

NEW ISSUE**DTC Book-Entry Only**

See "THE NOTES" herein

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

In the opinion of Bond Counsel for the Notes, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, and subject to the conditions and limitations set forth herein under the caption "TAX TREATMENT" 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.

UP TO \$128,000,000
KENTUCKY ASSET/LIABILITY COMMISSION
Project Notes, 1999 Road Fund Second Series

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 Road Fund Second Series (the "Notes"), in tranches, over a period of time, to provide interim financing for certain additions and improvements to the Kentucky Economic Development Road System (Revitalization Projects) (the "System") in anticipation of bonds to be issued by The Turnpike Authority of Kentucky (the "Turnpike Authority"). See "THE PROJECT" herein. The Notes are being issued pursuant to and are secured by a Trust Indenture dated as of October 15, 1999 (the "Indenture"), between the Commission and BNY Trust Company of Missouri, St. Louis, Missouri as trustee and paying agent (the "Trustee").

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

The Commission has pledged to the payment of the principal of and interest on the Notes the Pledged Receipts (see "DEFINITIONS" herein), which include (i) payments to be received by the Commission with respect to the Notes pursuant to a Financing/Fourth Supplemental Lease Agreement dated as of October 1, 1999 (the "Financing Agreement") by and among the Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet"), the Transportation Cabinet of the Commonwealth of Kentucky (the "Transportation Cabinet") and the Turnpike Authority, (ii) amounts received as drawings under the Credit Facility (defined below) and (iii) proceeds of bonds to be issued by the Turnpike Authority for the purpose of retiring the Notes. The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts projected to be sufficient to pay all amounts due under the Financing Agreement, which include the amounts needed to meet interest requirements on the Notes and the Commission's Project Notes, 1999 Road Fund First Series (the "First Series 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.

In addition, in the event that payments to be received by the Commission under the Financing Agreement are insufficient to pay principal of or interest on the Notes or that Notes tendered for purchase are not able to be remarketed, principal of, interest on, and the purchase price of the Notes are payable from amounts drawn under an irrevocable standby letter of credit (the "Credit Facility") issued to the Trustee, for the account of the Commission, by

WESTDEUTSCHE LANDESBANK GIROZENTRALE

acting through its New York Branch, as Credit Facility Provider (the "Credit Facility Provider"). The Credit Facility expires on June 30, 2003. The Commission's obligation to reimburse the Credit Facility Provider for payments under the Credit Facility is secured by the Pledged Receipts. The Credit Facility may be replaced by another irrevocable letter of credit, a bond insurance policy or a surety bond, or a standby note purchase agreement or similar liquidity enhancement and support facility. See "THE CREDIT FACILITY" herein.

The Commission is obligated to reimburse the Credit Facility Provider for draws on the Credit Facility pursuant to the terms and limitations set forth in a Letter of Credit and Reimbursement Agreement dated as of October 15, 1999 (the "Credit Facility Agreement").

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 in-house German counsel and by its U.S. 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 October 27, 1999.

Lehman Brothers

October 22, 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.

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KENTUCKY ASSET/LIABILITY COMMISSION

COMMISSION MEMBERS

John 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 AND PAYING AGENT

BNY Trust Company of Missouri
(A subsidiary of the Bank of New York Company, Inc.)
St. Louis, Missouri

CREDIT FACILITY PROVIDER

Westdeutsche Landesbank Girozentrale
acting through its New York Branch
New York, New York

REMARKETING AGENT

Lehman Brothers

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

UNDERWRITERS' COUNSEL

Brown, Todd & Heyburn PLLC
Louisville, Kentucky

CREDIT FACILITY PROVIDER'S U.S. COUNSEL

Chapman and Cutler
Chicago, Illinois

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.

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|-----------------|--|
| 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 Road Fund Second Series (the "Notes"), in tranches, over a period of time beginning with the date of this Official Statement and ending on or before June 30, 2003, in the total amount of up to \$128,000,000. 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 September 24, 1999 (the "Resolution"), and the Trust Indenture dated as of October 15, 1999 (the "Indenture"), between the Commission and BNY Trust Company of Missouri, St. Louis, Missouri as trustee and paying agent (the "Trustee"). |
| Use of Proceeds | The proceeds of the Notes will be used by the Commonwealth to provide interim financing for certain additions and improvements to the Kentucky Economic Development Road System (Revitalization Projects) (the "System") in anticipation of the issuance of Bonds to be issued by The Turnpike Authority of Kentucky (the "Turnpike Authority"). See "THE PROJECT" herein. |
| Security | The Notes are payable from the Pledged Receipts (see "DEFINITIONS" herein), which include (i) payments to be received by the Commission with respect to the Notes pursuant to a Financing/Fourth Supplemental Lease Agreement dated as of October |

1, 1999 (the "Financing Agreement") by and among the Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet"), the Transportation Cabinet of the Commonwealth of Kentucky (the "Transportation Cabinet") and the Turnpike Authority, (ii) amounts received as drawings under the Credit Facility (defined below) and (iii) proceeds of Bonds to be issued by the Turnpike Authority for the purpose of retiring the Notes. A portion of the payments to be received under the Financing Agreement are pledged to the Commission's Project Notes, 1999 Road Fund First Series (the "First Series Notes"). The First Series Notes were issued October 6, 1999 in the principal amount of \$75,200,000. The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts projected to be sufficient to meet interest requirements on the Notes and the First Series 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 the Transportation Cabinet 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 Transportation Cabinet to not so renew is given to the Commission and the Turnpike Authority by the last business day of May prior to the beginning of the next succeeding biennial renewal term. See "SECURITY FOR THE NOTES" herein.

In addition to the referenced appropriations to the Transportation Cabinet, certain Revenues (see "DEFINITIONS" herein) of the System may be available, on a subordinate basis, to pay principal of, interest on and purchase price of the Notes if the Financing Agreement is no longer in effect. See "THE TRANSPORTATION CABINET - Revenues of Transportation Cabinet Available to Pay Principal of, Interest on and Purchase Price of the Notes."

In the event that payments to be received by the Commission under the Financing Agreement are insufficient to pay principal of or interest on the Notes, payment of principal of and interest on the Notes is payable from amounts drawn under an irrevocable standby letter of credit (the "Credit Facility") to be issued to the Trustee, for the account of the Commission, by Westdeutsche Landesbank

Girozentrale, acting through its New York Branch, as Credit Facility Provider (the "Credit Facility Provider"). See "THE CREDIT FACILITY" herein. The Trustee will also be permitted to draw on the Credit Facility to purchase Notes which have been tendered for optional or mandatory purchase, but have not been remarketed. See "THE CREDIT FACILITY" herein. The Commission is obligated to reimburse the Credit Facility Provider for draws on the Credit Facility pursuant to the terms and limitations set forth in a Letter of Credit and Reimbursement Agreement dated as of October 15, 1999 (the "Credit Facility Agreement") between the Commission and the Credit Facility Provider. The Commission has pledged the Pledged Receipts to the payment of its obligations under the Credit Facility Agreement.

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 the following 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 Notes will bear interest initially at the Commercial Paper Rate. 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 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.

**Tender and
Purchase**

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 certain 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.

**Optional
Redemption**

Notes bearing interest at the Commercial Paper Rate will not be subject to optional redemption prior to the end of a Commercial Paper Period (as defined herein), but Notes bearing interest at the Daily Rate or Weekly Rate may, under some circumstances, be subject to optional redemption prior to maturity. Notes bearing interest at the Fixed Rate will only be subject to optional redemption under the circumstances as may be described in a 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.

**Remarketing
Agent**

The remarketing agent for the Notes is Lehman Brothers, New York, New York (the "Remarketing Agent").

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 attached hereto.

**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, Lehman Brothers, Short Term Finance Group, 3 World Financial Center, 20th floor, New York, New York 10285, (212) 526-2093.

OFFICIAL STATEMENT

UP TO \$128,000,000

KENTUCKY ASSET/LIABILITY COMMISSION PROJECT NOTES, 1999 ROAD FUND SECOND SERIES

INTRODUCTION

This Official Statement (this "Official Statement"), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission") to furnish pertinent information to the purchasers of up to \$128,000,000 aggregate principal amount of its Project Notes, 1999 Road Fund Second Series (the "Notes"). The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on September 24, 1999 (the "Resolution"), and the Trust Indenture dated as of October 15, 1999 (the "Indenture"), between the Commission and BNY Trust Company of Missouri, St. Louis, Missouri, as trustee and paying agent (the "Trustee").

The proceeds of the Notes will be used by the Commonwealth of Kentucky (the "Commonwealth") to provide interim financing for certain additions and improvements (the "Project") to the Kentucky Economic Development Road System (Revitalization Projects) (the "System") in anticipation of Bonds to be issued by The Turnpike Authority of Kentucky (the "Turnpike Authority"). See "THE PROJECT" herein.

The Notes bear interest, mature, are subject to redemption and tender and are payable as described under the caption "THE NOTES" herein.

