

Book-Entry Only

Ratings: **Moody's: A2**
S&P: A+
Fitch IBCA: A+

NEW ISSUE

Subject to compliance by the Commission, the Lessee and others with certain covenants, in the opinion of Chapman and Cutler, Bond Counsel, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX EXEMPTION" herein for a more complete discussion.

\$31,550,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Refunding Bonds, Project No. 62

Dated: March 1, 1999

Due: September 1,
as shown below

The Revenue Refunding Bonds, Project No. 62 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will bear interest payable on each September 1 and March 1, commencing on September 1, 1999. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank of Louisville, as Trustee and Paying Agent.

Certain of the Bonds are subject to mandatory sinking fund and optional redemption prior to maturity at the times and in the amounts described herein.

The Bonds mature on the dates, in the principal amount, bear annual interest and have the price or yield as follows:

<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>
1999	\$240,000	3.250%	100.059%	2007	\$ 275,000	4.100%	100.000%
2000	215,000	3.100	99.656	2008	4,110,000	4.125	99.417
2001	220,000	3.400	100.000	2009	3,825,000	4.250	99.580
2002	225,000	3.600	100.000	2010	4,000,000	4.300	99.105
2003	235,000	3.750	100.000	2011	4,185,000	5.000	104.732
2004	245,000	3.850	100.000	2012	4,390,000	4.500	99.002
2005	255,000	3.950	100.000	2013	4,330,000	4.625	99.217
2006	265,000	4.050	100.000	2014	4,535,000	4.700	99.455

(plus accrued interest)

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Resolution adopted February 25, 1999, to (i) refinance certain of the Commission's outstanding bonds, as more fully described herein and (ii) pay the costs of issuing the Bonds.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIAL RENEWABLE LEASE AGREEMENT WITH THE CABINET, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about March 10, 1999, in New York, New York, through the facilities of DTC, against payment therefor.

J.J.B. Hilliard, W.L. Lyons, Inc.
Ross, Sinclaire & Associates, Inc

Merrill Lynch & Co.
J.C. Bradford & Co.
First Kentucky Securities Corp.

Morgan Keegan & Company, Inc
Banc One Capital Markets, Inc..

Dated: February 26, 1999

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 18, 1999

Book-Entry Only

Ratings: **Moody's: A2**
S&P: A+
Fitch IBCA: A+

NEW ISSUE

Subject to compliance by the Commission, the Lessee and others with certain covenants, in the opinion of Chapman and Cutler, Bond Counsel, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX EXEMPTION" herein for a more complete discussion.

~~\$24,260,000~~ ~~\$31,550,000~~

COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Refunding Bonds, Project No. 62

Dated: March 1, 1999

Due: September 1,
as shown below

The Revenue Refunding Bonds, Project No. 62 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will bear interest payable on each September 1 and March 1, commencing on September 1, 1999. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank of Louisville, as Trustee and Paying Agent.

Certain of the Bonds are subject to mandatory sinking fund and optional redemption prior to maturity at the times and in the amounts described herein.

The Bonds mature on the dates, in the principal amount, bear annual interest and have the price or yield as follows:

<u>Maturity</u> <u>September 1</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price/</u> <u>Yield</u>	<u>Maturity</u> <u>September 1</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price/</u> <u>Yield</u>
1999	\$150,000			2007	\$ 190,000		
2000	145,000			2008	820,000		
2001	150,000			2009	405,000		
2002	155,000			2010	4,030,000		
2003	160,000			2011	4,210,000		
2004	165,000			2012	4,410,000		
2005	175,000			2013	4,350,000		
2006	180,000			2014	4,565,000		
<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>
1999	\$240,000	3.250%	100.059%	2007	\$ 275,000	4.100%	100.000%
2000	215,000	3.100	99.656	2008	4,110,000	4.125	99.417
2001	220,000	3.400	100.000	2009	3,825,000	4.250	99.580
2002	225,000	3.600	100.000	2010	4,000,000	4.300	99.105
2003	235,000	3.750	100.000	2011	4,185,000	5.000	104.732
2004	245,000	3.850	100.000	2012	4,390,000	4.500	99.002
2005	255,000	3.950	100.000	2013	4,330,000	4.625	99.217
2006	265,000	4.050	100.000	2014	4,535,000	4.700	99.455

(plus accrued interest)

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Resolution adopted ~~September 21, 1998~~ February 25, 1999, to (i) refinance certain of the Commission's outstanding bonds, as more fully described herein and (ii) pay the costs of issuing the Bonds.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIAL RENEWABLE LEASE AGREEMENT WITH THE CABINET, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP,

Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about March 10, 1999, in New York, New York, through the facilities of DTC, against payment therefor.

**J.J.B. Hilliard, W.L. Lyons, Inc.
Ross, Sinclaire & Associates, Inc**

Dated: _____, 1999

*Preliminary, subject to change.

Dated: February 26, 1999

**Merrill Lynch & Co.
J.C. Bradford & Co.
First Kentucky Securities Corp.**

**Morgan Keegan & Company, Inc
Banc One Capital Markets, Inc..**

**COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION**

Members

PAUL E. PATTON,
Governor
(Chairman of the Commission)

STEPHEN L. HENRY
Lieutenant Governor

A. B. CHANDLER III
Attorney General

JOHN McCARTY
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

MARVIN E. STRONG, JR.
Secretary of the
Cabinet for Economic Development

SARAH JANE SCHAAF
Secretary
Revenue Cabinet

GORDON L. MULLIS, JR.
Executive Director
Office of Financial Management and Economic Analysis
(Secretary to the Commission)

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

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
SUMMARY	ii
INTRODUCTION	1
THE COMMONWEALTH.....	2
Fiscal Year 1996.....	3
Fiscal Year 1997	4
Fiscal Year 1998.....	5
Investment Policy	6
SECURITY FOR THE BONDS.....	8
THE BONDS.....	9
General	9
Book Entry Only System	9
Redemption Provisions.....	11
PLAN OF FINANCE	12
SOURCES AND USES OF FUNDS FOR THE BONDS.....	13
THE STATE PROPERTY AND BUILDINGS	
COMMISSION.....	13
THE FINANCE AND ADMINISTRATION CABINET	14 13
THE STATE AGENCIES.....	14
Cabinet for Economic Development	14
Cabinet for Health Services.....	14
Education, Arts and Humanities Cabinet	14
Finance and Administration Cabinet	15 14
General Government	15 14
Justice Cabinet	15
Postsecondary Education	15
Eastern Kentucky University.....	15
Kentucky State University	16
Morehead State University.....	16
Murray State University	17 16
University of Kentucky	17
Western Kentucky University.....	18 17
Tourism Development Cabinet	18
General	18
Kentucky Horse Park	19 18
Kentucky State Fair Board.....	19
THE PROJECT	19
SUMMARIES OF THE PRINCIPAL DOCUMENTS.....	20 19
The Resolution.....	20
The Lease.....	24
<u>RATINGS.....</u>	<u>2519</u>
The Lease.....	23
<u>RATINGS.....</u>	<u>24</u>
APPROVAL OF LEGAL PROCEEDINGS	25
LITIGATION	25
TAX EXEMPTION.....	25
VERIFICATION OF MATHEMATICAL	
COMPUTATIONS.....	27
UNDERWRITING.....	27
CONTINUING DISCLOSURE AGREEMENT	27
TRUSTEE'S YEAR 2000 COMPLIANCE	27
OTHER MATTERS.....	28
SIGNATURE	29
EXHIBITS:	
A Debt Information Pertaining to the Commonwealth	
of Kentucky	A-1
B Principal and Interest Requirements of the Bonds	B-1
C Form of Bond Counsel Opinion for the Bonds.....	C-1

SUMMARY

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

The Commission The State Property and Buildings Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE STATE PROPERTY AND BUILDINGS COMMISSION".

