

**KENTUCKY ASSET/LIABILITY COMMISSION**  
**AUGUST 20, 2007**

**AGENDA**

- |  |   |
|--|---|
| 1. Call to Order<br>A. Quorum<br>B. Notification of press  | Robert M. Burnside, Secretary<br>Finance and Administration Cabinet |
| 2. Approval of Minutes - June 18, 2007 meeting.<br><br>(Attachment A)  | Secretary Burnside  |
| 3. A Resolution providing for the authorization, issuance, sale and delivery of Project Notes, 2007 Federal Highway Trust Fund First Series of the Kentucky Asset/Liability Commission in an aggregate principal amount not to exceed \$300,000,000 for the purpose of providing financing for authorized projects; and authorizing a series Trust Indenture, First Supplement to Financing/Lease Agreement, Note Purchase Agreement, Preliminary Official Statement, Official Statement and other agreements that may be entered into, all related to such notes.<br><br>(Attachment B) | Brett Antle<br>Financial Analyst<br>Office of Financial Management  |
| 4. A Resolution providing for the authorization, issuance, sale and delivery of Project Notes, 2007 Road Fund First Series of the Kentucky Asset/Liability Commission in an aggregate principal amount not to exceed \$350,000,000 for the purpose of providing interim financing for an authorized project in anticipation of the issuance of bonds by the Turnpike Authority of Kentucky; and authorizing a Trust Indenture, Financing Agreement, Note Purchase Agreement, Liquidity Facility, Remarketing Agreement, Exchange Agreement, Disclosure Agreement, Preliminary Official   | Mr. Antle   |

**Statement and Official Statement related to  
such Notes.**

**(Attachment C)**

**5. TRAN Update**

**(Attachment D)**

**Rob Ramsey**

**Financial Analyst**

**Office of Financial Management**

**6. Interest Rate Swaps related to the Kentucky  
Asset/Liability Commission Project Notes,  
2005 General Fund Second Series.**

**(Attachment E)**

**F. Thomas Howard**

**Executive Director**

**Office of Financial Management**

**7. New Business**

**Secretary Burnside**

**8. Adjournment**

**Secretary Burnside**

## KENTUCKY ASSET/LIABILITY COMMISSION

### MINUTES

June 18, 2007

A meeting of the Kentucky Asset/Liability Commission ("ALCo") was called to order by Mike Burnside, Deputy Secretary, Finance and Administration Cabinet and proxy for John Farris, Secretary, Finance and Administration Cabinet on Monday, June 18, 2007 at 10:30 a.m. in Room 76 of the Capitol Annex in Frankfort, Kentucky. Other members present were: Bonnie Howell, proxy for Attorney General Greg Stumbo; Chad Aull, proxy for Jonathan Miller, State Treasurer; Allen Holt, proxy for Brad Cowgill, State Budget Director; and Gerald Hoppmann, proxy for Edgar C. Ross, Executive Director, Office of the Controller.

Chairman Burnside verified with staff that a quorum was present and the press was notified of the meeting.

A motion was made by Allen Holt and seconded by Bonnie Howell to approve the minutes of the April 16, 2007 meeting. Motion carried and the minutes were approved.

Chairman Burnside introduced Resolution 2007-02:

**A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES, OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$600,000,000 FOR THE PURPOSE OF FUNDING EXPENDITURE DEMANDS ON THE GENERAL FUND OF THE COMMONWEALTH OF KENTUCKY; AUTHORIZING A PLEDGE OF A LIEN ON REVENUES REQUIRED TO BE DEPOSITED TO THE GENERAL FUND TO SECURE SUCH NOTES; AUTHORIZING A TRUST INDENTURE SECURING SUCH NOTES; AND AUTHORIZING A FINANCIAL (SWAP) AGREEMENT.**

F. Thomas Howard, Executive Director, Office of Financial Management, stated that Resolution 2007-02 authorizes the sale of General Fund Tax and Revenue Anticipation Notes for the purpose of funding expenditure demands on the General Fund for fiscal year 2008. Mr. Howard noted that this is the Commonwealth's annual cash flow borrowing program. He continued that typically the size of the program is authorized at \$600,000,000. Mr. Howard stated that the size of the TRAN will depend on the ending balance in the General Fund at June 30, 2007 and the TRAN is expected to be considerably less than \$600,000,000. Mr. Howard stated that currently the ending balance is expected to be \$870,000,000 but the balance could increase depending upon revenues collected at the end of the year. Mr. Howard stated that it is anticipated that the Commonwealth will earn in excess of \$5,000,000 in fiscal year 2008 to the net benefit of the General Fund. Mr. Howard stated that a series of fixed rate notes will be issued and swapped back to a variable rate and the proceeds will be reinvested on a variable rate basis matching the asset and the liability and the net earnings will offset the cost of the negative balance in the General Fund for most of the fiscal year. Mr. Howard stated that the

Minutes -- Kentucky Asset/Liability Commission

Page 2

June 18, 2007

financing team for the transaction will consist of Kutak Rock as bond counsel; Citigroup Global Markets, Inc. as underwriter; and Bowles Rice McDavid Graff & Love LLP as underwriter's counsel. Mr. Howard noted that the trustee had not been selected.

A motion was made by Bonnie Howell and seconded by Allen Holt to adopt Resolution 2007-02 authorizing the issuance, sale and delivery of General Fund Tax and Revenue Anticipation Notes of the Kentucky Asset/Liability Commission in an aggregate principal amount not to exceed \$600,000,000 for the purpose of funding expenditure demands on the General Fund, authorizing a pledge of and lien on revenues required to be deposited to the General Fund to secure such notes; authorizing a trust indenture securing such notes; and authorizing a financial (swap) agreement. Motion carried and Resolution 2007-02 was adopted.

Brett Antle, Financial Analyst, Office of Financial Management, presented an update on the Fiscal Year 2007 TRAN delivered in July 2006 in a par amount of \$150,000,000. He stated that the TRAN will mature on June 28, 2007. Mr. Antle pointed out that the General Fund beginning balance was \$852,000,000 in July 2006 and the low point was a negative balance of \$519 million in late November 2006. Mr. Antle stated that to date the economic benefit of the TRAN to the Commonwealth is approximately \$2.5 million and it is anticipated that the total earnings for the fiscal year will be \$3,000,000.

Mr. Howard pointed out that last year the TRAN was downsized because of the \$800,000,000 estimated beginning balance in the General Fund. He stated that this year the TRAN is expected to be \$350,000,000 but will depend on the fiscal year 2007 projected ending balance in the General Fund. Mr. Howard pointed out that the IRS rule regarding the TRAN requires that the deficit must be at least 90 percent of what is borrowed and if that test is not met, all of the earnings from the transaction must be returned. Mr. Howard stated that is the reason that staff is very conservative in sizing the TRAN such that a certain level of economic benefit can be guaranteed to the General Fund.

Mr. Holt asked how much could have been issued. Mr. Howard stated that \$600,000,000 could have been issued and that target must be 90 percent of the absolute low point within six months of the issuance date. Mr. Holt asked what the net benefit to the Commonwealth would have been if \$600,000,000 was issued. Mr. Antle estimated that earnings under current market conditions on this year's TRAN are roughly \$800,000 for every \$50,000,000 issued. Mr. Howard stated that the ending balance is difficult to predict. Statistical data since 1993 which shows movement in the cash balance is used in trying to determine what the balances may be on any given day.

Mr. Antle reported on the \$243,080,000 General Fund Floating Rate Project Notes ("FRN") that were sold and delivered in May 2007. Mr. Antle stated that the FRNs were issued to permanently finance \$100,000,000 of General Fund supported bond projects authorized by the 2006 General Assembly in House Bill 380; \$75 million for the Louisville Arena project and

\$25 million for the Petroleum Storage Tank Environmental Assurance Fund. Mr. Antle stated that the remaining portion of the Notes was sold to advance refund certain maturities of State Property and Buildings Commission Project 79 and Project 85 bonds. He further stated that the structure included four Term Notes that were sold which had an accompanying interest rate swap which turned the Notes transaction into a synthetic fixed rate product. Mr. Antle stated that the financing team consisted of Citigroup Global Markets as the underwriter, Kutak Rock LLP as bond counsel, and the trustee was Bank of New York. He also stated that Citibank served as the swap counterparty on the swaps. Mr. Antle noted that the net present value savings from the refunding portion of the transaction was \$3,388,523 for a net present value percentage savings of refunded principal of approximately 2.582 percent.

Mr. Howard recognized Dr. Eugene Harrell, who recently retired from the State Treasurer's Office, and thanked him for his service to not only the people of the Commonwealth but to the Office of Financial Management. Mr. Howard read into the record a Resolution of Appreciation. A motion was made by Bonnie Howell and seconded by Allen Holt to adopt the Resolution of Appreciation of the Kentucky Asset/Liability Commission for Dr. Eugene Harrell. Motion carried and the Resolution of Appreciation was adopted.

With no further business before the Commission, a motion was made by Bonnie Howell and seconded by Allen Holt to adjourn the meeting. Motion carried and the meeting was adjourned.