The Notes are secured by the Pledged Receipts (see "DEFINITIONS" herein), which include (i) payments to be received by the Commission with respect to the Notes pursuant to a Financing/Fourth Supplemental Lease Agreement dated as of October 1, 1999 (the "Financing Agreement") by and among the Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet"), the Transportation Cabinet of the Commonwealth of Kentucky (the "Transportation Cabinet") and the Turnpike Authority, (ii) amounts received as drawings under the Credit Facility (defined below) and (iii) proceeds of Bonds to be issued by the Turnpike Authority for the purpose of retiring the Notes. A portion of the payments to be received under the Financing Agreement are pledged to the Commission's Project Notes, 1999 Road Fund First Series (the "First Series Notes"). See "SECURITY FOR THE NOTES" herein.

In addition, certain Revenues of the System may be available, on a subordinate basis, to pay principal of, interest on and purchase price of the Notes if the Financing Agreement is no longer in effect. See "THE TRANSPORTATION CABINET - Revenues of Transportation Cabinet Available to Pay Principal of, Interest on and Purchase Price of the Notes."

In the event that payments to be received by the Commission under the Financing Agreement are insufficient to pay principal of or interest on the Notes, the Trustee will be permitted to draw for the amount of such insufficiency under an irrevocable standby letter of credit (the "Credit Facility") issued by Westdeutsche Landesbank Girozentrale, acting through its

New York Branch, as Credit Facility Provider (the "Credit Facility Provider"). The Trustee will also be permitted to draw on the Credit Facility to purchase Notes which have been tendered for purchase but have not been remarketed. See "THE CREDIT FACILITY".

The summaries and references to the Act, the Indenture, the Financing Agreement, the Credit Facility, the Credit Facility 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 Lehman Brothers, 3 World Financial Center, 20th floor, New York, New York 10285, (212) 526-2093.

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, in tranches, beginning with the date of this Official Statement and ending on or before June 30, 2003, in a total amount of up to \$128,000,000. 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 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 fifth 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 succeeding 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.

Tender and Purchase of Notes

Tenders of Notes Are Subject to DTC Procedures. THE INDENTURE PROVIDES THAT SO LONG AS CEDE & CO. IS THE SOLE REGISTERED OWNER OF THE NOTES, ALL TENDERS FOR PURCHASE AND DELIVERIES OF NOTES TENDERED FOR PURCHASE OR SUBJECT TO MANDATORY TENDER UNDER THE PROVISIONS OF THE INDENTURE SHALL BE MADE PURSUANT TO DTC'S PROCEDURES AS IN EFFECT FROM TIME TO TIME, AND NEITHER THE COMMISSION, THE TRUSTEE NOR THE REMARKETING AGENT SHALL HAVE ANY RESPONSIBILITY FOR OR LIABILITY WITH RESPECT TO THE IMPLEMENTATION OF SUCH PROCEDURES. See "THE NOTES - Book-Entry-Only System."

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 at the end of each Commercial Paper Period (a "Mandatory Purchase Date" with respect to such Notes) at a purchase price of 100% of the principal amount thereof. 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 St. Louis, Missouri, 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 St. Louis, Missouri, 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 St. Louis, Missouri, 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.

While the Notes are in the Commercial Paper Rate Mode, the substitution of a Liquidity Facility or Credit Facility cannot occur prior to the end of a Commercial Paper Period.

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 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:

BNY Trust Company of Missouri
911 Washington Avenue
St. Louis, Missouri 63101
Phone: (314) 613-8251
Fax: (314) 613-8239

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, 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 and if amounts to pay redemption premium may not be drawn under the Credit Facility, shall include a statement that the redemption will be cancelled and the Holders will continue to hold their Notes if, on the date set for redemption, the Trustee does not have sufficient funds to pay the entire redemption price of the Notes to be redeemed.

Remarketing of Notes

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

General Provisions

The Notes will be issued in fully registered form, without coupons, initially in 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 September 24, 1999 adopted the Resolution, which (i) authorized the Indenture, (ii) authorized and approved the issuance of not to exceed

\$128,000,000 outstanding principal amount of Notes pursuant to the Indenture, 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 Commission at that same meeting authorized the issuance of the First Series Notes, pursuant to a Trust Indenture dated as of October 1, 1999. The First Series Notes were issued October 6, 1999 in the principal amount of \$75,200,000. The Turnpike Authority at a meeting on March 4, 1999 approved the form of the Financing Agreement, pursuant to which it has agreed to issue Bonds for the purpose of retiring the Notes and the First Series Notes.

SECURITY FOR THE NOTES

Pursuant to the Indenture, the Commission has pledged to the payment of principal of, interest on and purchase price of the Notes, the Pledged Receipts, which include (i) payments to be received by the Commission with respect to the Notes pursuant to the Financing Agreement, (ii) amounts received as drawings under the Credit Facility and (iii) proceeds of Bonds to be issued by the Turnpike Authority for the purpose of retiring the Notes. The General Assembly has appropriated to the Transportation Cabinet 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) and the First Series Notes 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. Under the provisions of the Constitution of the Commonwealth, the Transportation Cabinet is prohibited from entering into financing obligations extending beyond the biennial budget. Notwithstanding the foregoing, the Financing Agreement will be automatically renewed unless written notice of the election by the Transportation Cabinet to not so renew is given to the Commission and the Turnpike Authority by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

In addition to the referenced appropriations to the Transportation Cabinet, certain Revenues (see "DEFINITIONS" herein) of the System may be available, on a subordinate basis, to pay principal of, interest on and purchase price of the Notes if the Financing Agreement is no longer in effect. See "THE TRANSPORTATION CABINET - Revenues of Transportation Cabinet Available to Pay Principal of, Interest on and Purchase Price of the Notes."

As described herein under "THE CREDIT FACILITY", in the event amounts received by the Commission under the Financing Agreement or otherwise pledged under the Indenture are insufficient or unavailable, principal of and interest on the Notes is payable from amounts drawn under the Credit Facility. The Credit Facility is also available to pay the purchase price of those Notes which are tendered for purchase and not remarketed.

The Turnpike Authority 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, the Budget Act and Chapter 175 of Kentucky Revised Statutes (the "Turnpike Act").

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.

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. Westdeutsche Landesbank Girozentrale, acting through its New York Branch, has agreed to issue the Credit Facility in the initial stated amount of \$26,602,740 (the "Original Stated Amount"), upon issuance of the initial tranche of Notes. This amount is required to be increased as additional tranches of Notes are issued. The Credit Facility Provider is committed, upon certain conditions, to increase the size of the Credit Facility up to a maximum stated amount of \$133,013,699 (the "Maximum Stated Amount"). Pursuant to the terms of the Indenture and the Credit Facility Agreement, a Certificate of Award is required to 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 Rate for the Applicable Interest Period.

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 Rate (in the case of Notes bearing interest at the Commercial Paper Rate, the designated days of interest are 195 days). 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 Rate does not exceed the Current Stated Amount (as that term is defined in the Credit Facility Agreement) of the Credit Facility. The obligation of the Credit Facility Provider to make payment under the Credit Facility will terminate upon the earliest of (i) June 30, 2003 (as extended from time to time, the "Stated Termination Date"); (ii) the date of receipt by the Credit Facility Provider of a certificate from the Trustee that no Notes remain outstanding under the Indenture, or that all drawings required to be made under the Indenture and available under the Credit Facility have been made and honored, or that an alternate credit facility has been issued to replace the Credit Facility; (iii) the date on which a drawing to pay principal of and interest on the Notes following their

acceleration pursuant to the Indenture (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 earliest to occur of (i), (ii), (iii) or (iv) being the "Termination Date"). Upon the written request of the Commission delivered to the Credit Facility Provider no less than three months prior to each anniversary of the date of issuance of the Credit Facility, the Credit Facility Provider, in its sole discretion, may extend the Stated Termination Date of the Credit Facility beyond the current Stated Termination Date. In addition, in accordance with the Indenture, the Commission may provide an Alternate Credit Facility with an expiration date beyond the Stated Termination Date of the Credit Facility. However, there can be no assurance that either of the events described in the previous two sentences 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 Commonwealth, the Transportation Cabinet and 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) at all times to have a Trustee performing the duties thereof contemplated by the Indenture; (v) at all times to have a Remarketing Agent performing the duties thereof contemplated by the Indenture and the Remarketing Agreement; (vi) to notify the Credit Facility Provider of any Event of Default under the Credit Facility Agreement, or of certain litigation; (vii) to permit reasonable inspections of the books and records of the Commission; (viii) to comply with material obligations and requirements of the Indenture and all Related Documents and in all statutes and regulations relating to the Notes, the Credit Facility Agreement and Related Documents; (ix) to notify the Credit Facility Provider with respect to certain litigation; (x) to issue renewal notes or to cause the Turnpike Authority to issue Bonds in amounts sufficient to pay the Outstanding Notes and all Reimbursement Obligations prior to the final maturity date of the Notes or the Termination Date; (xi) to take all actions reasonably requested by the Credit Facility Provider to enforce the obligations under the Related Documents of each of the other parties thereto; (xii) not to permit any pledge, lien or charge on the Pledged Receipts other than the lien in favor of the owners of the Notes; (xiii) to cause the Transportation Cabinet to request appropriations from the General Assembly of the Commonwealth of Kentucky sufficient to pay the Reimbursement Obligations and debt service on the Notes; (xiv) to not permit optional

redemptions of the Notes without the consent of the Credit Facility Provider; (xv) 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; (xvi) to cause all taxes and utility charges assessed or levied against the Project to be paid; (xvii) to limit the issuance of Notes under the Indenture so that the principal amount of such Notes plus interest thereon at the Maximum Rate does not exceed the Stated Amount of the Letter of Credit; and (xviii) to take actions to assure that Year 2000 issues do not have a material adverse effect on the performance of the obligations of the Commission, the Finance Cabinet, the Transportation Cabinet, the Turnpike Authority and the Commonwealth under the Credit Facility Agreement and Related Documents.

