Office serves as Secretary to the SPBC. The SPBC is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the SPBC, on application of any state agency of the Commonwealth, to issue revenue bonds in the SPBC's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The SPBC is authorized to execute lease agreements with those state agencies requesting the SPBC to issue revenue bonds, which leases provide for the payment of lease-rentals to the SPBC in order to make principal and interest payments on the revenue bonds issued in the name of the SPBC.

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

## THE FINANCE AND ADMINISTRATION CABINET

The Finance and Administration Cabinet (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.

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

## THE STATE AGENCIES

### Justice Cabinet

The Justice Cabinet has overall responsibility for the criminal justice system of the Commonwealth, including all powers and duties formerly vested in the Department of Public Safety, the Kentucky Crime Commission and the Kentucky Law Enforcement Council. The Justice Cabinet is comprised of seven organizational units, each of which is under the exclusive direction and control of the Secretary of Justice: the Department of State Police, the Department of Criminal Justice Training, the Office of Administration, the Department of Corrections, the Department of Juvenile Justice, the Parole Board and the Kentucky State Corrections Commission. Under a plan of reorganization adopted by the 1992 General Assembly, the Department of Corrections has replaced the former Corrections Cabinet and, as a department of the Justice Cabinet, exercises all functions of the State in relation to management of penal, reform, and correctional institutions; supervision of probation and parole; the giving of assistance to other departments, agencies and institutions of the state and federal government and the administration, enforcement and development of jail standards, training of jailers and jail personnel, and jail planning and construction. The Department of Corrections is responsible for administering the Kentucky State Reformatory (KSR), the Kentucky Correctional Institution for Women (KCIW), the Kentucky State Penitentiary (KSP), Northpoint Training Center (NTC), the Luther Luckett Correctional Complex (LLCC), the Eastern Kentucky Correctional Complex (EKCC), the Western Kentucky Correctional Complex (WKCC), the Roederer Correctional Complex (RCC), Blackburn Correctional Facilities Complex (BCFC), and three private minimum security prisons or other correctional institutions which may be established.

### Council on Postsecondary Education

The Council on Postsecondary Education ("CPE"), created and governed by the provisions of KRS 164.011, is an agency, instrumentality and political subdivision of the Commonwealth. It is composed of the Commissioner of Education, a faculty member, a student member and 13 citizen members appointed by the Governor. Its work involves coordinating the change and improvement of Kentucky postsecondary education. It is responsible for general planning and oversight of a system that includes the eight universities of the Commonwealth and the Kentucky Community and Technical College System. Further information may be obtained over the Internet from the CPE website, <http://www.cpe.state.ky.us>.

**Eastern Kentucky University.** Eastern Kentucky University ("EKU") located in Richmond, Kentucky was established by the 1906 General Assembly. EKU's three primary responsibilities are: (1) to provide instruction in the arts and sciences, business, professional education, and technical subjects; (2) to provide service to the community and region through the faculty serving as consultants in their fields of specialization and engaging in research dealing with problems of society; and (3) to engage in research to advance knowledge in the subject matter areas with which the various colleges of the university are concerned. These purposes of the university are accomplished by the College of Arts and Humanities; College of Business; College of Education; College of Applied Arts and Technology; College of Health, Physical

Education, Recreation and Athletics; College of Allied Health and Nursing; College of Law Enforcement; College of Natural and Mathematical Sciences; and Colleges of Social and Behavioral Sciences; and the Graduate School.

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

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

**Northern Kentucky University.** Northern Kentucky University ("NKU"), the newest of Kentucky's eight state universities, was founded in 1968. However, the roots of Northern can be traced back another twenty years. In 1948, a two-year Extension Center of the University of Kentucky was located in Covington, Kentucky. Then, as Northern Community College, the Center moved to the Park Hills area of Covington in 1962. Six years later the General Assembly of Kentucky authorized the creation of a four-year college, Northern Kentucky State College. A board of regents and a consultant were appointed by the Governor to assist in planning the new school.

In September 1970, Northern Kentucky State College began offering courses for students pursuing a bachelor's degree. Also, technical and semi-professional two-year programs leading to the degree of Associate of Applied Science were offered in accounting technology, nursing, and professional secretaryship. In 1971, third-year courses were added to the curriculum with the degrees of Bachelor of Arts and Bachelor of Science being initiated in business, education, and most of the basic arts and sciences. Also in 1971, the Salmon P. Chase College of Law, formerly an independent law school in Cincinnati, merged with Northern Kentucky State College.

Graduate programs were initiated in education in 1975; in business administration in 1979; in public administration in 1989; and in nursing in 1992; and in accountancy in 1998. The Graduate Center was established on the NKU campus in 1977 to administer graduate programs; programs in social work, library science, nursing, public affairs, and community nutrition are available through the center.

The first building on the new campus in Highland Heights was completed in time for fall semester in 1972. In addition to the opening of Louis B. Nunn Hall, the University added fourth-year courses to the curriculum in 1972. The first bachelor's degrees were awarded in May 1973, and course offerings have been continually expanded to meet the needs of a growing student body. On February 25, 1976, Governor Julian Carroll signed House Bill 180, making Northern Kentucky State College a university. Full status was recognized on June 19, 1976. Major

construction of the campus began in 1972 and continues today to accommodate a growing enrollment that now is about 12,000 students.

NKU serves the citizens of northern Kentucky with a particular focus on the metropolitan area contiguous to greater Cincinnati. Student residential services are provided.

NKU offers students a broad range of educational programs emphasizing traditional collegiate and liberal studies. Recognizing the needs of its region, NKU's primary mission is to provide instruction at the associate and bachelor's degree levels.

NKU offers selected master's degree programs, approved by the Council on Post-Secondary Education, and the degree of Juris Doctor through Chase College of Law.

A metropolitan university, NKU takes advantage of its close proximity to other higher education and post-secondary institutions through reciprocity agreements with the University of Cincinnati and Cincinnati State Technical and Community College. NKU serves Indiana students through a contract agreement with the State of Indiana. NKU also provides applied research, service, and continuing education programs related to the needs of the region.