The Offering The Commission is offering its ~~\$24,260,000~~*\$31,550,000 Revenue Refunding Bonds, Project No. 62 (the "Bonds").

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission authorizing the issuance of the Bonds and approving the lease (the "Lease") dated as of March 1, 1999, between the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee.

Use of Proceeds The Bonds are being issued to provide funds with which to (i) refinance certain of the Commission's outstanding bonds, as more fully described herein and (ii) pay the costs of issuing the Bonds.

Security The Bonds and the interest thereon are payable solely from the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Lease. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Lease". The Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIAL RENEWABLE LEASE AGREEMENT WITH THE CABINET, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Features of Bonds The Bonds are being offered in the authorized denominations of \$5,000 or any integral multiple thereof, at the interest rates, yields and purchase prices set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will bear interest payable one~~each~~

*Preliminary, subject to change.

~~September~~ each ~~September~~ 1 and March 1, commencing on September 1, 1999. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank of Louisville, as Trustee and Paying Agent (the "Trustee").

The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds maturing on or after September 1, ~~2010~~, are subject to optional redemption on or after September 1, ~~2009~~, at a redemption price of ~~101%~~, declining thereafter, all as further described in this Official Statement. See "THE BONDS - Redemption Provisions" ~~(Page)~~. It is expected that delivery of the Bonds will be made on or about March ~~10~~, 1999, in New York, New York, against payment therefor.

Tax Status

Subject to compliance by the Commission, the Lessee and others with certain covenants, in the opinion of Chapman and Cutler, Bond Counsel, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX EXEMPTION" herein for a more complete discussion.

Continuing Disclosure

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

General

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

Information

Information regarding the Bonds is available by contacting the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924, or the representative of the Underwriters, Merrill Lynch & Co., World Financial Center, North Tower, 9th Floor, Merrill Lynch World Headquarters, New York, New York 10281-1309 (212) 449-0704.

OFFICIAL STATEMENT
Relating to

~~\$24,260,000~~*\$31,550,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Refunding Bonds, Project No. 62

INTRODUCTION

This Official Statement, including the cover page and the exhibits attached hereto, provides information in connection with the issuance and sale by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), of its ~~\$24,260,000~~*\$31,550,000 Revenue Refunding Bonds, Project No. 62 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refinance certain of the Commission's outstanding bonds, as more fully described herein and (ii) pay the costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE".

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Resolution (the "Resolution") authorizing the issuance of the Bonds and approving the Lease hereinafter described.

The Cabinet, as lessee, has entered into a Lease dated as of March 1, 1999 (the "Lease"), with the Commission, as lessor to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The initial period of the Lease ends June 30, 2000, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Cabinet, for each biennial period during which Bonds are outstanding, beginning July 1, 2000, to seek legislative appropriations to the Cabinet in amounts which are sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Bonds. The Kentucky General Assembly has appropriated to the Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2000.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET NOR IS THE CABINET UNDER ANY OBLIGATION TO RENEW THE LEASE. THE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Project, the Cabinet and the state agencies for which portions of the Project are being financed or refinanced (the "State Agencies") are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601.

~~*Preliminary, subject to change.~~

THE COMMONWEALTH

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

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

Financial Information Regarding the Commonwealth

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

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

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

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

- (i) Bloomberg LP
100 Business Park Drive
Skillman, New Jersey 08558
Internet: munis@bloomberg.com
Tel: (609) 279-3200
Fax: (609) 279-5962

- (ii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Internet: nrmsir@dpcdata.com
Tel: (201) 346-0701
Fax: (201) 947-0107

- (iii) Kenny Information Systems
Attn: Kenny Repository Systems Inc.
96 Broadway, 16th Floor
New York, New York 10006
Internet: <http://www.bluelist.com>
Tel: (212) 770-4595
Fax: (212) 797-7994

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

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1998 may be obtained from the NRMSIRs or from the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1997 may currently be found and for Fiscal Year 1998 will soon be available on the Internet at <http://www.state.ky.us/agencies;/finance/manuals/tax/cafr.htm>.

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

Fiscal Year 1996

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

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

The General Fund had a 1996 budgetary undesignated fund balance of \$223,427,568. This was a decrease of \$37,580,254 when compared to the 1995 year-end budgetary undesignated fund balance of \$261,007,822. In addition, the Kentucky General Assembly made the Budget Reserve Trust Fund a

statutory account of the Commonwealth, and in November 1995 an additional \$100 million was appropriated to the Budget Reserve Trust Fund, bringing the balance to \$200 million.

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

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

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

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

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

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

Fiscal Year 1997

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

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

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

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

1997 Governmental Funds Revenue was \$623.1 million higher than in 1996. Higher Tax and Intergovernmental receipts account for 90.2% of the increase. All eight major tax sources, primarily in the General Fund, went up \$331.6 million. Intergovernmental revenue rose \$230.4 million on the strength of \$245.2 million more in Federal Fund receipts from the United States government. Other revenues improved

44.7%, due to a \$26.3 million increase in the Other Special Revenue Fund and a \$23.6 million improvement in the Agency Revenue Fund. Charges for Services went down 5.3% during the period, mainly because of a \$19.9 million drop in Agency Revenue Fund receipts.

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

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

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

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

Fiscal Year 1998

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

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

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

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

1998 Governmental Funds Revenue was \$662.7 million over 1997. Higher Tax and Intergovernmental receipts account for 85.9% of the increase. Seven of eight tax sources, primarily in the General Fund, went up \$420.1 million but were offset by a \$35.4 million decline in Property Tax receipts. Intergovernmental revenue rose \$184.4 million on the strength of \$198.2 million more in Federal Fund receipts from the United States government. Interest and Investment income improved 23.2% almost entirely due to a \$33.4 million increase in earnings deposited in the General Fund. Revenue from Fines and Forfeits fell by 2.6% because collections dropped \$1.6 million in the Agency Revenue Fund and \$1.0 million in the Other Special Revenue Fund while raising \$1.4 million in the General Fund.

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

1998 Governmental Funds Expenditures were \$496.7 million over 1997. Education and Humanities function costs rose \$110.9 million, due primarily to \$70.7 million more in General Fund

grants and subsidies awarded by the Department of Education. Capital Outlay was up 35.5%, based primarily on \$30.6 million more in Capital Projects Fund expenditures in the Commerce Function. Debt Service rose by \$105.9 million due almost totally to \$50.1 million in additional scheduled principal retirement and \$60.0 million more in interest offset by a \$4.1 million drop in other expenditures, all in the Debt Service Fund.

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

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

Investment Policy

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

At December 31, 1998, the Commonwealth's operating portfolio was approximately \$3.2 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (19%), securities issued by agencies, corporations and instrumentalities of the United States Government (44%), repurchase agreements collateralized at 102% by the aforementioned (19%), U.S. dollar denominated corporate securities rated A or higher by a nationally recognized rating agency (10%), municipal securities rated A or higher by Standard & Poor's or Moody's (4%), money market securities rated A1-P1 or higher by Standard & Poor's or Moody's (1%), and asset backed securities rated in the highest category by nationally recognized rating agency (3%). Money market securities, including Bankers' Acceptances, Commercial Paper and Certificates of Deposit, are limited to 20% of the total portfolio and \$25 million per issuer. The total return for Fiscal Year 1998 was 5.97% and 6.45% for Fiscal Year 1999 year-to-date. The portfolio has a modified duration of approximately 1.24 years. The Commonwealth's investments are marked to market daily.