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, the Turnpike Authority, the Finance Cabinet or the Transportation Cabinet in any Related Document or in any certificate, financial statement or other document delivered pursuant to the Credit Facility Agreement or any Related Document shall prove to have been incorrect in any material respect when made;

(e) The Turnpike Authority shall (i) fail to pay when due any amount payable under the Financing Agreement; or (ii) fail to perform or observe any material term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to the Financing Agreement when required to be performed or observed; or (iii) have any amounts under the Financing Agreement 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;

(f)(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 Road Fund or in connection with any lease financing supported by payments from the Road Fund (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) have any such Debt or such lease financing 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;

(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 supported by payments from the general fund of the Commonwealth when required to be performed or observed;

(g) The Commonwealth or any agency, department or division of the Commonwealth, including, without limitation, the Commission, the Turnpike Authority, the Finance Cabinet or the Transportation 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 hereafter 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;

(h) A case or other proceeding shall be commenced against the Commonwealth or any agency, department or division of the Commonwealth, including, without limitation, the Commission, the Turnpike Authority, the Finance Cabinet or the Transportation Cabinet seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter 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, and such involuntary case shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Commonwealth or any agency, department or division of the Commonwealth, including, without limitation, the Commission, the Turnpike Authority,

the Finance Cabinet or the Transportation Cabinet under the federal bankruptcy laws as now or hereafter in effect;

(i) 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, the Turnpike Authority, the Finance Cabinet or the Transportation Cabinet or the Commission, the Turnpike Authority, the Finance Cabinet or the Transportation 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;

(j) 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;

(k) Any Rating Agency shall have downgraded the obligations of the Turnpike Authority to below Investment Grade (as defined in the Credit Facility Agreement), or suspended or withdrawn its rating on such debt; or

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

Remedies

Upon the occurrence of any Event of Default, the Credit Facility Provider may exercise any one or more of the following remedies: (a) by written notice to the Commission require that the Commission immediately prepay to the Credit Facility Provider in immediately available funds an amount equal to the Available Amount (such amounts to be held by the Credit Facility Provider as collateral security for the Reimbursement Obligations), provided, however, that in the case of an Event of Default described in paragraph (g) or (h) 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 (g) or (h) 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 and (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; and (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.

Information on Credit Facility Provider

Background Information on Westdeutsche Landesbank Girozentrale. Westdeutsche Landesbank Girozentrale ("WestLB"), which traces its history to 1832, was created by the merger of two central banks, or Landesbanks (German State Banks), in the State of North Rhine-Westphalia, the Federal Republic of Germany ("Germany") on January 1, 1969. As a German universal bank, WestLB provides commercial and investment banking services regionally, nationally and internationally to public, corporate and bank customers. WestLB is the largest of the Landesbanks and, on the basis of total assets at December 31, 1998, was the fourth largest bank in Germany. At December 31, 1998, WestLB had total assets of approximately DM 540.8 billion (US\$ 323.2 billion).

WestLB also performs the functions of a state and municipal bank for the State of North Rhine-Westphalia and acts as the central bank of the Sparkassen (savings banks) in North Rhine-Westphalia (Germany's most populous state). It conducts a comprehensive range of wholesale banking business and has the power to issue mortgage bonds, municipal bonds and other bonds and is the largest continuous issuer of long term debt in Germany. In its capacity as central bank, WestLB acts as the clearing and depository bank for the savings banks in North Rhine-Westphalia. As a state bank, WestLB provides trustee services for state-supported lending programs for housing, regional economic assistance, middle market firms and environmental protection. Internationally, the WestLB Group (the "Group") operates through an extensive network of banking subsidiaries, branches and representative offices to provide a range of financial services to its clients.

Pursuant to a guaranty obligation (Gewährträgerhaftung) set forth in Section 37 of the North Rhine-Westphalia Savings Bank Act and Section 5 of the Ordinances of WestLB, North

Rhine-Westphalia together with the other guarantors specified therein (including regional authorities and savings bank associations) are jointly and severally liable without restriction for all obligations of WestLB, including all obligations of WestLB New York. The guaranty obligation gives creditors a direct claim against North Rhine-Westphalia only if the claims of the creditors have not first been satisfied out of the assets of WestLB, including the assets of WestLB New York.

In addition to being liable under the guaranty obligation, North Rhine-Westphalia, having established WestLB, is responsible to WestLB for the performance of WestLB's obligations, including all obligations of WestLB New York. This maintenance obligation (Anstaltslast), while not a formal guaranty affording creditors of WestLB a direct claim against North Rhine-Westphalia, requires North Rhine-Westphalia to keep WestLB in a position to perform its functions and to enable it, in the event of financial difficulties, to perform its obligations, when due.

The New York Branch. The New York Branch of WestLB ("WestLB New York") is licensed and subject to supervision and regulation by the Superintendent of Banks of the State of New York. WestLB New York is examined by the New York State Banking Department and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch. In addition to being subject to New York banking laws and regulations, WestLB and WestLB New York are also subject to the International Banking Act of 1978 (the "IBA") and the Foreign Bank Supervision Enhancement Act of 1991, and WestLB is subject to federal regulation under the IBA and the Bank Holding Company Act of 1956.

Summary of Results of Operations and Financial Condition for the Fiscal Year Ended December 31, 1998. In the fiscal year ended December 31, 1998, WestLB's total assets grew by 18.4% from DM 456.7 billion to DM 540.8 billion (US\$ 323.2 billion). As of December 31, 1998, total deposits and borrowed funds totaled DM 495 billion (US\$ 296 billion), an increase of 18% from the previous year's amount by DM 76 billion. WestLB's capital and reserves (including supplementary capital) increased to DM 22,438 million (US\$ 13,411 million) as of December 31, 1998 (as compared to DM 19,246 million as of December 31, 1997).

WestLB's operating profit before risk provisions/result of evaluation of DM 1,548 million (US\$ 925 million) increased by 15.3% over the previous year. Interest surplus increased by 11.7% (from DM 3,064 million in 1997 to DM 3,422 million in 1998). Commission surplus increased by 15.2% (from DM 395 million in 1997 to DM 455 million in 1998). Staff expenses increased by 8.6% to DM 1,381 million (US\$ 825 million) in 1998, with other administrative expenses showing an increase of 25.0% to DM 1,325 million (US\$ 792 million) in 1998.

United States and German Exchange Rates and Generally Accepted Accounting Principles. The financial information for the year ended December 31, 1998 is derived from the audited statements of WestLB, does not include the consolidated subsidiaries of the WestLB Group and has been prepared in accordance with accounting principles, practices, laws and regulations generally accepted in Germany. German accounting principles differ in certain respects from accounting principles generally accepted in the United States.

Unless indicated otherwise, currency amounts are stated in Deutsche Marks ("DM" or "Deutsche Marks") or United States dollars ("US\$" or "U.S. dollars"). Merely for the convenience of the reader, this summary contains translations of certain Deutsche Mark amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the Deutsche Mark amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollar amounts at the rate indicated. Unless otherwise indicated, the translations of Deutsche Marks into U.S. dollars have been made at **DM 1.6730 = US\$ 1.00**, which was the official (Frankfurt fixing) exchange rate on December 30, 1998. In certain instances, figures reflect the effect of rounding.

Year 2000. WestLB has in place what it believes to be an extensive methodology, validation and verification process with respect to Year 2000 issues. As a result, it has completed the Awareness, Assessment, and Renovation phases with significant progress being made in the Implementation phase. Certification of all West LB's mission critical systems was completed by December 31, 1998. As of April 1999, West LB has completed implementation of all mission critical Year 2000 compliant versions of its systems. In the event unexpected challenges prevent West LB from meeting its deadlines, it has written business resumption contingency plans for all mission critical applications. West LB is in continuing discussions with its customers and counterparties and has completed the Year 2000 preparedness assessment using the guidelines presented by the Federal Financial Institutions Examination Council.

The information in this section concerning the Credit Facility Provider has been provided by the Credit Facility Provider. The Commission believes such information to be reliable, but the Commission takes no responsibility for the accuracy thereof.

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 (defined below) in an amount up to \$125,000,000, (ii) pay capitalized interest, if any, and (iii) pay costs of issuance of the Notes.