Respectfully submitted,

F. Thomas Howard  
Secretary

**A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2007 FEDERAL HIGHWAY TRUST FUND FIRST SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$300,000,000 FOR THE PURPOSE OF PROVIDING FINANCING FOR AUTHORIZED PROJECTS; AND AUTHORIZING A SERIES TRUST INDENTURE, FIRST SUPPLEMENT TO FINANCING/LEASE AGREEMENT, NOTE PURCHASE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT, OFFICIAL STATEMENT AND OTHER AGREEMENTS THAT MAY BE ENTERED INTO, ALL RELATED TO SUCH NOTES.**

WHEREAS, pursuant to Section 56.860 et seq. of the Kentucky Revised Statutes (the "Act"), the Kentucky Asset/Liability Commission (the "Commission") was created and exists as an independent agency and constituted authority of the Commonwealth of Kentucky (the "Commonwealth") and is authorized to issue Project Notes, as defined in the Act, at the request of the Cabinet, as defined in the Act, to provide financing for Authorized Projects, as defined in the Act; and

WHEREAS, the General Assembly, pursuant to H.B. 380 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part (the "Budget Act"), authorized the expenditure of funds by the Transportation Cabinet (the "State Agency") for the purpose of paying certain amounts for certain federal highway projects (the "Projects," further defined herein) to be financed with bonds, which Projects constitute Authorized Projects, as defined in the Act; and

WHEREAS, the State Agency and the Cabinet have requested, in accordance with the Act, that the Commission issue and sell Project Notes to provide funds for the Projects in anticipation of future federal funds being made available by the Federal Highway Administration ("FHWA"); and

WHEREAS, the State Agency has entered into a "Memorandum of Agreement" with FHWA, providing that FHWA will reimburse the State Agency for debt service and costs incurred for those Project Notes, including principal, interest and other "Bond-related costs," as provided in Title 23, Section 122 U.S. Code; and

WHEREAS, based upon the request of the Cabinet and the State Agency and approval of the State Property and Buildings Commission ("SPBC"), the Commission has determined to provide financing for the Projects through the issuance of its Project Notes, 2007 Federal Highway Trust Fund First Series (the "2007 Notes");

NOW, THEREFORE, BE IT RESOLVED by the Kentucky Asset/Liability Commission that:

**Section 1. Definitions.** When used in this Resolution, in addition to the words defined in the preamble hereto, the following words shall have the indicated meanings:

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

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

**“Budget Act”** means H.B. 380 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part.

**“Code”** means the Internal Revenue Code of 1986, as amended. Any reference to the Code shall include any applicable temporary, proposed or final Treasury Regulations.

**“Commonwealth”** means the Commonwealth of Kentucky.

**“Cost of Issuance Fund”** means the fund by that name established under the Indenture.

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

**“Event of Default”** means any of the events set forth and defined as such in the Indenture.

**“Executive Officer”** means the Chairman of the Commission.

**“FHWA”** means the Federal Highway Administration.

**“Final Maturity Date”** means a date that is no later than June 30, 2022.

**“Financing Agreement”** means the Financing/Lease Agreement, dated as of May 1, 2005, as supplemented and amended by the First Supplement to Financing/Lease Agreement, dated as of September 1, 2007, each by and among the Commission, the State Agency and the Cabinet, by which the Project will be funded for the State Agency and any amendments or supplements thereto.

**“Financing Payments”** means Financing Payments payable under the Financing Agreement.

**“Funds and Accounts”** means the Cost of Issuance Fund, Note Payment Fund, Project Fund and Rebate Fund established by the Indenture.

**“Indenture”** means collectively, the Master Trust Indenture and the 2007 Series Indenture, as the same may be amended as provided therein.

**“Interest Payment Date”** or **“interest payment date”** means the dates established as such in the Indenture.

**“Master Trust Indenture”** means the Master Trust Indenture, dated as of May 1, 2005, by and between the Commission and the Trustee securing the Notes, as the same may be amended as provided therein.

**“Memorandum of Agreement”** means the Memorandum of Agreement, executed in April 2005, between the State Agency and FHWA regarding the allocation and payment of certain federal highway trust funds related to the Notes, as amended and supplemented from time to time.

**“Memorandum of Instructions”** means the Memorandum of Instructions Regarding Rebate, dated as of May 1, 2005, delivered to the Commission and the Trustee at the time of the issuance and delivery of the 2005 Notes and as supplemented and amended at the time of the issuance and delivery of the 2007 Notes, as the same may be amended or supplemented in accordance with its terms.

**“Note Payment Fund”** means the fund by that name to be established under the Indenture.

**“Note Purchase Agreement”** means the Note Purchase Agreement between the Commission and the Original Purchaser relating to the 2007 Notes.

**“Note Resolution”** means this Resolution, as the same may from time to time be lawfully amended, modified or supplemented.

**“Noteholder,” “holder,” “holder of Notes,” “owner of Notes”** or any similar term means any person in whose name a 2007 Note is registered on the Note Register.

**“Notes”** means the Commission’s Project Notes to be issued under the provisions of the Indenture, including the 2005 Notes and the 2007 Notes.

**“Original Purchaser”** means Citigroup Global Markets Inc., as representative of the underwriters named in the Note Purchase Agreement.

**“Paying Agent”** means the Trustee or its lawful successor.

**“Project”** means, collectively, the “Bond Financed Projects” described in the Memorandum of Agreement, which are more particularly described in *Exhibit A* to the Financing Agreement.

**“Project Fund”** means the fund by that name established under the Indenture.

**“Rebate Fund”** means the fund by that name to be established under the Indenture.

**“Redemption Date”** means the date, if any, established for the redemption of any of the 2007 Notes in the Indenture.

**“State Agency”** means the Transportation Cabinet.



“*SPBC*” means the Commonwealth of Kentucky State Property and Buildings Commission.

“*Trustee*” means the bank or trust company that is designated as such in the Indenture or any successor trustee under the terms of the Indenture.

“*2005 Notes*” means the Commission’s Project Notes, 2005 Federal Highway Trust Fund First Series previously issued under the provisions of the Indenture.

“*2007 Notes*” means the Commission’s Project Notes, 2007 Federal Highway Trust Fund First Series to be issued under the provisions of the Indenture.

“*2007 Series Indenture*” means the Series Trust Indenture, dated as of September 1, 2007, by and between the Commission and the Trustee securing the 2007 Notes, as the same may be amended as provided therein.

Any reference to the Commission, or to its members, officers or to other public officers, boards, commissions, departments, institutions, agencies, bodies or entities shall include those which succeed to their functions, duties or responsibilities by operation of law, and also those who at the time may legally act in their place.

References to the Act, the Code, to any act or resolution of the Kentucky General Assembly, to a section, chapter, division, paragraph or other provision of the Kentucky Revised Statutes or the Constitution of Kentucky, or to the laws of Kentucky, shall include the Act, the Code, that act or resolution, that section, chapter, division, paragraph or other provision, and those laws as from time to time amended, modified, supplemented, revised or superseded, unless expressly stated to the contrary, provided that no such amendment, modification, supplementation, revision or supersession shall alter the obligation to pay the outstanding Notes, at the time of any such action, in the amount and manner, at the times and from the sources provided in this Resolution and the Indenture, except as otherwise herein permitted.

Unless the context otherwise indicates, words importing the singular number shall include the plural number and words importing the plural number shall include the singular number. The terms “hereof”, “herein”, “hereby”, “hereto” and “hereunder,” and similar terms, mean both this Resolution and the Indenture, except in the case of reference to a stated section number of either.

**Section 2. Determinations by Commission.** The Commission hereby finds and determines that (a) it is necessary to issue, sell and deliver the 2007 Notes in an aggregate principal amount not to exceed \$300,000,000, as requested by the Cabinet and the State Agency and approved by the SPBC, for the purpose of paying the costs of the Project; (b) it is necessary to execute and deliver the 2007 Series Indenture in accordance with the terms of the Master Trust Indenture in order to secure the Notes; (c) it is necessary to execute and deliver the Financing Agreement in order to provide for a source of payment for the 2007 Notes; (d) the maximum maturity of the 2007 Notes does not exceed 120% of the expected useful life of the Project; and (e) the 2007 Notes will not constitute a debt of the Commonwealth or a pledge of the faith and credit of the Commonwealth or any political subdivision thereof.

### **Section 3. Issuance of the 2007 Notes.**

(a) In accordance with its lawful authority and powers and according to the Act and the request of the Cabinet and the State Agency pursuant to the Act, the Commission will, responsive to such request, proceed with all reasonable dispatch to authorize in its own name and issue the 2007 Notes, in one or more series, in the amount necessary to pay the cost of the Project and the costs of issuing the 2007 Notes, subject to the limitations of the Act.

(b) The 2007 Notes shall be designated "Kentucky Asset/Liability Commission Project Notes, Federal Highway Trust Fund Series" with an appropriate series designation relating to the year in which the 2007 Notes are issued, shall be negotiable instruments in accordance with the Act, shall be issued only in fully registered form, without coupons, shall be substantially in the form provided in the Indenture, shall be in denominations and shall be dated as provided in the Indenture, shall be in the aggregate principal amount not to exceed \$300,000,000, shall be numbered as set forth in the Indenture, and shall express upon their faces the purpose for which they are issued and that they are issued pursuant to the Act. The 2007 Notes shall be exchangeable for other 2007 Notes in the manner and upon the terms set forth in the Indenture.

(c) The 2007 Notes shall be executed by the signatures of the Chairman and Secretary of the Commission, provided that either or both such signatures may be facsimiles. The 2007 Notes shall bear interest from the most recent date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for, from their dates.

(d) The 2007 Notes shall mature on the dates and in the amounts set forth in the Indenture, provided that the 2007 Notes shall mature no later than the Final Maturity Date. The 2007 Notes shall bear interest payable as provided in the Indenture and shall have such further terms as may be set forth in the Indenture.

(e) The 2007 Notes may be subject to optional redemption prior to maturity as may be set forth in the Indenture.

(f) The 2007 Notes shall be payable in lawful money of the United States of America without deduction for the services of the Trustee or the Paying Agent, in the manner provided in the Indenture.

**Section 4. Sale of the 2007 Notes.** The 2007 Notes shall be sold to the Original Purchaser at the price set forth in the Note Purchase Agreement, plus accrued interest on the 2007 Notes from their dated date to the date of delivery to and payment by the Original Purchaser, all in accordance with, and subject to the terms and conditions of, the Original Purchaser's proposal contained in the Note Purchase Agreement.

The Authorized Officer is hereby further authorized and directed to execute and deliver, in the name and on behalf of the Commission, the Note Purchase Agreement, in the usual and customary form, with such changes therein not inconsistent with this Note Resolution and not substantially adverse to the Commission as may be approved by such Authorized Officer. The

approval of such officer, and that such Note Purchase Agreement is consistent with this Note Resolution and not substantially adverse to the Commission, shall be conclusively evidenced by the execution of such Note Purchase Agreement by such officer.

The Authorized Officer is hereby authorized to make arrangements for the delivery of the Notes to, and payment therefor by, the Original Purchaser.

**Section 5. Allocation of Proceeds of the 2007 Notes.** The proceeds received by the Commission from the sale of the 2007 Notes shall be allocated as follows:

- (a) to the Note Payment Fund, any accrued interest paid by the Original Purchaser;
- (b) to the Project Fund, the amount authorized for the Project by the Budget Act; and
- (c) to the Cost of Issuance Fund, the balance of such proceeds.