During Fiscal Year 1998, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in the above-described securities, as well as securities issued by the Commonwealth of Kentucky. Investment income for Fiscal Year 1998, excluding that from pension trust funds, was \$211.1 million.

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

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

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than 20% of the total portfolio of treasury and agency securities. Historically, this commitment has been less than 10% of the portfolio.

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

The Commonwealth has also engaged in an asset-based interest rate swap to better match its assets and liabilities and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific period of time. On September 28, 1995, the State Investment Commission adopted resolution 95-03, which re-authorized interest rate swap transactions in a notional amount not to exceed \$200 million outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. Currently, the Commonwealth has one \$50 million notional amount fixed rate receiver swap transaction outstanding, which has a final maturity of July 9, 1999.

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

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

Year 2000 Compliance

The Commonwealth of Kentucky has been aware since early 1994 of the technology problems associated with the year 2000. The Commonwealth has assessed the state's mission critical systems, most of which reside on the mainframe computer. These systems have been planned for year 2000 compliance by

July 1, 1999. As of July 31, 1998, sixty percent of these systems had been renovated and placed back into production. The General Assembly, during the 1998 Regular Session, appropriated \$6,700,000 to a year 2000 "contingency fund." Portions of this fund will be used to contract for third party validation and verification of selected mission critical systems residing on the mainframe computer. The Commonwealth has obtained a contract for specialized consultants to examine the methodology, procedures, work plans and status of the year 2000 compliance project. The consultants have made recommendations and implemented methodologies to ensure that the best practices are in place for compliance. Further information regarding year 2000 compliance by the Commonwealth may be found on the Internet at <http://www.state.ky.us/dis/newdishm>.

SECURITY FOR THE BONDS

The Bonds are not secured by a lien on any properties constituting the Project or any amounts derived therefrom. The Bonds and the interest thereon are payable solely from the revenues to be derived from the rental payments of the Cabinet under the Lease. See the caption "SUMMARIES OF THE PRINCIPAL DOCUMENTS — The Lease."

The Kentucky General Assembly has appropriated to the Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2000.

Appropriations for the rental payments under the Lease are subject to the discretion and approval of each successive biennial or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) in the performance of his or her obligation to balance the Commonwealth's annual budget, the Governor will not reduce or eliminate such appropriations. **FAILURE OF THE CABINET TO RECEIVE SUCH APPROPRIATIONS WILL HAVE A MATERIAL ADVERSE EFFECT ON THE COMMISSION'S ABILITY TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS.**

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will be dated March 1, 1999, and will bear interest payable on each September 1 and March 1, commencing September 1, 1999, at the interest rates set forth on the cover page of this Official Statement. Bank of Louisville is the trustee for the Bonds (the "Trustee").

Book Entry Only System

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of § 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers,

banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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

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

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

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

Redemption Provisions

Optional Redemption. The Bonds maturing on and after September 1, ~~_____~~,2010, may be redeemed at the option of the Commission on any date on or after September 1, ~~_____~~,2009, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at the redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed) set forth below, plus accrued interest to the date of redemption:

Redemption Period (Dates Inclusive)	Redemption Price
September 1, _____ through August 31, _____	_____%
September 1, _____ through August 31, _____	_____
September 1, _____ and thereafter	_____

~~*Mandatory Sinking Fund Redemption.* The Bonds maturing on September 1, _____ are subject to mandatory sinking fund redemption prior to maturity, at a redemption price of 100% of the principal amount thereof being redeemed, plus accrued interest to the date fixed for redemption, without premium, in the amounts and on September 1 of the years as follows:~~

Redemption Date	Principal Amount
_____	_____
_____	_____

*Maturity

~~In the event that Bonds so subject to mandatory sinking fund redemption have been called for optional redemption or have been purchased by the Commission as provided in the Bond Resolution, then the amount of the mandatory sinking fund installments shall be reduced in such order as shall be distinguished by the Commission.~~

<u>Redemption</u> <u>(Dates Inclusive)</u>	<u>Redemption Period</u> <u>Price</u>
September 1, 2009 through August 31, 2010	101%
September 1, 2010 through August 31, 2011	100.5
September 1, 2011 and thereafter	100

Notice of Redemption. At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Bonds, the Trustee shall cause a notice of redemption to be mailed, by regular United States first class mail, postage prepaid, to all owners of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any Bond shall not affect the validity of the redemption of any other Bond. Such redemption notice shall set forth the details with respect to the redemption. Any owner owning at least \$1,000,000 in aggregate principal amount of the Bonds may request that a second copy of the notice of redemption be sent to a second address provided to the Trustee in writing. The notice of redemption shall set forth the complete title of the Bonds, the CUSIP numbers, the date of the issue, the serial numbers, the interest rate, the maturity date, the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and the place or places of redemption, including the name, address and phone number of a contact person. The notice of redemption shall also state that on the date fixed for redemption the redemption price will become due and payable upon each Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Attention: Call Notification; Kenny Information Systems Notification Service, 65 Broadway, 16th Floor, New York, New York 10006; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, Attention: Called Bonds Section; Financial Information, Inc., 30 Montgomery Street, Jersey City, New Jersey 07302, Attention: Called Bond Service Edition; and Standard & Poor's Called Bond Record, 25 Broadway, New York, New York 10004; *provided however*, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds.

A second notice of redemption shall be given within sixty (60) days after the date fixed for redemption in the manner required above to the registered owners of redeemed Bonds which have not been presented for payment within thirty (30) days after the date fixed for redemption.

Any notice mailed as provided, shall be conclusively presumed to have been duly given upon mailing, whether or not the owner of such Bonds receives the ~~notice~~. notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Bonds so called for redemption shall cease to accrue after the date fixed for redemption.

PLAN OF FINANCE*

The proceeds of the Bonds will be used by the Commission and the Cabinet (i) to refund certain of the Commission's outstanding bonds further identified in the table below (the "Refunded Bonds") and (ii) to pay the costs of issuance of the Bonds.

The Commission had outstanding bonds in the aggregate principal amount of \$914,246,319.15 as of February 15, 1999. A portion of the proceeds of the Bonds will be used to refund certain outstanding Commission bonds, as listed below:

<u>Project No.</u>	<u>Date of Bond Issue</u>	<u>Maturities or Sinking Fund Installments Refunded</u>	<u>Principal Amount Refunded</u>
54	July 15, 1992	9/1/2008 – 9/1/2012	\$1,560,000
56	July 15, 1994	9/1/2010 – 9/1/2014 \$20,555,000 9/1/2008 – 9/1/2014	20,555,000 <u>\$27,200,000</u>

A portion of the proceeds of the Bonds will be deposited in a separate and distinct escrow fund to be held by Bank of Louisville, as Escrow Agent (the "Escrow Agent") under an Escrow Agreement (the "Escrow Agreement") dated as of March 1, 1999, by and between the Commission and the Escrow Agent. The Escrow Agent is required in the Escrow Agreement to apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the "United States Treasury Obligations"), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held invested in the escrow fund, to pay the interest on the Refunded Bonds as same become due, the principal of certain

~~*Preliminary; subject to change.~~

Refunded Bonds at maturity and the redemption price of Refunded Bonds subject to redemption prior to maturity through mandatory sinking fund installments and optional redemptions. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the making of the foregoing deposit with the Escrow Agent on behalf of the prior trustees, in the opinion of Bond Counsel, the Refunded Bonds shall no longer be deemed to be outstanding for the purposes of the resolution under which the Refunded Bonds were issued.

