Book-Entry Only **Ratings: Moody's:Aaa/Aa3**
S&P: AAA/A+
NEW ISSUE **Fitch IBCA: AAA/A+**

In the opinion of Bond Counsel, under existing laws, statutes, regulations, administrative rulings and official interpretations, and assuming the initial and continuing correctness and accuracy of certain representations, warranties and covenants and continuing compliance with certain covenants and procedures, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference in determining alternative minimum taxable income for individuals under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds, however, is included in the adjusted current earnings of certain corporations for purposes of the alternative minimum tax imposed under the Code on such corporations. In the opinion of Bond Counsel, the Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "Tax Matters" herein.

$128,165,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 65

Dated: February 1, 2000 **Due: February 1, as shown below**

The Revenue Bonds, Project No. 65 (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 August 1 and February 1, commencing on August 1, 2000. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank One, Kentucky, NA, Lexington, Kentucky, as Trustee and Paying Agent.

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

The scheduled payment of principal of and interest on the Bonds maturing in the years 2009 through 2014, inclusive (the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by FINANCIAL SECURITY ASSURANCE INC.

[LOGO]

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

Maturity February 1	Principal Amount	Interest Rate	Price/Yield	Maturity February 1	Principal Amount	Interest Rate	Price/Yield
2001	$4,630,000	5.000%	4.150%	2009*	$3,645,000	5.750%	5.380%
2002	1,175,000	4.750	100	2010*	6,955,000	5.400	5.440
2002	3,385,000	5.250	4.750	2011*	1,150,000	5.500	5.510
2003	1,465,000	4.875	100	2011*	6,185,000	6.000	5.510
2003	3,325,000	5.500	4.875	2012*	330,000	5.550	5.580
2004	750,000	5.000	100	2012*	7,435,000	6.000	5.580
2004	4,295,000	5.750	5.000	2013*	350,000	5.650	5.680
2005	2,555,000	5.100	100	2013*	7,880,000	6.000	5.680
2005	2,775,000	6.000	5.100	2014*	615,000	5.750	5.770
2006	2,485,000	5.200	100	2014*	8,110, 000	6.000	5.770
2006	3,145,000	6.000	5.200	2015	9,245,000	5.850	5.870
2007	5,945,000	5.250	100	2016	9,785,000	5.900	5.920
2008	6,260,000	5.300	5.330	2017	10,365,000	5.950	5.970
2009*	2,945,000	5.375	5.380	2018	10,980,000	6.000	100

(plus accrued interest)

*Insured by FSA

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 January 13, 2000 to (i) refund the outstanding Kentucky Asset/Liability Commission Project Notes, 1998 General Fund Series, as more fully described herein and (ii) pay the costs of issuing the Bonds.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A 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 Wyatt, Tarrant & Combs, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about February 16, 2000, in New York, New York, through the facilities of DTC, against payment therefor.

Merrill Lynch & Co. **PaineWebber Incorporated**

J.J.B. Hilliard, W.L. Lyons, Inc. **NatCity Investments, Inc.**	**J.C. Bradford & Co.** **Banc One Capital Markets, Inc.** **First Kentucky Securities Corp.**	**Morgan Keegan & Company, Inc.** **Ross, Sinclaire & Associates, Inc.**

Morgan Stanley Dean Witter **Salomon Smith Barney**

A.G. Edwards & Sons, Inc.	**Edward D. Jones & Co., L.P.** **Seasongood & Mayer**	**Fifth Third Securities, Inc.**

Dated: February 3, 2000

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

F. MICHAEL HAYDON
Secretary
Revenue Cabinet

GORDON L. MULLIS, JR.
Executive Director
Office of Financial Management
(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.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit D specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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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 $128,165,000 Revenue Bonds, Project No. 65 (the "Bonds").

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission authorizing the issuance of the Bonds and approving the lease (the "Lease") dated as of January 1, 1998, between the Commission, as lessor, the Kentucky Asset/Liability Commission ("ALCo") 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 the outstanding Kentucky Asset/Liability Commission Project Notes, 1998 General Fund Series, as more fully described herein and (ii) pay the costs of issuing the Bonds.

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

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A 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 scheduled payment of principal of and interest on the Bonds maturing in the years 2009 through 2014, inclusive (the “Insured Bonds”) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. See the caption "BOND INSURANCE."

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 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 August 1 and February 1, commencing on August 1, 2000. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank One, Kentucky, NA, Lexington, Kentucky, as Trustee and Paying Agent (the "Trustee").