Such proceeds are hereby allocated for the purposes of the respective funds into which such proceeds are deposited.

**Section 6. Security for the 2007 Notes.** The 2007 Notes shall be payable solely from payments to be received by the Commission under the Financing Agreement and any other security which may be pledged under the Indenture, and shall be secured only by the Indenture granting a lien upon the trust estate thereby created, all upon the terms set forth herein and in the Indenture.

**Section 7. Creation of Funds; Recordkeeping; Application of Moneys.** Pursuant to the Indenture, there has been created and ordered maintained in the custody of the Trustee (except when invested as herein provided) the Note Payment Fund and the Cost of Issuance Fund, which are trust funds applicable only for the purposes intended and to secure the Notes. There has also been created, an account within the Commonwealth's management administrative and reporting system, known as the Project Fund, which shall be applied as provided in the Indenture.

A record of each deposit into and disbursement from each Fund shall be made and maintained by the person having custody of such Fund and, as required in the Financing Agreement, the State Agency shall maintain complete records of all disbursements relating to the Project Fund.

Moneys in any Fund shall be applied, held and invested by the holder of such Fund only as and to the extent authorized by and in a manner consistent with the Indenture. Any officer to whom, or any bank or trust company to which, any moneys acquired by the Commission under the Act are paid shall act as trustee of such moneys and hold and apply them for the purposes of the Act, subject to such conditions as the Act, the Note Resolution or the Indenture provide.

**Section 8. Project Fund.** Moneys in the Project Fund shall be applied by the Treasurer to pay costs of the Project in accordance with written requisitions submitted to the Treasurer from time to time in accordance with the Indenture and the Financing Agreement.

**Section 9. Note Payment Fund.** Moneys in the Note Payment Fund shall be applied by the Trustee only to the payment of the principal of, premium, if any, and interest on the Notes when due, whether due to maturity, redemption or otherwise, and for no other purpose. On each Interest Payment Date and each such maturity or redemption date of the Notes, the Trustee shall make available to the Paying Agent, from amounts on deposit in the Note Payment Fund, an amount equal to the amount due on such date, and the Paying Agent shall effect the payment thereof.

If at any time the Commission shall so request and shall have provided the Trustee with moneys sufficient, together with moneys and investments then in the Note Payment Fund, to redeem on the next available redemption date any outstanding Notes, without thereby reducing the balance thereafter remaining in the Note Payment Fund below the amount which on such redemption date would be required by the Indenture to be on hand therein with respect to Notes not so to be retired, the Trustee shall make available out of the Note Payment Fund the amount required, together with the other moneys provided, to accomplish such redemption.

**Section 10. Cost of Issuance Fund.** Moneys in the Cost of Issuance Fund shall be applied by the Trustee to pay those costs of issuing the 2007 Notes set forth in written requisitions submitted to the Trustee from time to time in accordance with the Indenture.

**Section 11. Rebate Fund.**

(a) Under the Indenture there has been created and ordered maintained in the custody of the Trustee (except when invested as herein provided) the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain two accounts: (i) the Excess Earnings Account (the "Excess Account") and (ii) the Excess Earnings Investment Income Account (the "Earnings Account"). 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 the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall 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 United States of America, and neither the Commission nor the owner of any Notes shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by the Indenture and by the Memorandum of Instructions (which is incorporated herein by reference).

(b) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds created under the Indenture or from other moneys provided to it by the Commission upon its request for said moneys from the Commission as set forth in the Memorandum of Instructions.

(c) The Trustee shall, at the direction of the Commission, invest all amounts held in the Rebate Fund in Eligible Investments, subject to the restrictions set forth in the Memorandum of Instructions. The Trustee shall deposit all earnings (calculated by taking into account net gains or losses on sales or exchanges and taking into account amortized discount or premium as a gain or loss, respectively) on investments held in the Excess Account into the Earnings Account. All earnings on investments in the Earnings Account shall be retained in the Earnings Account. Money shall not be transferred from the Earnings Account except as provided in paragraph (d) below.

(d) The Trustee shall remit part or all of the balances in the Excess Account and the Earnings Account to the United States, as directed in the Memorandum of Instructions. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the Excess Account and the Earnings Account from or into such account or funds as directed by written directions of the Authorized Officer. 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 the Commission.

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

**Section 12. Investment of Funds.** Moneys in the Note Payment Fund, the Project Fund and the Cost of Issuance Fund may be invested in Eligible Investments until required for the purposes of the Note Payment Fund, Cost of Issuance Fund or Project Fund, as the case may be. Any investment of moneys in the Note Payment Fund and the Cost of Issuance Fund held by the Trustee shall be made by the Trustee at the written or oral (and, if oral, promptly confirmed in writing) direction of the Authorized Officer.

Any investment of moneys in any Fund or account thereof shall constitute a part of that respective Fund or account and such respective Fund or account shall be credited with all proceeds of sale, and gain or loss, from such investment. Interest earnings on moneys in any Fund or account thereof shall be credited when received to the Fund or account from which such investment was made. For investment purposes only, moneys in a Fund or account may be commingled with moneys from one or more other Funds or accounts, provided that separate records are maintained for each Fund and account, the investments made therefrom, and the interest earnings credited thereto.

**Section 13. Additional Covenants of the Commission.** The Commission hereby covenants and agrees with the holders of the 2007 Notes from time to time and with the Trustee, so long as any 2007 Notes are outstanding, as follows:

(a) The Financing Agreement will continue to be maintained by the Commission. In the event the State Agency for any reason whatsoever fails to pay any Financing Payments or Additional Payments specified in the Financing Agreement, the Commission covenants with the holders of the 2007 Notes, subject to necessary

limitations imposed by the requirements of efficient government operation, that it will use its best efforts to make payments of Financing Payments or Additional Payments so that the aggregate of the gross receipts and revenues from the Financing Agreement at all times will be sufficient to make said minimum prescribed payments into the Note Payment Fund; provided, however, that (i) the Commission shall have no obligation to make financing payments from any source other than amounts payable by the FHWA under the Memorandum of Agreement and (ii) no action shall be taken which, in Counsel's opinion, would have the effect of materially altering the federal income tax status of the interest earned on the 2007 Notes.

(b) It will in ample time prior to the beginning of each fiscal biennium confer with the proper officials of the State Agency to induce the State Agency to include in its budget such provisions and arrangements as may be required and appropriate to enable the State Agency to continue to pay the prescribed Financing Payments and Additional Payments during such biennial period.

(c) So long as any of the 2007 Notes are outstanding and unpaid as to either principal or interest, it will continuously enforce the Financing Agreement to the maximum extent permitted by law, and will not consent to any modification of such Financing Agreement which would in any particular way impair the security created for the holders of the 2007 Notes.

(d) It will take in timely manner all necessary actions to issue the 2007 Notes as provided herein and in the Note Purchase Agreement.

**Section 14. The Indenture, Financing Agreement and Other Documents.** In order to secure the payment of 2007 Notes as the same shall become due and payable and the performance of the obligations of the Commission in the Note Resolution, the Indenture, the Financing Agreement and the 2007 Notes, the Authorized Officer is hereby authorized to execute, acknowledge and deliver, on behalf of the Commission, to the Trustee the Series 2007 Indenture, which shall grant a first lien on the revenues and the moneys and investments in the Funds as security for the payment of the 2007 Notes for so long as any 2007 Notes remain outstanding, in substantially the form submitted to the Commission, which is hereby approved, with such changes therein not inconsistent with the Note Resolution and not substantially adverse to the Commission as may be permitted by the Act and approved by such officer. The approval of such changes by such officer, and that such changes are not substantially adverse to the Commission, shall be conclusively evidenced by the execution of the Indenture by such officer. The Authorized Officer is hereby further authorized to execute, acknowledge and deliver, on behalf of the Commission, the Financing Agreement, in substantially the form submitted to the Commission, which is hereby approved, with such changes therein not inconsistent with the Note Resolution and not substantially adverse to the Commission as may be permitted by the Act and approved by such officer.

The Authorized Officer is hereby separately authorized to take any and all actions, including appointing the Trustee, and to execute such other instruments that may be necessary or appropriate in order to effect the issuance of the 2007 Notes and the intent of this Note Resolution. The Secretary of the Commission or other appropriate officer of the Commission

shall certify a true transcript of all proceedings had with respect to the issuance of the 2007 Notes, along with such information from the records of the Commission as is necessary to determine the regularity and validity of the issuance of the 2007 Notes.

This Note Resolution shall constitute a part of the Indenture, and the provisions of the Indenture, including, without limitation, those provisions of the Indenture relating to amendment, severability, modification and supplementation shall apply to this Note Resolution.

**Section 15. Tax Matters.** The Commission hereby covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on any of the 2007 Notes under Section 103(a) of the Code. Without limiting the generality of the foregoing, the Commission hereby covenants as follows:

The Commission will not directly or indirectly use or permit the use of any proceeds of the 2007 Notes or any other funds of the Commission, or take or omit to take any action that would cause any of the 2007 Notes to be “arbitrage bonds” within the meaning of Sections 103(b)(2) and 148 of the Code. To that end, the Commission will comply with all requirements of Sections 103(b)(2) and 148 of the Code applicable to any of the 2007 Notes. In the event that at any time the Commission is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held under this Note Resolution or the Indenture, the Authorized Officer shall either cause such actions as may be necessary to accomplish the foregoing or shall, if applicable, instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions. The Authorized Officer, or any other officer having responsibility with respect to the issuance of the 2007 Notes, is authorized and directed to give an appropriate certificate on behalf of the Commission, on the date of delivery of the 2007 Notes for inclusion in the transcript of proceedings, setting forth the facts, estimates and circumstances and reasonable expectations pertaining to the use of the proceeds thereof and the provisions of such Sections 103(b)(2) and 148, and to execute and deliver on behalf of the Commission an IRS Form 8038G in connection with the issuance of the 2007 Notes.

Without limiting the generality of the foregoing, the Commission agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive payment in full or defeasance of any of the 2007 Notes. The Commission specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined under Section 11 hereof the Rebate Amounts, as described in the Memorandum of Instructions. The Trustee agrees to perform all tasks required of it in the Memorandum of Instructions.