SOURCES AND USES OF FUNDS FOR THE BONDS

The following tables set forth the application of the proceeds of the Bonds.

SOURCES OF FUNDS:

Par Amount of Bonds	\$ <u>31,550,000.00</u>
Accrued Interest Less: Underwriters' Discount	() <u>35,116.94</u>
Less: Underwriters' Discount	(226,629.50)
Plus: Original Issue Premium	<u>19,178.05</u>
Less: Original Issue Discount	_____
TOTAL SOURCES	\$ _____
TOTAL SOURCES	\$31,377,665.49

USES OF FUNDS:

Escrow Fund Deposit	\$ <u>31,269,048.18</u>
Costs of Issuance	<u>73,250.00</u>
Additional Proceeds	250.37
Deposit to Bond Service Fund - Accrued Interest	<u>35,116.94</u>
TOTAL USES	\$31,377,665.49

THE STATE PROPERTY AND BUILDINGS COMMISSION

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

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease-rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Cabinet has applied to the Commission to issue the Bonds secured by revenues from the Lease. The Resolution was adopted by the Commission on ~~September 21, 1998~~, February 25, 1999, authorizing the issuance of the Bonds.

THE FINANCE AND ADMINISTRATION CABINET

The Cabinet, created and governed by the provisions of KRS 12.020 and KRS 42.011, is a statutory administrative organization of the Commonwealth headed by the Secretary of the Cabinet, who is appointed by the Governor. The Secretary of the Cabinet is the chief financial officer of the Commonwealth.

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

THE STATE AGENCIES

Cabinet for Economic Development

The 1992 General Assembly created the Kentucky Economic Development Partnership, a board governing the Cabinet for Economic Development. The Partnership consists of eleven voting members and the Secretary of the Cabinet for Economic Development and the Secretary of the Tourism Development Cabinet who serve as non-voting members. The Governor serves as Chairman.

The Cabinet for Economic Development promotes and facilitates increased economic development in the Commonwealth. This development is aimed toward increasing the standard of living and improving the opportunities of all Kentucky citizens. The Cabinet for Economic Development works to encourage new businesses to locate in Kentucky, to assist business in the Commonwealth to expand, to increase outside investment and spending in the Commonwealth, to promote Kentucky products and resources and to upgrade the quality and quantity of services provided by Kentucky communities.

Cabinet for Health Services

The Cabinet for Health Services was created by Executive Order 96-862 (which also abolished the Cabinet for Human Resources). The Department for Medicaid Services, Department for Mental Health/Mental Retardation Services, Department for Public Health, Commission for Children with Special Health Care Needs, the Office of Certificate of Need, the Office of Program Support, the Office of the General Counsel, the Office of the Inspector General and the Office of the Secretary form the Cabinet for Health Services.

Education, Arts and Humanities Cabinet

The Education, Arts and Humanities Cabinet is charged with preserving Kentucky's heritage, preparing for its future, and promoting a statewide culture of lifelong learning. Each of the agencies in the Cabinet provides or oversees services that contribute to an enhanced quality of life for Kentuckians: excellence in public education, quality libraries, the preservation of historical landmarks, cultural enrichment through the visual and performing arts, and services to the deaf and hard of hearing.

Finance and Administration Cabinet

A description of the Finance and Administration Cabinet appears under the heading "THE FINANCE AND ADMINISTRATION CABINET."

General Government

Department of Military Affairs. The Department of Military Affairs is the state agency responsible for all military matters and disaster and emergency service coordination in the Commonwealth. The Governor is the constitutional Commander-in-Chief of the forces that are on duty in the state. He appoints the Adjutant General who commands the Kentucky National Guard (Army and Air), and directs and coordinates all programs of the Department.

The Department has the responsibility for organizing, equipping, training and housing units of the Kentucky National Guard which may be called to duty by the Governor in the event of civil strife or disorder, or the occurrence of natural or man-made disasters.

The Department consists of these organizational units: General Administration and Support, Property Management, Guard Materials Management, Air Transport, Disaster and Emergency Services, and Bluegrass Station.

Justice Cabinet

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

Center (NTC), the Luther Lockett Correctional Complex (LLCC), the Eastern Kentucky Correctional Complex (EKCC), the Western Kentucky Correctional Complex (WKCC), the Roederer Correctional Complex (RCC), Blackburn Correctional Facilities Complex (BCFC), and three private minimum security prisons or other correctional institutions which may be established.

Postsecondary Education

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

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

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

Kentucky State University. Kentucky State College was established in 1886 by an Act of the Kentucky General Assembly. With the passage of the 1890 Morrill Act by the U. S. Congress, the college became a land-grant institution. A tripartite mission was instituted: teaching, research, and public service.

The 1972 General Assembly elevated the college to university status, effective July 1, 1973. Since that time, the General Assembly has amended KRS 164.290 to further read: "It is the intent of the general assembly that Kentucky State University shall serve as a four-year residential institution emphasizing a program of liberal studies appropriate to its size and resources." Kentucky State University (KSU) is a multipurpose institution with state and land-grant standing. The university is authorized to provide both undergraduate and graduate programs of instruction and is accredited by regional and national accreditation agencies.

Student enrollment has stabilized at approximately 2,600. The student body is fully integrated, serving both white and black residential students and a significant number of commuting students representing the ethnic and geographic diversity of the Commonwealth.

Morehead State University. Morehead State University's (MoSU) roots extend back to its days as a private normal school in the late 1800s. In 1922, the institution became a state normal school to meet expanded higher education needs for teacher training in Kentucky. After several name changes and an expanded perspective on higher education, MoSU was granted university status in 1966 to provide undergraduate and selected masters and specialist programs for the citizens of northern and eastern Kentucky. MoSU has grown both in size and in the quality of its instructional, research, and public service programs and activities.

MoSU has operationalized its mission through the adoption of seven statements of ideals which accent the intellectual, creative, ethical, and technical development of students; the discovery and integration

of knowledge; the development of leadership qualities; the utilization of past achievements and values to respond to the challenges of the future; and a commitment to excellence and integrity.

The university's four divisions: Academic Affairs, Student Life, Administrative and Fiscal Services, and University Advancement work in harmony to implement strategies to fulfill the institution's ongoing strategic goals for quality education. The university's accreditation was reaffirmed in 1990 by the Southern Association of Colleges and Schools and programs in veterinary technology, social work, radiologic technology, teacher education, nursing and music are accredited through individual professional agencies.

The MoSU campus is located in the Appalachian foothills with main campus facilities in the city of Morehead and an agricultural center in Rowan County. Art and music facilities provide cultural programs and activities for the campus, community, and surrounding area. A modern student athletic center provides health, physical education, and recreation opportunities for students, employees, and members of the community. Over 47 percent of the university's students live in 13 residence halls and the university provides extensive student development programs to meet the needs of a holistic education for all students.