The proximity of NKU to urban area provides unusual potential for growth. It is not only situated within the Greater Cincinnati metropolitan community, but also within 50 miles of 350,000 Kentuckians. NKU's headcount enrollment has been stable over the last nine years in the range of 11,260 to 12,024 after a period of substantial growth.

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

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

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

UK is organized into sixteen colleges and graduate schools plus extension programs, and also operates the Lexington Community College.



## THE COMMONWEALTH

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

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

### Financial Information Regarding the Commonwealth

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

A discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1996, 1997 and 1998 is set forth below. The information presented in the discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1996, 1997 and 1998 is drawn from *The Kentucky Comprehensive Annual Financial Report* for each of such Fiscal Years. The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the Fiscal Year of the Commonwealth most recently ended. *The Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, General Fund Condition-Budgetary Basis, General Governmental Functions-GAAP Basis, Debt Administration, Cash Management, Risk Management and Funds. In addition, the Notes to Combined Financial Statements as set forth in *The Kentucky Comprehensive Annual Financial Report* contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of *The Kentucky Comprehensive Annual Financial Report* includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

**Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the Commonwealth**

*The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1998 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1998 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12;

- (i) Bloomberg LP  
100 Business Park Drive  
Skillman, New Jersey 08558  
Internet: [munis@bloomberg.com](mailto:munis@bloomberg.com)  
Tel: (609) 279-3200  
Fax: (609) 279-5962
- (ii) DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Internet: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)  
Tel: (201) 346-0701  
Fax: (201) 947-0107
- (iii) Kenny Information Systems  
Attn: Kenny Repository Systems Inc.  
96 Broadway, 16th Floor  
New York, New York 10006  
Internet: <http://www.bluelist.com>  
Tel: (212) 770-4595  
Fax: (212) 797-7994
- (iv) Thomson NRMSIR  
Attn: Municipal Disclosure  
395 Hudson Street, 3rd Floor  
New York, New York 10014  
Internet: [disclosure@muller.com](mailto:disclosure@muller.com)  
Tel: (212) 807-5001  
Fax: (212) 989-2078

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1998 may be obtained from the NRMSIRs or from the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1998 may be found on the Internet at <http://www.state.ky.us/agencies/finance/manuals/tax/cafr.htm>.

The Commission will enter into a Continuing Disclosure Agreement in order to enable the purchaser of the Bonds to comply with the provisions of Rule 15c2-12, See "CONTINUING DISCLOSURE AGREEMENT." 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 *Supplemental Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

### **Fiscal Year 1996**

General Fund revenue on a budgetary basis for 1996 was \$5.38 billion, an increase of 3.8% over 1995. This amount included \$5.34 billion in tax and non-tax receipts, and \$47.27 million of Operating Transfers In. Taxes represented 94.5% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1996 totaled \$5.29 billion, including Operating Transfers Out of \$330.90 million. During 1996, expenditures increased by 4.5% and transfers increased by 26.2% compared to 1995. The general government function included \$698.56 million of expenditures and \$6.34 million of transfers for the eight State supported universities, which together amounted to 13.3% of the General Fund total.

The General Fund had a 1996 budgetary undesignated fund balance of \$223,427,568. This was a decrease of \$37,580,254 when compared to the 1995 year-end budgetary undesignated fund balance of \$261,007,822. In addition, the Kentucky General Assembly made the Budget Reserve Trust Fund a statutory account of the Commonwealth, and in November 1995 an additional \$100 million was appropriated to the Budget Reserve Trust Fund, bringing the balance to \$200 million.

Revenues for general governmental functions on a GAAP basis totaled \$10.31 billion for 1996, an increase of 3.9% over the amount recognized during 1995.

1996 Governmental Funds Revenue was \$386.0 million higher than in 1995. Higher Tax and Intergovernmental receipts account for 77.6% of the increase. Sales and Gross Receipts, Individual Income, Property, Severance, and Inheritance and Estate Taxes grew by a combined \$282.1 million, but were offset by Corporate Income, License and Privilege, and Miscellaneous Taxes, which fell by a combined \$70.5 million. Federal Fund receipts from the United States government went up \$59.9 million. Receipts from other governments rose by a combined \$3.3 million in General, Transportation, and Other Special Revenue Fund. Capital Projects Fund grant receipts increased by \$30.9 million compared to 1995.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$9.47 billion for 1996, an increase of 3.2% compared to 1995.

1996 Governmental Funds Expenditures were \$295.4 million higher than in 1995. Significant growth categories included: \$53.8 million more for highways in the Transportation

Fund; an additional \$45.1 million for General Government Judgments and contingent liabilities in the General Fund; and a \$30.5 million rise in combined General Fund personal services costs for the Education, Arts and Humanities Cabinet and Workforce Development Cabinet.

Ending fund balances for all governmental fund types increased 12.0%, from \$2.07 billion as restated for 1995, to \$2.32 billion in 1996. Of these totals, unreserved fund balances increased 6.4%, from \$1.19 billion as restated at June 30, 1995, to \$1.27 billion at June 30, 1996.

During 1996, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in eligible securities. Investment income from those securities for 1996, excluding that from pension trust funds, was \$109,807,323, a 12.5% decrease compared to 1995.

### **Fiscal Year 1997**

General Fund revenue on a budgetary basis for 1997 was \$5.68 billion, an increase of 5.6% over 1996. This amount included \$5.66 billion in tax and non-tax receipts, and \$20.55 million of Operating Transfers In. Taxes represented 95.0% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1997 totaled \$5.65 billion, including Operating Transfers Out of \$447.62 million. During 1997, expenditures increased by 5.0% and transfers increased by 35.3% compared to 1996. The general government function included \$724.65 million of expenditures and \$8.46 million of transfers for the eight State supported universities, which together amounted to 13.0% of the General Fund total.