Notwithstanding any provision of this Section, if the Commission shall provide to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under this Section and Section 11 hereof is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on any of the 2007 Notes pursuant to Section 103(a) of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions hereof.

**Section 16. Official Statement.** The Authorized Officer is authorized to execute and deliver preliminary and final official statements on behalf of the Commission, in such forms as such officer may approve, such officer's execution thereof on behalf of the Commission to be conclusive evidence of such authorization and approval, and copies thereof are hereby authorized to be prepared and furnished to the Original Purchaser for distribution to prospective purchasers of the 2007 Notes and other interested persons.

The Authorized Officer is authorized on behalf of the Commission to furnish such information, to execute such instruments and to take such other actions in cooperation with the Original Purchaser as may be reasonably requested to qualify the 2007 Notes for offer and sale under the Blue Sky or other securities laws and regulations and to determine their eligibility for investment under the laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Original Purchaser; provided however, that the Commission shall not be required to register as a dealer or broker in any such state or jurisdiction or become subject to the service of process in any jurisdiction in which the Commission is not now subject to such service.

**Section 17. Severability.** Should it be judicially determined by a court having jurisdiction to pass upon the validity of the Note Resolution, the Indenture, the Financing Agreement or the 2007 Notes that any provision of this Note Resolution is beyond the powers of the Commission, or is otherwise invalid, then such decision shall in no way affect the validity of the Note Resolution or any proceedings related thereto, except as to the particular matters found by such decision to be invalid.

**Section 18. Ratification.** All actions previously taken or that will be taken by any employee or agent of the Commission in connection with or related to the matters set forth in or reasonably contemplated by this Note Resolution be, and each of them hereby is, adopted, ratified, confirmed and approved in all respects as the acts and deed of the Commission.

**Section 19. Open Meetings Determination.** The Commission hereby finds and determines that all formal actions relative to the adoption of this Note Resolution were taken in an open meeting of this Commission, and that all deliberations of this Commission and of its committees, if any, which resulted in formal action, were taken in meetings open to the public, in full compliance with applicable legal requirements.

**Section 20. Effective Date.** This Note Resolution shall take effect immediately upon its adoption.



Adopted on: August 20, 2007.

---

**Robert M. Burnside**  
Chairman

Attest:

---

**F. Thomas Howard**  
Secretary

**CERTIFICATE**

It is hereby certified that the foregoing is a true and correct copy of a resolution duly adopted by the Kentucky Asset/Liability Commission on the 20th day of August, 2007, and such resolution has not been altered, amended or repealed.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this \_\_\_\_\_ day of \_\_\_\_\_, 2007.

KENTUCKY ASSET/LIABILITY  
COMMISSION

\_\_\_\_\_  
Secretary

## Preliminary New Bond Issue Information

<b>Issue</b>	Kentucky Asset/Liability Commission Project Notes, 2007 Federal Highway Trust Fund First Series		
<b>Purpose of Issue</b>	The Transportation Cabinet's Federal Highway Trust Funds support the Grant Anticipation Revenue Vehicle (GARVEE) bonds which are not to exceed \$300 million. Proceeds will be used for interstate improvements. The fixed rate Notes will have a 14-year term and when combined with the 2005 GARVEE issue will have level debt service paid from Federal Highway Administration reimbursements.		
<b>Authorization</b>	The 2006 Regular Session of the General Assembly, House Bill 380, authorized GARVEE project financing of \$290 million.		
<b>Proposed Date of Sale</b>	August 29, 2007		
<b>Expected Delivery Date</b>	September 12, 2007		
<b>Expected Ratings: (Insured)</b> (Underlying Ratings)	Moody's: Aaa TBD	S&P: AAA TBD	Fitch: AAA TBD
<b>Net Proceeds for the Project:</b>	\$	290,000,000	
<b>Plus:</b>			
<b>Issuance Cost</b>		115,218	
<b>Underwriter's Discount</b>		1,390,350	
<b>Insurance Premium</b>		1,017,167	
<b>Gross Proceeds</b>		292,522,735	
<b>True Interest Cost (Tax-exempt)</b>		4.34%	
<b>Call Date @ Par</b>		September 1, 2017	
<b>Final Maturity Date</b>		September 1, 2021	
<b>Gross Debt Service</b>		406,866,671	
<b>Avg. Annual Debt Service</b>		29,125,473	
<b>Method of Sale</b>	Negotiated		
<b>Bond Counsel</b>	Kutak Rock		
<b>Underwriter</b>	Citi		
<b>Underwriter's Counsel</b>	Ballard Spahr Andrews & Ingersoll		
<b>Trustee</b>	Bank of New York Trust Company		
<b>Financial Advisor</b>	Office of Financial Mgmt.		

The KY Transportation Cabinet has a Memorandum of Agreement with the Federal Highway Administration for payment of the GARVEES from the federal Annual Obligation Authority.

**Kentucky Asset/Liability Commission**  
**GARVEE Bonds Series 2007**  
Preliminary, subject to change  
Wrap Debt Service Solution

<b>Period Ending</b>	<b>Proposed Principal</b>	<b>Proposed Debt Service</b>	<b>Existing Debt Service</b>	<b>Total Adj Debt Service</b>
6/30/2008	0	6,526,921	15,352,313	21,879,233
6/30/2009	11,200,000	24,823,500	15,351,063	40,174,563
6/30/2010	11,335,000	24,395,125	15,351,913	39,747,038
6/30/2011	11,850,000	24,330,500	15,404,963	39,735,463
6/30/2012	12,490,000	24,362,000	15,355,588	39,717,588
6/30/2013	13,120,000	24,351,750	15,351,525	39,703,275
6/30/2014	13,775,000	24,334,375	15,353,275	39,687,650
6/30/2015	14,465,000	24,318,375	15,351,275	39,669,650
6/30/2016	15,190,000	24,302,000	15,351,813	39,653,813
6/30/2017	15,950,000	24,283,500	15,352,250	39,635,750
6/30/2018	16,745,000	24,261,125	15,351,000	39,612,125
6/30/2019	32,935,000	39,209,125	0	39,209,125
6/30/2020	34,580,000	39,166,250	0	39,166,250
6/30/2021	36,310,000	39,124,000	0	39,124,000
6/30/2022	38,125,000	39,078,125	0	39,078,125
	<b>278,070,000</b>	<b>406,866,671</b>	<b>168,926,975</b>	<b>575,793,646</b>

**A RESOLUTION PROVIDING FOR THE AUTHORIZATION, ISSUANCE, SALE AND DELIVERY OF PROJECT NOTES, 2007 ROAD FUND FIRST SERIES OF THE KENTUCKY ASSET/LIABILITY COMMISSION IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$350,000,000 FOR THE PURPOSE OF PROVIDING INTERIM FINANCING FOR AN AUTHORIZED PROJECT IN ANTICIPATION OF THE ISSUANCE OF BONDS BY THE TURNPIKE AUTHORITY OF KENTUCKY; AND AUTHORIZING A TRUST INDENTURE, FINANCING AGREEMENT, NOTE PURCHASE AGREEMENT, LIQUIDITY FACILITY, REMARKETING AGREEMENT, EXCHANGE AGREEMENT, DISCLOSURE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT RELATED TO SUCH NOTES.**

WHEREAS, pursuant to Section 56.860 et seq. of the Kentucky Revised Statutes (the "Act"), the Kentucky Asset/Liability Commission (the "Commission") was created and exists as an independent agency and constituted authority of the Commonwealth of Kentucky (the "Commonwealth") and is authorized to issue Project Notes, as defined in the Act, at the request of the Cabinet, as defined in the Act, to provide interim financing for Authorized Projects, as defined in the Act, in anticipation of the issuance of bonds; and

WHEREAS, pursuant to Chapter 175 of the Kentucky Revised Statutes (the "Turnpike Act") and as authorized by H.B. 380 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part (the "Budget Act"), "Economic Development Road Bonds" in the aggregate principal amount of \$350,000,000 have been authorized to pay the costs of additions and improvements to the System, hereinafter defined (the "Project"), which Project constitutes an Authorized Project, as defined in the Act; and

WHEREAS, the Transportation Cabinet of the Commonwealth of Kentucky (the "Transportation Cabinet") has applied to The Turnpike Authority of Kentucky (the "Authority") for the issuance of bonds to provide permanent financing for the Project and has requested, in accordance with the Act, that the Commission issue and sell Project Notes to provide funds for the Project in anticipation of the issuance of such bonds; and

WHEREAS, the Authority has determined, based on such request and the authorizations set forth in the Budget Act, to issue its revenue bonds for the Project, and in anticipation thereof and based upon the request of the Cabinet, the Transportation Cabinet and the Authority and approval of the State Property and Buildings Commission, the Commission has determined to provide interim financing for the Project through the issuance of its Project Notes, 2007 Road Fund First Series (the "Notes"); and

WHEREAS, the Commission is authorized to enter into Financial Agreements, as defined in the Act, to stabilize the Commonwealth's Net Interest Margin, as defined in the Act and may, in order to stabilize the Commonwealth's Net Interest Margin related to the Notes, enter into one or more confirmations under an International Swaps and Derivatives Association, Inc. Master

Agreement, in the usual and customary form that is appropriate for Project Notes of the Commission, which Master Agreement and confirmations constitute a Financial Agreement;

NOW, THEREFORE, BE IT RESOLVED by the Kentucky Asset/Liability Commission that:

**Section 1. Definitions.** When used in this Resolution and the Indenture, the following words shall have the indicated meanings.

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

“*Authority*” means The Turnpike Authority of Kentucky.

“*Authorized Denominations*” means \$100,000 and integral multiples of \$5,000 in excess thereof.

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

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

“*Book-entry form*” or “*book-entry system*” means, with respect to any Notes issued in such form or pursuant to such a system, a form or system, as applicable, under which (a) the ownership of beneficial interests in Notes may be transferred only through a book entry and (b) physical Note certificates in fully registered form are registered only in the name of a Depository or its nominee as Noteholder, with the physical Note certificates “immobilized” in the custody of the Depository. The book-entry system maintained by and the responsibility of the Depository and not maintained by or the responsibility of the Commission or the Trustee is the record that identifies, and records the transfer of the interests of, the owners of beneficial (book-entry) interests in the Notes.