Murray State University. Murray State University (MuSU) was created by the Kentucky General Assembly in 1922 as Murray State Normal School. The university's role has expanded since its founding, as indicated by changes in its name: Murray State Teacher's College (1930), Murray State College (1948), and Murray State University (1966). The MuSU tradition of quality education through close interaction between students and faculty has been maintained as the institution has enlarged its mission at the direction of the Board of Regents and the General Assembly. Today MuSU serves western Kentucky as an educational and cultural center whose achievements continue to improve the quality of life of citizens in its region.

To carry out its mission of instruction, research, and service most effectively, MuSU has established an ongoing strategic planning process to evaluate all institutional policies and activities. A new strategic plan approved by the Board of Regents in November 1990 sets four major goals for the university in the areas of demonstrated baccalaureate excellence, effective regional service, fiscal accountability, and personnel involvement and support. A comprehensive program of assessment of institutional effectiveness supports the achievement of the plan.

The central focus of the university's educational mission is its degree programs at the associate, baccalaureate, master's and specialist levels; its non-degree professional and technical programs; and its joint doctoral programs with the University of Kentucky and the University of Louisville. MuSU's commitment to quality is evident in each of these programs.

Fifty-seven degree programs have achieved accreditation from 14 national professional organizations. Degrees are conferred through the six colleges: Business and Public Affairs, Education, Fine Arts and Communication, Humanistic Studies, Industry and Technology, and Science.

MuSU also serves the western Kentucky region through the Breathitt Veterinary Center, the West Kentucky Small Business Development Center, the National Aeronautics and Space Administration (NASA) Teacher Resource Center, the National Scouting Museum, Wrather West Kentucky Museum, and WKMS-FM.

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

These primary functions, (1) instruction - the dissemination of knowledge, (2) research - the creation of knowledge, (3) public service - the application of knowledge, and the scope of programs

conducted in each functional area are defined by statute. KRS 164.125 authorizes the University of Kentucky to offer baccalaureate, professional, master's, specialist, doctoral and postdoctoral programs and to conduct joint doctoral programs in cooperation with other institutions. It designates the University of Kentucky as the Commonwealth's principal institution to conduct statewide research and service programs.

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

The University of Kentucky is organized into sixteen colleges and graduate schools plus extension programs, and operates a growing system of thirteen community colleges located throughout the Commonwealth. These two year colleges offer prebaccalaureate education in addition to technical and adult continuing education. Pursuant to House Bill 1 of the First Extraordinary Session of 1997 of the Kentucky General Assembly, the University of Kentucky delegated management of the Community College System to the Kentucky Community and Technical College System, effective January 14, 1998.

Western Kentucky University. Western Kentucky University, which was established in 1906 by the General Assembly, offers a broad spectrum of instruction, scholarly activity and professional service within an academic climate encouraging intellectual excellence.

Western Kentucky University, by authorization of the Council on Postsecondary Education, provides instruction at the associate, baccalaureate and graduate levels in the liberal arts and sciences, traditional pre-professional programs and emerging career areas and professional fields including agriculture, business, communications, education, health and technology. The University supports diverse scholarship, including basic and applied research and creative activity, in order to expand knowledge, improve instruction and serve its varied clientele. The University directly supports its constituents with professional and technical expertise, cultural enrichment and educational assistance.

The University is committed to increase access for both traditional and nontraditional students and to improve educational attainment at all levels. This commitment is renewed through the expansion of the Western Kentucky University Community College.

The University is divided into colleges and other support units to facilitate the offering of these programs and services. The major instructional colleges/divisions include the Bowling Green College of Business Administration; College of Education and Behavioral Sciences; Ogden College of Science, Technology and Health; Potter College of Arts, Humanities and Social Sciences; Community College and Continuing Education; and Graduate Studies.

Tourism Development Cabinet

General. The Tourism Development Cabinet was established by KRS 148.522 to facilitate efficiency and improved administration by the Commonwealth in promoting the tourism industry in Kentucky. Estimates project tourism spending in excess of \$7.2 billion annually, making tourism Kentucky's third-largest industry. The Tourism Development Cabinet administers 16 resort parks, 23 recreational parks and 10 historical sites. In addition, it includes the Kentucky Fair and Exposition Center, the Commonwealth Convention Center, the Kentucky Horse Park, the Department of Fish and Wildlife Resources and the Department of Travel. The tourism industry, Kentucky's second largest private employer, provides employment for approximately 140,000 Kentuckians. In addition, tourism related industries and businesses annually generate approximately \$500 million of state and local tax revenue in the Commonwealth.

The Department of Parks located within the Tourism Development Cabinet administers and operates the Kentucky State Parks System under the authority of KRS 148. The Department strives to provide quality recreational facilities and to preserve and protect historically significant sites and natural phenomena in the Commonwealth of Kentucky.

The Resort Parks program encourages tourism and economic development in Kentucky by providing excellent overnight accommodations, quality food service, and recreational activities for visitors at the 16 resort parks. In fiscal year 1997 the resort parks provided overnight accommodations for approximately 575,000 guests and served approximately 1.4 million meals.

The Recreation Parks and Historic Sites program encourages tourism and economic development in Kentucky by providing modern recreational and camping facilities and preserving significant scenic and historic landmarks, as well as operating museums and shrines. In fiscal year 1997, the camping areas attracted approximately 280,000 visitors and museum visitation approached 250,000.

Kentucky Horse Park. The 1,032-acre Kentucky Horse Park is a recreational and educational park featuring an exclusive movie, a farrier shop and a harness shop, a parade of breeds show, horse-drawn tours, the International Museum of the Horse, and the American Saddlebred Museum. Other attractions include: the Man O' War Memorial, Hall of Champions, Secretariat Memorial, a gift shop, an art gallery, two food service facilities, and horseback riding. Other facilities include a 260-site campground with a grocery, souvenir shop, pool, croquet, tennis, and basketball courts; 826 stalls for horse shows and some of the finest equine eventing facilities in the world, including a covered arena, six polo fields, show rings, and a steeplechase course. Central Kentucky Riding for the Handicapped and the National Horse Center Office Complex, which includes 11 horse-related organizations, are also located at the Park.

The purpose of the Kentucky Horse Park is to be the world's definitive equestrian educational facility dedicated to all breeds of horses; to provide show facilities capable of hosting national and international equestrian competitions in many disciplines; and to provide a positive impact on both the local and state economies by establishing itself as a nationally recognized tourist attraction.

The Horse Park provides recreational and educational activities for over 700,000 visitors a year through its regular activities and special events. In addition, the Park serves as an educational facility for approximately 20,000 students visitors from the Commonwealth.

Kentucky State Fair Board. The Kentucky State Fair Board is composed of 15 members: the Governor, the Commissioner of Agriculture, the Dean of the College of Agriculture at the University of Kentucky, and 12 members appointed by the Governor. Five of the 12 members appointed by the Governor are selected from nominations from the Kentucky Association of Fairs and Horse Shows, the Kentucky Livestock Improvements Association, the Kentucky State National Farmers Organization, the American Saddle Horse Breeders Association, and the Kentucky Farm Bureau Federation. The Board has control and custody of the funds, buildings, grounds, and equipment of the Kentucky Fair and Exposition Center and the Commonwealth Convention Center in Louisville, as outlined in KRS 247. A president is appointed by the Board to manage the Centers.

