**Book-Entry Only**

**NEW ISSUE**

**Moody's: Aaa/Aa3**
**S&P: AAA/A+**
**Fitch IBCA: AAA/A+**
(see "Ratings" herein)

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

# $125,455,000
# COMMONWEALTH OF KENTUCKY
## State Property and Buildings Commission
## Revenue Bonds, Project No. 64

**Dated: September 1, 1999** **Due: May 1, as shown below**

The Revenue Bonds, Project No. 64 (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 November 1 and May 1, commencing on November 1, 1999. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank One, Kentucky, NA, as Trustee and Paying Agent (the "Trustee").

Certain of the Bonds are subject to optional redemption prior to maturity at t he times and in the amounts described herein.

The payment of the principal of and interest on the Bonds maturing on May 1 in the years 2005 through and including 2018 has been guaranteed pursuant to a Financial Guaranty Insurance Policy to be issued by

MBIA Insurance Corporation. See "BOND INSURANCE." herein.

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

| Maturity May 1 | Principal Amount | Interest Rate | Yield/ Price | Maturity May 1 | Principal Amount | Interest Rate | Price or Yield |
|---|---|---|---|---|---|---|---|
| 2000 | $2,095,000 | 4.250% | 3.650% | 2009* | $6,375,000 | 5.125% | 5.150% |
| 2001 | 4,380,000 | 4.200 | 100.00 | 2010* | 1,595,000 | 5.200 | 5.250 |
| 2002 | 1,020,000 | 4.375 | 4.400 | 2010* | 5,105,000 | 5.750 | 5.250 |
| 2002 | 3,545,000 | 5.000 | 4.400 | 2011* | 1,410,000 | 5.250 | 5.350 |
| 2003 | 4,785,000 | 4.500 | 4.520 | 2011* | 5,665,000 | 5.750 | 5.350 |
| 2004 | 2,920,000 | 4.625 | 4.650 | 2012* | 975,000 | 5.375 | 5.400 |
| 2004 | 2,080,000 | 5.000 | 4.650 | 2012* | 6,500,000 | 5.750 | 5.400 |
| 2005* | 2,530,000 | 4.700 | 4.750 | 2013* | 7,905,000 | 5.375 | 5.450 |
| 2005* | 2,710,000 | 5.000 | 4.750 | 2014* | 1,040,000 | 5.375 | 5.500 |
| 2006* | 1,850,000 | 4.750 | 4.850 | 2014* | 7,285,000 | 5.750 | 5.500 |
| 2006* | 3,645,000 | 5.250 | 4.850 | 2015* | 8,800,000 | 5.500 | 5.550 |
| 2007* | 1,580,000 | 4.875 | 4.950 | 2016* | 9,285,000 | 5.375 | 5.600 |
| 2007* | 4,195,000 | 5.250 | 4.950 | 2017* | 9,785,000 | 5.500 | 5.650 |
| 2008* | 6,070,000 | 5.000 | 5.050 | 2018* | 10,325,000 | 5.500 | 5.670 |

***Insured by MBIA**

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 July 16, 1999, to (i) refund certain notes issued on behalf of the Commission 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 BIENNIALLY 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 Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Brown, Todd & Heyburn PLLC, Louisville, Kentucky. It is expected that delivery of the Bonds will be made on or about September 1, 1999, in New York, New York, through the facilities of DTC, against payment therefor.

**Merrill Lynch & Co.** **Salomon Smith Barney**

**J. J. B. Hilliard, W. L. Lyons, Inc.** **J. C. Bradford & Co.** **Morgan Keegan & Company, Inc.**

**NatCity Investments, Inc.** **Banc One Capital Markets** **Ross, Sinclaire & Associates, Inc.**

**First Kentucky Securities Corp.** **Conners & Co.** **Loop Capital Markets, LLC**

Dated: August 19, 1999

**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.

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## 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 $125,455,000 Revenue Bonds, Project No. 64 (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 ratifying a Financing/Lease Agreement (the "Lease") dated as of November 1, 1998, among the Commission and the Kentucky Asset/Liability Commission ("ALCo"), as lessors 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) refund certain notes issued on behalf of the Commission 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 BIENNIALLY 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.

**Bond Insurance**

The payment of the principal of and interest on the Bonds maturing on May 1 in the years 2005 through and including 2018 has been guaranteed pursuant to a Financial Guaranty Insurance Policy to be issued by MBIA Insurance Corporation. See "BOND INSURANCE." herein.

**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 on each November 1 and May 1, commencing on November 1, 1999. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank One, Kentucky, NA, as Trustee and Paying Agent (the "Trustee").