“*Business Day*” means Business Day, as defined in the Indenture.

“*Cabinet*” means the Finance and Administration Cabinet of the Commonwealth of Kentucky.

“*Certificate of Award*” means the certificate of an Authorized Officer establishing certain terms of the Notes and authorized in Section 2.04 of the Indenture.

“*Code*” means the Internal Revenue Code of 1986, as amended. Any reference to the Code shall include any applicable temporary, proposed or final Treasury Regulations.

“*Commonwealth*” means the Commonwealth of Kentucky.

**“Cost of Issuance Fund”** means the fund by that name established under the Indenture.

**“Credit Facility”** shall mean with respect to any Series of Notes (A) a letter of credit, a bond insurance policy or a surety bond to be issued by a Credit Facility Provider and delivered to the Trustee on the same date as the initial delivery of such Series of Notes and being an irrevocable obligation to make payment to the Trustee of up to the amounts therein specified with respect to (a) the principal amount of such Series of Notes outstanding to enable the Trustee to pay (i) the principal amount of such Series of Notes when due at maturity or upon redemption, and (ii) if the Credit Facility is in the form of a letter of credit, an amount equal to the principal portion of the Purchase Price of any of such Series of Notes tendered for purchase pursuant to Sections 4.03 or 4.04 of the Indenture or due upon acceleration, 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 on any Interest Payment Date or upon acceleration and (ii) if the Credit Facility is in the form of a letter of credit, an amount equal to the interest portion, if any, of the Purchase Price of such Series of Notes tendered for purchase; as the same may be transferred, reissued, amended or replaced in accordance with the Indenture and the Credit Facility and (B) upon the issuance and effectiveness thereof, any Alternate Credit Facility. A Credit Facility shall not constitute a Liquidity Facility under the Indenture.

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

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

**“Depository”** means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry system to record ownership of beneficial interest in any series of Notes, and to effect transfers of book entry interests in such Notes, and includes and means initially The Depository Trust Company, New York, New York (a limited purpose trust company).

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

**“Event of Default”** means any of the events set forth and defined as such in the Indenture.

**“Exchange Agreement”** means an International Swap Dealers Association, Inc. Master Agreement related to Confirmations entered into with respect to the Notes.

**“Executive Officer”** means the Chairman of the Commission.

**“Financing Agreement”** means the Financing/Lease Agreement, dated as of September 1, 2007 between the Commission, the Cabinet, the Transportation Cabinet and the Authority by which the Project is leased to the Transportation Cabinet, and any amendments or supplements thereto.

*“Financing Payments”* means Financing Payments payable under the Financing Agreement.

*“Funds and Accounts”* means the Cost of Issuance Fund, Note Payment Fund, Project Fund and Rebate Fund established by the Indenture.

*“Indenture”* means the Trust Indenture dated as of September 1, 2007 by and between the Commission and the Trustee securing the Notes, as the same may be amended as provided therein.

*“Interest Payment Date”* or *“interest payment date”* means, as to any series of Notes, the dates established as such in the Certificate of Award related to such Notes.

*“Issue Date”* means the date of any Notes issued under this Indenture as determined by the Certificate of Award authorizing such Notes.

*“Legal Officer”* means the attorney at law licensed to practice law in the Commonwealth and serving as legal counsel to the Commission.

*“Liquidity Facility”* means with respect to any Series of Notes (a) the obligation of the Commission to purchase such Series of Notes that are tendered or required to be tendered for purchase as contemplated pursuant to Sections 4.03 and 4.04 of the Indenture, (b) a standby note purchase agreement, letter of credit, line of credit, revolving credit agreement, bond insurance policy, surety bond or similar liquidity enhancement or support facility or agreement or undertaking or combination thereof issued by a Liquidity Provider in favor of the Trustee, for the account of the Commission, obligating a 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 Sections 4.03 and 4.04 of the Indenture or (c) upon acceptance by the Trustee of any Alternate Liquidity Facility, such Alternate Liquidity Facility; provided, that (i) any Alternate Liquidity Facility accepted hereunder 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. A Liquidity Facility shall not constitute a Credit Facility under the Indenture.

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

*“Maturity Date”* means the maturity date for the Notes set forth in the Certificate of Award relating to the Notes.

*“Memorandum of Instructions”* means the Memorandum of Instructions Regarding Use of Proceeds and Arbitrage Compliance delivered to the Commission and the Trustee at the time



of the issuance and delivery of the Notes, as the same may be amended or supplemented in accordance with its terms.

*“Note Resolution”* means this Resolution, as the same may from time to time be lawfully amended, modified or supplemented.

*“Note Payment Fund”* means the fund by that name established under the Indenture.

*“Noteholder,” “holder,” “holder of Notes,” “owner of Notes”* or any similar term means any person in whose name a Note is registered on the Note Register.

*“Note Purchase Agreement”* means the Note Purchase Agreement between the Commission and the Original Purchaser relating to the Notes.

*“Notes”* means the Commission’s Project Notes, 2007 Road Fund First Series, issued from time to time under the provisions of the Indenture.

*“Original Purchaser”* means J.P. Morgan Securities, Inc.

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

(a) Notes cancelled upon surrender, exchange or transfer or cancelled because of payment or redemption at or prior to such date;

(b) Notes for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited for the purpose on or prior to that date in the Note Payment Fund (whether upon or prior to the maturity or redemption date of those Notes); provided that if any of those Notes are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Noteholders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided further that if any of those Notes are to be purchased for cancellation a firm offer for sale stating the price shall have been received and accepted;

(c) Notes which are deemed to have been paid pursuant to the provisions of Article IX of the Indenture or any Notes which are deemed to have been paid pursuant to the provisions of the Indenture;

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

(e) Undelivered Notes as defined in Section 4.03 of the Indenture.

*“Paying Agent”* means the Trustee or its lawful successor.

*“Project”* means additions and improvements to the System identified from time to time by the Transportation Cabinet, as provided in the Indenture and the Financing Agreement.

*“Project Fund”* means the fund by that name established under the Indenture.

*“Rebate Fund”* means the fund by that name established under the Indenture.

*“Redemption Date”* means the date, if any, established for the redemption of any of the Notes in the Certificate of Award.

*“Remarketing Agent”* means the entity acting in the capacity of Remarketing Agent under the Remarketing Agreement or a successor Remarketing Agent appointed under the terms of the Indenture.

*“Remarketing Agreement”* means the Remarketing Agreement, dated as of 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”* means Notes which are secured by the same Trust Estate.

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

*“Transportation Cabinet”* means the Transportation Cabinet of the Commonwealth of Kentucky.

*“Trustee”* means the bank or trust company that is designated as such in the Indenture or any successor trustee under the terms of the Indenture.

*“Turnpike Indenture”* means Trust Indenture dated as of October 1, 1990 by and between the Authority and The Bank of New York Trust Company, N.A. (successor to Citizens Fidelity Bank and Trust Company, Louisville, Kentucky), as trustee, as supplemented and amended.

Any reference to the Commission, or to its members or officers or to other public officers, boards, commissions, departments, institutions, agencies, bodies or entities, shall include those which succeed to their functions, duties or responsibilities by operation of law, and also those who at the time may legally act in their place.

References to the Act, to the Code, to any act or resolution of the Kentucky General Assembly, to a section, chapter, division, paragraph or other provision of the Kentucky Revised Statutes or the Constitution of Kentucky or to the laws of Kentucky shall include the Act, the Code, that act or resolution, that section, chapter, division, paragraph or other provision and those laws as from time to time amended, modified, supplemented, revised or superseded, unless expressly stated to the contrary, provided that no such amendment, modification, supplementation, revision or supersession shall alter the obligation to pay the Outstanding Notes, at the time of any such action, in the amount and manner, at the times and from the sources provided in this Resolution and the Indenture, except as otherwise herein permitted.

Unless the context otherwise indicates, words importing the singular number shall include the plural number and words importing the plural number shall include the singular number. The terms "hereof," "herein," "hereby," "hereto" and "hereunder," and similar terms, means both this Resolution and the Indenture, except in the case of reference to a stated section number of either.

**Section 2. Determinations by Commission.** The Commission hereby finds and determines that (a) it is necessary to issue, sell and deliver the Notes in an aggregate principal amount not to exceed \$350,000,000, as requested by the Cabinet, the Transportation Cabinet and the Authority, in anticipation of the issuance of the Bonds, for the purpose of paying the costs of the Project; (b) it is necessary to execute and deliver the Indenture in order to secure the Notes and amounts due under any Credit Facility, Liquidity Facility or Exchange Agreement; (c) it is necessary to execute and deliver the Financing Agreement in order to provide for a source of payment for the Notes; (d) the maximum maturity of the Notes does not exceed 120% of the expected useful life of the Project; and (e) the Notes will not constitute a debt of the Commonwealth or a pledge of the faith and credit of the Commonwealth or any political subdivision thereof.

The Commission further finds and determines that (a) by engaging in an interest rate swap transaction under the Exchange Agreement the Commission can hedge the Commonwealth's interest sensitive liability represented by the Notes by converting (i) the interest rate on any Notes bearing interest at a variable rate, when issued, to a fixed rate, or (ii) the interest rate on any Notes bearing interest at a fixed rate, when issued, to a variable rate, or (iii) interest rates from one market based method of determining rates to another market based method, and thereby reduce the cost of the borrowing represented by the Notes; and (b) in order to accomplish the foregoing, it may be necessary and appropriate to enter into one or more Confirmations under one or more Exchange Agreements.

**Section 3. Terms of the Notes.**

(a) The Notes shall be designated "Kentucky Asset/Liability Commission Project Notes, 2007 Road Fund First Series," with such additional designation as may be prescribed in the Indenture as being necessary to identify each Series, shall be negotiable instruments in accordance with the Act, shall be issued only in fully registered form, without coupons, shall be substantially in the form thereof set forth in the Indenture, shall be in Authorized Denominations, shall be dated as set forth in Certificates of Award delivered from time to time under the Indenture, shall be in the aggregate principal amount not to exceed \$350,000,000, shall be numbered as set forth in the Certificates of Award and shall express upon their faces the purpose for which they are issued and that they are issued pursuant to the Act. The Notes shall be exchangeable for other Notes in the manner and upon the terms set forth in the Indenture.