THE PROJECT

The Cabinet will lease all of the facilities, renovations and improvements refinanced with the proceeds of the Bonds from the Commission under the Lease (collectively, "Project No. 62"). The state agencies related to Project No. 62 are as follows:

Cabinet for Economic Development
Cabinet for Health Services
Education, Arts and Humanities Cabinet

Post Secondary Education:
Eastern Kentucky University
Kentucky State University

Finance and Administration Cabinet
General Government
Department for Military Affairs
Justice Cabinet
Tourism Development Cabinet
Kentucky Horse Park
Kentucky State Fair Board

Morehead State University
Murray State University
University of Kentucky
Western Kentucky University

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution and the Lease. Such statements do not purport to be complete and reference is made to the Resolution and the Lease, copies of which are available for examination at the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601.

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. In addition to the deposit to the Escrow Fund described under "PLAN OF REFUNDING" above, deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. Bond Service Fund. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into such Bond Service Fund all or such portion of the Revenues as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds Outstanding under the Bond Resolution at or before their maturity. Accrued interest on the Bonds will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any September 1, March 1 or other date set for the redemption of the Bonds (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

No further payments are required to be made to the Bond Fund when, and so long as, the aggregate amount therein is sufficient to retire all of the Bonds that are then outstanding and payable plus interest due or to become due and redemption premium, if any.

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Bonds. On payment of all duly authorized expenses incident to the issuance of such Bonds, any remaining balance in the Cost of Issuance Account will be transferred to the Bond Fund.

3. The Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund shall constitute a trust fund for the benefit of the Bondholders. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings, real estate or economic development projects, including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings, appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Fund.

Federal Tax Covenants of the Commission. The Commission has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that the interest paid on the Bonds by the Commission shall be excludable from the gross income of the Holders for the purposes of federal income taxation and not permit the Bonds to be or become "arbitrage bonds" as defined in the Code.

Investment of Funds. Moneys in any Fund or Account established under the Resolution will be invested in obligations permitted by Kentucky law as specified in the Resolution.

Events of Default. The Resolution defines "Events of Default" as follows:

[a] Default in the due and punctual payment of the interest on any Bond;

[b] Default in the due and punctual payment of the principal of or premium, if any, on any Bond at maturity or upon redemption prior to maturity; or

[c] Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Commission in the Resolution or in the Bonds contained, and the continuance thereof for a period of 30 days after written notice given by the Trustee to the Commission or by the Holders of not less than 25% in aggregate principal amount of Bonds outstanding, to the Commission and the Trustee; provided, however, that if such event of default can, in the opinion of the Trustee, be corrected but not within such period, it shall not constitute an event of default hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

Upon the happening and continuance of any event of default described in clause [a], [b] or [c] above, unless the principal of all the Bonds has already become due and payable, either the Trustee (by notice in writing to the Commission) or the Holders of not less than 25% of the principal amount of Bonds outstanding (by notice in writing to the Commission and the Trustee) may declare the principal of all the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% of the principal amount of Bonds then Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all overdue installments of interest on such Bonds and the principal of all Bonds which will have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, are either paid by or for the account of the Commission or provision satisfactory to the Trustee is made for such payment, then and in every such case any such default and its consequences will ipso facto be deemed to be annulled, but no such annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky Revised Statutes and under the Resolution forthwith by such suits, actions, or by special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Resolution or in aid of the execution of any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

In the enforcement of any right or remedy under the Resolution or under the law, the Trustee is entitled to sue for, enforce payment on, and receive any or all amounts then or during the continuance of any event of default becoming, and at any time remaining, due from the Commission, for principal, interest or

otherwise under any of the provisions of the Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Bonds then Outstanding, to the extent permitted by law together with any and all costs and expenses of collection and of all proceedings under the Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce judgment or decree against the Commission, but solely as provided in the Resolution and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect (but solely from the moneys in the funds and accounts established by the Resolution other than the Rebate Fund) in any manner provided by law, the moneys adjudged or decreed to be payable.

Regardless of the happening of an event of default, the Trustee, if requested in writing to take any action under the Resolution or the Bonds by the Holders of not less than 25% of the principal amount of Bonds outstanding, has no duty to act until it is furnished with indemnification satisfactory to it. The Trustee may institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Resolution or the Bonds and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interest of the Holders of the Bonds, provided that such request will not be otherwise than in accordance with the provisions of law and of the Resolution and will not be unduly prejudicial to the interest of the Holders of the Bonds not making such request.

Individual Holder Action Restricted. No Holder of Bonds has any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Resolution or for the execution of any trust thereof or for the appointment of a receiver or the enforcement of any other right under the Kentucky Revised Statutes, unless such Holder has given to the Trustee written notice of the event of default or breach of trust or duty on account of which such suit, action, or proceeding is to be taken and unless the Holders of not less than 25% in aggregate principal amount of Bonds outstanding have made written request accompanied by indemnity and security satisfactory to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit, or proceeding in its own name, and the Trustee thereafter fails or refuses to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its, his or their own name or names. It is understood and intended that no one or more Holders of Bonds have any right in any manner whatsoever to affect, disturb or prejudice the security of the Resolution by its, his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity will be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all of such Bonds then outstanding. Nothing contained in the Resolution or in the Bonds affects or impairs the right of any Holder of any Bond to payment of the principal of or interest on such Bond at and after the maturity thereof or the obligation of the Commission to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders thereof at the time and place, from the source, and in the manner therein provided and in the Bonds expressed.

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds in any particular, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of 66 2/3% of the principal amount of Bonds outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

In addition to the foregoing, the Commission and the Trustee may, without regard to the provisions set forth above, make any amendment or change to the Resolution (i) to cure any formal defect or

ambiguity, if in the opinion of the Trustee such amendment or change is not adverse to the interest of the Holders of the Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect, (iii) to permit the Trustee to comply with any obligations imposed on it by law, (iv) to achieve compliance of the Resolution with any federal tax law, (v) to maintain or improve any rating on the Bonds, or (vi) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

Change, Substitution or Other Modification of Project. Anything in the Resolution or the Lease notwithstanding, the Cabinet may, in its sole discretion, change, substitute or otherwise modify components of the Project, including economic development projects, so long as all Bond proceeds are applied to facilities, payments or undertakings which are included in and subject to rental payments under the Lease such that rental payments thereunder will be sufficient to pay principal of, premium, if any, and interest on the Bonds; provided that any such change, substitution or modification shall not cause the Commission to be in violation of certain covenants of the Resolution.

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of Bondholders.

Discharge of the Resolution. If the Commission pays or causes to be paid, or there is otherwise paid, to the Holders of the Bonds the total principal and interest due or to become due thereon, including premium, if applicable at the times and in the manner stipulated therein and in the Bond Resolution then the pledge of Revenues under the Resolution, and all covenants, agreements and other obligations of the Commission to the Holders of the Bonds shall cease, terminate and become void and shall be discharged and satisfied.

Whenever there shall be held by the Trustee in the Bond Service Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Service Fund or such escrow fund, shall be sufficient, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed in accordance with this Bond Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Bond Resolution, and the Trustee will and is irrevocably instructed by the Resolution to publish notice thereof.

As used herein, "Defeasance Obligations" means:

(a) direct non-callable obligations of (including obligations issued or held in book entry form) the United States of America; and

(b) pre-refunded municipal obligations defined as follows:

Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (1) which are rated, based on the escrow, in the highest rating category of Standard and Poor's Ratings Services, a Division of The McGraw Hill

Companies Inc. and Moody's Investors Service or any successors thereto; or (2) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraph (a) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

The Lease

The Commission and the Cabinet have entered into the Lease whereby the Cabinet will lease the Project from the Commission and will pay rentals to the Commission during biennial renewal terms which will provide funds sufficient to pay the amounts due on the Bonds.