THE PROJECT

The Project consists of certain additions and improvements to the System. The Financing Agreement provides that, upon issuance of Bonds by the Turnpike Authority to retire the Notes, the Project will be transferred to the Turnpike Authority and leased to the Transportation Cabinet. The Notes (and the Bonds to be issued by the Turnpike Authority) represent a portion of a \$200,000,000 authorization by the 1998 General Assembly of Turnpike Authority bonds for highway improvements. See "THE TRANSPORTATION CABINET – Capital Planning for Highways" herein.

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 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 (described below), Agency Fund Series (described below) and Road Fund Series (described below) 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 Road Fund Project Notes (defined below). Nor do the holders of the Notes have any claim to moneys pledged under a trust indenture related to any project notes issued as General Fund Series or the Agency Fund Series. The indentures for each particular type of notes issued by the Commission generally allow the issuance of additional notes on parity with the outstanding notes of the same type. The Commission's outstanding obligations are described below.

Project Notes, Road Fund Series. The Notes are the Commission's second of three expected issues of Project Notes (the "Road Fund Project Notes") related to Bonds authorized to be payable from the Road Fund. The Commission has issued the First Series Notes in the amount of \$75,200,000 on October 6, 1999. The proceeds of the First Series Notes and the Notes ("The First and Second Series Notes") are being used to fund \$200 million of improvements to the System. The First and Second Series Notes are payable from payments to be received by the Commission under the Financing Agreement and by the issuance of Bonds by the Turnpike Authority. Payments under the Financing Agreement and issuance of Bonds by the Turnpike Authority are ultimately dependent upon revenue sources of the Transportation Cabinet, including revenues of and appropriations from, the Road Fund. See "THE TRANSPORTATION CABINET."

A separate series of Road Fund Project Notes is anticipated to be issued by the Commission to fund an office building for the Transportation Cabinet. These Road Fund Project Notes will be payable from payments to be received by the Commission under separate financing/lease agreements from the Transportation Cabinet and the Finance Cabinet and the issuance of bonds by the State Property and Buildings Commission. A portion of this project has previously been funded through the issuance of bonds by the State Property and Buildings Commission and when combined with the Road Fund authorization of \$68.1 million and an \$11.9 million General Fund authorization will complete funding for the project.

Project Notes, General Fund Series. The Commission has issued five separate series of project 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. The Commission is in the process of issuing a sixth series of General Fund Project Notes in an amount of up to \$135 million to fund the remaining balance of General Fund supported capital projects authorized in the 1998-2000 Biennial Budget of the Commonwealth.

<u>Series</u>	<u>Authorized Amount</u>	October 15, 1999 <u>Amount Outstanding</u>
1998 General Fund	\$157,000,000	\$134,400,000
1998 General Fund Second Series	126,500,000	126,500,000*
1999 General Fund First Series	49,195,000	49,195,000
1999 General Fund Second Series A	135,000,000	20,280,000
1999 General Fund Third Series A	<u>138,000,000</u>	<u>20,280,000</u>
Total	\$605,695,000	\$350,660,000

*The principal and interest on the 1998 General Fund Second Series Project Notes maturing November 1, 1999 have been defeased by the State Property and Buildings Commission Revenue Bonds, Project No. 64

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 is 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. The Commission is in the process of issuing a second 1999 issue of TRANs in the principal amount of \$101,000,000.

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.

TRANSPORTATION CABINET

General

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

The Transportation Cabinet is responsible for the construction, reconstruction and maintenance of the Commonwealth's primary road system, which carries an estimated 84% of the Commonwealth's motor vehicle traffic. This represents more than 42 billion vehicle miles of travel. The system consists of some 27,400 miles of toll roads, interstate highways, resource recovery roads, the economic development road system, primary roads, secondary roads, rural secondary roads and unclassified roads, and approximately 8,600 bridges.

The Transportation Cabinet also regulates the operation of motor vehicles upon Kentucky's public highways and registers approximately 3.3 million vehicles and licenses 2.6 million drivers. The Transportation Cabinet is also responsible for enforcing Kentucky and federal laws and regulations pertaining to commercial vehicles in regard to weight and size limits, operating authority, safety, and tax compliance.

Organization, Management

The Transportation Cabinet is organized into six major operating departments: Highways, Administrative Services, Rural and Municipal Aid, Vehicle Regulation, Fiscal Management, and Human Resources Management. Six offices perform staff functions: Office of the Secretary, Policy and Budget, General Counsel and Legal Affairs, Minority Affairs, Transportation Delivery, and Public Affairs. The Transportation Cabinet employs approximately 6,200 people on a full-time basis.

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

Operations, Maintenance

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

The Transportation Cabinet relies on automated systems for tracking and assessing the activities in virtually all functional areas. The Transportation Cabinet uses a sophisticated automated maintenance management system which provides managers with performance data on all aspects of roadway maintenance work. The Transportation Cabinet also maintains an extensive and detailed database of the Commonwealth's highway infrastructure, which Transportation Cabinet engineers have valued at more than \$100 billion.

The Transportation Cabinet is committed to efficiency and cost containment. This commitment is demonstrated in the Transportation Cabinet's ability to keep operations and maintenance expenditures relatively constant over the last several years (even though the highway system has been expanding and vehicle miles traveled has increased). This efficient management of operating and maintenance expenditures may be attributed, in part, to several factors. First, the Commonwealth has made an effort over the past decade to restrain growth in government employment levels. The Kentucky Transportation Cabinet has been among the most successful state agencies in actually reducing personnel levels. Second, the Transportation Cabinet has sought to use private contractors to perform maintenance and other functions where economies can and have been realized. Finally, the Transportation Cabinet's enhanced program of resurfacing and major road construction and reconstruction has reduced the need for day-to-day maintenance on many routes.

Capital Planning for Highways

The Commonwealth's road planning process is structured to ensure the development of a continuous and credible highway improvement program that complements the Commonwealth's overall transportation system. The process and its products have evolved considerably over the past decade as the Transportation Cabinet has lengthened its planning horizon and the General Assembly has assumed a more participatory role.

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

The Six-Year Plan consists of a biennial construction program and a four-year preconstruction planning document. It is through this plan that legislative involvement in the project development process has been assured. In recent years, the Six-Year Plan has formed the foundation for development by the Transportation Cabinet of a more forward-looking transportation planning tool, which is formally known as the "Statewide Transportation Plan." This plan integrates all modes of transportation and expands the horizon of project needs identification beyond the six-year period prescribed by the statutes and allows a more far-sighted approach to transportation planning.

Highway Plan Development. Beginning with an unconstrained list of potential projects, the planning process sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years represent the highest priority projects and constitute the Six-Year Plan. The remaining projects are pooled into the Statewide Transportation Plan for possible inclusion in later Six-Year Plans. This plan consists of over 260 major roadway projects which are eligible for state and federal funding. Each project has been evaluated, based on its relative contribution toward the satisfaction of four goal-oriented criteria. These goals focus on: (1) preservation and management of the existing transportation system, (2) providing system connectivity of the individual modes to promote economic development, (3) coordination and cooperation among a wide variety of interests in the transportation planning process, and (4) enhancement of transportation system safety and convenience for the benefit of its many users.

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

In addition to the evaluation of roadway inventory data, the Transportation Cabinet relies heavily upon input from the Commonwealth's 15 Area Development Districts, the seven Metropolitan Planning Organizations, members of the General Assembly, and the leaders of city and county governments for highway needs identification. This "partnership" involving participants from the local, regional, and state levels provides information to the Transportation Cabinet concerning growth trends and economic development efforts to which the highway infrastructure must respond. Additionally, the Transportation Cabinet's engineering and technical staff perform travel demand and traffic forecasting to allow application of those key elements in the identification of projects.

Implementation of the Six Year Plan. Kentucky's Six Year Highway Plan is funded through the use of Commonwealth and federal highway dollars. Commonwealth funds are generally derived from fuel and motor vehicle excise taxes and other revenues to the Road Fund, plus the proceeds from road bonds issued by the Turnpike Authority. Commonwealth funds are allocated to the Transportation Cabinet on a biennial basis and are used to finance state-funded projects or to match federal aid funds at various participation ratios dictated by the federal government. The majority of Kentucky's federal-aid highway funds are appropriated annually from the Federal Highway Trust Fund operated by the U.S. Department of Transportation. The annual federal-aid highway fund appropriation is governed by a multi-year federal authorization act. The most recent authorization act was enacted in 1998 and is known as the Transportation Equity Act for the 21st Century (TEA-21). These federal-aid monies are generated by federal excise taxes and are made available in specific dollar amounts for specific types of improvements (i.e., national highway system, surface transportation program, bridge replacement projects, etc.). As an Appalachian state, the Commonwealth also receives an annual apportionment of Appalachian highway funds from the Federal Highway Trust Fund. Regardless of origin, all federal dollars must be spent within the appropriate funding category and cannot be transferred for use in other federal-aid categories except as specifically permitted by federal legislation.

In preparing the Six-Year Plan, the Transportation Cabinet projects anticipated future funding levels against which future projects can be established. An effort is made to identify annual funding ceilings within each funding category and to budget proposed highway activities against those dollars expected to be available during the period. Once anticipated funding levels are set, projects are included in each funding category as funding levels permit. No project is included unless it can realistically be funded within the specified time frame.