(b) The Notes shall be executed by the signatures of the Chairman and Secretary of the Commission, provided that either or both such signatures may be facsimiles. The Notes shall bear interest from the most recent date to which interest has been paid or duly provided for, or, if no interest has been paid or duly provided for, from their dates.

(c) The Notes shall mature on the dates and in the amounts set forth in the Certificates of Award for the Notes, provided that the final maturity of the Notes shall be not later than 20 years from their Issue Date. The Notes shall bear interest payable on each Interest Payment Date or upon earlier redemption, as set forth in the Certificates of Award for the Notes, and shall have such further terms as are set forth in the Indenture and the Certificates of Award.

(d) The Notes shall be subject to optional redemption prior to maturity as set forth in the Certificates of Award.

(e) The Notes shall be payable in lawful money of the United States of America without deduction for the services of the Trustee or the Paying Agent, in the manner provided in the Indenture.

(f) If so determined in the Certificates of Award for the Notes, the Notes may be originally issued to a Depository for use in a book-entry system and: (i) such Notes shall be registered in the name of the Depository or its nominee, as Noteholder, and immobilized in the custody of the Depository; (ii) there shall be a single Note for each maturity relating to such Certificate of Award; and (iii) such Notes shall not be transferable or exchangeable, except for transfer to another Depository or another nominee of a Depository in order to obtain payment of principal of Notes in accordance with the Indenture and in exchange for any Notes so transferred, without further action by the Commission as set forth in paragraph (g) of this Section.

(g) If any Depository determines not to continue to act as a Depository for any Notes for use in a book-entry system, the Commission may attempt to have established a securities depository/book-entry system relationship with another qualified Depository under the Indenture. If the Commission does not or is unable to do so, the Commission and the Trustee, after the Trustee has made provision for notification of the owners of beneficial interests in the Notes by appropriate notice to the then Depository, shall permit withdrawal of such Notes from the Depository, and authenticate and deliver Note certificates in fully registered form to the assignees of the Depository or its nominee. If the event is not the result of Commission action or inaction, such withdrawal, authentication and delivery shall be at the cost and expense (including costs of printing or otherwise preparing, and delivering, such replacement Notes) of those persons requesting that authentication and delivery. Such replacement Notes shall be in Authorized Denominations.

**Section 4. Sale of the Notes; Certificate of Award.** The Notes shall be awarded and sold to the Original Purchaser at the price set forth in the Note Purchase Agreement, plus accrued interest on the Notes from their dated date to the date of delivery to and payment by the Original Purchaser, all in accordance with, and subject to the terms and conditions of, the Original Purchaser's proposal contained in the Note Purchase Agreement. Such award and sale shall be evidenced by the execution of Certificates of Award for the Notes by an Authorized Officer setting forth such award and sale, the other matters to be set forth therein referred to in this Note Resolution and such other matters as the Authorized Officer determines are consistent with this Note Resolution and the Indenture. Execution of a Certificate of Award by such Authorized

Officer shall be conclusive evidence that the matters contained in such Certificate of Award for Notes are consistent with this Note Resolution and the Indenture. The Certificates of Award for the Notes shall be and hereby are incorporated into this Note Resolution and the Indenture.

The Authorized Officer is hereby further authorized and directed to execute and deliver, in the name and on behalf of the Commission, the Note Purchase Agreement, in the usual and customary form, with such changes therein not inconsistent with this Note Resolution and not substantially adverse to the Commission as may be approved by such Authorized Officer. The approval of such officer, and that such Note Purchase Agreement is consistent with this Note Resolution and not substantially adverse to the Commission, shall be conclusively evidenced by the execution of such Note Purchase Agreement by such officer.

The Authorized Officer is hereby authorized to make arrangements for the delivery of the Notes to, and payment therefor by, the Original Purchaser. It is hereby determined that the price for and the terms of the Notes, and the sale thereof, all as provided in this Note Resolution, the Indenture and the Note Purchase Agreement for the Notes, are in the best interest of the Commission and in compliance with all legal requirements.

**Section 5. Allocation of Proceeds of the Notes.** The proceeds received by the Commission from the sale of the Notes shall be allocated as follows:

- (a) Accrued interest, if any, received upon the delivery of any Notes shall be deposited in the Note Payment Fund.
- (b) All amounts representing Costs of Issuance shall be deposited in the Cost of Issuance Fund.
- (c) All amounts representing proceeds to be applied to the retirement of a previously issued Notes shall be deposited in the Note Payment Fund.
- (d) All amounts to be used as capitalized interest shall be deposited in the Note Payment Fund.
- (e) All remaining amounts shall be deposited in the Project Fund.

Such proceeds are hereby allocated for the purposes of the respective funds into which such proceeds are deposited.

**Section 6. Security for the Notes and Exchange Agreement.** The Notes shall be payable solely from the Pledged Receipts and the amounts deposited in the Funds, and shall be secured only by the Indenture granting a lien upon the Pledged Receipts and such amounts in the Funds, all upon the terms set forth herein and in the Indenture, which lien may be on a parity with any pledge of Funds set forth in an Exchange Agreement, Credit Facility and Liquidity Facility.

**Section 7. Creation of Funds; Recordkeeping; Application of Moneys.** Pursuant to the Indenture, there are created and ordered maintained in the custody of the Trustee (except when invested as herein provided) the Note Payment Fund and the Cost of Issuance Fund, which

shall be trust funds applicable only for the purposes intended and to secure the Notes and, if so required by the Indenture, one of such Funds for each Trust Estate. There is hereby further created an account within the Commonwealth's management administrative and reporting system, known as the Project Fund, which shall be applied as provided in the Indenture.

A record of each deposit into and disbursement from each Fund shall be made and maintained by the person having custody of such Fund and, as required in the Financing Agreement, the Cabinet and the Transportation Cabinet shall maintain complete records of all disbursements relating to the Project Fund.

Moneys in any Fund shall be applied, held and invested by the holder of such Fund only as and to the extent authorized by and in a manner consistent with this Resolution and the Indenture. Any officer to whom, or any bank or trust company to which, any moneys acquired by the Commission under the Act are paid shall act as trustee of such moneys and hold and apply them for the purposes of the Act, subject to such conditions as the Act, the Note Resolution or the Indenture provide.

**Section 8. Project Fund.** Moneys in the Project Fund shall be applied by the Treasurer to pay costs of the Project in accordance with written requisitions submitted to the Treasurer from time to time in accordance with the Indenture and the Financing Agreement.

**Section 9. Note Payment Fund.** Moneys in the Note Payment Fund shall be applied by the Trustee only to the payment of the principal of, premium, if any, and interest on the Notes when due, whether due to maturity, redemption or otherwise, or to reimburse the Credit Facility Provider for payment of same and, to the extent permitted by the Indenture, to pay amounts due under the Exchange Agreement, and for no other purpose. On each Interest Payment Date and each such maturity or redemption date of the Notes, the Trustee shall make available to the Paying Agent, from amounts on deposit in the Note Payment Fund, an amount equal to the amount due on such date, and the Paying Agent shall effect the payment thereof.

If at any time the Commission shall so request and shall have provided the Trustee with moneys sufficient, together with moneys and investments then in the Note Payment Fund, to redeem on the next available redemption date any outstanding Notes, without thereby reducing the balance thereafter remaining in the Note Payment Fund below the amount which on such redemption date would be required by the Indenture to be on hand therein with respect to Notes not so to be retired, the Trustee shall make available out of the Note Payment Fund the amount required, together with the other moneys provided, to accomplish such redemption.

**Section 10. Cost of Issuance Fund.** Moneys in the various accounts of the cost of Issuance Fund shall be applied by the Trustee to pay those costs of issuing the Notes set forth in written requisitions submitted to the Trustee from time to time in accordance with the Indenture.

**Section 11. Rebate Fund.**

(a) Pursuant to the Indenture, there is created and ordered maintained in the custody of the Trustee (except when invested as herein provided) the Rebate Fund. Within the Rebate Fund, the Trustee shall maintain two accounts: (i) the Excess Earnings Account (the "Excess Account") and (ii) the Excess Earnings Investment Income

Account (the "Earnings Account"). 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 the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund shall 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 United States of America, and neither the Commission nor the owner of any Notes shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section, by Section 15 of this Note Resolution and by the Memorandum of Instructions (which is incorporated herein by reference).

(b) The Trustee shall have no obligations to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds created under the Indenture or from other moneys provided to it by the Commission upon its request for said moneys from the Commission as set forth in the Memorandum of Instructions.

(c) The Trustee shall, at the direction of the Commission, invest all amounts held in the Rebate Fund in Eligible Investments, subject to the restrictions set forth in the Memorandum of Instructions. The Trustee shall deposit all earnings (calculated by taking into account net gains or losses on sales or exchanges and taking into account amortized discount or premium as a gain or loss, respectively) on investments held in the Excess Account into the Earnings Account. All earnings on investments in the Earnings Account shall be retained in the Earnings Account. Money shall not be transferred from the Earnings Account except as provided in paragraph (d) below.

(d) The Trustee shall remit part or all of the balances in the Excess Account and the Earnings Account to the United States, as directed in the Memorandum of Instructions. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the Excess Account and the Earnings Account from or into such account or funds as directed by written directions of the Authorized Officer. 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 the Commission.

(e) Notwithstanding any other provision of this Note Resolution or the Indenture, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of this Section, Section 15 of this Note Resolution and the Memorandum of Instructions shall survive the defeasance or payment in full of the Notes.

**Section 12. Investment of Funds.** Moneys in the Note Payment Fund, the Project Fund and the Cost of Issuance Fund may be invested in Eligible Investments until required for the purposes of the Note Payment Fund, Cost of Issuance Fund or Project Fund, as the case may be. Any investment of moneys in the Note Payment Fund and the Cost of Issuance Fund held by the Trustee shall be made by the Trustee at the written or oral (and, if oral, promptly confirmed in writing) direction of the Authorized Officer.

Unless otherwise specified in the Indenture, investments of moneys in any Fund shall be valued at cost. Any investment of moneys in any Fund or account thereof shall constitute a part of that respective Fund or account and such respective Fund or account shall be credited with all proceeds of sale, and gain or loss, from such investment. Interest earnings on moneys in any Fund or account thereof shall be credited when received to the Fund or account from which such investment was made. For investment purposes only, moneys in a Fund or account may be commingled with moneys from one or more other Funds or accounts, provided that separate records are maintained for each Fund and account, the investments made therefrom and the interest earnings credited thereto.