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

**Tax Status**

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation by the Commonwealth and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX TREATMENT" herein, and Exhibit B.

**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., 250 Vesey Street, World Financial Center, North Tower, 9th Floor, Merrill Lynch World Headquarters, New York, New York 10281-1309 (212) 449-0704.

**OFFICIAL STATEMENT**
**Relating to**
**$125,455,000**
**COMMONWEALTH OF KENTUCKY**
**State Property and Buildings Commission**
**Revenue Bonds, Project No. 64**

## 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 $125,455,000 Revenue Bonds, Project No. 64 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refund notes issued on behalf of the Commission and (ii) pay the costs of issuing the Bonds.

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 ratifying the Lease hereinafter described.

The Cabinet, as lessee, has entered into a Financing/Lease Agreement dated as of November 1, 1998 (the "Lease"), with the Commission and the Kentucky Asset/Liability Commission ("ALCo"), as lessors, 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 (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.

## 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 1998 may be found on the Internet at *http://www.state.ky.us/agencies/finance/manuals/tax/cafr.htm.*

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

**Fiscal Year 1996**

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

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

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

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

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

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

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

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

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

**Fiscal Year 1997**

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

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

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

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

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

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

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

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

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

**Fiscal Year 1998**

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

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

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

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

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

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

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

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

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

**Fiscal Year 1999 (Unaudited)**

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

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

**Investment Policy**

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

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

During Fiscal Year 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 1999, excluding that from pension trust funds, was $152.4 million.

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

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

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

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

The Commonwealth has also engaged in an asset-based interest rate swap to better match its assets and liabilities and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific period of time. On

September 28, 1995, the State Investment Commission adopted resolution 95-03, which re-authorized interest rate swap transactions in a notional amount not to exceed $200 million outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. Currently, the Commonwealth has no asset-based swap transactions outstanding.

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

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

**Year 2000 Compliance**

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

## 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.

## BOND INSURANCE

### General

A Financial Guaranty Insurance Policy will be issued by MBIA Insurance Corporation (the "Insurer") simultaneously with the issuance of the Bonds. The payment of the principal of and interest on the Bonds maturing on May 1 in the years 2005 through and including 2018 (the "Insured Bonds") has been guaranteed pursuant to the Financial Guaranty Insurance Policy. The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Exhibit C for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof, or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1998, MBIA had admitted assets of $6.5 billion (audited), total liabilities of $4.2 billion (audited), and total capital and surplus of $2.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 1999, MBIA had admitted assets of $6.8 billion (unaudited), total liabilities of $4.5 billion (unaudited), and total capital and surplus of $2.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of the Company is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

**Year 2000 Readiness Disclosure of the Insurer**

The Company is actively managing a high-priority Year 2000 (Y2K) program. The Company has established an independent Y2K testing lab in its Armonk headquarters, with a committee of business unit managers overseeing the project. The Company has a budget of $1.13 million for its 1998-2000 Y2K efforts. Expenditures are proceeding as anticipated, and the Company does not expect the project budget to materially exceed this amount. The Company has initiated a comprehensive Y2K plan that includes assessment, remediation, testing and contingency planning. This plan covers "mission-critical" internally developed systems, vendor software, hardware and certain third-party entities through which the Company conducts its business. Testing to date indicates that functions critical to the financial guarantee business, both domestic and international, were Y2K-ready as of December 31, 1998. Additional testing will continue throughout 1999.

**Rating Information**

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa".

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA".

Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) rates the financial strength of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. The Insurer does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

## 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 September 1, 1999, and will bear interest payable on each November 1 and May 1, commencing November 1, 1999, at the interest rates set forth on the cover page of this Official Statement. Bank One, Kentucky, NA is the trustee and paying agent 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 it is contacting (and will continue to contact) 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 May 1, 2010, may be redeemed at the option of the Commission on any date on or after November 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 a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption.

*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, 55 Water Street, New York, New York 10041-0003; *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. 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 Kentucky Asset Liability Commission Project Notes, 1998 General Fund Second Series A (the "Notes") issued on behalf of the Commission to provide funds with which to pay the cost of constructing, acquiring, installing and equipping the Project and (ii) to pay the costs of issuance of the Bonds. The Commission is obligated to issue bonds to provide permanent financing for the Project under a Financing/Lease Agreement dated as of November 1, 1998 among the Commission, ALCo and the Cabinet, which agreement constitutes the Lease described under the heading "SUMMARIES OF PRINCIPAL DOCUMENTS – The Lease". A portion of the proceeds of the Bonds will be deposited in a note payment fund established for payment of the Notes (the "Note Payment Fund"). The deposit of amounts in the Note Payment Fund is being made pursuant to that obligation. Upon the deposit in the Note Payment Fund, the Notes will no longer be outstanding under the trust indenture for the Notes. Thereafter amounts due from the Cabinet under the Lease will be payable to the Commission. In addition, any amounts on deposit in the project fund created by the trust indenture for the Notes will be transferred to the Construction Fund created by the Resolution.