The transportation planning process allows for the systematic consideration of projects in view of the impact on other projects which rely on similar funding sources. When a previously unfunded project is added without the availability of additional funding, fiscal balance must be achieved by eliminating an equivalent project (or projects). New projects using previously unanticipated funding can be added to the Plan without adverse effect.

The overall transportation planning process in Kentucky and throughout the nation is constantly undergoing refinement. The federal TEA-21 legislation built upon the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and strengthened requirements for both enhanced short range and long range transportation planning processes. Kentucky has adjusted

its programs to meet those mandates. With these processes in place, program continuity is improved and Kentucky is positioned to provide a more credible and efficient future highway program.

Revenue Sources of the Transportation Cabinet

The Transportation Cabinet is funded through appropriations from a diversified revenue base, including the Road Fund, federal funds, restricted agency funds, and the Commonwealth's General Fund. In addition, the Transportation Cabinet expends funds on behalf of various government agencies and other organizations, including the Turnpike Authority, that participate in the construction and maintenance of highway projects. In the case of the Turnpike Authority, these funds are generated through the issuance of revenue bonds.

Approximately two-thirds of the Transportation Cabinet's budget is drawn from the Road Fund. Chapter 48 of the Kentucky Revised Statutes provides that "money derived from the excise or license taxation relating to gasoline and other motor fuels, and moneys derived from fees, excise or license taxation relating to registration, operation or use of vehicles for use on public highways" must be deposited in the Road Fund. The Kentucky Constitution mandates that such revenues be applied solely for highway-related uses. Section 230 of the Kentucky Constitution states in part as follows:

No money derived from the excise or license taxation relating to gasoline and other motor fuels, and no monies derived from fees, excise or license taxation relating to registration, operation, or use of vehicles on public highways shall be expended for other than the cost of administration, statutory refunds and adjustments, payment of highway obligations, costs for construction, reconstruction, rights-of-way, maintenance and repair of public highways and bridges, and expense of enforcing state traffic and motor vehicle laws.

Following is a brief description of the various sources of revenue deposited in the Road Fund. The table under "Historical Available Road Fund Revenues, Expenses and Debt Service" herein provides an accounting of the portion of these revenue sources over each of the past five fiscal years which were available to pay debt service. These amounts are shown exclusive of any taxes, fees and miscellaneous revenues which are dedicated for other uses.

Motor Vehicle Usage Tax. Motor vehicle usage taxes make up the largest portion of the Road Fund, representing more than 45 percent of the total of monies deposited and available to pay debt service, excluding those monies which are dedicated by statute to specific use. See "TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Debt Service" herein. A usage tax is currently imposed on the sale or transfer of new or used motor vehicles at the rate of 6% of the vehicle's value. The value on which the tax is assessed on new cars is a percentage of the manufacturer's suggested retail price, and for used cars and trucks is based on a notarized affidavit, prepared by both the buyer and seller, attesting to the actual cash consideration paid for the vehicle. If a notarized affidavit is not available, the retail price of the vehicle shall be the average trade-in value of the vehicle as prescribed by the

reference guide established by the Revenue Cabinet. A similar assessment, known as the motor vehicle rental usage tax, is charged on the value of contracts for leased and rented vehicles.

Motor Fuel Taxes. These taxes are levied on gasoline, liquefied petroleum gas and special fuels (predominantly diesel fuel) sold for use in motor vehicles operated on public highways. These taxes make up approximately 27 percent of the Road Fund that is available to pay debt service on Turnpike Authority bonds. See "TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses, and Debt Service."

The currently effective rate for the basic motor fuels normal tax is 15 cents per gallon for gasoline and liquid petroleum (LP) gas and 12 cents per gallon for special fuels. In addition, firms operating commercial trucks in Kentucky are assessed a motor fuels normal use tax for any fuel purchased outside the Commonwealth but consumed on Kentucky highways. Motor carriers are also charged a basic motor fuels surtax which equates to approximately 2.2 cents per gallon of gasoline and 5.2 cents per gallon of special fuels. A substantial portion of these motor fuels taxes is statutorily dedicated to a revenue sharing program. See "Claims on Certain Road Fund Revenues -- Revenue Sharing Programs and Other Restricted Revenues" below.

Licenses, Fees and Permits. Licenses, Fees and Permits consist of charges for (i) passenger car and truck registrations, (ii) operator's licenses and (iii) various certificates, cards and permits. Registration fees for cars and light trucks are levied at the rate of \$12.00 annually for each vehicle registered and commercial trucks are assessed a per vehicle registration fee from \$24 to \$1,260 annually, based on the gross weight of the vehicle. A vehicle operator's license currently costs \$8.00 for a four-year basic license.

Other Taxes. The major component in this category is the weight distance tax. The weight distance tax is assessed on trucks operating on Kentucky roads at declared weights of 60,000 pounds or more at a rate of 2.85 cents per mile.

A portion of the licenses, fees and permits resulting from the issuance or renewal of operator licenses and those relating to the extended weight coal haul system and the coal haul cooperative agreements are restricted. See "Claims on Certain Road Fund Revenues — Revenue Sharing Program and Other Restricted Revenues" below.

Charges for Services. This category of revenues is composed of various sales, rentals, record fees, and toll facility charges. The Commonwealth currently operates four parkways on which tolls are collected.

Recent Changes to Road Fund Receipts. The Kentucky General Assembly, over the last 15 years has made a number of changes which affect Road Fund receipts. A brief outline of some of the most notable tax modifications follows.

The motor fuels normal tax rate was increased in 1986 from a basic effective rate of 10 cents per gallon for gasoline and LP gas to the current effective rate of 15 cents per gallon. A similar increase in the effective tax rate for most users of special fuels was effected through a combination of changes to both the basic motor fuels tax and the motor fuels surtax paid by commercial motor carriers. The basic effective tax was increased from 10 cents to 12 cents per gallon and the surtax was increased from 2.2 cents to 5.2 cents per gallon. This change became effective at the beginning of Fiscal Year 1987. A 3.5 cent per gallon tax credit for gasohol was allowed to sunset by the 1988 General Assembly at the end of Fiscal Year 1988. Further, as a means to improve the accountability for credits for off-highway use, the 1988 General Assembly changed the point of taxation for special fuels from the retail to the distributor level.

The 1988 General Assembly also took action to replace revenues lost from a tax on heavy trucks, the Supplemental Highway User Tax (also referred to as the "Decal Tax"), which was declared unconstitutional in October 1987, resulting in a projected annual loss of approximately \$60 million in Road Fund revenues. In reaction, the Transportation Cabinet proposed and the 1988 General Assembly approved two major initiatives to replace these lost revenues. First, the General Assembly reimposed the weight distance tax which had been replaced by the Decal Tax in 1986 (see "*Other Taxes*" above). Second, it approved increases in various licenses, fees and permits paid by this category of highway user (see "*Licenses, Fees and Permits*" above). The tax and fee package was coupled with a program of enhanced enforcement and auditing efforts designed to more effectively monitor truck travel and assure tax compliance.

As part of the 1988 package of truck taxes and fees, a heavy vehicle fuel surtax was imposed which was not subject to being statutorily distributed to a revenue sharing program. This tax was levied at the rate of 2.0 cents per gallon on fuels consumed on Kentucky highways by vehicles with a declared gross operating weight of 60,000 pounds or more. This tax was sunsetted by the General Assembly effective during Fiscal Year 1997 in order to comply with a federal mandate. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) required that all states become participants in the International Fuel Tax Agreement (IFTA) by September 30, 1996. The conditions for membership in IFTA prevented Kentucky from continuing to impose the heavy vehicle fuel surtax. The revenues from the heavy vehicle fuel surtax were \$7,851,762 in Fiscal Year 1996, which was the last full fiscal year in which it was collected. The General Assembly partially replaced the revenues from this tax by changing the definition of vehicles subject to the motor fuels surtax to include two-axle trucks.

The 1990 General Assembly increased the rate for the motor vehicle usage tax from 5% to 6% of taxable value, effective July 1, 1990. See "*Motor Vehicle Usage Tax*" above. The 1998 General Assembly enacted legislation which changed the method for assessing motor vehicle usage tax. Beginning in Fiscal Year 1999, the tax was assessed based on the actual selling price of the vehicle, as attested to in an affidavit signed by both the buyer and the seller. Prior to this change, the taxable value was determined by an automotive reference manual. This change was estimated to result in a loss to the Road Fund of \$6,800,000 per year.

Claims on Certain Transportation Cabinet Revenues

Revenue Sharing Programs and Other Restricted Revenues. There are a number of statutory requirements affecting certain Road Fund revenues. A total of 48.2% of the collections of motor fuels, normal, normal use and surtaxes are restricted and reserved for use on county, municipal, and state rural secondary roads. Chapter 177 of these Kentucky Revised Statutes requires that 22.2% of these motor fuels tax receipts be expended by the Transportation Cabinet on the rural secondary road system. Chapter 177 also directs that 7.7% and 18.3% of the motor fuels tax be distributed, based on statutory formula, to municipal and county governments, respectively, for use on urban roads and streets and county roads and bridges. Finally, the statutes require that .1% of the motor fuels tax collections, up to a maximum of \$190,000, be set aside for the Kentucky Transportation Center. See "*Motor Fuels Taxes*" above.

