

**NEW ISSUE****Book-Entry-Only****STANDARD & POOR'S:  
SP-1+****MOODY'S:           MIG 1  
FITCH IBCA:           F1+  
(See "Ratings" herein)**

*In the opinion of Bond Counsel, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, interest on the 1998 Series B Notes (defined below) 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, upon the conditions and subject to the limitations set forth herein under the caption "TAX TREATMENT." Interest on the 1998 Series B Notes is also exempt from Kentucky income tax, and the 1998 Series B Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.*

**\$100,200,000**  
**KENTUCKY ASSET/LIABILITY COMMISSION**  
**GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES**  
**1998 SERIES B**

Dated: Date of Delivery  
**Interest Rate: 4.00%**

Due: June 25, 1999  
**Priced to Yield: 3.33%**

The Kentucky Asset/Liability Commission (the "Commission") is issuing its General Fund Tax and Revenue Anticipation Notes, 1998 Series B (the "1998 Series B Notes") to finance General Fund cash flow requirements of the Commonwealth of Kentucky (the "Commonwealth") for the fiscal year ending June 30, 1999. The 1998 Series B Notes are issuable only in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple thereof. When issued the 1998 Series B Notes will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 1998 Series B Notes. Purchasers will not receive certificates representing their ownership interest in the 1998 Series B Notes purchased. Accordingly, principal of and interest on the 1998 Series B Notes will be paid by PNC Bank, National Association, Louisville, Kentucky, as Trustee, Registrar and Paying Agent (in such capacities, the "Trustee", "Registrar" and "Paying Agent"), directly to DTC or Cede & Co., its nominee. DTC will, in turn, remit or direct its nominee to remit such principal and interest to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the 1998 Series B Notes. See "THE 1998 SERIES B NOTES -- Book-Entry-Only System" herein.

The 1998 Series B Notes are payable in lawful money of the United States of America and interest on the 1998 Series B Notes will be computed on the basis of a 360-day year and a 30-day month and accrued from the date of issuance. Principal and interest on the 1998 Series B Notes are payable at maturity.

The 1998 Series B Notes are not subject to redemption prior to their maturity.

The 1998 Series B Notes are direct obligations of the General Fund of the Commonwealth and are payable from taxes and certain revenues collected by the Commonwealth during the Fiscal Year ending June 30, 1999 ("Fiscal Year 1999"). The 1998 Series B Notes are issued pursuant to a Trust Indenture Dated as of July 1, 1998 between the Commission and the Trustee (the "Indenture"). As provided in the Indenture and under Kentucky law, taxes and revenues in amounts sufficient to pay the 1998 Series B Notes and interest thereon are required to be deposited into the General Fund, which shall be held by the Finance and Administration Cabinet of the Commonwealth (the "Finance and Administration Cabinet") for the benefit of the Holders of the 1998 Series B Notes. The Commission has previously issued its General Fund Tax and Revenue Anticipation Notes, 1998 Series A (the "1998 Series A Notes") under the Indenture in the principal amount of \$200,000,000. The Holders of the 1998 Series B Notes shall, on a parity basis with the Holders of the 1998 Series A Notes, have a priority lien on and security interest in all taxes and revenues required to be deposited into the General Fund, and such taxes and revenues are pledged to the payment of the principal of the 1998 Series B Notes and interest thereon. **The 1998 Series B Notes are special limited obligations of the Commission and are payable solely from the taxes and revenues pledged thereto.** See "SECURITY FOR THE 1998 SERIES B NOTES" herein.

The 1998 Series B Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

The 1998 Series B 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. It is expected that the 1998 Series B Notes in definitive form will be available for delivery in New York, New York, on or about September 17, 1998.

**Salomon Smith Barney**

September 17, 1998

No dealer, broker, salesman or other person has been authorized by the Kentucky Asset/Liability Commission or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the 1998 Series B Notes by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale. The information set forth herein has been obtained from the Kentucky Asset/Liability Commission and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Kentucky Asset/Liability Commission since the date hereof.

THE 1998 SERIES B 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 1998 SERIES B 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 1998 SERIES B 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 1998 SERIES B NOTES THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 1998 SERIES B 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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Exhibit A - Debt Information Pertaining to the Commonwealth of Kentucky  
Exhibit B - Form of Bond Counsel Opinion

# **KENTUCKY ASSET/LIABILITY COMMISSION**

## **COMMISSION MEMBERS**

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

## **SECRETARY TO THE COMMISSION**

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

## **TRUSTEE**

PNC Bank, National Association  
Louisville, Kentucky

## **BOND COUNSEL**

Peck, Shaffer & Williams LLP  
Covington, Kentucky

## **UNDERWRITERS' COUNSEL**

Brown, Todd & Heyburn PLLC  
Louisville, Kentucky

## SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the 1998 Series B 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 1998 Series B 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 1998 Series B Notes unless the entire Official Statement is delivered in connection therewith.

**The Commission**      The Kentucky Asset/Liability Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE KENTUCKY ASSET/LIABILITY COMMISSION" (Page 17).

**The Offering**                      The Commission is offering its \$100,200,000 General Fund Tax and Revenue Anticipation Notes, 1998 Series B (the "1998 Series B Notes").

**Authority**                              The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on September 14, 1998 (the "Resolution"), and the Trust Indenture dated as of July 1, 1998 (the "Indenture"), between the Commission and PNC Bank, National Association as trustee (the "Trustee").

**Use of Proceeds**                      The proceeds of the 1998 Series B Notes will be used by the Commonwealth to discharge expenditure demands on the General Fund of the Commonwealth (the "General Fund") for the fiscal year ending June 30, 1999 ("Fiscal Year 1999") in anticipation of taxes and revenues to be collected during Fiscal Year 1999 and to pay the costs of issuance of the 1998 Series B Notes.

**Security**                                      The 1998 Series B Notes are direct obligations of the General Fund and are payable from taxes and revenues collected by the Commonwealth. Under the Act, the Commonwealth is required to deposit collected taxes and revenues in amounts sufficient to pay the 1998 Series B Notes and interest thereon into the General Fund. The Act provides that Revenues to be deposited to the General Fund shall be pledged for the repayment of Notes so long as any Notes remain outstanding. The lien on and security



interest in taxes and revenues created by the Act and Indenture is prior and superior to any other lien or security interest created by law or otherwise.

The 1998 Series B Notes are also secured by certain other funds and accounts pledged therefor and described herein. The Commission has previously issued the 1998 Series A Notes in the principal amount of \$200,000,000 and may issue Additional Notes on a parity basis with the 1998 Series B Notes and the 1998 Series A Notes under the circumstances outlined in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE 1998 SERIES B INDENTURE" (Page 24).

THE 1998 SERIES B NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE TAXES AND REVENUES PLEDGED THERETO.

**Features**

The 1998 Series B Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple thereof. Interest on the 1998 Series B Notes will be computed on the basis of a 360-day year and a 30-day month and accrued from the date of issuance. Principal of and interest on the 1998 Series B Notes will be payable at maturity, as shown on the cover hereof. Principal of and interest on the 1998 Series B Notes are payable in lawful money of the United States to the registered holder of the 1998 Series B Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE 1998 SERIES B NOTES - Book-Entry-Only System" (Page 2).