The General Fund had a 1997 budgetary undesignated fund balance of \$284,116,626. This was an increase of \$60,689,058 when compared to the 1996 year-end budgetary undesignated fund balance of \$223,427,568. In addition, the balance of the Budget Reserve Trust Fund was maintained at \$200 million.

Revenue for general governmental functions totaled \$10.94 billion for 1997, an increase of 6.0% over the amount recognized during 1996.

1997 Governmental Funds Revenue was \$623.1 million higher than in 1996. Higher Tax and Intergovernmental receipts account for 90.2% of the increase. All eight major tax sources, primarily in the General Fund, went up \$331.6 million. Intergovernmental revenue rose \$230.4 million on the strength of \$245.2 million more in Federal Fund receipts from the United States government. Other revenues improved 44.7%, due to a \$26.3 million increase in the Other Special Revenue Fund and a \$23.6 million improvement in the Agency Revenue Fund. Charges for Services went down 5.3% during the period, mainly because of a \$19.9 million drop in Agency Revenue Fund receipts.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$10.16 billion for 1997, an increase of 7.2% compared to 1996.

1997 Governmental Funds Expenditures were \$686.3 million higher than in 1996. Human services provided by the Cabinet for Families and Children and the Health Services Cabinet went up \$400.7 million. Education and Humanities function costs rose \$114.4 million, due primarily to \$100.9 million more in General Fund grants and subsidies awarded by the Department of Education. Capital Outlay was up 25.9%, including \$27.4 million more in Capital Projects Fund expenditures on the Commerce Function offset by various decreases.

Ending fund balances for all governmental fund types decreased 3.3%, from \$2.32 billion as restated for 1996, to \$2.24 billion in 1997. Of these totals, unreserved fund balances decreased 3.9%, from \$1.25 billion as restated at June 30, 1996, to \$1.20 billion at June 30, 1997.

During 1997, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in eligible investments. Investment income from those securities for 1997, excluding that from pension trust funds, was \$152,327,757, a 38.7% increase compared to 1996.

### **Fiscal Year 1998**

General Fund revenue on a budgetary basis for 1998 was \$6.15 billion, an increase of 8.2% over 1997. This amount includes \$6.01 billion in tax and non-tax receipts, and \$138.42 million of Operating Transfers In. Taxes represented 92.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1998 totaled \$5.96 billion, including Operating Transfers Out of \$341.04 million. During 1998, expenditures increased by 8.0% and transfers decreased by 23.8% compared to 1997. The general government function includes \$767.68 million of expenditures and \$7.15 million of transfers for the eight State supported universities, which together amount to 13.0% of the General Fund total.

The General Fund had a 1998 budgetary undesignated fund balance of \$356,015,465. This is an increase of \$71,898,839 over the 1997 year-end budgetary undesignated fund balance of \$284,116,626.

Revenue for general governmental functions totaled \$11.60 billion for 1998, an increase of 6.1% over the amount recognized during 1997.

1998 Governmental Funds Revenue was \$662.7 million over 1997. Higher Tax and Intergovernmental receipts account for 85.9% of the increase. Seven of eight tax sources, primarily in the General Fund, went up \$420.1 million but were offset by a \$35.4 million decline in Property Tax receipts. Intergovernmental revenue rose \$184.4 million on the strength of \$198.2 million more in Federal Fund receipts from the United States government. Interest and Investment income improved 23.2% almost entirely due to a \$33.4 million increase in earnings deposited in the General Fund. Revenue from Fines and Forfeits fell by 2.6% because

collections dropped \$1.6 million in the Agency Revenue Fund and \$1.0 million in the Other Special Revenue Fund while raising \$1.4 million in the General Fund.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$10.64 billion for 1998, an increase of 4.9% compared to 1997.

1998 Governmental Funds Expenditures were \$496.7 million over 1997. Education and Humanities function costs rose \$110.9 million, due primarily to \$70.7 million more in General Fund grants and subsidies awarded by the Department of Education. Capital Outlay was up 35.5%, based primarily on \$30.6 million more in Capital Projects Fund expenditures in the Commerce Function. Debt Service rose by \$105.9 million due almost totally to \$50.1 million in additional scheduled principal retirement and \$60.0 million more in interest offset by a \$4.1 million drop in other expenditures, all in the Debt Service Fund.

Ending fund balances for all governmental fund types increased 21.2% from \$2.25 billion as restated for 1997, to \$2.73 billion in 1998. Of these totals, unreserved fund balances increased 29.9%, from \$1.17 billion as restated at June 30, 1997, to \$1.52 billion at June 30, 1998.

During 1998, Kentucky issued revenue bonds totaling \$211,335,121 for general governmental functions which are supported by governmental fund appropriations. \$184,720,414 defeased existing debt and funded related reserve accounts. The remaining \$26,614,707 funded new projects. All issues sold during 1998 received a rating of "A" or higher by the major rating services. At June 30, 1998, total principal outstanding for revenue bonds paid from governmental fund appropriations was \$2,833,433,371.

#### **Fiscal Year 1999 (Unaudited)**

Actual revenue receipts collected by the Commonwealth through June 30, 1999 were \$6.2 billion. This represents an increase of 3.1% over last year. The official estimate for fiscal year 1999 was \$6.2 billion. Individual income tax collections have grown by 4.7%, while the sales and use tax has grown by 5.3% over the previous fiscal year. Kentucky's economic growth continues to perform at levels that will sustain the revenue estimate for fiscal year 2000.

An undesignated General Fund surplus of \$64.2 million has been confirmed for fiscal year 1999. Of this amount, approximately \$8.8 million will be deposited into the Budget Reserve Trust Fund increasing the amount on deposit to \$239.3 million. The remaining amounts will be used to supplement funding for technology for schools and for state government.

## Investment Policy

The Commonwealth's investments are governed by KRS 42.500 and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, Treasurer, Secretary of the Finance and Administration Cabinet, and gubernatorial appointees of the Community Independent Banker's Association and Kentucky Banker's Association, is charged with 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 and Economic Analysis.