Kentucky law establishes an account within the Road Fund, the Energy Recovery Road Fund, into which all fees relating to the extended weight coal haul system are to be credited. Sixty percent of these funds are to be used by the Transportation Cabinet in maintaining the Commonwealth's portion of this road system, and 40% of which are to be distributed to the counties for the purpose of maintaining county roads on this system. In addition, Kentucky law provides for cooperative agreements between the Transportation Cabinet and transporters of coal, through which coal transporters may share in the maintenance of roads over which extended weights are hauled. Road Funds collected through these agreements are restricted to expenditures on roads covered by the agreements.

A portion of the receipts to the Road Fund resulting from the issuance or renewal of operator's licenses are also statutorily restricted (see "*Licenses, Fees and Permits*" above). Chapter 186 of the Kentucky Revised Statutes requires that 50 cents for each four-year original or renewal operator's license be dedicated to expansion of the Kentucky driver education program. For each original or renewal motorcycle operator's license and each instruction permit, \$4 must be dedicated for the purpose of a motorcycle safety education program. Additionally, Chapter 186 provides that \$1 from each operator's license fee is to be set aside exclusively to cover the cost of issuing a photo license.

Historical Available Road Fund Revenues, Expenses, Debt Service

The table below illustrates the Transportation Cabinet's historical total available Road Fund revenues, expenses, debt service on general obligation highway bonds, and lease rental obligations for the past five fiscal years. The figures for the past five fiscal years are derived from the Transportation Cabinet's Financial Report to Management for each fiscal year, and the figures for the period ended June 30, 1999 are derived directly from the Transportation Cabinet's unaudited financial statements. Motor fuel revenues are shown net of the required allocations for urban roads and streets, for rural and secondary roads, for county roads and bridges, and for the Kentucky Transportation Center. Operating and maintenance expenses reflect only those related to Commonwealth highway and highway-related projects payable from the Road Fund.

**Transportation Cabinet's
Historical Available Road Fund Revenues,
Expenses and Debt Service on
General Obligation Highway Bonds and Lease Rentals**

(\$ AMOUNTS IN THOUSANDS)
(NOTE 1)
FOR THE FISCAL YEAR ENDED JUNE 30

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u> (unaudited)
TOTAL AVAILABLE ROAD FUND REVENUES:					
TAXES:					
Motor Fuels (2)	208,843	211,346	211,279	214,278	230,379
Vehicle Usage (3)	306,867	327,674	341,517	366,792	375,672
Other	58,263	60,893	64,309	68,017	71,473
LICENSE, FEES AND PERMITS	91,414	91,784	92,095	96,319	103,642
CHARGES FOR SERVICES	18,083	18,296	19,321	20,257	20,771
FINES AND FORFEITS	75	8	17	15	2
INTEREST INCOME	<u>22,421</u>	<u>33,941</u>	<u>31,876</u>	<u>41,951</u>	<u>35,589</u>
TOTAL AVAILABLE ROAD FUND REVENUES:	705,966	743,942	760,414	807,629	837,528
OPERATING & MAINTENANCE EXPENSES:					
Personnel Cost	117,990	129,790	130,714	132,136	137,302
Personal Service	4,024	4,012	3,409	3,272	3,406
Operating Expense	67,011	77,449	84,740	90,756	98,567
Grants	61	15	22	-467	67
Debt Service	0	0	0	0	0
Capital Outlay	3,282	5,955	3,536	518	1,060
Capital Construction	2,531	5,032	1,708	2,869	1,825
Highway Materials	29,496	21,534	22,475	15,765	26,596
Other Agency Cost (4)	<u>42,809</u>	<u>41,997</u>	<u>42,119</u>	<u>42,043</u>	<u>36,723</u>
TOTAL OPERATING & MAINTENANCE:	<u>267,204</u>	<u>285,784</u>	<u>288,723</u>	<u>286,892</u>	<u>305,546</u>
NET AVAILABLE ROAD FUND REVENUES:	438,762	458,158	471,691	520,737	531,982
DEBT SERVICE AND LEASE RENTALS:					
DEBT SERVICE ON COMMONWEALTH G.O.B. (5)	13,912	0	0	0	0
LEASE RENTALS: (6)					
Toll Road Project	51,707	68,939	24,426	15,283	14,474
Economic Development Road Project	42,726	41,766	60,471	65,301	93,874
Resource Recovery Road Project	<u>43,991</u>	<u>44,946</u>	<u>76,066</u>	<u>71,611</u>	<u>43,441</u>
TOTAL DEBT SERVICE AND LEASE RENTALS:	152,336	155,651	160,963	152,195	151,789
GROSS COVERAGE	4.6343	4.7796	4.7242	5.3065	5.5177
NET COVERAGE	2.8802	2.9435	2.9304	3.4215	3.5047

The accompanying notes are an integral part of this schedule

NOTES:

- (1) The above schedule displays detailed information relating to the Commonwealth of Kentucky's Road Fund which can be used to calculate the coverage of available revenues compared to debt and lease rental payments. Total Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees, and miscellaneous revenues which are dedicated for other uses and not available to pay debt service on the general obligation highway bonds or to make lease rental payments to the Turnpike Authority. Operating and Maintenance Expenses include certain non-construction maintenance, operating, regulatory and administrative expenses related to the public highways. Net Available Road Fund Revenues represent Total Available Revenues less Operating and Maintenance Expenses. Gross Coverage represents the comparison of Total Available Road Fund Revenues to Total Debt Service and Lease Rentals. Net Coverage represents the comparison of Net Available Road Fund Revenues to Total Debt Service and Lease Rentals.

- (2) The Commonwealth received, during October 1999, notification from a major fuels taxpayer that the taxpayer may have overpaid Motor Fuels Taxes for the Fiscal Year ended June 30, 1999. Based solely on unaudited information submitted by the taxpayer, the overpayment as applicable to the Total Available Road Fund Revenues for Fiscal Year 1999 may be approximately \$7,827,000. Pending audit confirmation by the Commonwealth, this amount may be subject to refund.

One type of Motor Fuels Tax, the Heavy Vehicle Fuel Surtax, was discontinued in Fiscal Year 1997. During Fiscal Year 1996, which was the last full year this tax was collected, revenues from the tax were \$7,851,762 (see "Revenue Sources of the Transportation Cabinet - Recent Changes to Road Fund Receipts" above).

- (3) The manner in which the taxable value of a vehicle is determined for assessment of the Motor Vehicle Usage Tax rate was changed during Fiscal Year 1999 (see "Revenue Sources of the Transportation Cabinet - Recent Changes to Road Fund Receipts" above).
- (4) In certain fiscal years, the Kentucky General Assembly appropriated Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of enforcement of traffic laws, the collection of Road Fund tax revenues and other administrative support functions related to the Cabinet.
- (5) Effective July 1, 1995, all General Obligation Highway Bonds had been paid and were no longer outstanding.
- (6) Lease Rentals paid by the Transportation Cabinet to the Turnpike Authority include amounts representing the following: principal and interest requirements on Turnpike Authority bonds, net of Debt Service Reserve Fund investment earnings and principal amounts required by the Turnpike Authority for administrative and other expenses of the Turnpike Authority; and any amounts for deposit into the Redemption Account.

Revenues of Transportation Cabinet Available to Pay Principal of, Interest on and Purchase Price of the Notes

The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts projected to be sufficient to meet interest requirements on the Notes through June 30, 2000 (the "Note Appropriations"). The Note Appropriations are from the Commonwealth's Road Fund.

Aside from the specific Note Appropriations, Revenues of the System are available to pay principal of and interest on the Notes at any time that the Financing Agreement is no longer in effect. However, the outstanding bonds of the Turnpike Authority ("Turnpike Authority Bonds") have a claim on all System Revenues that is prior and superior to any claim of the Notes. See "THE TURNPIKE AUTHORITY- Outstanding Obligations of the Turnpike Authority." There is no assurance that the Revenues will be available for payment of principal or interest on the Notes or, even if the Revenues are available, that they will be available in an amount over and above the amount required to pay debt service on Turnpike Authority Bonds. The Revenues should be viewed only as a secondary source of possible repayment of the Notes.

Budget Process

The Transportation Cabinet budget for the biennium is prepared in accordance with Chapter 48 of the Kentucky Revised Statutes and based on two-year projections formulated from long-range program requirements and revenue estimates. The biennial budget request is prepared by the Transportation Cabinet and presented to the Governor for submission to the Kentucky General Assembly at its regular biennial session beginning in January of even numbered years. The revenue estimates are made by the Consensus Forecasting Group pursuant to KRS 48.115.