The Lease is for an initial term ending June 30, 2000. The Commission has granted the Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year beginning July 1, 2000. The last renewal term for the Lease relating to the Bonds is ending June 30, 2016, the final maturity of the Bonds being September 1, 2014. Under the provisions of the Constitution of the Commonwealth, the Commission and the Cabinet are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Cabinet to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Cabinet is bound for the entire amount of the rent becoming due during such term payable from, but not limited to, appropriations, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law.

The Cabinet has covenanted and agreed in the Lease that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth it will cause to be included in the appropriations proposed for that biennial period to be made for the Cabinet sufficient amounts (over and above all other requirements of the Cabinet) to enable the Cabinet to make rental payments under the Lease and thereby produce income and revenues to the Commission to permit timely payment of the Bonds as the same become due during such period.

The ability of the Cabinet to make rental payments is subject to the appropriations of the General Assembly. There can be no assurance that such appropriations will be forthcoming at any time after June 30, 2000. The failure of the General Assembly to approve and enact such appropriations will have a material adverse effect on the ability of the Commission to pay the Bonds. In addition, there can be no assurance that in the performance of his or her obligations to balance the Commonwealth budget annually, the Governor will not reduce or eliminate any appropriations which are made.

If the Lease is renewed, then on the first day of the biennial renewal term the Cabinet is firmly bound for the entire amount of rental payments coming due during such renewal term.

In the Resolution, the Commission has covenanted that it will receive and apply the lease-rental payments from the Cabinet to pay the Bonds when due, and will carry out each and every duty imposed on it by the Kentucky Revised Statutes in respect thereto.

Events of default under the Lease include a default in the due and punctual payment of any rent or a default in the performance of any covenants therein not remedied within 30 days (or in the process of being remedied).

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may terminate the Lease or, without terminating the Lease, take possession

(actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Cabinet's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Cabinet under the Lease upon delivery of an opinion of counsel that the subletting or reletting will not cause the interest on the Bonds to be includible in the gross income of the holders of the Bonds. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has given the Bonds the rating of "~~___~~","A2"; Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P") has given the Bonds the rating of "~~___~~"A+" and Fitch IBCA, Inc. ("Fitch") has given the Bonds the rating of "~~___~~","A+". Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300; an explanation of the rating given by S&P may be obtained from Standard & Poor's Rating Services at 25 Broadway, New York, New York 10004, (212) 208-8000; and an explanation of the rating given by Fitch may be obtained from Fitch IBCA, Inc. at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as Exhibit C.

LITIGATION

Except as described herein, there is no litigation pending or, to the knowledge of the Commission or the Cabinet, threatened to restrain or enjoin the authorization, sale or delivery of the Bonds or which would adversely affect the application of the revenues of the Commission to the payment of the Bonds.

TAX EXEMPTION

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States of America, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Commission has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includible in gross income for federal income tax purposes retroactively to the date of the issuance of the Bonds

Subject to the compliance by the Commission, the Lessee and others with the above-referenced covenants, under present law, in the opinion of Chapman and Cutler, Bond Counsel, interest on the Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in

determining the federal alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Commission and the Lessee with respect to certain material facts solely within the knowledge of the Commission and the Lessee relating to the application of the proceeds of the Bonds. In rendering its opinion, Bond Counsel will rely upon the Verification Report of Deloitte & Touche LLP.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain ~~eases-~~ cases. The AMT, if any, depends upon the alternative minimum taxable income of the corporation ("AMTI"), which is the taxable income of the corporation with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, and REMICS) is an amount equal to 75% of the excess of the "adjusted current earnings" of such corporation over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax-exempt interest such as interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitations, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

If a Bond is purchased at any time for a price that is less than the stated redemption price of the Bond at maturity the purchasers will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the election of the purchaser, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

From time to time, there are legislative proposals in the Congress of the United States that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond for federal income tax purposes. However, as bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its affect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

[INSERT OID LANGUAGE HERE]

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Deloitte & Touche LLP will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds, and (2) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludible from gross income of the owners thereof for federal income tax purposes. Deloitte & Touche LLP will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

UNDERWRITING

The Bonds are to be purchased by a syndicate managed by Merrill Lynch & Co. as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of ~~\$_____~~ **\$31,342,548.55** (which is equal to the principal amount of the Bonds plus net original issue premium of ~~\$_____~~ **less original issue discount of \$_____** **\$19,178.05** and less underwriting discount of ~~\$_____~~ **\$226,629.50**) plus accrued interest from the dated date of the Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering prices or yields set forth on the cover page hereof, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

TRUSTEE'S YEAR 2000 COMPLIANCE

The Bank of Louisville is devoting significant resources to achieve year 2000 compliance. Under the leadership of key management, it has developed a highly detailed, five-phase master plan, implemented by an inter-department team, to ensure that all mission-critical systems shall continue to operate into the next century. The bank's plan incorporates the guidance and milestones set out by Federal Financial Institutions Examination Council (FFIEC).

The five phases are: awareness, assessment, renovation, validation and implementation. The first phase, awareness, includes informing and educating pertinent bank personnel, executives and board members about year 2000 issues and creating committees and teams from these groups to implement the bank's plan.

Assessment includes compiling an inventory of all systems of the bank including hardware, software, equipment and key suppliers. A determination is made as to the date sensitivity of each system or piece of equipment. For systems provided by third parties, assessment includes certification that their product is or will be year 2000 compliant.

The third phase, renovation, covers fixing of those systems that have been identified as non-compliant. For those systems or services provided by third parties, renovation includes monitoring of the vendors' progress renovating their own systems and delivery date of the vendors' renovated product.

Validation is testing of systems to ensure that the renovation accomplished year 2000 compliance. The bank will be conducting its own tests and using the test results of other parties to verify year 2000 readiness of its systems.

The final phase is implementation. This phase will move all renovated systems into current use, and allow interfacing systems to communicate. Implementation will allow for final testing and the opportunity to make any final changes to ensure that systems run smoothly.

The bank has completed its awareness campaign, assessment of its systems and is currently in the renovation and validation phases. The bank plans, pursuant to FFIEC guidelines, to have the testing of internal mission-critical systems substantially complete by December 31, 1998, testing of external mission-critical systems substantially complete by March 31, 1999 and implementation of mission critical systems substantially complete by June 30, 1999.

In addition to assessing its own systems, Bank of Louisville is inquiring into the year 2000 readiness of major suppliers and business partners. The interdependent nature of today's financial systems means that the bank must rely on third parties to ensure that the parties are year 2000 ready and that their systems are capable of handling year 2000 dates. Consequently, Bank of Louisville's success depends, in part, on the year 2000 capabilities of systems under the control of third parties. The bank is working with these parties to meet the common goal of uninterrupted service into the year 2000.

To help overcome possible failures with respect to its mission-critical systems, the bank is developing contingency plans for any mission-critical system or service that fails to perform as expected before or after the year 2000. Contingency planning will help ensure that the bank will continue to operate in spite of problems and continue to provide products and services to our valued customers and business partners.

OTHER MATTERS

This Official Statement has been prepared under the direction of the Executive Director of the Office of Financial Management and Economic Analysis.

The information set forth herein has been obtained from sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. The summaries of the documents herein contained do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to official documents in all respects.