The Commission had outstanding bonds in the aggregate principal amount of $930,331,319.15 as of August 1, 1999. Upon the issuance of the Bonds, the Commission will have a total of $1,055,786,319.15 aggregate principal amount of bonds outstanding.

## 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 | $125,455,000.00 |
| Less Original Issue Discount | (794,255.25) |
| Plus Premium | 974,637.45 |
| **TOTAL SOURCES** | $125,635,382.20 |
| **USES OF FUNDS:** | |
| Deposit to ALCo Note Payment Fund | $124,500,000.00 |
| Costs of Issuance | 456,670.65 |
| Underwriter's Discount | 678,711.55 |
| **TOTAL USES** | $125,635,382.20 |

## 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 July 16, 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 PROJECT

The Cabinet will lease all of the facilities, renovations and improvements constructed with the proceeds of the Notes from ALCo and the Bonds from the Commission under the Lease and the Financing Agreement (collectively, the "Project"). The various individual projects that compose the Project are as follows:

| Project Description | Project Amount |
|---|---|
| Veteran's Nursing Home – E Ky | $ 4,725,000 |
| Veteran's Nursing Home – W Ky | 4,725,000 |
| Northern Kentucky Airport | 17,000,000 |
| Louisville/Jefferson County International Airport | 20,000,000 |
| Coldstream Research Campus Infrastructure | 5,500,000 |
| Columbia Sewer Lines | 2,000,000 |
| Adair County Industrial Park Development Fund | 500,000 |
| Green County Industrial Park Development Fund | 460,000 |
| Russell County Industrial Park Development Fund | 100,000 |
| Russell County Gas Line | 2,000,000 |
| Greenbo State Park Wastewater Plant | 1,000,000 |
| Rough River Marina Improvements | 800,000 |
| Barren River – Dock Replacement | 450,000 |
| Audubon Golf Course Erosion | 300,000 |
| Boonesborough Electric Upgrade | 885,000 |
| Jefferson Davis – Repair | 450,000 |
| Cumberland Falls – Water Lines | 550,000 |
| Whitehall HVAC | 175,000 |
| Blue Licks Lodge | 2,500,000 |
| Dale Hollow Lodge | 1,500,000 |
| Pineville Golf Course | 3,000,000 |
| Louisville Riverfront | 4,000,000 |
| Four Rivers Center – Paducah | 12,000,000 |
| Bowling Green – Warren County Airport | 6,000,000 |
| Artisans Center – Berea | 6,000,000 |
| Hindman Educational Complex | |
| Hindman Branch of Hazard Community College | 1,250,000 |
| Knott County Arts and Crafts Foundation Board | 1,000,000 |
| Knott County Public Library | 750,000 |
| Springfield Water and Wastewater Projects | 2,000,000 |
| Golf Course/Road – Yatesville Lake | 6,000,000 |
| East Kentucky Center for Science, Math, and Technology | 2,640,000 |
| Versailles/Woodford County Community Center | 3,000,000 |
| Country Music Hall of Fame | 2,168,000 |
| Coca Cola Museum | 2,000,000 |
| Radcliff/Vine Grove Industrial Park | 960,000 |
| Riverpark Center – Owensboro | 1,500,000 |

| | |
|---|---|
| Bluegrass Museum | 1,500,000 |
| Murray State University, Renovate Animal Health Technology Center | 700,000 |
| Maysville Community College Extension Campus at Cynthiana | 2,500,000 |
| Edmonson County/Brownsville Natural Gas Line and Infrastructure | 950,000 |
| Harlan County Infrastructure and Renovation Projects Pool | |
| Evarts Depot Renovation Project | 50,000 |
| Green Hills Water Project | 275,000 |
| Harlan Regional Sewer Project | 425,000 |
| Wallins Creek Water Project | 250,000 |
| Lincoln County Senior Citizens Center | 360,000 |
| **TOTAL** | **$126,898,000** |

## 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. 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 November 1, May 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 ends June 30, 2018, the final maturity of the Bonds being May 1, 2018. 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"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), and Fitch IBCA, Inc. ("Fitch") have assigned ratings of Aaa, AAA and AAA, respectively, to the Insured Bonds with the understanding that upon delivery of such Insured Bonds, a financial guaranty insurance policy insuring when due the principal of and interest on the Insured Bonds will be issued by MBIA Insurance Corporation.