Other Financial Information on the Transportation Cabinet

A copy of the Transportation Cabinet's audited financial statements for the Fiscal Years ended June 30, 1997 and June 30, 1998 may be obtained from the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

THE TURNPIKE AUTHORITY

General

The Turnpike Authority was created by the Turnpike Act and constitutes a de jure municipal corporation and political subdivision of the Commonwealth. The Turnpike Authority is authorized under the Turnpike Authority Act, subject to the limitations contained in the biennial appropriations act and terms of written agreements with the Transportation Cabinet, to construct, reconstruct, maintain, repair and operate turnpike projects, resource recovery road projects, and economic development road projects, to lease such projects to the Transportation Cabinet and to issue its revenue bonds, revenue refunding bonds, revenue notes and revenue bond anticipation notes to finance such projects. The Turnpike Authority members are the Governor (serving as Chairman), the Lieutenant Governor (serving as Vice Chairman), the Attorney General, the Secretary of the Transportation Cabinet, the State Highway Engineer, the Secretary of the Finance and Administration Cabinet and the Secretary of the Cabinet for Economic Development. The current members of the Turnpike Authority are as follows:

Governor	Paul E. Patton
Lieutenant Governor	Stephen L. Henry
Attorney General	A.B. Chandler III
Secretary, Finance and Administration Cabinet	John McCarty
Secretary, Transportation Cabinet	James C. Codell
State Highway Engineer	James McFarland Yowell
Secretary, Cabinet for Economic Development	Marvin E. Strong

The Executive Director of the Turnpike Authority is Bobby J. McKee, the Treasurer of the Turnpike Authority is Gordon L. Mullis, and the Secretary of the Turnpike Authority is Linda W. Masters.

The Act establishes and governs the operations of the Turnpike Authority and authorizes and empowers the Turnpike Authority under the terms of written agreements with the Transportation Cabinet to construct, reconstruct, maintain, repair and operate turnpike projects, resource recovery road projects and economic development road projects, to lease such projects to the Transportation Cabinet, to issue revenue bonds to finance such projects and to refund such revenue bonds. The Turnpike Authority is also empowered to issue revenue notes and revenue bond anticipation notes.

The Turnpike Authority, 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.

Outstanding Obligations of the Turnpike Authority

The outstanding bonded obligations of the Turnpike Authority as of June 30, 1999 were as follows:

<u>Name of Revenue Bond Issue</u>	<u>Date Issued</u>	<u>Final Maturity Outstanding</u>	<u>Amount of Issue (1)</u>	<u>Amount Outstanding</u>
Toll Road Revenue Refunding Bonds (2)				
1986 Series A	7/1/86	7/1/2007	226,385,000	53,714,943.00
Resource Recovery Road Revenue Refunding Bonds(3)				
1985 Series A	7/1/85	7/1/2009	309,961,261	118,225,672.00 (5,6)
1987 Series A	5/1/87	7/1/2008	257,989,380	96,765,494.00 (5,6)
Economic Development Road Revenue Bonds(4)				
(Revitalization Projects)				
Series 1992	10/1/92	1/1/2010	250,493,658	178,578,658.00 (5,6)
Series 1993	4/1/93	7/1/2013	570,540,000	479,580,000.00
Series 1995	4/1/95	7/1/2015	237,890,000	237,890,000.00

Source: Turnpike Authority of Kentucky

- (1) Represents amount of bonds issued. Any additional bonds beyond those approved would require approval of the Kentucky General Assembly except for certain refunding obligations or obligations used to finance projects which will produce revenues that fully meet required debt service.
- (2) These bonds are secured primarily by renewable biennial leases of the applicable turnpike projects, and in the event such leases are not renewed by the Transportation Cabinet, by a claim upon tolls and motor fuel taxes on fuel consumed on such turnpike projects. The Turnpike Authority plans to defease certain maturities of these bonds through the future purchase of United States Treasury Obligations.
- (3) These bonds are secured primarily by a renewable biennial lease of certain resource recovery road projects, and, in the event the lease is not renewed by the Transportation Cabinet, by a claim upon collections from coal severance taxes, tolls, fees and charges that may be imposed for use of such projects and motor fuel taxes on fuel consumed on such resource recovery projects. The Turnpike Authority plans to refund certain maturities of these bonds through the future purchase of United States Treasury Obligations.

- (4) These bonds are secured primarily by renewable biennial leases of certain economic development road projects, and, in the event such leases are not renewed by the Transportation Cabinet, by a claim upon motor fuel taxes on fuel consumed on such economic development road projects.
- (5) Amount Outstanding includes the accreted value of capital appreciation bonds and bond income growth securities.
- (6) Calculated by the Turnpike Authority using accreted values as of June 30, 1999 for capital appreciation bonds and bond income growth securities.

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.

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
Tel: (609) 279-3200
Fax: (609) 279-5962
- (ii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Internet: nrmsir@dpcdata.com
Tel: (201) 346-0701
Fax: (201) 947-0107
- (iii) Standard & Poor's J.J. Kenny
Attn: Repository
65 Broadway, 16th Floor
New York, New York 10006
Internet: <http://www.jjkenny.com>
Tel: (212) 770-4568
FAX: (212) 797-0223
- (iv) Thomson NRMSIR
Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10014
Internet: Disclosure@muller.com
Tel: (212) 807-5001
Fax: (212) 989-2078

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 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 Notes 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.

Year 2000 Compliance

The Commonwealth of Kentucky has been aware since early 1994 of the technology problems associated with the year 2000. The state has inventoried and assessed all computer systems/applications and identified external interfaces. Ninety nine percent of all mission critical systems have been remediated, tested and placed back into production and are year 2000 compliant. One system is currently being retested and scheduled for implementation in November 1999. All other state agency systems, both internal and external will be converted and placed into production by October 31, 1999.

The General Assembly, during the 1998 Regular Session, appropriated \$6,700,000 to a year 2000 "contingency fund". Portions of the fund are being used for independent validation and verification, by third-party vendors, of the state's mission critical systems that are compliant and which have already been placed back into production. This process includes off-site code evaluation as well as on-site testing. Business continuity plans are also being written for all mission critical systems. Rollover plans that will be executed during the first weekend of the new year are being developed and will be tested in November. Further information regarding year 2000 compliance by the Commonwealth may be found on the Internet at <http://www.state.ky.us/year2000/index.htm>.

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, 50 days, (ii) the Weekly Rate, 45 days and (iii) 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.

"Bonds" means bonds authenticated and delivered by the Turnpike Authority 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 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) Westdeutsche Landesbank Girozentrale, acting through its New York Branch 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 (i) telecopy, telegraph, telex, electronic mail, facsimile transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission, or (ii) making information available to third parties by readily accessible electronic means.

"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/Fourth Supplemental Lease Agreement" means the Financing/Fourth Supplemental Lease Agreement, dated as of October 1, 1999, among the Commission, the Cabinet, the Turnpike Authority and the Transportation Cabinet, by which the Project is leased to the Transportation 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 October 15, 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, the fifth Business Day of each month; (ii) with respect to any Series of Notes bearing interest at the Weekly Rate, the first Business Day of each month; (iii) 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); (iv) 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; (v) 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 (vi) 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, each day such Series of Notes bears interest at the Daily Rate, (ii) with respect to any Series of Notes to bear interest at the Weekly Rate, Tuesday, or if such Tuesday is not a Business Day, then the next succeeding 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.

"Lease" means the Lease dated October 1, 1990, as supplemented, whereby the Turnpike Authority has leased the System to the Transportation Cabinet.

"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.

"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 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" shall include:

- (i) all amounts received as drawings under the Credit Facility or Liquidity Facility;
- (ii) 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) 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" shall mean additions and improvements to the System identified from time to time by the Transportation Cabinet, as provided in the Turnpike Indenture.

"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 (i) for Notes bearing interest at the Daily Rate, the last day of the month (whether or not a Business Day) next preceding the applicable Interest Payment Date and (ii) for all other Interest Rate Modes, the day (whether or not a Business Day) next preceding the applicable 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, and the Remarketing Agreement.

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

"Remarketing Agreement" means the Remarketing Agreement dated as of October 15, 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.

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

"Revenues" means all rental, monies and other revenues derived from the Lease and, during such times as the Lease is not in effect, motor fuel taxes and surtaxes derived from motor fuels consumed on the System not directed by law or previous binding contract to be applied to uses other than payment of the principal of and premium, if any, and interest on the bonds of the Turnpike Authority, and any other revenues derived from time to time by the Turnpike Authority from its ownership or operation of the System which can legally be applied to payment of the Bonds.

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

"Series" means all Notes having the same issue date.

"State" means the Commonwealth of Kentucky.

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

"Stated Termination Date" means June 30, 2003.

"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.

"System" means that portion of the Kentucky economic development road system within the meaning of the Turnpike Act consisting of all the projects funded under and pursuant to the Turnpike 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.

"Turnpike Authority" means The Turnpike Authority of Kentucky.

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

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.

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 \$128,000,000. The Notes are to be issued in anticipation of the issuance of bonds by the Turnpike Authority. 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; (x) that the amount that may be drawn under a Credit Facility or Liquidity Facility, if such Series of Notes is to be secured by a Credit Facility or Liquidity Facility, is no less than the aggregate principal amount Outstanding of all Notes secured by such Credit Facility or Liquidity Facility plus interest at the Maximum Rate for the Applicable Interest Period; and (xi) 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 Transportation Cabinet and in accordance with the provisions of the Financing Agreement.

The Transportation 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 Transportation 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 Commission (if the Commission has deposited funds to the Draw Subaccount) or to the applicable Liquidity Provider or Credit Facility Provider the amount deposited in the Remarketing Proceeds Subaccount as a result of remarketing such Notes.