**Redemption**

The 1998 Series B Notes are not subject to redemption prior to their maturity.

**Tax Status**

In the opinion of Bond Counsel for the 1998 Series B Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 1998 Series B Notes is excludable from gross income for Federal income tax purposes. Bond Counsel for the 1998 Series B Notes is also of the opinion that interest on the 1998 Series B 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 1998 Series B Notes is of the opinion that interest on the 1998 Series B Notes is exempt from income taxation by the Commonwealth and the 1998 Series B Notes are exempt from ad valorem taxation by the

Commonwealth and any of its political subdivisions. See "TAX TREATMENT" (Page 34), and Exhibit B.

**Continuing Disclosure**

On November 10, 1994, the Securities and Exchange Commission adopted in final form certain amendments (the "Amendments") to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended. In general, the Amendments prohibit 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 described in the Amendments if material. The Amendments apply to municipal securities (such as the 1998 Series B Notes) sold on or after July 3, 1995. In order 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 1998 Series B 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 the Underwriters, Salomon Smith Barney, Short Term Financial Group, 390 Greenwich Street, New York, New York 10013, (212) 723-7082.

## **OFFICIAL STATEMENT**

**\$100,200,000**

### **KENTUCKY ASSET/LIABILITY COMMISSION GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES 1998 SERIES B**

#### **INTRODUCTION**

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 \$100,200,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 1998 Series B (the "1998 Series B Notes"). The 1998 Series B 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 June 17, 1998 (the "1998 Resolution"), the Trust Indenture dated as of July 1, 1998 (the "Indenture"), between the Commission and PNC Bank, National Association, Louisville, Kentucky, as trustee (the "Trustee") and a Resolution adopted by the Commission on September 14, 1998 (the "Series B Resolution"). The Commission has previously issued its General Fund Tax and Revenue Anticipation Notes, 1998 Series A in the principal amount of \$200,000,000 (the "1998 Series A Notes") and may issue subsequent series of General Fund Tax and Revenue Anticipation Notes (the "Notes") which will be secured by the Indenture. The 1998 Series A Notes and the 1998 Series B Notes are the only Notes currently outstanding under the Indenture.

The proceeds of the 1998 Series B Notes will be used by the Commonwealth of Kentucky (the "Commonwealth") to discharge expenditure demands on the General Fund of the Commonwealth (the "General Fund") for the fiscal year ending June 30, 1999 ("Fiscal Year 1999") in anticipation of taxes and revenues to be collected during Fiscal Year 1999 and to pay the costs of issuance of the 1998 Series B Notes.

The 1998 Series B Notes are payable as described under the caption "THE 1998 SERIES B NOTES" herein. The 1998 Series B Notes are secured by the sources discussed under the caption "SECURITY FOR THE 1998 SERIES B NOTES" herein.

The summaries and references to the Act, the Indenture and the 1998 Series B 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 Salomon Smith Barney, Short Term Financial Group, 390 Greenwich Street, New York, New York 10013, (212) 723-7082.

Capitalized terms used in this Official Statement and not otherwise defined will have the meanings given them under the caption "DEFINITIONS" herein, in the 1998 Resolution or in the Indenture.

## **THE 1998 SERIES B NOTES**

### **General Provisions**

The 1998 Series B Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple thereof. Interest on the 1998 Series B Notes will be computed on the basis of a 360-day year and a 30-day month and accrued from the date of issuance. Principal of and interest on the 1998 Series B Notes will be payable at maturity, as shown on the cover hereof. Principal of and interest on the 1998 Series B Notes are payable in lawful money of the United States to the registered holder of the 1998 Series B Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE 1998 SERIES B NOTES - Book-Entry-Only System."

### **Redemption**

The 1998 Series B Notes are not subject to redemption prior to their maturity.

### **Authorization**

The 1998 Series B Notes are being issued pursuant to the Act. The Commission held a meeting on June 17, 1998, and at that meeting adopted the 1998 Resolution, which (i) authorized the Indenture and (ii) authorized and approved the issuance of not to exceed Four Hundred Million Dollars (\$400,000,000) in outstanding principal amount of Notes, subject to adoption of a Series Resolution authorizing the issuance of Additional Notes and approval by a representative of OFMEA acting as authorized officer of the Commission (the "Authorized Officer"). On September 14, 1998, the Commission adopted the Series B Resolution and the Commission's Authorized Officer approved the issuance of the 1998 Series B Notes, the Official Statement and the delivery of the 1998 Series B Notes to the Underwriters in an amount not to exceed \$100,200,000.

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

The 1998 Series B Notes, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the 1998 Series B Notes. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities and Exchange Act of 1934, as amended.

DTC holds securities and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants (the "DTC Participants"), thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC

system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

DTC Participants will be credited in the records of DTC with the amount of such DTC Participants' interests in the 1998 Series B Notes. Beneficial ownership interests in the 1998 Series B Notes in the amount of \$100,000 or any integral multiple thereof may be purchased by or through DTC Participants. A purchaser of such an interest (a "Beneficial Owner") will not receive a certificate representing his beneficial ownership interest. The ownership interest of each Beneficial Owner will be recorded through the records of the DTC Participant from which he purchased his 1998 Series B Notes. Transfers of ownership interests in the 1998 Series B Notes will be accomplished by book entries made by DTC and, in turn, by DTC Participants acting on behalf of Beneficial Owners. It is anticipated that each Beneficial Owner will receive a written confirmation of the ownership interest acquired by him in the 1998 Series B Notes from a DTC Participant.

**So long as Cede & Co. is registered owner of the 1998 Series B Notes, as nominee of DTC, all references herein to the "Holder" or "Holders" of the 1998 Series B Notes shall mean Cede & Co. and shall not mean the Beneficial Owners of the 1998 Series B Notes.** Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of redemption or other communications to DTC, which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant.

Payments of principal of and interest on the 1998 Series B Notes will be paid by the Commission directly to DTC or its nominee, Cede & Co. DTC will remit such payments to DTC Participants and such payments will thereafter be paid by DTC Participants to the Beneficial Owners. No assurance can be given by the Commission that DTC and DTC Participants will make prompt transfer of payments to Beneficial Owners. The Commission is not responsible or liable for payment by DTC or DTC Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or DTC Participants.

For every transfer and exchange of the 1998 Series B Notes, the Holders may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

DTC may discontinue providing its services with respect to the 1998 Series B Notes at any time by giving notice to the Commission and discharging its responsibilities with respect thereto under applicable law, or the Commission may terminate its participation in the system of transfers through DTC at any time.

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

In the event that the book-entry-only system is discontinued, the Commission will execute and make available for delivery replacement Notes in the form of bearer certificates in denominations of \$100,000 each or any integral multiple thereof. In such event, the principal on

the 1998 Series B 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 1998 Series B 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 1998 Series B Notes, at the option of a Holder of at least \$1,000,000 in principal amount of 1998 Series B 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.