Moody's, S&P and Fitch have assigned ratings of Aa3, A+ and A+, respectively to the Bonds other than the Insured Bonds.

The 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 55 Water Street, New York, New York 10041-0003, (212) 438-2124; 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 Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as Exhibit B.

## 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

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for Federal income tax purposes and interest on the Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation by the Commonwealth and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

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

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

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

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

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

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

**Premium Bonds and Discount Bonds**

The Bonds that mature on May 1 in the years listed in the table below <u>and that are indicated in bold</u> (the "Premium Bonds") are being initially offered and sold to the public at an Acquisition Premium. "Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Premium Bonds are not callable prior to their maturity date. For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining Bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original Bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis. Holders of any Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

The Bonds that mature on May 1 in the years listed in the table below <u>and that are that are marked with an asterisk</u> (the "Discount Bonds") are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes. Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

Table of Premium Bonds and Discount Bonds

| Maturity May 1 | Principal Amount | Interest Rate | Yield/ Price | Maturity May 1 | Principal Amount | Interest Rate | Price or Yield |
|---|---|---|---|---|---|---|---|
| **2000** | **$2,095,000** | **4.250%** | **3.650%** | 2009* | $6,375,000 | 5.125% | 5.150% |
| 2001 | 4,380,000 | 4.200 | 100.00 | 2010* | 1,595,000 | 5.200 | 5.250 |
| 2002* | 1,020,000 | 4.375 | 4.400 | **2010** | **5,105,000** | **5.750** | **5.250** |
| **2002** | **3,545,000** | **5.000** | **4.400** | 2011* | 1,410,000 | 5.250 | 5.350 |
| 2003* | 4,785,000 | 4.500 | 4.520 | **2011** | **5,665,000** | **5.750** | **5.350** |
| 2004* | 2,920,000 | 4.625 | 4.650 | 2012* | 975,000 | 5.375 | 5.400 |
| **2004** | **2,080,000** | **5.000** | **4.650** | **2012** | **6,500,000** | **5.750** | **5.400** |
| 2005* | 2,530,000 | 4.700 | 4.750 | 2013* | 7,905,000 | 5.375 | 5.450 |
| **2005** | **2,710,000** | **5.000** | **4.750** | 2014* | 1,040,000 | 5.375 | 5.500 |
| 2006* | 1,850,000 | 4.750 | 4.850 | **2014** | **7,285,000** | **5.750** | **5.500** |
| **2006** | **3,645,000** | **5.250** | **4.850** | 2015* | 8,800,000 | 5.500 | 5.550 |
| 2007* | 1,580,000 | 4.875 | 4.950 | 2016* | 9,285,000 | 5.375 | 5.600 |
| **2007** | **4,195,000** | **5.250** | **4.950** | 2017* | 9,785,000 | 5.500 | 5.650 |
| 2008* | 6,070,000 | 5.000 | 5.050 | 2018* | 10,325,000 | 5.500 | 5.670 |

## 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 $124,956,670.65, which is equal to the principal amount of the Bonds plus net premium of $180,382.20 and less underwriting discount of $678,711.55, 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 Trustee, Bank One, Kentucky, NA, provided the following information regarding its Year 2000 compliance efforts:

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

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

## 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 Analysis (Secretary to the Commission)

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**EXHIBIT A**

**DEBT INFORMATION**
**PERTAINING TO THE COMMONWEALTH OF KENTUCKY**

**COMMONWEALTH DEBT MANAGEMENT**

## Management

The Office of Financial Management and Economic Analysis, Finance and Administration Cabinet, has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists state agencies which currently have debt outstanding. OFMEA is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. The Office serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, the Kentucky Local Correctional Facilities Construction Authority, and the Kentucky Infrastructure Authority.

## Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt.

**Appropriation supported debt** carries the name of the Commonwealth and is either (i) a general obligation of the State, or (ii) a project revenue obligation of one of its debt-issuing agencies created by the Kentucky General Assembly to finance various projects which is subject to state appropriation for all or a portion of the debt service on the bonds.

General obligation bonds pledge the full faith, credit and taxing power of the Commonwealth for the repayment of the debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of general obligation bonds in amounts exceeding $500,000. Kentucky has not issued general obligation bonds since 1966. The Commonwealth has no general obligation bonds outstanding.

Project revenue bonds and notes are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenues are not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases, the direct revenues generated from the project funded constitute the entire source of payment.