If the Paying Agent fails to receive remarketing proceeds from the Remarketing Agent, moneys paid by the Commission 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 Commission, 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 shall be sufficient, or Defeasance Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient, as verified in a report of a firm of certified public accountants (or other evidence of sufficiency as may be acceptable to each Rating Service), 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) a Counsel's Opinion that the defeasance will not adversely affect the exclusion from gross income for federal income tax purposes of interest thereon. 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, (i) 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 (ii) from the Liquidity Provider or Credit Facility Provider of notice that an Event of Default has occurred under the Liquidity Facility or Credit Facility Agreement.

Subject to provisions in the this paragraph and upon the occurrence of an Event of Default as specified in paragraph (1), (2), (3) or (5) above, the Trustee is required to declare, by a notice in writing delivered to the Commission, the principal of all Notes then outstanding (if not then due and payable), together with interest accrued thereon, to be due and payable immediately. Upon the occurrence of an Event of Default as specified in paragraph (4) above, the Trustee may, or at the direction of the Holders of not less than 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. Anything in this paragraph to the contrary notwithstanding, upon the occurrence of an Event of Default with respect to Notes secured by a Credit Facility or Liquidity Facility, the Trustee shall make any such declaration only upon the written direction, or upon the written consent of the related Credit Facility Provider and the Liquidity Provider; provided that such consent shall only be required when the Event of Default is not described under clause (i) of paragraph (5) above and the applicable Credit Facility Provider or Liquidity Provider is not in default of its obligations under its Credit Facility or Liquidity Facility, as applicable.

Any such declaration 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 (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. Anything in this paragraph to the contrary notwithstanding, upon the occurrence of an Event of Default with respect to Notes secured by a Credit Facility or Liquidity Facility, the Trustee shall make any such declaration only upon the written direction, or upon the written consent of the related Credit Facility Provider and the Liquidity Provider; provided that such consent shall only be required when the Event of Default is not described under clause (i) of paragraph (5) above and the applicable Credit Facility Provider or Liquidity Provider is not in default of its obligations under its Credit Facility or Liquidity Facility, as applicable.

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, the Turnpike Authority and the Transportation Cabinet 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 Turnpike Authority upon the issuance of the Bonds; and (v) the leasing of the Project from the Turnpike Authority to the Transportation Cabinet, to provide revenues for amortization of the Bonds. The Financing Agreement provides for revenues to reimburse the Turnpike Authority and the Commission for their commitments to amortize such Bonds and Notes, respectively.

Term, Renewals, Financing Payments and Rent. The Commission has agreed to provide interim financing for the Project to the Transportation Cabinet and the Turnpike Authority, for an initial term ending June 30, 2000. The Transportation Cabinet has the right to continue the Financing Agreement and have the Project for succeeding biennial periods. The Transportation Cabinet is required to pay, as Financing Payments during the initial period ending on June 30, 2000, and for each Renewal Term the Debt Servicing Obligation relating to the Notes so long as any Notes are Outstanding. The Turnpike Authority has agreed to provide permanent financing for the Project to the Transportation 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 Transportation Cabinet is required to pay, as rentals 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 Transportation 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. 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 Transportation Cabinet's election not to renew is delivered to the Commission and the Turnpike Authority before the close of business on the last business day in May, immediately preceding the beginning of such succeeding Renewal Term.

Notwithstanding the fact that separate rental schedules may be applicable to different series of Bonds issued to finance economic development road projects constituting the System, the Transportation Cabinet will have the option to renew its lease of the entire System only, during each Biennial Term, and will not have the right to renew the Lease in respect of any economic development road project or projects comprising less than the entirety of the System.

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

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 Transportation Cabinet shall not be deemed to be in default if the Transportation 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 under the Financing Agreement while any Notes are outstanding under the Indenture and so long as no Bonds have been issued, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Transportation Cabinet and the Finance Cabinet terminate the Financing Agreement or, without terminating the Financing Agreement, take possession (actually or constructively) of the Project, subject to the Lease. In such event, the Commission or the Turnpike Authority, as applicable, may lease its interest in the Project or portions thereof, to any party it deems appropriate and in the event of a leasing may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Transportation Cabinet's and the Finance 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 and all other sums due from the Transportation Cabinet and the Finance Cabinet under the Financing Agreement; provided, that prior to any such leasing, the Commission is required to deliver to the Trustee an opinion of nationally recognized bond counsel to the effect that such leasing will not cause the interest on the Notes to be includible in gross income of the owners thereof for federal income tax purposes. All remedies available to the Commission and the Turnpike Authority are 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 Turnpike Authority of any of its remedies or actions against the Transportation Cabinet and the Finance Cabinet under the Financing Agreement.

Security and Assignment. The Financing Agreement secures (i) the payment of Financing Payments, Additional Payments and rentals due to the Turnpike Authority thereunder, (ii) the payment of the Notes in the aggregate principal amount which may from time to time be outstanding under the Indenture, with interest thereon at the rates per annum borne by such Notes, (iii) the payment of the Bonds in the aggregate principal amount which may from time to time be outstanding under the Turnpike Indenture, with interest thereon at the rates per annum borne by the Bonds, (iv) the payment of any Credit Facility Obligations, and (v) the payment of any Liquidity Facility Obligations.

TAX TREATMENT

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 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, and by the Credit Facility Provider's in-house German counsel and by Chapman and Cutler, Chicago, Illinois, U.S. counsel to the Credit Facility Provider.

RATINGS

The following rating agencies (each a "Rating Agency") have given the Notes the following respective ratings: Moody's Investor's Service, Inc., "Aaa/VMIG1"; Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc. "AA+/A-1+"; and Fitch IBCA, Inc., "AAA/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

Lehman Brothers has agreed to purchase the initial tranche of Notes in the principal amount of \$25,000,000 and will receive a fee of \$56,430 based upon the entire principal amount Notes that may be issued under the Indenture. The Underwriter is committed to purchase all of the Notes if any are purchased.

The Underwriter has advised the Commission that it intends 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 Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriter deems necessary in connection with the marketing of the Notes.

TRUSTEE'S YEAR 2000 COMPLIANCE

The Trustee has established a Year 2000 compliance program consisting of, among other things, updating major proprietary application systems and evaluating the Year 2000 compliance efforts of vendors of major vendor-supplied systems and certain other business partners. The Trustee believes that its Year 2000 compliance program is currently on schedule to meet the needs of its customers and the compliance deadlines defined by its regulators. As of December 31, 1998, testing and renovation of the proprietary application systems that the Trustee deems "mission critical" were substantially completed and these systems are currently being used by the Trustee. In addition, all vendor supplied software systems that the Trustee deems mission critical have been tested and, based upon such testing, the Trustee believes that such systems will not be adversely affected in a material way as a result of the date change to the Year 2000.

Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of suppliers, customers and other business partners, the Trustee is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Trustee and its ability to perform its obligations under the trust indenture. The Year 2000 compliance program is intended to reduce significantly the Trustee's level of uncertainty about the Year 2000 problem and, in particular, the Year 2000 compliance and readiness of the Trustee and its material business partners. The Trustee believes that, with

completion of its Year 2000-compliance program as scheduled, the possibility of significant interruptions of normal operations should be reduced. However, because of the unprecedented nature of the Year 2000 problem, there can be no certainty as to its impact.

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&P*</u>
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+
Kentucky Asset/Liability Commission	KRS 56 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	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	A1/A+
The State Universities (consisting of eight)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to \$ 1.125 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. 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	KRS 164A Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to \$553 million of debt outstanding	Aaa/AA-
School Facilities Construction Commission	KRS 157.800-157.895 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/ PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATING MOODY'S/S&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 Road Fund Second Series

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 Road Fund Second Series in the amount of up to \$128,000,000 (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 September 24, 1999 (the "Resolution"), and a Trust Indenture (the "Indenture") dated as of October 15, 1999 between the Issuer and BNY Trust Company of Missouri, St. Louis, Missouri, 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/Fourth Supplemental Lease Agreement dated as of October 1, 1999 (the "Financing Agreement") by and among the Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet"), the Transportation Cabinet of the Commonwealth of Kentucky (the "Transportation Cabinet") and The Turnpike Authority of Kentucky (the "Turnpike Authority"), 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 Transportation Cabinet, the Turnpike Authority 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, and the Financing Agreement has been duly authorized, executed and delivered by the Cabinet, the Transportation Cabinet and Turnpike Authority, and are each valid and binding obligations of the Issuer, the Cabinet, the Transportation Cabinet and Turnpike Authority, 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 the 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 Turnpike Authority or the Transportation Cabinet 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, but are payable as to principal and interest solely and only from and are secured by the Pledged Receipts. The ability of the Transportation Cabinet to make payments under the Financing Agreement is dependent upon legislative appropriations to the Transportation Cabinet, which has leased 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 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, the Transportation Cabinet and the Turnpike Authority, we have relied on opinions of counsel to the Cabinet and the Transportation Cabinet.

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 and the Financing Agreement, 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, the Transportation Cabinet and the Turnpike Authority 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