At June 30, 1999, the Commonwealth's operating portfolio was approximately \$3.38 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (17%), securities issued by agencies, corporations and instrumentalities of the United States Government (42%), repurchase agreements collateralized at 102% by the aforementioned (20%), U.S. dollar denominated corporate securities rated A or higher by a nationally recognized rating agency (11%), municipal securities rated A or higher by Standard & Poor's or Moody's (4%), money market securities rated A1-P1 or higher by Standard & Poor's or Moody's (2%), and asset backed securities rated in the highest category by nationally recognized rating agency (4%). Money market securities, including Bankers' Acceptances, Commercial Paper and Certificates of Deposit, are limited to 20% of the total portfolio and \$25 million per issuer. The total return for Fiscal Year 1998 was 5.97% and 4.81% for Fiscal Year 1999. The portfolio has a modified duration of approximately 1.56 years. The Commonwealth's investments are marked to market daily.

During Fiscal Year 1999, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in the above-described securities, as well as securities issued by the Commonwealth of Kentucky. Investment income for Fiscal Year 1999, excluding that from pension trust funds, was \$152.4 million.

The Commonwealth's investments are categorized into four investment pools: Short-Term, Long-Term, Intermediate, and Bond Proceeds 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 General Fund cash balances and provides liquidity to the remaining pools. The Long-Term Pool invests the Budget Reserve Trust Fund account and other funds deemed appropriate for the pool where liquidity is not a serious concern. The Intermediate Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the state. The Bond Proceeds Pool invests in U.S. Treasury and Agency obligations. Capital Construction bond proceeds are deposited into the Bond Proceeds Pool until expended for their intended purpose.

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, including: over-the-counter treasury options, the securities lending program, fixed receiver interest rate swaps, and most recently the purchase of mortgage backed securities, and collateralized mortgage obligations.

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, this commitment has been less than 10% of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The state reverses its treasury and agency securities in exchange for 102% of eligible collateral pursuant to KRS 42.500, marked to market daily. Currently, the Commonwealth receives a guaranteed 7.5 basis points of the average market value of securities in the program.

The Commonwealth has also engaged in an asset-based interest rate swap to better match its assets and liabilities and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific period of time. On September 28, 1995, the State Investment Commission adopted resolution 95-03, which re-authorized interest rate swap transactions in a notional amount not to exceed \$200 million outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. Currently, the Commonwealth has no asset-based swap transactions outstanding.

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 securities with excess funds available for investment. The new classes of securities include: United States dollar denominated corporate, Yankee and Eurodollar securities, issued by foreign and domestic issuers, including sovereign and supranatural 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.

On June 18, 1997, the State Investment Commission adopted policies and procedures to govern the purchase of the new authorized securities. The new asset classes will be limited to 25% of the assets of any investment pool. Corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to \$25 million per issuer. Asset Backed Securities are limited to a stated final maturity of 10 years or less and must have a weighted-average-life of not more than 4 years. The Commission also adopted policies and procedures regarding the investment of funds in United States Agency Mortgage Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO"). MBS and CMO are limited to a maximum of 25% of any investment pool. MBS are limited to a stated final maturity of 10 years or less with a weighted-average-life of 4 years or less. CMO are subject to the guidelines established by the Federal Financial Institutions Examination Council for CMO



security purchases for regulated financial institutions. CMO are further limited to a weighted-average-life 4 years or less.

### **Year 2000 Compliance**

The Commonwealth of Kentucky has been aware since early 1994 of the technology problems associated with the year 2000. The Commonwealth has assessed the state's mission critical systems, most of which reside on a mainframe computer, as 96% complete. The remainder of the systems/components are in their final test phase with completion projected by July 31, 1999. Business continuity plans for all mission critical systems are being developed with a third quarter 1999 completion date. The General Assembly, during the 1998 Regular Session, appropriated \$6,700,000 to a year 2000 "contingency fund." Portions of this fund will be used to contract for third party validation and verification of selected mission critical systems residing on the mainframe computer. The Commonwealth has obtained a contract for specialized consultants to examine the methodology, procedures, work plans and status of the year 2000 compliance project. The consultants have made recommendations and implemented methodologies to ensure that the best practices are in place for compliance. Further information regarding year 2000 compliance by the Commonwealth may be found on the Internet at <http://www.state.ky.us/year2000/index.htm>.

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT**

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

#### **Definitions**

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

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

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

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

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

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

"Applicable Interest Period" means for Notes bearing interest at (i) the Daily Rate or the Weekly Rate, 45 days and (ii) the Commercial Paper Rate or a Fixed Rate, 195 days, or such other number of days as may be required by a Rating Service with respect to an Alternate Credit Facility or Alternate Liquidity Facility.

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

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

"Available Funds" means (i) moneys derived from drawings under a Credit Facility and deposited in the accounts established under the Indenture as provided in the Indenture, (ii) moneys received by the Trustee and held in Funds and accounts created under this Indenture for a period of at least one hundred twenty-four (124) days and not commingled with any moneys so held for less than said period and during and prior to which period no petition in bankruptcy was filed by or against the State or the Commission under the United States Bankruptcy Code, (iii) proceeds of the remarketing of the Notes, (iv) proceeds from the sale of the Bonds or renewal Notes, (v) moneys with respect to which the Trustee shall have received an opinion of counsel experienced in matters pertaining to the United States Bankruptcy Code, that the contemplated use of such moneys would not constitute a transfer of property voidable under Section 544 or 547 of the United States Bankruptcy Code, should the State become a debtor under such Code or (vi) investment income derived from the investment of moneys described in clauses (i) through (v).

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

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

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

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

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

"Cost of Issuance Fund" means the Fund so designated which is established and created by the Indenture.