**Non-appropriation or moral obligation debt** carries the name of the Commonwealth for the benefit and convenience of other entities within the state. The bonds are special obligations of the issuer, secured and payable solely from the sources pledged for the payment thereof and do not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of bonds. Although, in the event of a shortfall the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

## Default Record

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

**TABLE I**
**ACTIVE DEBT ISSUING ENTITIES**

| ENTITY | STATUTORY AUTHORITY/ PURPOSE | DEBT LIMITATIONS | RATING MOODY'S/S&P* |
|---|---|---|---|
| State Property and Buildings Commission | **KRS 56.450** Provide financing for capital construction projects and financing programs approved by the General Assembly. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Aa3/A+ |
| Kentucky Asset/Liability Commission | **KRS 56** Provide for short-term financing of capital projects and the management of cash borrowings. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Varies |
| Turnpike Authority of Kentucky | **KRS 175.410-175.990** Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | A1/A+ |
| The State Universities (consisting of eight) | **KRS 56.495** Construct educational buildings and housing and dining facilities. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Varies |
| Kentucky Housing Corporation | **KRS 198A** Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State. | Limited to $ 1.125 billion of debt outstanding | Aaa/AAA |
| Kentucky Infrastructure Authority | **KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities. | Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Other programs limited to $60 and $125 million of debt outstanding, for maturities under and over 3 years, respectively. | Aa3/A+ |
| Kentucky Higher Education Student Loan Corporation | **KRS 164A** Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state. | Limited to $553 million of debt outstanding | Aaa/AA- |
| School Facilities Construction Commission | **KRS 157.800-157.895** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities. | Cannot incur debt without appropriation of debt service by General Assembly. | Aa3/A+ |
| Kentucky Economic Development Finance Authority | **KRS 154** Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state. | None. | Varies |

| **ENTITY** | **STATUTORY AUTHORITY/ PURPOSE** | **DEBT LIMITATIONS** | **RATING MOODY'S/S&P*** |
|---|---|---|---|
| Kentucky Local Correctional Facilities Construction Authority | **KRS 441.605.441.695** Provide an alternative method of constructing, improving, repairing and financing local jails. | Limited to the level of debt service supported by court fees pledged as repayment for the bonds. | AAA |
| Kentucky Agricultural Finance Corporation | **KRS 247.940** Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures. | Limited to $500 million of debt outstanding | NA |

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

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

**EXHIBIT B**

**FORM OF BOND COUNSEL OPINION FOR THE BONDS**

August __, 1999

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: $___________ Commonwealth of Kentucky State Property and Buildings Commission Revenue Bonds, Project No. 64

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its Revenue Bonds, Project No. 64, in the aggregate principal amount of $_________ (the "Bonds"), dated September 1, 1999. The Bonds are being issued on behalf of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet"), a state agency of the Commonwealth of Kentucky (the "Commonwealth").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly (i) Chapter 56 of the Kentucky Revised Statutes, (ii) Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statues and (iii) H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session and in accordance with a resolution of the Commission adopted on July 16, 1999 (the "Resolution") for the purpose of (A) paying the cost of constructing, acquiring, installing and equipping the Project, as defined in the Resolution, and (B) paying the costs of issuing the Bonds.

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

We have also examined records relating to the authorization and issuance of the Bonds, including a specimen Bond, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the Commonwealth and the Commission as to certain factual matters.

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

1. The Commission is a public body corporate and an independent agency of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth. The Commission has the legal right and authority to issue the Bonds for the Project.

2. The Resolution has been duly adopted by the Commission and is the valid and binding obligation of the Commission enforceable in accordance with its terms.

3. The Bonds have been duly authorized and issued by the Commission and are the valid and binding limited and special obligations of the Commission enforceable in accordance with their

terms. The Bonds are payable as to principal and interest from and are secured by a pledge of and a first lien on the revenues derived or to be derived by the Commission from a Financing/Lease Agreement dated as of November 1, 1998 (the "Lease") between the Commission and the Cabinet, a sufficient portion of which revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

4. The Bonds are special and limited obligations of the Commission payable solely and only from the revenues provided for by the Resolution. The Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth, the Commission, the Cabinet, or any other agency or political subdivision of the Commonwealth.

5. The Bonds are not secured by a pledge of or lien on the properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by a pledge of and first lien on the revenues to be derived from the Lease. The ability of the Cabinet to make payments under the Lease is dependent upon legislative appropriations to the Cabinet. The Lease has an initial term ending June 30, 2000, with the right to renew the Lease for additional successive terms of two years each until the Bonds and interest thereon have been paid and discharged.

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

7. The Commission has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

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

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

Very truly yours,

PECK, SHAFFER & WILLIAMS LLP

## EXHIBIT C

## FORM OF FINANCIAL GUARANTY INSURANCE POLICY