**Section 13. Additional Covenants of the Commission.** The Commission hereby covenants and agrees with the holders of the Notes from time to time and with the Trustee, so long as any Notes are outstanding, as follows:

(a) The Financing Agreement will continue to be maintained by the Commission. In the event the Transportation Cabinet for any reason whatsoever fails to pay any Financing Payments or Additional Payments specified in the Financing Agreement the Commission covenants with the holders of the Notes and for the benefit of the Credit Facility Provider, the Liquidity Provider and the Exchange Agreement counterparty, subject to necessary limitations imposed by the requirements of efficient government operation, that it will use its best efforts to make payments of Financing Payments or Additional Payments so that the aggregate of the gross receipts and revenues from the Financing Agreement at all times will be sufficient to make said minimum prescribed payments into the Note Payment Fund; provided, however, that in the event of any failure of the Transportation Cabinet to make its payments as aforesaid, no action shall be taken which, in Counsel's opinion, would have the effect of materially altering the federal income tax status of the interest earned on the Notes.

(b) It will in ample time prior to the beginning of each fiscal biennium confer with the proper officials of the Cabinet and the Transportation Cabinet to induce the Cabinet or the Transportation Cabinet, as appropriate, to include in its budget such provisions and arrangements as may be required and appropriate to enable the Cabinet or the Transportation Cabinet to continue to pay the prescribed Financing Payments and Additional Payments during such biennial period.

(c) So long as any of the Notes are Outstanding and unpaid as to either principal or interest, it will continuously enforce the Financing Agreement to the maximum extent permitted by law, and will not consent to any modification of such Financing Agreement which would in any particular way impair the security created for the holders of the Notes.

(d) It will take in a timely manner all necessary actions to enforce the obligation of the Authority to issue the Bonds or to adopt all necessary proceedings in order to authorize, issue and deliver other bond anticipation notes so that the proceeds of the sale of the Bonds or other bond anticipation notes will be available for deposit into the Note Payment Fund in order to pay at maturity or on the date of redemption, the principal amount of the Notes coming due or being redeemed on such date, plus accrued



interest thereon and all amounts due and owing under any Credit Facility Agreement, Liquidity Facility or Exchange Agreement.

**Section 14. The Indenture, Financing Agreement, Continuing Disclosure Agreement, Credit Facility Agreement, Exchange Agreement, Liquidity Facility, Remarketing Agreement and Other Documents.** In order to secure the payment of Notes as the same shall become due and payable and the performance of the obligations of the Commission in the Note Resolution, the Indenture, the Financing Agreement, any Exchange Agreement, any Credit Facility Agreement, any Liquidity Facility, any Remarketing Agreement, any Continuing Disclosure Agreement and the Notes, the Authorized Officer is hereby authorized to execute, acknowledge and deliver, on behalf of the Commission, to the Trustee the Indenture, which shall grant a first lien on the Revenues and the moneys and investments in the Funds as security for the payment of the Notes for so long as any Notes remain outstanding, in substantially the form submitted to the Commission, which is hereby approved, with such changes therein not inconsistent with the Note Resolution and not substantially adverse to the Commission as may be permitted by the Act and approved by such officer. The approval of such changes by such officer, and that such changes are not substantially adverse to the Commission, shall be conclusively evidenced by the execution of the Indenture by such officer. The Authorized Officer is hereby further authorized to execute, acknowledge and deliver, on behalf of the Commission, any Continuing Disclosure Agreement, and the Financing Agreement, in the usual and customary form, with such changes therein not inconsistent with the Note Resolution and not substantially adverse to the Commission as may be permitted by the Act and approved by such officer. The Authorized Officer is hereby further authorized to execute, acknowledge and deliver, on behalf of the Commission, any Remarketing Agreement, any Exchange Agreement, any Credit Facility Agreement and any Liquidity Facility, in substantially the form contemplated by the Indenture

The Authorized Officer is hereby separately authorized to take any and all actions, including appointing the Trustee, and to execute such other instruments that may be necessary or appropriate in the opinion of Kutak Rock LLP, as bond counsel for the Notes, in order to effect the issuance of the Notes and the intent of this Note Resolution. The Secretary of the Commission or other appropriate officer of the Commission shall certify a true transcript of all proceedings had with respect to the issuance of the Notes, along with such information from the records of the Commission as is necessary to determine the regularity and validity of the issuance of the Notes.

This Note Resolution shall constitute a part of the Indenture as therein provided, and the provisions of the Indenture, including, without limitation, those provisions of the Indenture relating to amendment, severability, modification and supplementation, shall apply to this Note Resolution.

**Section 15. Tax Matters.** The Commission hereby covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on any of the Notes under Section 103(a) of the Code. Without limiting the generality of the foregoing, the Commission hereby covenants as follows:

The Commission will not directly or indirectly use or permit the use of any proceeds of any of the Notes or any other funds of the Commission, or take or omit to take any action that would cause any of the Notes to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the Code. To that end, the Commission will comply with all requirements of Sections 103(b)(2) and 148 of the Code applicable to any of the Notes. In the event that at any time the Commission is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held under this Note Resolution or the Indenture, the Authorized Officer shall either cause such actions as may be necessary to accomplish the foregoing or shall, if applicable, instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions. The Authorized Officer, or any other officer having responsibility with respect to the issuance of the Notes, is authorized and directed to give an appropriate certificate on behalf of the Commission, on the date of delivery of the Notes for inclusion in the transcript of proceedings, setting forth the facts, estimates and circumstances and reasonable expectations pertaining to the use of the proceeds thereof and the provisions of such Sections 103(b)(2) and 148, and to execute and deliver on behalf of the Commission an IRS Form 8038G in connection with the issuance of the Notes.

Without limiting the generality of the foregoing, the Commission agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code. This covenant shall survive payment in full or defeasance of any of the Notes. The Commission specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined under Section 11 hereof the Rebate Amounts, as described in the Memorandum of Instructions. The Trustee agrees to perform all tasks required of it in the Memorandum of Instructions.

Notwithstanding any provision of this Section 15, if the Commission shall provide to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under this Section and Section 11 hereof is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on any of the Notes pursuant to Section 103(a) of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with the provisions hereof.

**Section 16. Official Statement.** The Authorized Officer is authorized to execute and deliver preliminary and final official statements on behalf of the Commission, in such forms as such officer may approve, such officer's execution thereof on behalf of the Commission to be conclusive evidence of such authorization and approval, and copies thereof are hereby authorized to be prepared and furnished to the Original Purchaser for distribution to prospective purchasers of the Notes and other interested persons.

The Authorized Officer is authorized on behalf of the Commission to furnish such information, to execute such instruments and to take such other actions in cooperation with the Original Purchaser as may be reasonably requested to qualify the Notes for offer and sale under the Blue Sky or other securities laws and regulations and to determine their eligibility for investment under the laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Original Purchaser; provided, however, that the Commission shall not be required to register as a dealer or broker in any such state or

jurisdiction or become subject to the service of process in any jurisdiction in which the Commission is not now subject to such service.

**Section 17. Authorization of Confirmations.** The Commission is hereby authorized to enter into Confirmations under Exchange Agreements, in the form prescribed by the related Exchange Agreement. The terms of each interest rate swap transaction, including interest rate, term, Notional Amount (as defined in the related Exchange Agreement) and options as to commencement and termination of payments, and each termination agreement shall be as described in the related Exchange Agreement and as provided in the related Confirmation, as approved from time to time by an Authorized Officer. The aggregate Notional Amount of such interest rate swap transactions outstanding at any one time under all Exchange Agreements that are related to the Notes, net of offsetting interest rate swap transactions, shall not exceed the principal amount of the Notes authorized by this Resolution. Each such interest rate swap transaction shall terminate no later than the final maturity date of the Notes. The aggregate Notional Amount of all such interest rate swap transactions as of any time shall be determined on a net basis, i.e., where any such transaction is entered into to offset or reverse an earlier transaction, to the extent of the offsetting or reversing effect, the Notional Amounts of such offsetting or reversing interest rate swap transactions shall not be included in the aggregate total. Additional transactions that are not related to the Notes may be entered into from time to time under the Exchange Agreement, subject to final approval of such transactions by the Commission.

The Authorized Officer is hereby authorized to execute, acknowledge and deliver, on behalf of the Commission, under the Exchange Agreement, Confirmations as herein authorized, in the form required by the Exchange Agreement.

**Section 18. Severability.** Should it be judicially determined by a court having jurisdiction to pass upon the validity of the Note Resolution, the Indenture, the Financing Agreement, any Credit Facility Agreement, any Liquidity Facility, any Exchange Agreement or the Notes that any provision of this Note Resolution is beyond the powers of the Commission, or is otherwise invalid, then such decision shall in no way affect the validity of the Note Resolution, the Indenture, the Financing Agreement, any Credit Facility Agreement, any Liquidity Facility, the Exchange Agreement or the Notes or any proceedings related thereto, except as to the particular matters found by such decision to be invalid.

**Section 19. Open Meetings Determination.** The Commission hereby finds and determines that all formal actions relative to the adoption of this Note Resolution were taken in an open meeting of this Commission, and that all deliberations of this Commission and of its committees, if any, which resulted in formal action, were taken in meetings open to the public, in full compliance with applicable legal requirements.

**Section 20. Effective Date.** This Note Resolution shall take effect immediately upon its adoption.

Adopted on: August 20, 2007.

By \_\_\_\_\_  
Robert M. Burnside  
Chairman

Attest:

\_\_\_\_\_  
F. Thomas Howard  
Secretary

**CERTIFICATE**

The undersigned certifies that he is the duly appointed and acting Secretary of the Kentucky Asset/Liability Commission, that attached hereto are excerpts of minutes of a properly convened meeting of the Commission held on the date set forth in such excerpt, at which a quorum was present, that all actions taken during said meeting were in compliance with the requirements of KRS 61.810, 61.815, 61.820 and 61.825, and that said minutes have not been altered or amended, all as appears from the official records of the Commission in my custody and under my control.