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

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

"Credit Facility" means with respect to any Series of Notes (A) a letter of credit having an expiration date that is no earlier than five (5) Business Days succeeding the Final Maturity Date, a bond insurance policy or a surety bond to be issued by the Credit Facility Provider and delivered to the Trustee on the same date as the initial delivery of such Series of Notes and being an irrevocable obligation to make payment to the Trustee of up to the amounts therein specified with respect to (a) the principal amount of such Series of Notes outstanding to enable the Trustee to pay (i) the principal amount of such Series of Notes when due at maturity or upon redemption or acceleration, and (ii) an amount equal to the principal portion of the purchase price of any of such Series of Notes tendered for purchase pursuant to the Indenture, plus (b) the amount of interest due on such Series of Notes at the Maximum Interest Rate to enable the Trustee to pay (i) interest on such Series of Notes when due and (ii) an amount equal to the interest portion, if any, of the purchase price of such Series of Notes tendered for purchase; as the same may be transferred, reissued amended or replaced in accordance with the Indenture and the Credit Facility and (B) upon the issuance and effectiveness thereof, any Alternate Credit Facility.

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

"Credit Facility Provider" means (i) Credit Local de France, acting through its New York Agency, or (ii) another entity providing a Credit Facility with respect to a Series of Notes named in the Certificate of Award relating to such Series of Notes, the unsecured, uninsured and unguaranteed short term debt obligations of which entity have been rated at a rating no lower than the existing ratings by each Rating Service on the Notes.

"Debt" means, with respect to any Person, (a) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (b) all obligations of such person as lessee under capital leases; (c) all obligations of such Person to pay the deferred purchase price of property; (d) certificates of participation evidencing an undivided ownership interest in payments

made by such Person as lessee under capital leases, as purchased under an installment sale agreement or otherwise as an obligor in connection therewith; and (e) all Guarantees by such Person of Debt of another Person.

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

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

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

"Expiration Tender Date" means the day that is five Business Days prior to the Expiration Date; provided that if the Expiration Date is after the Final Maturity Date there shall be no Expiration Tender Date.

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

"Final Maturity Date" means June 30, 2003.

"Financing Agreement" or "Financing/Lease Agreement" means the Financing/Lease Agreement, dated as of July 1, 1999, among the Commission, the Cabinet and the SPBC, by which the Project is leased to the Cabinet, and any amendments or supplements thereto.

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

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

"Fitch" means Fitch IBCA, Inc.

"Funds and Accounts" means the Cost of Issuance Fund, Note Payment Fund, Project Fund and Rebate Fund established by the Indenture and any account created thereunder .

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

"Indenture" or "Trust Indenture" means the Trust Indenture, dated as of January 1, 1999, and entered into between the Commission and the Trustee, as amended or supplemented from time to time.

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

"Interest Payment Date" means (i) with respect to any Series of Notes bearing interest at the Daily Rate or Weekly Rate, the first Business Day of each month; (ii) with respect to any Series of Notes bearing interest at the Commercial Paper Rate, each Mandatory Purchase Date, and, if the Commercial Paper Period exceeds 182 days, an additional Interest Payment Date that is 182 days after the first day of such Commercial Paper Period (or the first Business Day thereafter if such day is not a Business Day); (iii) with respect to any Series of Notes bearing interest at the Fixed Rate, the date(s) set forth in the Certificate of Award for such Notes, provided that, if such Series of Notes is secured by a Credit Facility, there shall be an Interest Payment Date on the first day of a month that is no more than 182 days after the Fixed Rate Commencement Date and at least semi-annually thereafter; (iv) the date any Notes are redeemed, mature or are converted from their existing Interest Rate Mode to bear interest in a different Interest Rate Mode; and (v) with respect to Bank Notes, the dates set forth in the Credit Facility Agreement.

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

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

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

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

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

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

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

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

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

"Liquidity Provider" or "Liquidity Facility Provider" means an entity providing a Liquidity Facility with respect to a Series of Notes named in the Certificate of Award relating to such Series of Notes, the unsecured, uninsured and unguaranteed short term debt obligations of which have been rated by the Rating Agencies at ratings no lower than the existing ratings on the Notes.

"Mandatory Purchase Date" means the Substitution Tender Date, the Expiration Tender Date, the date the interest rate on a series of Notes is converted to a different Interest Rate Mode or, with respect to Notes bearing interest at a Commercial Paper Rate, the end of each Commercial Paper Period.

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

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

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

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

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

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

- (a) Notes canceled upon surrender, exchange or transfer or canceled because of payment or redemption at or prior to such date;
- (b) Notes for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited for the purpose on or prior to that date in the Note Payment Fund (whether upon or prior to the maturity or redemption date of those Notes); provided that if any of those Notes are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Noteholders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided further that if any of those Notes are to be purchased for cancellation a firm offer for sale stating the price shall have been received and accepted;
- (c) Notes which are deemed to have been paid pursuant to the provisions of Article IX of the Indenture or any Notes which are deemed to have been paid pursuant to the provisions of the Indenture;
- (d) Notes in lieu of which others have been authenticated under Sections 3.07 and 3.11 of the Indenture; and
- (e) Notes deemed tendered under Section 3.14 of the Indenture.

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

"Person" means any individual, firm, partnership, association, corporation, or governmental agency.

"Pledged Receipts"

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

"Remarketing Agent" means Merrill Lynch & Co., acting in its capacity as Remarketing Agent under the Remarketing Agreement or a successor Remarketing Agent appointed under the terms of the Indenture.

"Remarketing Agreement" means the Remarketing Agreement dated as of July 1, 1999, between the Remarketing Agent and the Commission, as the same may be amended or supplemented from time to time in accordance with its terms.

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

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

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

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

"Series" means the Notes.

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

"State" means the Commonwealth of Kentucky.

"State Agency" means any State Agency, as defined in the Act.

"Stated Termination Date" means August 5, 2001.

"Subleases" means the various Subleases entered or to be entered into by the Cabinet, as lessor and the State Agencies, as lessees, under the terms and as contemplated by the Financing Agreement.

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

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

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

"Treasurer" means the Treasurer of the State.

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

"Underwriter" means Merrill Lynch & Co., as representative of the underwriters identified in the Note Purchase Agreement.