This Official Statement has been approved, and its execution and delivery have been authorized, by the Commission.

THE COMMONWEALTH OF KENTUCKY STATE
PROPERTY AND BUILDINGS COMMISSION

By: /s/ Gordon L. Mullis, Jr.
Executive Director
Office of Financial Management ~~and~~
~~Economic and Economic~~ Analysis
(Secretary to the Commission)

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Overview of Kentucky's Debt Authorities

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

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

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

Debt-Issuing Entities of the State

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

Seven of the debt-issuing authorities listed in Table I issue bonds to finance projects that are not repaid by state revenues. These are the Kentucky Housing Corporation, the Kentucky Infrastructure Authority, the Kentucky Higher Education Student Loan Corporation, the School Facilities Construction Commission, the Kentucky Economic Development Finance Authority, the Kentucky Local Correctional Facilities Construction Commission and the Kentucky Agricultural Finance Corporation. None of these entities, except for some of the debt of the School Facilities Construction Commission and the Kentucky Infrastructure Authority, receive an appropriation of the General Assembly for the payment of debt service for their borrowings. Project revenues are used to repay debt service for these debt authorities. The General Assembly has placed specific debt limitations on the principal debt outstanding of the Kentucky Housing Corporation (\$1.125 billion), the Kentucky Higher Education Student Loan Corporation (\$950 Million) and the Kentucky Agricultural Finance Corporation (\$500 Million). The debt of the Kentucky Local Correctional Facilities Construction Authority is limited to the level of debt service supported by a \$10 fee collected from certain cases in the District Courts of the State. Currently, no debt limitation exists for the Kentucky Economic Development Finance Authority.

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

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

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

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

Default Record

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

Debt Management

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

[This Page Intentionally Left Blank]

EXHIBIT B**PRINCIPAL AND INTEREST REQUIREMENTS OF THE BONDS**

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>GROSS SEMI-ANNUAL TOTAL</u>	<u>NET FISCAL YEAR TOTAL</u>
Sept. 1, 1999	\$ 240,000	\$702,338.75	\$ 942,338.75	\$1,640,777.50
March 1, 2000				
Sept. 1, 2000	215,000	698,438.75	913,438.75	1,608,545.00
March 1, 2001				
Sept. 1, 2001	220,000	695,106.25	915,106.25	1,606,472.50
March 1, 2002				
Sept. 1, 2002	225,000	691,366.25	916,366.25	1,603,682.50
March 1, 2003				
Sept. 1, 2003	235,000	687,316.25	922,316.25	1,605,226.25
March 1, 2004				
Sept. 1, 2004	245,000	682,910.00	927,910.00	1,606,103.75
March 1, 2005				
Sept. 1, 2005	255,000	678,193.75	933,193.75	1,606,351.25
March 1, 2006				
Sept. 1, 2006	265,000	673,157.50	938,157.50	1,605,948.75
March 1, 2007				
Sept. 1, 2007	275,000	667,791.25	942,791.25	1,604,945.00
March 1, 2008				
Sept. 1, 2008	4,110,000	662,153.75	4,772,153.75	5,349,538.75
March 1, 2009				
Sept. 1, 2009	3,825,000	577,385.00	4,402,385.00	4,898,488.75
March 1, 2010				
Sept. 1, 2010	4,000,000	496,103.75	4,496,103.75	4,906,207.50
March 1, 2011				
Sept. 1, 2011	4,185,000	410,103.75	4,595,103.75	4,900,582.50
March 1, 2012				
Sept. 1, 2012	4,390,000	305,478.75	4,695,478.75	4,902,182.50
March 1, 2013				
Sept. 1, 2013	4,330,000	206,703.75	4,536,703.75	4,643,276.25
March 1, 2014				
Sept. 1, 2014	<u>4,535,000</u>	106,572.50	4,641,572.50	4,641,572.50
Total	<u>\$31,550,000</u>			

EXHIBIT C

FORM OF BOND COUNSEL OPINION FOR THE BONDS

[Date of Delivery]

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "Commission"), authorizing the issuance by the Commission of its Revenue Refunding Bonds, Project No. 62 (the "Bonds") in the aggregate principal amount of ~~_____~~ \$31,550,000, issued for the purpose of providing funds (i) to refund certain outstanding bonds of the Commission (the "Prior Bonds") and (ii) to pay costs of issuing the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "Act"), and a resolution adopted by the Commission on ~~September 21, 1998~~ February 25, 1999 (the "Bond Resolution"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "Project") have been leased to the Cabinet, pursuant to the Lease dated as of March 1, 1999, by and between the Commission, as lessor, and the Cabinet, as lessee (the "Lease").

The Bonds are dated March 1, 1999, are issued in fully registered form in the denomination of \$5,000 each and any integral multiple thereof, are lettered R and numbered from 1 upwards, mature on September 1 of each of the years and in the amounts, and bear interest at the rates per annum, as follows:

<u>Maturity</u> <u>September 1</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>Yield</u>	<u>Maturity</u> <u>September 1</u>	<u>Principal*</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u> <u>Yield</u>
1999	\$150,000			2007	\$ 190,000		
2000	145,000			2008	820,000		
2001	150,000			2009	405,000		
2002	155,000			2010	4,030,000		
2003	160,000			2011	4,210,000		
2004	165,000			2012	4,410,000		
2005	175,000			2013	4,350,000		
2006	180,000			2014	4,565,000		

<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>
1999	\$240,000	3.250%	100.059%	2007	\$ 275,000	4.100%	100.000%
2000	215,000	3.100	99.656	2008	4,110,000	4.125	99.417
2001	220,000	3.400	100.000	2009	3,825,000	4.250	99.580
2002	225,000	3.600	100.000	2010	4,000,000	4.300	99.105
2003	235,000	3.750	100.000	2011	4,185,000	5.000	104.732
2004	245,000	3.850	100.000	2012	4,390,000	4.500	99.002
2005	255,000	3.950	100.000	2013	4,330,000	4.625	99.217
2006	265,000	4.050	100.000	2014	4,535,000	4.700	99.455

The Bonds are subject to optional and mandatory redemption prior to maturity as set forth therein and as set forth in the Bond Resolution.

*Preliminary, subject to change.

From such examination, we are of the opinion that such proceedings show lawful authority for the issue of the Bonds under the laws of the Commonwealth of Kentucky now in force. In that connection, we have examined (i) the Act, (ii) a certified copy of the Bond Resolution, (iii) an executed counterpart of the Lease, (iv) the form of Bond, and (v) such other proceedings, documents, instruments, showings and matters of law as we have deemed necessary to render this opinion.

Based on the foregoing, and in reliance thereon, it is our opinion that the Bond Resolution has been duly adopted by the Commission, and constitutes a valid and binding obligation of the Commission, enforceable against the Commission in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties. It is also our opinion that the Lease has been duly authorized, executed and delivered by the Commission and the Cabinet, and constitutes a valid and binding obligation of the Commission and the Cabinet, enforceable against the Commission and the Cabinet in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties.

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky.

It is also our opinion that, subject to compliance by the Commission and the Cabinet with certain covenants, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

It is also our opinion, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. No opinion is expressed with respect to any other taxes imposed by the Commonwealth of Kentucky or any political subdivisions thereof. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission and the Cabinet relating to the application of the Bonds and the Prior Bonds and upon the report of Deloitte & Touche LLP with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations.

[This Page Intentionally Left Blank]

::ODMA\PCDOCS\DOCS2\13384\1