It is hereby certified that the foregoing is a true and correct copy of a resolution duly adopted by the Kentucky Asset/Liability Commission on the 20th day of August, 2007, and such resolution has not been altered, amended or repealed.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this \_\_\_\_ day of \_\_\_\_\_, 2007.

---

F. Thomas Howard, Secretary, Kentucky  
Asset/Liability Commission

## Preliminary New Bond Issue Information

Issue	Kentucky Asset/Liability Commission Project Notes, 2007 Road Fund First Series Bond Anticipation Notes		
Purpose of Issue	To provide interim financing for up to \$350 million in Road Fund supported projects in anticipation of the issuance of bonds by the Turnpike Authority. Financing will be provided as needed, under a multi-modal indenture.		
Authorization	2006 Regular Session of the General Assembly, House Bill 380		
Proposed Date of Sale (first tranche)	September, 2007		
Expected Ratings: Short-term Underlying: Long-term	Moody's: TBD Aa3	S&P: TBD AA+	Fitch: TBD AA
Total Project Size	\$	350,000,000	
Initial tranche size	\$	100,000,000	
Trustee	\$	3,000	
Annual Rating Fees	\$	15,000	
Remarketing Agent (CP Mode)	\$	50,000	5 basis points
Credit & Liquidity Facility Fee	\$	160,000	7.5 basis points
Estimated Average Annual Fees:	\$	228,000	
True Interest Cost (Tax-exempt)		3.52%	
Call Date @ Par		Any interest payment date	
Stated Final Maturity Date		September 1, 2027	
Avg. Annual Debt Service		8,039,497	For permanent issuance of initial tranche size
Method of Sale	Negotiated		
Bond Counsel	Kutak Rock		
Underwriter & Remarketing Agent	JP Morgan		
Underwriter's Counsel	Peck Shaffer & Williams		
Trustee	TBD		
LOC Provider	TBD		
Financial Advisor	Office of Financial Management		

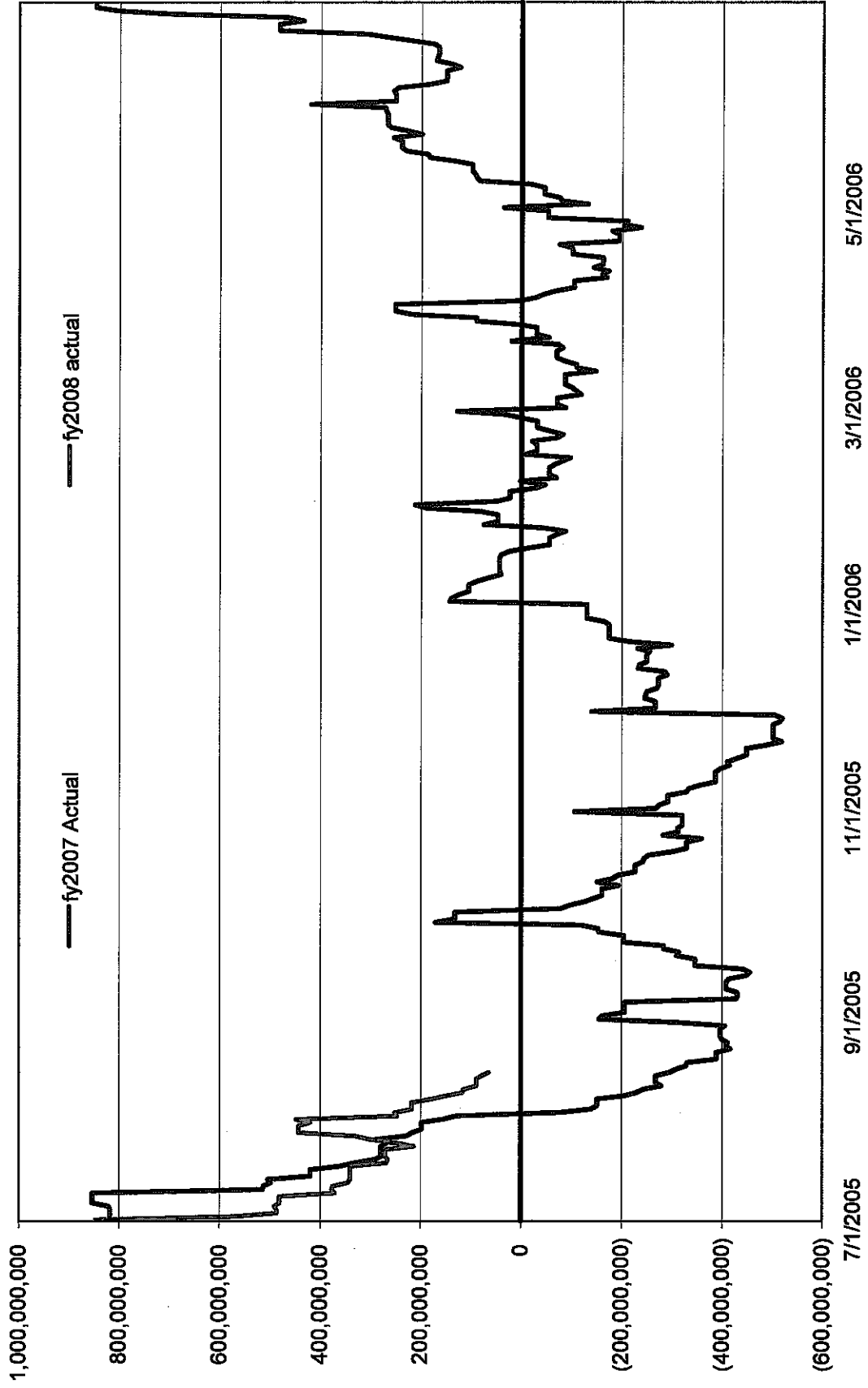
# Kentucky Asset/Liability Commission

## **\$350,000,000** **2007 General Fund Tax and Revenue Anticipation Notes, Series A**

	<b>Series A</b> <b>(Fixed Rate)</b>
Par Amount Issued:	\$350,000,000
Premium:	\$2,614,500
Net Proceeds:	\$352,614,500
Sale Date:	June 26, 2007
Delivery Date:	July 3, 2007
Maturity Date:	June 26, 2008
Call Provisions:	The Notes are not subject to redemption prior to maturity.
Interest Rate:	4.50%
Note Yield/Price:	3.71% / 100.747
Ratings:	Moody's--MIG 1      Standard & Poor's--SP-1+      Fitch--F1+
Bond Counsel:	Kutak Rock LLP
Underwriter:	Citigroup Global Markets Inc.
Underwriter's Counsel:	Bowles Rice McDavid Graff & Love LLP
Trustee:	U.S. Bank National Association

The 2007 Series A Notes will bear interest at a fixed rate, computed on the basis of a 360-day year and a 30-day month, accrued from the date of issuance. Principal of and interest on the 2007 Series A Notes will be payable at maturity.

# General Fund Available Balance (Excluding TRAN Proceeds)





## ALCo 2005 General Fund 2nd Program Related Interest Rate Hedges

### General Fund Supported Bonds

<u>General Assembly</u>	<u>Authorization</u>	<u>Issued/Lapsed</u>	<u>Authorized but Unissued</u>
2005	\$ 1,204,589,300	\$ 832,614,300	\$ 371,975,000
2006	\$ 1,392,991,000	\$ 257,200,000	\$ 1,135,791,000
Prior (EDB)			\$ 988,000
<b>Totals</b>	<b>\$ 2,597,580,300</b>	<b>\$ 1,089,814,300</b>	<b>\$ 1,508,754,000</b>

\*On August 15th, 2005 the ALCo board adopted the original resolution authorizing the 2005 General Fund 2nd program and related interest rate hedge agreements

### ALCo 2005 General Fund 2nd Program

	<u>Board Authorization</u>	<u>Notes Outstanding</u>	<u>Expended thru July 2007</u>
<b>Totals</b>	<b>\$ 950,000,000</b>	<b>\$ 200,000,000</b>	<b>\$ 165,000,000</b>

### Interest Rate Hedges Outstanding

<u>Existing</u>	<u>Notional Amount</u>	<u>Fixed Rate</u>	<u>Estimated Annual Savings vs Budgeted Rate (6%)</u>	<u>Counterparty</u>
February 2008	\$ 150,000,000	4.085%	\$ 1,881,000	Citi/UBS \$75m each
<u>New</u>				
November 2008	\$ 150,000,000	4.178%	\$ 1,752,000	Citi
November 2009	\$ 150,000,000	4.276%	\$ 1,653,000	UBS
<b>Total New Hedges</b>	<b>\$ 300,000,000</b>		<b>\$ 3,405,000</b>	
<b>Total Hedges Outstanding</b>	<b>\$ 450,000,000</b>		<b>\$ 5,286,000</b>	

\*OFM anticipates a State Property & Buildings Commission (SPBC) bond issue in the fall of 2007 to permanently finance approximately \$200-300 million of remaining projects. OFM will likely terminate the February 2008 hedge at that time and apply the net proceeds/payment to the issue

\*Based on current expenditure patterns and projections from Facilities Management, OFM projects expenditures of approximately \$300 million per year over the next two years on remaining projects

\*In August, 2007 ALCo competitively bid and executed two new interest rate hedges for \$150 million to each of November 2008 and November 2009. The intent of these hedges is to reduce interest rate risk and lock in a historically low tax-exempt rate on approximately 50% of two future SPBC bond issues (anticipated to be sold in the fall of 2008 and 2009). Under each hedge ALCo agrees to pay a fixed rate and receive a floating rate of interest based on SIFMA (short term tax exempt rate)

### Interest Rate Hedges Terminated

<u>Terminated</u>	<u>Notional Amount</u>	<u>Swap Rate</u>	<u>Savings Achieved</u>	<u>Counterparty</u>
February 2007	\$ 150,000,000	3.773%	\$ 596,500	JPM/UBS \$75m each

\*In February 2007, SPBC Project No. 87 bonds were sold to permanently finance various General Fund projects authorized by the 2005 and 2006 General Assemblies. The February 2007 interest rate hedge was terminated at that time and the net payment from the swap was used to offset borrowing costs and reduce the amount of bonds issued. All-In TIC for SPBC 87 was 4.27%