## **SECURITY FOR THE 1998 SERIES B NOTES**

### **General**

The 1998 Series A Notes, the 1998 Series B Notes and any Additional Notes issued under the Indenture are direct obligations of the General Fund of the Commonwealth and are payable from taxes and revenues collected by the Commonwealth. Under the Act, the Commonwealth is required to deposit collected taxes and revenues in amounts sufficient to pay the Notes and interest thereon into the General Fund. The Act provides that Revenues to be deposited to the General Fund shall be pledged for the repayment of Notes so long as any Notes remain outstanding. The Act further provides that the lien on and security interest in taxes and revenues created by the Act and Indenture is prior and superior to any other lien or security interest created by law or otherwise.

The 1998 Series B Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

### **Limited Obligations of the Commission**

**The 1998 Series B Notes are special and limited obligations of the Commission. The 1998 Series B Notes are payable solely from the taxes and revenues pledged thereto, as described above.**

## **Estimated Taxes and Revenues for Fiscal Year 1999**

The Commonwealth utilizes a consensus forecasting process as prescribed by KRS Chapter 48.115 to develop Estimated Revenues as defined in the Act (the "Estimated Revenues") for the General Fund. The Biennial Budget of the Commonwealth is based upon the Official Estimate as determined by the Consensus Forecasting Group (the "Group"). The Group is comprised of six individuals, four nominated by the Executive Branch and two appointed by the Legislative Branch. The forecast is provided on a preliminary basis by October 15 of each odd numbered year and in final form by the fifteenth legislative day of each regular session of the General Assembly. The Secretary of the Finance and Administration Cabinet (the "Finance and Administration Cabinet") can convene the Group as the need arises to review and revise the forecast. The most recent revision of the forecast was made on May 18, 1998 and the official forecast for Fiscal Year 1999 is \$6,217.3 Million. The official forecast, when combined with the estimated beginning General Fund balance of \$554.2 Million, excluding the restricted portion of the Budget Reserve Trust Fund of \$172.9 Million and including estimated operating transfers in of \$22.5 Million, generates total resources of \$6,794.0 Million.

The Office of Financial Management and Economic Analysis ("OFMEA") provides staff to the Group and has day-to-day responsibility for monitoring receipts activity through its Revenue Estimating staff. The staff prepares the monthly receipts report that is required by law and also prepares the Quarterly Economic and Revenue Report (the "Report"). The Report provides a review of the most recently concluded quarter of activity and also contains a staff analysis of the expected receipts for a period three quarters into the future. This information is distributed to executive, judicial and legislative branches of state government and others.

Table 1 displays General Fund Total Receipts since Fiscal Year 1988-89. Data for Fiscal Year 1998 represents actual collections, net of refunds. OFMEA has projected the maximum cumulative cashflow deficit for the General Fund for Fiscal Year 1999 to be \$330.5 Million. The maximum cumulative cashflow deficit calculation is based upon six years of historical daily General Fund cash balance data and excludes \$172,899,750 of the \$230,533,000 Budget Reserve Trust Fund (see "Budget Reserve Trust Fund" below). The maximum cumulative cashflow deficit for Fiscal Year 1999 is expected to occur during the month of September. The Commission has sized the issue of 1998 Series B Notes to ensure that the requirements of the Code and the Treasury Regulations promulgated thereunder are met.



**Table 1**  
**General Fund Total Receipts**

<b><u>Fiscal Year</u></b>	<b><u>Total Receipts</u></b>	<b><u>Percent Change</u></b>
1997-98	\$6,011,806,561	6.1%
1996-97	\$5,663,553,289	6.1%
1995-96	\$5,336,883,824	3.5%
1994-95	\$5,154,077,980	10.9%
1993-94	\$4,467,078,322	3.0%
1992-93	\$4,511,721,822	3.5%
1991-92	\$4,360,835,365	1.1%
1990-91	\$4,311,675,984	21.1%
1989-90	\$3,560,983,377	8.2%
1988-89	\$3,289,923,473	8.6%

Table 2 displays the projected General Fund revenue sources and uses on a monthly basis for Fiscal Year 1999. While the Official Estimate is prepared on an annual basis and reviewed quarterly, the data in Table 2 has been converted to a monthly basis to reflect the seasonality of anticipated cashflows based upon historical General Fund collections.

**TABLE 2  
FY99 - PROJECTED REVENUES & EXPENDITURES**

<b>Estimated Beginning Balance*</b>	Actual 554,220,838	Actual 596,588,193	134,887,013	341,697,232	211,497,232	215,697,232	387,497,232	456,397,232	449,397,232	421,197,232	508,597,232	437,897,232	
<b>Revenue Source</b>	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Total</b>
ales Tax	178,810,310	174,663,044	187,500,000	161,200,000	161,200,000	203,400,000	201,100,000	165,500,000	148,700,000	204,400,000	148,300,000	201,300,000	2,136,073,354
dividual Income Tax	168,147,745	193,834,200	226,700,000	194,900,000	194,900,000	246,000,000	243,200,000	200,200,000	179,900,000	247,300,000	179,400,000	243,500,000	2,517,981,945
orporate Income Tax	12,625,973	210,152	31,200,000	26,800,000	26,800,000	33,900,000	33,500,000	27,600,000	24,800,000	34,100,000	24,700,000	33,500,000	309,736,125
oal Severance Tax	13,725,167	13,794,015	14,900,000	12,800,000	12,800,000	16,200,000	16,000,000	13,200,000	11,800,000	16,300,000	11,800,000	16,000,000	169,319,182
roperty Tax	12,464,802	14,532,829	33,900,000	29,100,000	29,100,000	36,700,000	36,300,000	29,900,000	26,900,000	36,900,000	26,800,000	36,400,000	348,997,631
ottery	12,000,000	12,800,000	13,900,000	12,000,000	12,000,000	15,100,000	14,900,000	12,300,000	11,000,000	15,200,000	11,000,000	14,900,000	157,100,000
ther**	40,749,779	23,304,051	55,700,000	47,900,000	47,900,000	60,400,000	59,800,000	49,200,000	44,200,000	60,800,000	44,100,000	56,188,239	590,242,069
RANs Series A Proceeds	201,533,200												201,533,200
RANs Investment Income												12,461,761	12,461,761
RANs Series B Proceeds			100,689,978										100,689,978
RANs Investment Income												4,261,144	4,261,144
	640,056,976	433,138,291	664,489,978	484,700,000	484,700,000	611,700,000	604,800,000	497,900,000	447,300,000	615,000,000	446,100,000	618,511,144	6,548,396,389
<b>total Resources</b>	1,194,277,814	1,029,726,484	799,376,991	826,976,991	696,776,991	827,976,991	992,876,991	954,876,991	897,276,991	1,036,776,991	955,276,991	1,056,988,135	7,102,617,227
<b>Uses/Transfers Out</b>	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Total</b>
ducation	246,784,720	242,288,625	194,000,000	261,000,000	203,900,000	186,700,000	227,400,000	214,300,000	201,800,000	223,900,000	219,300,000	214,300,000	2,635,673,345
ostsecondary Education	100,844,951	84,136,431	70,300,000	94,600,000	73,900,000	67,700,000	82,500,000	77,700,000	73,200,000	81,200,000	79,500,000	77,700,000	963,281,382
amilies and Children	30,907,353	24,599,077	21,800,000	29,300,000	22,900,000	20,900,000	25,500,000	24,000,000	22,600,000	25,100,000	24,600,000	24,000,000	296,206,430
ealth Services	78,021,789	91,927,476	64,600,000	86,900,000	67,900,000	62,200,000	75,800,000	71,400,000	67,200,000	74,600,000	73,100,000	71,400,000	885,049,265
ther Government	141,130,808	451,887,862	106,400,000	143,100,000	111,900,000	102,400,000	124,700,000	117,500,000	110,700,000	122,800,000	120,300,000	117,600,000	1,770,418,670
otal Expenditures	597,689,621	894,839,471	457,100,000	614,900,000	480,500,000	439,900,000	535,900,000	504,900,000	475,500,000	527,600,000	516,800,000	505,000,000	6,550,629,000
RANs Principal Repayment (Series A)												200,000,000	200,000,000
RANs Interest Repayment												8,850,000	8,850,000
RANs Principal Repayment (Series B)												100,000,000	100,000,000
RANs Interest Repayment												3,095,067	3,095,067
<b>total Uses</b>	597,689,621	894,839,471	457,100,000	614,900,000	480,500,000	439,900,000	535,900,000	504,900,000	475,500,000	527,600,000	516,800,000	816,945,067	6,862,574,067
<b>Designated Ending Balance</b>	596,588,193	134,887,013	342,276,991	212,076,991	216,276,991	388,076,991	456,976,991	449,976,991	421,776,991	509,176,991	438,476,991	240,043,068	240,043,160
<b>Budget Reserve Trust Fund***</b>													
restricted (25%)	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	57,633,250	58,750,000
restricted (75%)	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	172,899,750	176,250,000
total	230,533,000												230,533,000