## **The Indenture**

**Delivery of the Notes and Additional Notes.** The Indenture authorizes the issuance of Notes, in one or more Series, in an aggregate principal amount not to exceed \$135,000,000. The Notes are to be issued in anticipation of the issuance of bonds by the SPBC. The Indenture provides that the Commission may authorize the issuance of Notes upon execution of a Certificate of Award. Every Certificate of Award is required to contain: (i) the authorized principal amount of said Notes, by applicable Series; (ii) the Issue Date of such Series of Notes; (iii) whether such Series of Notes will be issued as Book-Entry-Only Notes; (iv) the initial Interest Rate Mode for

such Series of Notes, including the Interest Payment Dates for Fixed Rate Notes; (v) whether such Series of Notes are to be secured by a Liquidity Facility or Credit Facility; (vi) the optional redemption provisions relating to such Series of Notes; (vii) the optional and mandatory tender provisions relating to such Series of Notes; (viii) the price at which such Series of Notes will be sold to the Underwriter; (ix) the allocation of the proceeds of such Series of Notes; and (x) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Indenture. The Indenture provides the conditions precedent to authentication and delivery of the Notes.

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

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

**Establishment of Funds.** The Indenture establishes the following special trust Funds (i) the Cost of Issuance Fund (Series)(Date); (ii) the Project Fund; (iii) the Note Payment Fund (Series); and (iv) the Rebate Fund. Each of these Funds is discussed below.

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

In the Cost of Issuance Account established on the Issue Date for each Series of Notes, there shall be deposited the amount of moneys necessary to pay the Costs of Issuance of such Notes specified and determined in the Certificate of Award authorizing the issuance of such Notes.

The Trustee is required from time to time to pay out, or to permit the withdrawal of, moneys from the applicable Cost of Issuance Account to pay any Costs of Issuance, free and clear of any lien or pledge or assignment in trust created by the Indenture, for the purpose of paying in the manner authorized by the Indenture, any Costs of Issuance of the Notes for which such Account was established, upon receipt by said Trustee of a written requisition of the Commission signed by an Authorized Officer stating with respect to each payment to be made, for Costs of Issuance to be so paid and identifying the Account from which such requisition is to be paid.

If any moneys remain in a Cost of Issuance Account on the date which is five months from the date of issuance of the applicable Series of Notes, the Trustee is required to transfer such amounts to the Note Payment Fund.

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

The proceeds of the issuance and delivery of any Notes remaining after the deposit of (a) accrued interest to the Interest Account of the Note Payment Fund, (b) Costs of Issuance to the Cost of Issuance Fund and (c) amounts needed to pay the principal of, interest on and premium, if any, on any Notes, as may be set forth in a Certificate of Award to the Note Payment Fund, will be deposited in the Project Fund.

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

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

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

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

(A) An Interest Account, into which will be deposited all amounts (i) received as accrued interest upon the sale and delivery of any Notes; (ii) received as Financing Payments and Additional Payments (including any prepayments of Financing Payments and Additional Payments), other than Financing Payments and Additional Payments for the fees of the Trustee, Registrar or any Paying Agent, which the Trustee is required to retain for transfer to the applicable party under the Financing Agreement; or (iii) received as proceeds of Notes to pay interest on Notes when due.

(B) A Purchase Account, into which will be deposited all amounts received (i) from the Remarketing Agent with respect to any remarketing of the Notes, 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 which are tendered and not remarketed by the Remarketing Agent, which shall be deposited in a "Draw Subaccount."

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

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

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

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

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

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

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

to provision of the Indenture all Notes tendered for purchase on the applicable Purchase Date or required to be purchased on a Mandatory Purchase Date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) the municipal obligations are (i) not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and



redemption and (ii) the issuer has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

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

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

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

(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

(f) 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.

**Events of Default and Remedies.** Each of the following events is an "Event of Default" under the Indenture:

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

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

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

(4) the Commission shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or the Notes and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the Trustee or the Liquidity Provider or Credit Facility Provider or the Holders of not less than five percent in principal amount of the Outstanding Notes; or

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

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

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

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

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

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

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

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

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

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

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

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

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

Whenever moneys are to be applied by the Trustee as described herein, such moneys are required to be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Fiduciaries, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Commission, to any Holder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the 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.

**Direction of Proceedings.** The Credit Facility Provider, the Liquidity Provider and the Holders of the majority in principal amount of Notes then Outstanding shall 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, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Trust Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction. In the event of a conflict between directions from the Credit Facility Provider, the Liquidity Provider and such Holders, directions shall be followed in priority order as follows: (i) the Credit Facility Provider, so long as the Credit Facility Provider is not in default of its obligations under the Credit Facility Agreement; (ii) the Liquidity Provider, so long as the Liquidity Provider is not in default of its obligations under the Liquidity Facility and (iii) the Holders.

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

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

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

on certain other instruments, and it will not be liable for any action reasonably taken or omitted to be taken by it in good faith or be responsible other than for its own gross negligence or willful neglect.

### **The Financing Agreement**

The Commission, the Cabinet and the SPBC have entered into the Financing Agreement which provides for (i) interim financing for the Project by issuance of the Notes by the Commission; (ii) revenues for amortization for the Notes; (iii) the issuance of the Bonds for the payment of the Notes which have not been amortized; (iv) the transfer of the Project to the SPBC upon the issuance of the Bonds; and (v) the leasing of the Project from the SPBC to the Cabinet and the State Agencies, if applicable, to provide revenues for amortization of the Bonds. The Financing Agreement provides for revenues to reimburse the SPBC and the Commission for their commitments to amortize such Bonds and Notes, respectively.

Each of the State Agencies has agreed to enter into a Sublease (collectively the "Sublease") with the Cabinet pursuant to which the Project will be leased by the Cabinet to the respective State Agencies on terms and conditions sufficient to provide financing for their respective portion of the Project.