Includes \$175,307,093 reserve for continuing appropriations

\*Includes Operating Transfers In

\*\*Unrestricted portion included in the Beginning Balance

## **General Fund Budget Reduction Plan**

Pursuant to KRS 48.130 and 48.600, a General Fund Budget Reduction Plan is enacted for state government in the event of an actual or projected deficit in Estimated Revenues as modified by related Acts and actions of the General Assembly in an extraordinary or regular session. Direct services, obligations essential to the minimum level of constitutional functions, and other items that may be specified in the Budget Act, are exempt from the requirements of this Plan. No budget revision shall be taken by a branch government head in excess of the actual or projected deficit.

The Governor, the Chief Justice of the Supreme Court, and the Chairmen of the Legislative Research Commission shall direct and implement reductions in allotments and appropriations only for their respective branch budget units as may be necessary as well as other measures which shall be consistent with the provisions of branch budget bills.

In the event of a revenue shortfall under the provisions of KRS 48.120, General Fund Budget reduction actions shall be implemented in the following sequence:

1. The Local Government Economic Assistance and the Local Government Economic Development Funds shall be adjusted by the Secretary of the Finance and Administration Cabinet to equal revised estimates of receipts pursuant to KRS 42.4582.
2. Unappropriated funds available in the General Fund Surplus Account established in KRS 48.700 shall be applied toward the shortfall.
3. Transfers of excess unappropriated and unbudgeted restricted funds other than fiduciary funds shall be applied as determined by the head of each branch for its respective budget unit.
4. Excess General Fund appropriations derived from reduced debt service requirements.
5. Excess General Fund appropriations which accrue as a result of personnel vacancies and turnover, and reduced requirements for operating expenses, grants, and capital outlay shall be determined and applied by the heads of the executive, legislative and judicial departments of state government for their respective branches. The branch heads shall certify the available amounts which shall be applied to budget units within the respective branches and shall promptly transmit the certification to the Secretary of the Finance and Administration Cabinet and the Legislative Research Commission. The Secretary of the Finance and Administration Cabinet shall execute the certified actions as transmitted by the branch heads.

Branch government heads shall take care, by their respective actions, to protect, preserve, and advance the fundamental health, safety, legal and social welfare, and educational well being of the citizens of the Commonwealth.

6. Funds available in the Budget Reserve Trust Fund shall be applied in an amount not to exceed twenty-five percent (25%) of the trust fund balance in Fiscal Year 1998-99 and fifty percent (50%) of the trust fund balance in Fiscal Year 1999-2000.
7. If actions contained in one (1) through six (6) are insufficient to eliminate the revenue shortfall by up to five (5) percent of the enacted General Fund revenue receipts, then the Governor is empowered and directed to take necessary actions with respect to the executive branch budget units to balance the budget.

**The Budget Reserve Trust Fund**

The Commonwealth established the Budget Reserve Trust Fund (the "Trust Fund") as a statutory account in the 1995 Third Extraordinary Session of the General Assembly. The provisions for the Trust Fund are found in KRS 48.705, which outlines the manner in which the funds may be added or withdrawn. The Trust Fund currently has a balance of \$230,533,000, which was attained upon the certification of the surplus for the fiscal year ended June 30, 1998.

The Biennial Budget Act for Fiscal Years 1999 and 2000 contains provisions which permit the Governor to access up to twenty-five percent (25%) in the first year and fifty percent (50%) in the second year of the biennium for necessary governmental expenses without the approval of the Legislature. The remaining amount may only be accessed with the approval of the General Assembly in a regular or special session. All sums appropriated or deposited to the Trust Fund do not lapse at the close of the fiscal year, but carry forward into the next fiscal year and shall remain available for purposes outlined in KRS 48.705.

Table 3 below displays Budget Reserve Trust Fund Year End Balances since Fiscal Year 1993.

**Table 3**  
**Budget Reserve Trust Fund Year End Balances**

<u>Fiscal Year</u>	<u>Year End Balance</u>
1999	\$230,533,000
1998	\$200,000,000
1997	\$200,000,000
1998	\$200,000,000
1999	\$100,000,000

2000	\$ 90,000,000
2001	\$ 28,500,000

See "THE COMMONWEALTH" herein and Exhibit A for additional financial information on the Commonwealth of Kentucky.

### **Parity Obligations**

The Commission may, as provided in the Indenture, from time to time issue Additional Notes on a basis of parity as to security and source of payment with the 1998 Series B Notes; provided that the aggregate principal amount of all Notes outstanding shall not exceed \$400,000,000. Such Additional Notes may be issued in one or more Interest Rate Modes. See the caption "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE INDENTURE--Issuance of Notes, Additional Notes and Other Obligations" herein.

### **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.

Information regarding historical General Fund Total Receipts of the Commonwealth for the past 10 years and projected General Fund revenue sources and uses for Fiscal Year 1999 is set forth in "SECURITY FOR THE 1998A SERIES B NOTES" above. A discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1995, 1996 and 1997 and unaudited General Fund revenues and expenditures for Fiscal Year 1998 is set forth below. The information presented in the discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1995, 1996 and 1997 is drawn from *The Kentucky*

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

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

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

- (i) Bloomberg LP  
100 Business Park Drive  
Skillman, New Jersey 08558  
Internet: [munis@bloomberg.com](mailto:munis@bloomberg.com)  
Tel: (609) 279-3200  
Fax: (609) 279-5962
  
- (ii) DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Internet: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)  
Tel: (201) 346-0701  
Fax: (201) 947-0107
  
- (iii) Kenny Information Systems  
Attn: Kenny Repository Systems Inc.  
96 Broadway, 16th Floor  
New York, New York 10006  
Internet: <http://www.bluelist.com>

Tel: (212) 770-4595  
Fax: (201) 797-7994

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

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

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

### **Fiscal Year 1995**

General Fund revenue on a budgetary basis for 1995 was \$5.19 billion, an increase of 8.9% over 1994. This amount included \$5.15 billion in tax and non-tax receipts, and \$33.52 Million of Operating Transfers In. Taxes represented 94.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1995 totaled \$5.01 billion, including Operating Transfers Out of \$262.17 Million. During 1995, expenditures increased by 6.2% and transfers increased by 45.1% compared to 1994. The general government functions included \$679.74 Million of expenditures and \$6.42 Million of transfers for the eight State supported universities, which together amounted to 13.7% of the General Fund total.

The General Fund had a 1995 budgetary undesignated fund balance of \$261,007,822. This was an increase of \$162,832,593 when compared to the 1994 year-end budgetary undesignated fund balance of \$98,175,229. In addition, \$10 Million was appropriated to the Budget Reserve Trust Fund in July 1994, bringing the balance to \$100 Million. The Budget Reserve Trust Fund was a line item in the Commonwealth's biennial budget.



Revenues for general governmental functions on a GAAP basis totaled \$9.50 billion for 1995, an increase of 8.6% over the amount recognized during 1994.

1995 Governmental Funds Revenue was \$749.6 Million higher than in 1994. Higher Tax and Intergovernmental receipts accounted for 84% of the increase. Sales and Gross Receipts, Individual and Corporate Income, Property, and License and Privilege Taxes grew by a combined \$407 Million. Inheritance and Estate Taxes were up \$3.4 Million but offset by Coal Severance Taxes that declined by \$3.5 Million. Miscellaneous Taxes dropped \$3 Million. Federal fund receipts from the United States Government went up \$219.6 Million. Receipts from other governments, up by a combined \$8.0 Million in the General, Agency Revenue, and Other Special Revenue Funds, were offset by a \$4.4 Million drop in the Transportation Fund. The Capital Projects Fund received \$2.6 Million in grant receipts.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$8.76 billion for 1995, an increase of 8.7% compared to 1994.

1995 Governmental Funds Expenditures were \$703.0 Million higher than in 1994. The Human Resources, Transportation, and Education, Arts and Humanities functions accounted for 89.9% of the increase. Significant growth categories included: \$315.9 Million more in Human Resources for General Fund grants and Medicaid benefits payments funded in the Federal and Agency Revenue Funds; \$123.0 Million more in the Transportation Fund costs including highways, motor vehicle regulation, Kentucky State Police enforcement, and general administration; and \$174.7 Million more in General Fund grants awarded by the Education, Arts and Humanities Cabinet to local boards of education for continuing implementation of the Kentucky Education Reform Act of 1990.

Ending fund balances for all governmental fund types increased 19.3%, from \$1.75 billion as restated for 1994, to \$2.09 billion in 1995. Of these totals, unreserved fund balances increased 29.8%, from \$937.3 Million as restated at June 30, 1994, to \$1.22 billion at June 30, 1995.

During 1995, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in eligible securities. Investment income from those securities for 1995, excluding that from pension trust funds, was \$124,088,765, a 7.14% increase compared to 1994.

## **Fiscal Year 1996**

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

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

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

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

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

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

1996 Governmental Funds Expenditures were \$295.4 Million higher than in 1995. Significant growth categories included: \$53.8 Million more for highways in the Transportation Fund; an additional \$45.1 Million for General Government Judgments and contingent liabilities in the General Fund; and a \$30.5 Million rise in combined General Fund personal services costs for the Education, Arts and Humanities Cabinet and Workforce Development Cabinet.

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

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

## **Fiscal Year 1997**

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

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

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

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

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

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

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

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

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

### **Fiscal Year 1998 (Unaudited)**

Actual revenue receipts collected by the Commonwealth for the fiscal year ended June 30, 1998 were \$6.011 billion. This represents an increase of 6.1% over the previous fiscal year. Individual income tax collections grew by 9.7% and sales tax collections grew by 5.2% over the previous fiscal year amounts. Kentucky's economic growth continues to perform at levels that will achieve the revenue estimates for the 1998-2000 biennium.

### **Investment Policy**

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

The Commonwealth maintains an average operating portfolio of approximately \$3.2 billion in cash and securities. The composition of the investment pools as of August 31, 1998 was as follows: U.S. treasury securities (22%); securities issued by agencies, corporations and instrumentalities of the United States Government (37%); U.S. agency mortgage backed securities and collateralized mortgage obligations (9%); repurchase agreements collateralized by the aforementioned (15%); municipal securities (3%); and corporate and asset backed securities, including money market securities (14%). The portfolio has a current yield of 5.90% and a modified duration of 1.18 years. The Commonwealth's investments are marked to market daily.

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

state funds that have a longer investment horizon. The purpose of these pools is to provide economies of scale that enhance yield, ease administration, and increase accountability and control.

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

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

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

The State Investment Commission also engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific period of time. Currently, the Commonwealth has one \$50 Million notional amount fixed rate receiver swap transaction outstanding, which has a stated final maturity of July 9, 1999.

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

On February 10, 1998, new administrative regulations governing the purchase of these new securities became effective. The new asset classes will be limited to twenty-five percent

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

## **THE KENTUCKY ASSET/LIABILITY COMMISSION**

### **General Information**

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

The current members of the Commission are as follows:

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

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

## **Other Personnel of the Commission**

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

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

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

## ESTIMATED SOURCES AND USES OF FUNDS

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

### Sources

Par Amount of 1998 Series B Notes	\$100,200,000
Premium on the 1998 Series B Notes	<u>505,008</u>
Total Sources	<u>\$100,705,008</u>

### Uses

Deposit to Proceeds Fund	\$100,564,455
Deposit to Cost of Issuance Account	64,000
Underwriters' Discount	<u>76,553</u>
Total Uses	<u>\$100,705,008</u>

## DEFINITIONS

Set forth below are the definitions of some of the terms used in this Official Statement, the Indenture, the 1998 Resolution and the Series B Resolution, which are not otherwise defined herein. Reference is hereby made to the Indenture and the 1998 Resolution for a complete recital of the terms defined therein.

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

"Additional Notes" shall mean Notes issued from time to time in accordance with the Indenture pursuant to a Series Resolution and ranking on a parity as to security and source of payment with the 1998 Series B Notes.

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



"Authorized Officer" shall mean (i) with respect to the 1998 Series B Notes, the Executive Director of the Office of Financial Management and Economic Analysis and (ii) with respect to any Additional Notes, any 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.

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

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

"Certificate of Award" shall mean the certificate of an Authorized Officer establishing certain terms of the applicable Series of Notes and authorized in the applicable Series Resolution and the Indenture.

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

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

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

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

this Indenture and the Credit Facility and (B) upon the issuance and effectiveness thereof, any Alternate Credit Facility.

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

"Credit Facility Provider" shall mean the provider of a Credit Facility with respect to any Series of Notes named in the Certificate of Award relating to such Series of Notes, the unsecured, uninsured and unguaranteed short term debt obligations of which have been rated at ratings no lower than the then existing ratings on the Notes by each Rating Service.

"DTC" shall mean The Depository Trust Company, New York, New York (a limited purpose trust company).