**Term, Renewals, Financing Payments and Rent.** The Commission has agreed to provide interim financing for the Project to the Cabinet, for an initial term ending June 30, 2000. The Cabinet has the right to continue the Financing Agreement and have the Project for succeeding biennial periods. The Cabinet is required to pay, as Financing Payments during the initial period ending on June 30, 2000, and for each Renewal Term the Debt Service Obligation relating to the Notes so long as any Notes are Outstanding. The SPBC has agreed to provide permanent financing for the Project to the Cabinet, for an initial term commencing on the date of issuance of the Bonds and ending June 30 of the first even numbered year after the Bonds are issued. The Cabinet is required to pay, as Rent during the such period, the Debt Servicing Obligation, relating to the Bonds, during the term of the Financing Agreement so long as any Bonds are outstanding. The Cabinet 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 June 30, 2020 (the final maturity date permissible for any Bonds to be issued by the SPBC for the Project), or such other date as may be set forth in a Supplemental Financing Agreement entered into pursuant to the Financing Agreement or otherwise agreed to by the SPBC and the Cabinet. 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 Cabinet's election not to renew is delivered to the Commission and the SPBC before the close of business on the last business day in May, immediately preceding the beginning of such succeeding Renewal Term.

The Cabinet has agreed to pay Additional Payments and Additional Rent under circumstances provided in the Financing Agreement.

**Budget Proposals.** The Cabinet has agreed that when appropriations bills are prepared for introduction in the General Assembly, it will request sufficient amounts in the aggregate (over and above all other requirements of the Cabinet) to enable the Cabinet to pay Financing Payments, Additional Payments, Rent and Additional Rent and thereby provide the Commission with moneys sufficient for the payment of the principal and interest of the Notes as they mature, subject to the SPBC's obligation to issue Bonds or the Commission's obligation to issue renewal Notes upon the maturity of any Notes. In its statutory role as the financial agency of the Commonwealth, the Cabinet has agreed to apply appropriated funds to make the Financing Payments, Additional Payments, Rent and Additional Rent to the extent such appropriations are made in each legislative and budgetary biennium of the Commonwealth.

**Events of Default and Remedies.** Each of the following events is an "Event of Default" under the Financing Agreement:

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

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

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



All of the Cabinet's right, title and interest in and to any Subleases and the payments payable thereunder, have been assigned by the Cabinet to the Commission and by the Commission to the Trustee for the security and benefit of the Credit Facility Provider and the holders of the Notes.

### TAX TREATMENT

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Notes is excludable from gross income for Federal income tax purposes and interest on the Notes is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes.

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

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

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

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



For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Notes.

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

#### **ABSENCE OF MATERIAL LITIGATION**

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

#### **APPROVAL OF LEGALITY**

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

## **RATINGS**

The following rating agencies (each a "Rating Agency") have given the Notes the following respective ratings: Moody's Investor's Service, Inc., "Aa1/VMIG1"; Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc. "AA+/A-1+"; and Fitch IBCA, Inc., "AA+/F1+". 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: Moody's Investor's Service, Inc., 99 Church Street, New York, New York 10007, (212) 583-0300; Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041, (212) 438-1000; and Fitch IBCA, Inc., One State Street Plaza, New York, New York 10004 (212) 908-0500. No rating is a recommendation to buy, sell or hold the Notes, and there is no assurance that any rating will be maintained for any given period of time by a Rating Agency or that it will not be revised or withdrawn entirely by such Rating Agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of a rating may have an adverse affect on the market price of the Notes.

## **CONTINUING DISCLOSURE**

The Commission 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 to each nationally recognized municipal securities depository or the Municipal Securities Rulemaking Board, and the appropriate state information depository, if any, of any of the following types of events with respect to the Notes, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale or property securing repayment of the securities; and (xi) rating changes. The Commonwealth is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities.

## **UNDERWRITING**

Merrill Lynch & Co, as representative of the Underwriters, has agreed to purchase a principal amount of Notes not to exceed \$135,000,000. The Underwriters will receive a fee of \$80,055. The Underwriters are committed to purchase all of the Notes if any are purchased.

The Underwriters have advised the Commission that they intend to make a public offering of the Notes at the initial public offering prices or yields set forth on the 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 Notes.

## TRUSTEE'S YEAR 2000 COMPLIANCE

The Trustee, Bank One, Kentucky, NA, provided the following information regarding its Year 2000 compliance efforts:

The Trustee has met the regulatory guideline for June 30, 1999 that states the testing of mission critical systems be complete and the implementation of mission critical systems be substantially complete. The Trustee's applications, computers, systems software, telecommunications systems, security devices, desktop PCs and servers, and office equipment have undergone extensive testing and are largely Year 2000 ready. The Trustee will continue to verify the readiness of computer applications, equipment and contingency plans by testing them throughout the remainder of 1999.

*The information in this section concerning the Trustee's Year 2000 Compliance has been obtained from sources that the Commission believes to be reliable, but the Commission takes no responsibility for the accuracy thereof.*

## MISCELLANEOUS

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

## KENTUCKY ASSET/LIABILITY COMMISSION

By s/ John McCarty

John McCarty  
Chairman

By s/ Gordon L. Mullis, Jr.

Gordon L. Mullis, Jr.  
Secretary

## EXHIBIT A

### DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

#### COMMONWEALTH DEBT MANAGEMENT

##### Management

The Office of Financial Management and Economic Analysis, 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 state agencies which currently have debt outstanding. OFMEA 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. The Office serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, the Kentucky Local Correctional Facilities Construction Authority, and the Kentucky Infrastructure 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 project revenue obligation of one of its debt-issuing agencies created by the Kentucky 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 bonds and notes 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 revenues are 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.