"DTC Operational Arrangements" shall mean DTC's operational arrangements, as amended from time to time.

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

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

"Expenditure Demands" shall mean amounts required to be paid from the General Fund during the Fiscal Year.

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

"Fiscal Year" shall mean the period which begins on July 1, 1998 and ends on June 30, 1999.

"Fitch" shall mean Fitch IBCA, Inc.

"Funds and Accounts" shall mean the Cost of Issuance Fund, Note Fund and Rebate Fund established by the Indenture.

"General Fund" shall mean the General Fund of the Commonwealth described in Section 47.010 of the Kentucky Revised Statutes.

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

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

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

"Interest Payment Date" shall mean (i) with respect to any Series of Notes bearing interest at the Daily Rate or Weekly Rate, the first Business Day of a month, (ii) with respect to any Series of Notes bearing interest at the Commercial Paper Rate, the first Business Day after the end of the Commercial Paper Rate Period, (iii) with respect to any Series of Notes bearing interest at the Fixed Rate, the maturity date of such Series of Notes, and (iv) the date any Notes are redeemed, mature or are converted from their existing Interest Rate Mode to bear interest in a different Interest Rate Mode.

"Interest Rate Mode" shall mean any of those modes of interest with respect to a Series of Notes permitted by the Indenture, specifically, the Daily Rate, the Weekly Rate, the Commercial Paper Rate, or the Fixed Rate.

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

"Liquidity Facility" shall mean 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 pursuant to the Indenture, (b) a standby bond 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 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" shall mean the Liquidity Facility in effect immediately prior to acceptance of such Alternate Liquidity Facility.

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

"Memorandum of Instructions" shall mean 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.

"Note Fund" shall mean the Fund so designated which is established and created by the Indenture.

"Note Purchase Agreement" shall mean the applicable Note Purchase Agreement between the Commission and the Underwriter providing for the purchase by the Underwriter of a Series of Notes.

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

"Pledged Assets" shall mean (i) the proceeds of sale of the Notes, (ii) all taxes and revenues required to be deposited in the General Fund (the "Revenues") and (iii) all Funds and Accounts created and established pursuant to the Indenture (except the Rebate Fund), including monies and securities therein.

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

"Proceeds Fund" shall mean the Proceeds Fund created by the 1998 Resolution.

"Purchase Account" shall mean the account within the Note Fund established under the Indenture.

"Purchase Date" shall mean a date on which Notes shall be purchased upon tender thereof under the provisions of the Indenture.

"Purchase Price" shall mean (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.

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

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

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

"Remarketing Agent" shall mean Salomon Smith Barney, 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" shall mean the Remarketing Agreement, dated as of the first Issue Date of any Series of Notes to initially bear interest at the Daily Rate, Weekly Rate or Commercial Paper Rate, between the Remarketing Agent and the Commission, as the same may be amended or supplemented from time to time in accordance with its terms.

"Series" shall mean any series of Notes issued in accordance with the Indenture and Series Resolution, and shall mean and include Additional Notes as defined in the 1998 Resolution.

"Series B Resolution" shall mean the Resolution of the Commission authorizing the issuance of the 1998 Series B Notes.

"Series Resolution" shall mean any resolution of the Commission adopted in connection with, and authorizing, the issuance of a Series of Notes.

"Underwriter" shall mean Salomon Smith Barney as representative of the underwriters identified in the Note Purchase Agreement.

"1998 Resolution" shall mean Resolution of the Commission authorizing the Indenture and the issuance of the 1998 Series A Notes.

## **SUMMARY OF CERTAIN PROVISIONS OF THE 1998 RESOLUTION AND THE INDENTURE**

Summarized below are certain provisions of the 1998 Resolution and the Indenture. This summary does not purport to be complete, and is qualified by reference to the 1998 Resolution and the Indenture.

### **Delivery of the 1998 Series B Notes and Additional Notes**

The Indenture authorizes the issuance of Notes, in one or more Series, in an aggregate principal amount not to exceed \$400,000,000. The Notes are to be issued in anticipation of the receipt of taxes and revenues required to be deposited in the General Fund. Each Series of Notes is to be authorized pursuant to a Series Resolution and upon delivery of a Certificate of Award. The Commission has authorized the Executive Director of the Office of Financial Management and Economic Analysis (its "Authorized Officer") to provide final authorization for the 1998 Series B Notes by issuing 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 shall be issued as Book-Entry-Only Notes; (iv) the initial Interest Rate Mode for such Series of 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 shall be sold to the Underwriter; (ix) the allocation of the proceeds of such Series of Notes; and (x) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Series Resolution or the Indenture. An opinion of Bond Counsel in substantially the form of the opinion set forth in Exhibit B hereto must be delivered upon the issuance of any Series of Notes.

All Notes shall rank on a parity and equality with one another, without regard to Series designation or Issue Date and shall be entitled to the benefit of the continuing pledge and lien created by the Act, which constitutes a portion of the trust estate created by the Indenture, to secure the full and final payment of principal of and interest on all Notes.

### **Security and Pledge of Revenues**

The 1998 Series A Notes, the 1998 Series B Notes together with all Additional Notes issued under the Indenture are special limited obligations of the Commission, payable only from taxes or revenues specifically pledged under the Act for the payment 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) all taxes and revenues required to be deposited in the General Fund (the "Revenues") and (iii) all Funds and Accounts created and established pursuant to the Indenture (except the Rebate Fund), including monies and securities therein.

### **Establishment of Funds**

The 1998 Resolution establishes the Proceeds Fund. The Indenture establishes the following special funds: (i) the Cost of Issuance Fund; (ii) the Note Fund; and (iii) 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 shall be identified by inserting in the designation therefor the Issue Date of the Notes for which the Account was established.

There shall be deposited in the Cost of Issuance Account established on the Issue Date for each Series of Notes, the amount of monies 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, monies 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 herein authorized 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 monies 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 Fund.

### **Proceeds Fund**

The 1998 Resolution establishes a Proceeds Fund. The Proceeds Fund is to be held by the Finance and Administration Cabinet as an account of the General Fund. The proceeds of the 1998 Series B Notes that remain after (i) deposit of accrued interest to the Interest Account of the Note Fund and (ii) deposit of cost of issuance monies to the Cost of Issuance Fund are required to be deposited to the Proceeds Fund.

Monies in the Proceeds Fund are to be used by the Commonwealth for meeting Expenditure Demands on the General Fund of the Commonwealth and, to the extent needed, as set forth below, to pay interest, principal and purchase price, if any, of the Notes.

To the extent that there are not already sufficient monies on deposit in the Note Fund, the Commission, on each Interest Payment Date, is required to cause the Finance and Administration Cabinet (i) to transfer the amount needed to pay interest on the Notes on such Interest Payment Date from the Proceeds Fund to the Trustee for deposit to the Interest Account of the Note Fund and (ii) to transfer the amount needed to pay the principal and purchase price, if any, of the Notes on such dates from the Proceeds Fund to the Trustee for deposit to the Principal Account of the Note Fund, or Purchase Account of the Note Fund, as applicable.

### **Note Fund**

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

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

(A) An Interest Account, into which shall be deposited all amounts (i) received as accrued interest upon the sale and delivery of any Notes; (ii) transferred from the Proceeds Fund for the payment of interest on the Notes; or (iii) received as proceeds of Notes to pay interest on Notes when due.

(B) A Purchase Account, into which shall 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 into a "Draw Subaccount."

(C) A Principal Account, into which shall be deposited all amounts (i) transferred from the Proceeds 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 shall 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 "Proceeds Fund," the Commission is required to cause the Finance and Administration Cabinet to transfer monies on each Interest Payment date from the Proceeds Fund to the Trustee for deposit to the Note Payment Fund for the purpose of paying principal, purchase price and interest on the Notes.

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

(A) Amounts in the Interest Account shall 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) shall be paid to the Credit Facility Provider, and thereafter to pay the fees of any Remarketing Agent, Credit Facility Provider or Liquidity Facility Provider.

(B) Amounts in the Purchase Account shall be used to purchase Notes which are tendered for purchase. Amounts in the Remarketing Proceeds Subaccount shall 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 Section 10.15 of 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, shall pay to the Liquidity Provider or Credit Facility Provider the amount deposited in the Remarketing Proceeds Subaccount as a result of remarketing such Notes.

If the Trustee receives moneys representing amounts drawn on a Liquidity Facility or Credit Facility to pay the Purchase Price of Notes on a Purchase Date or Mandatory Purchase Date, the Paying Agent by wire transfer, shall pay to the Liquidity Provider or Credit Facility Provider the entire amount thereafter deposited in the Purchase Account with respect to such Notes. If the Paying Agent fails to receive remarketing proceeds from the Remarketing Agent or moneys drawn on the Liquidity Facility or Credit Facility in an amount sufficient to pay the Purchase Price of tendered Notes, (a) the Paying Agent shall pay to the Remarketing Agent the entire amount then on deposit in the Purchase Account, and the Remarketing Agent shall return such amount to the prospective purchasers which provided such moneys to the Remarketing Agent, (b) any amount paid by the Liquidity Provider or Credit Facility Provider on such draw shall be deposited in the Note Fund, (c) pursuant to provisions in the Indenture, the Trustee shall declare the Notes to be due and payable and (d) the Trustee shall 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 shall remain uninvested pending application thereof in accordance with the provisions of the Indenture.

(C) Amounts in the Principal Account shall 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) shall be paid to the Credit Facility Provider.

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

The Trustee shall transmit to any Paying Agent, as appropriate, from monies in the Note 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 then due and payable. The Commission authorizes and directs the Trustee to cause withdrawal of monies from the Note Fund which are available for the purpose of paying, and are sufficient to pay, the principal or Purchase Price of 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 monies to the Paying Agents which are necessary to pay such principal, Purchase Price and interest.

### **Rebate Fund**

The Indenture establishes a fund separate from any other fund established and maintained hereunder or under any laws governing the creation and use of funds by the Commission designated as the "Rebate Fund," which fund is required to be held by the Trustee as a trust fund. There shall 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 monies 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 shall have any rights in or claim to such monies.

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 monies into or transfer monies 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 shall 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 shall survive the defeasance or payment in full of the Notes.

### **Investment of Funds**

Except as otherwise described herein, amounts on deposit in any Fund or Account are required to be invested in Eligible Investments. Amounts in the Purchase Account and Credit Facility Account will be held uninvested.

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 shall be necessary in order to provide monies 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 shall pay or cause to be paid, or there shall 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, then and in that event as to those particular Notes the Indenture shall cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission hereunder shall be satisfied and discharged for those particular Notes, and in such event, the Trustee shall, 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 shall pay over or deliver to the Commission all monies 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 monies shall have been set aside and shall be held in trust by Fiduciaries shall, 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 shall, 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 shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice of redemption in the manner herein prescribed, (b) there shall have been deposited with the Trustee either monies in an amount which shall be sufficient, or Defeasance Obligations, hereinafter defined, the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal and interest due and to become due on said Notes on and prior to the redemption or maturity date thereof, as the case may be, and (c) in the event said Notes are not subject to redemption within the next 60 days, the Commission shall have given the Trustee in form satisfactory to it irrevocable instructions to notify the Holders of such Notes of such redemption in the manner herein provided for giving notice of redemption and (d) the Trustee shall have received a Rating Confirmation Notice for the Notes to be defeased. Neither Defeasance Obligations or monies deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Notes.

Anything in the Indenture to the contrary notwithstanding, any monies 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 monies were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such monies if deposited with the Fiduciary after said date when all of the Notes became due and payable, shall (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 shall 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 hereinafter called "United States Obligations".

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

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

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

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

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

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

### **Events of Default**

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 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, the 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 forty-five (45) days after written notice thereof by the Trustee or the Liquidity Provider, the Credit Facility Provider or the Holders of not less than five percent (5%) in principal amount of the Outstanding Notes; or

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

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

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

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

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

Any such declaration shall be by notice in writing to the Commission and the Remarketing Agent, and, upon said declaration, principal and interest on all Notes shall become and be immediately due and payable. The Trustee immediately upon such declaration shall give notice thereof in the same manner as provided 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 shall 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 shall have occurred under paragraphs (6) or (7) above or if for any reason the Liquidity Facility shall no longer be in effect and upon the happening and continuance of any Event of Default specified in paragraphs (1), (2) or (3) above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (4) above, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) of the Outstanding Notes shall 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, shall deem most effectual to protect and enforce such rights or to perform any of its duties under the Indenture.

In the enforcement of any rights and remedies under the Indenture, the Trustee shall 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 hereunder and under the Notes, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce a judgment or decree against the Commission, but solely as provided in the 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 monies adjudged or decreed to be payable.

### **Supplemental Indentures**

The Indenture provides procedures whereby the Commission may amend the Indenture by adoption of a Supplemental Indenture, subject to the consent of the Trustee and any Credit Facility Provider and Liquidity Facility Provider. Amendments that may be made without the consent of the Noteholders must be for purposes of further securing the Notes, imposing further limitations on, surrendering rights of the Commission, curing ambiguities or for any other purpose that does not materially adversely affect the rights of the Noteholders affected thereby.

Amendments of the respective rights and obligations of the Commission and the Noteholders may be made with the written consent of the Holders of not less than 66 ⅔% in principal amount of the Outstanding Notes affected by such amendment and any Credit Facility Provider and Liquidity Facility Provider. No such amendment shall 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 under the Indenture so long as no Event of Default shall have occurred and be continuing only as such duties and obligations are specifically set forth in the Indenture, and no duties or obligations shall 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 shall 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 man would exercise or use under the circumstances in the conduct of his 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.

## **TAX TREATMENT**

In the opinion of Bond Counsel for the 1998 Series B Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 1998 Series B Notes is excludable from gross income for Federal income tax purposes. Bond Counsel for the 1998 Series B Notes is also of the opinion that interest on the 1998 Series B 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 1998 Series B Notes is of the opinion that interest on the 1998 Series B Notes is exempt from income taxation by the Commonwealth and the 1998 Series B Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the 1998 Series B 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 1998 Series B Notes. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the 1998 Series B Notes will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the 1998 Series B Notes being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the 1998 Series B Notes. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 1998 Series B Notes may adversely affect the tax status of the interest on the 1998 Series B Notes.