**Non-appropriation or moral obligation debt** carries the name of the Commonwealth for the benefit and convenience of other entities within the state. The bonds are special obligations of the issuer, secured and payable solely from the sources pledged for the payment

thereof and do 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 bonds. Although, in the event of a shortfall the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

#### **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>RATING MOODY'S/S&amp;P*</u>
State Property and Buildings Commission	<b>KRS 56.450</b> 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+
Kentucky Asset/Liability Commission	<b>KRS 56</b> Provide for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	<b>KRS 175.410-175.990</b> Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	A1/A+
The State Universities (consisting of eight)	<b>KRS 56.495</b> 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	<b>KRS 198A</b> Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to \$ 1.125 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	<b>KRS 224A</b> 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. Other programs limited to \$60 and \$125 million of debt outstanding, for maturities under and over 3 years, respectively.	Aa3/A+
Kentucky Higher Education Student Loan Corporation	<b>KRS 164A</b> Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to \$553 million of debt outstanding	Aaa/AA-
School Facilities Construction Commission	<b>KRS 157.800-157.895</b> Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+
Kentucky Economic Development Finance Authority	<b>KRS 154</b> 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

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/ PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATING MOODY'S/S&amp;P*</u>
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.	AAA
Kentucky Agricultural Finance Corporation	KRS 247.940 Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures.	Limited to \$500 million of debt outstanding	NA

\*Moody's Investors Service on June 7, 1999 assigned an issuer rating of Aa2 to the Commonwealth of Kentucky. In conjunction with this rating, Moody's also upgraded ratings to Aa3 from A2 for the General Fund appropriation-backed debt of Kentucky State Property and Buildings Commission, Kentucky Infrastructure Authority and ALCO Project Notes and upgraded the rating to A1 from A for Kentucky Turnpike Authority Road Bonds. Moody's on June 9, 1999 upgraded bonds supported by the School Facilities Construction Commission to Aa3 from A1.

\*Standard & Poor's (S&P) on July 26, 1999 upgraded ratings to A+ from A for the Kentucky Turnpike Authority Road Bonds and the General Fund appropriation-backed debt of the Kentucky Infrastructure Authority.

**EXHIBIT B**  
**FORM OF BOND COUNSEL OPINION**

[Date of Initial Delivery]

Kentucky Asset/Liability Commission  
Frankfort, Kentucky

Re: Kentucky Asset/Liability Commission Project Notes, 1999 General Fund Second Series A

We have acted as bond counsel in connection with the issuance by the Kentucky Asset/Liability Commission, an independent agency and constituted authority of the Commonwealth of Kentucky (the "Issuer"), of its Project Notes, 1999 General Fund Second Series A in an amount not to exceed \$135,000,000 (the "Project Notes").

The Project Notes are authorized to be issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Section 56.860 et seq. of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Issuer on July 16, 1999 (the "Resolution"), and a Trust Indenture (the "Indenture") dated as of July 1, 1999 between the Issuer and Bank One, Kentucky, NA, Lexington, Kentucky, as trustee (the "Trustee").

We have examined such portions of the Constitution, Statutes and laws of the United States, the Constitution, Statutes and laws of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Project Notes, including a specimen Project Note, a Financing/Lease Agreement (the "Financing Agreement") dated as of July 1, 1999 among the Issuer, the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Commonwealth of Kentucky State Property and Buildings Commission, certain Subleases (the "Subleases") dated as of July 1, 1999 between the Cabinet and various State Agencies, as defined in the Act, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinion, and relied upon certificates of officials of the Commonwealth, the Cabinet, the State Agencies and the Issuer as to certain factual matters.



Based upon the foregoing, it is our opinion, under the law existing on the date of this opinion, that:

1. The Issuer is an independent agency and constituted authority of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth and has the legal right and authority to issue the Project Notes.

2. The Indenture, the Financing Agreement and the Resolution have been duly authorized, executed and delivered by the Issuer, the Financing Agreement and the Subleases have been duly authorized, executed and delivered by the Cabinet and the Subleases have been duly authorized, executed and delivered by the State Agencies and are each valid and binding obligations of the Issuer, the Cabinet and the State Agencies, as applicable, enforceable in accordance with their respective terms.

3. The Project Notes have been duly and validly authorized and, when duly executed in the form and manner provided in the Indenture and each Certificate of Award, as defined in the Indenture, duly authenticated by the Trustee and delivered and paid for, will constitute valid and binding limited and special obligations of the Issuer enforceable in accordance with their terms.

4. The Project 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 Project Notes do not pledge the general credit or taxing power, if any, of the Commonwealth, the Issuer, the Cabinet, the State Agencies or any other agency or political subdivision of the Commonwealth.

5. The Project Notes are not secured by a pledge of or lien on the properties constituting the Project, as defined in the Indenture, or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by the Pledged Receipts. The ability of the Cabinet to make payments under the Financing Agreement is dependent upon legislative appropriations to the Cabinet or the State Agencies, which have respectively leased and subleased the Project for an initial term ending June 30, 2000, with the right to renew for additional successive terms of two years each until the Project Notes and interest thereon have been paid and discharged.

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Project Notes is excludable from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Project Notes will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Project Notes.

7. The interest on the Project Notes is exempt from income taxation and the Project Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Indenture, the Resolution, the Financing Agreement, the Subleases, the Project Notes and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

In rendering our opinion as to the due authorization, execution and delivery of the Financing Agreement by the Cabinet and the Subleases by the Cabinet and the State Agencies, we have relied on opinions of counsel to the Cabinet and the State Agencies.

Unless otherwise notified by us, you may continue to rely on this opinion to the extent that (i) there is no change in pertinent existing state or federal law, (ii) the Resolution, the Indenture, the Financing Agreement and the Subleases, each in the form in effect on the date hereof, remain in full force and effect and there is no default, or an event that with notice or passage of time would constitute a default thereunder, (iii) the representations, warranties and covenants of the parties contained in the Credit Facility Agreement, as defined in the Indenture, and certain certificates dated the date hereof and delivered by authorized officers of the Commonwealth, the Issuer, the Cabinet and the State Agencies remain true and accurate and are complied with in all material respects, and (iv) no litigation affecting the issuance or validity of the Project Notes is pending or threatened at the time of delivery of any such instruments.

Very truly yours,

PECK, SHAFFER & WILLIAMS LLP