Certain requirements and procedures contained or referred to the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 1998 Series B 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 1998 Series B 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 1998 Series B Notes has rendered an opinion that interest on the 1998 Series B Notes is excludable from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 1998 Series B 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 1998 Series B 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 1998 Series B Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, 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 1998 Series B Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of 1998 Series B 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 1998 Series B Notes.

The Commission has not designated the 1998 Series B 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 1998 Series B Notes, or in any way contesting or affecting the validity of the 1998 Series B 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 1998 Series B 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 1998 Series B Notes are subject to the unqualified approving opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the Commission. Certain other legal matters will be passed on by Brown, Todd & Heyburn PLLC, Louisville, Kentucky, counsel to the Underwriters.

## **RATINGS**

The following rating agencies (each a "Rating Agency") have given the 1998 Series B Notes the following respective ratings: Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc., "SP-1+"; Moody's Investor's Service, "MIG 1" and Fitch IBCA, Inc. "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: Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc., 25 Broadway, New York, New York 10004, (212) 208-8000; Moody's Investor's Service, 99 Church Street, New York, New York 10007, (212) 583-0300; 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 1998 Series B 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 1998 Series B 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 NRMSIR 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 1998 Series B 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**

Salomon Smith Barney, as representative of the Underwriters, has agreed to purchase the 1998 Series B Notes from the Commission at a purchase price equal to \$100,628,455, which represents the aggregate principal amount of the 1998 Series B Notes plus premium of \$505,008 less the Underwriters' discount of \$76,553. The Underwriters are committed to purchase all of the 1998 Series B Notes if any are purchased.

The Underwriters have advised the Commission that they intend to make a public offering of the 1998 Series B Notes at the initial public offering prices or yields set forth on the cover page hereof; provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters deem necessary in connection with the marketing of the 1998 Series B Notes.

**MISCELLANEOUS**

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Commission and the purchasers or Holders of any of the 1998 Series B Notes.

KENTUCKY ASSET/LIABILITY  
COMMISSION

By \_\_\_\_\_ /s/ John McCarty

John McCarty  
Chairperson

By \_\_\_\_\_ /s/ Gordon L. Mullis, Jr.

Gordon L. Mullis, Jr.  
Secretary

**EXHIBIT A**

**DEBT INFORMATION**

**PERTAINING TO THE COMMONWEALTH OF KENTUCKY**

**COMMONWEALTH DEBT MANAGEMENT**

**Overview of Kentucky's Debt Authorities**

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

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

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

**Debt-Issuing Entities of the State**

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

Seven of the debt-issuing authorities listed in Table I issue bonds to finance projects that are not repaid by state revenues. These are the Kentucky Housing Corporation, the Kentucky Infrastructure Authority, the Kentucky Higher Education Student Loan Corporation, the School Facilities Construction Commission, the Kentucky Economic Development Finance Authority, the Kentucky Local Correctional Facilities Construction and the Kentucky Agricultural Finance Corporation. None of these entities, except for some of the debt of the

School Facilities Construction Commission and the Kentucky Infrastructure Authority, receive an appropriation of the General Assembly for the payment of debt service for their borrowings. Project revenues are used to repay debt service for these debt authorities. The General Assembly has placed specific debt limitations on the principal debt outstanding of the Kentucky Housing Corporation (\$1.125 billion), the Kentucky Higher Education Student Loan Corporation (\$950 Million) and the Kentucky Agricultural Finance Corporation (\$500 Million). The debt of the Kentucky Local Correctional Facilities Construction Authority is limited to the level of debt service supported by a \$10 fee collected from certain cases in the District Courts of the State. Currently, no debt limitation exists for the Kentucky Economic Development Finance Authority.

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

**TABLE I  
ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY</u>	<u>PURPOSE</u>
State Property and Buildings Commission	<b>KRS 56.450</b>	Provide financing for capital construction projects and financing programs approved by the General Assembly.
Kentucky Asset/Liability Commission	<b>KRS 56.860</b>	Provide for short-term financing of Capital projects and the management of cash borrowings.
Turnpike Authority of Kentucky	<b>KRS 175.410-175.990</b>	Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.
The State Universities (consisting of eight)	<b>KRS 56.495</b>	Construct educational buildings and housing and dining facilities.
Kentucky Housing Corporation	<b>KRS 198A</b>	Make low interest mortgage loans and construction loans to increase the supply of housing residents in the State.
Kentucky Infrastructure Authority	<b>KRS 224A</b>	Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.
Kentucky Higher Education Student Loan Corporation	<b>KRS 164A</b>	Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.

School Facilities Construction Commission	<b>KRS 157.800-157.895</b>	Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.
Kentucky Economic Development Finance Authority	<b>KRS 154</b>	Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in high unemployment counties.
Kentucky Local Correctional Facilities Construction Authority	<b>KRS 441.605-441.695</b>	Provide an alternative method of constructing, improving, repairing and financing local jails.
Kentucky Agricultural Finance Corporation	<b>KRS 247.940</b>	Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures.

## **Default Record**

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

## **Debt Management**

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



serves as primary staff to the State Property and Buildings Commission and the Asset/Liability Commission.

## **EXHIBIT B**

### **FORM OF BOND COUNSEL OPINION**

[Date of Delivery]

Kentucky Asset/Liability Commission  
Frankfort, Kentucky

Re: \$100,200,000 Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 1998 Series B

We have examined a certified copy of the transcript of proceedings of the Kentucky Asset/Liability Commission, an independent agency and constituted authority of the Commonwealth of Kentucky (the "Issuer") relating to the authorization, sale and issuance of its General Fund Tax and Revenue Anticipation Notes, 1998 Series B, in the aggregate principal amount of \$100,200,000 (the "1998 Series B Notes"), dated September 17, 1998.

The 1998 Series B Notes have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Sections 56.860 *et seq.* Of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Issuer on June 17, 1998 (the "1998 Resolution"), a Trust Indenture dated as of July 1, 1998 between the Issuer and PNC Bank, National Association, Louisville, Kentucky, as trustee (the "Trustee") (the "Indenture") and a Resolution adopted by the Issuer on September 14, 1998 (the "Series B Resolution").

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 1998 Series B Notes, including a specimen 1998 Series B Note, 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 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 1998 Series B Notes.

2. The Indenture, the 1998 Resolution and the Series B Resolution have been duly authorized, executed and delivered by the Issuer and are valid and binding obligations of the Issuer enforceable in accordance with their respective terms.

3. The 1998 Series B Notes have been duly authorized and issued by the Issuer and are valid and binding limited and special obligations of the Issuer enforceable in accordance with their terms.

4. The 1998 Series B 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 Revenues, as defined in the Act, the funds and accounts established by the Indenture (other than the Rebate Fund as defined therein) and the proceeds of the 1998 Series B Notes.

5. The 1998 Series B Notes are special and limited obligations of the Issuer payable solely and only as provided for by the Act and the Indenture.

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the 1998 Series B 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 1998 Series B 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 1998 Series B Notes.

7. The interest on the 1998 Series B Notes is exempt from income taxation and the 1998 Series B 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 1998 Resolution, the Series B Resolution, the 1998 Series B 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.

Very truly yours,

PECK, SHAFFER & WILLIAMS LLP

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