The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds maturing on or after February 1, 2011, are subject to optional redemption on or after February 1, 2010, at a redemption price of 100%, all 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 February 16, 2000, in New York, New York, against payment therefor.

Tax Status In the opinion of Bond Counsel, under existing laws, statutes, regulations, administrative rulings and official interpretations, and assuming the initial and continuing correctness and accuracy of certain representations, warranties and covenants and continuing compliance with certain covenants and procedures, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference in determining alternative minimum taxable income for individuals under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds, however, is included in the adjusted current earnings of certain corporations for purposes of the alternative minimum tax imposed under the Code on such corporations. In the opinion of Bond Counsel, the Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "Tax Matters" herein.

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.

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

OFFICIAL STATEMENT
Relating to

$128,165,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 65

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 $128,165,000 Revenue Bonds, Project No. 65 (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 the outstanding Kentucky Asset/Liability Commission ("ALCo") Project Notes, 1998 General Fund Series, and (ii) pay the costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE".

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

The Cabinet, as lessee, has entered into a Lease dated as of January 1, 1998 (the "Lease"), with the Kentucky Asset/Liability Commission ("ALCo") and the Commission, as lessor to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The current renewal 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 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. Furthermore, the Governor has submitted to the General Assembly a proposed Fiscal Year 2000 – 2002 Executive Budget for the period beginning July 1, 2000 through June 30, 2002 that includes an appropriation to the Cabinet of amounts sufficient to meet the rental payments due under the Lease during that period.

The scheduled payment of principal of and interest on the Bonds maturing in the years 2009 through 2014, inclusive, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. See the caption "BOND INSURANCE."

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 and the Cabinet 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, 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 Alleghenies to be settled by pioneers. Kentucky is bounded by the Ohio River to the north and the Mississippi River to the west, and is bordered by the States of Illinois, Indiana, Ohio, West Virginia, Tennessee, Missouri and the Commonwealth of Virginia.

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

Financial Information Regarding the Commonwealth

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

A discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1997, 1998 and 1999 is set forth below. The information presented in the discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1997, 1998 and 1999 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 1999 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1999 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12;

(i) Bloomberg Municipal Repositories
P.O. Box 840
Princeton, New Jersey 08542-0840
Internet: munis@bloomberg.com
Tel: (609) 279-3225
Fax: (609) 279-5962

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

(iii) Standard & Poor's J.J. Kenny Repository
55 Water Street
45th Floor
New York, New York 10041
Internet: http://www.bluelist.com
Tel: (212) 438-4595
Fax: (212) 438-3975

(iv) Muller Data
Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, New York 10014
Internet: disclosure@muller.com
Tel: (212) 807-5001 *or* (800) 689-8466
Fax: (212) 989-2078

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1999 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 1999 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 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

General Fund revenue on a budgetary basis for 1999 was $6.23 billion, an increase of 1.3% over 1998. This amount includes $6.20 billion in tax and non-tax receipts, and $31.75 million of Operating Transfers In. Taxes represented 94.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1999 totaled $6.54 billion, including Operating Transfers Out of $727.99 million. During 1999, expenditures increased by 3.5% and transfers decreased by 113.5% compared to 1998. The general government function includes $857.47 million of expenditures and $2.62 million of transfers for the eight state supported universities, which together amount to 13.2% of the General Fund total.

The General Fund had a 1999 budgetary undesignated fund balance of $64,193,087. This is a decrease of $291,822,378 from the 1998 year-end budgetary undesignated fund balance of $356,015,465.

Revenue for general governmental functions totaled $11.77 billion for 1999, an increase of 1.5% over the amount recognized during 1998.

1999 Governmental Funds Revenue was up $168.3 million over 1998. Tax income rose $203.6 million, based largely on $148.1 million in improved General Fund Individual Income Tax collections.

Earnings from Interest and Investments fell 26.9 % as adjusted to Fair Market Value in accordance with GASB 31. These offsetting amounts account for all except $14.6 million of the net increase. Other Revenues also dropped, primarily in the General Fund, by 15.1%, but were countered by moderate growth in other sources, especially License, Fee, and Permits income, which rose $17.9 million, mainly in the Transportation and Agency Revenue Funds.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled $11.10 billion for 1999, an increase of 4.2% compared to 1998.

1999 Governmental Funds Expenditures were $450.9 million over 1998. Transportation costs went up $221.2 million. About half this amount, or $124.1 million, is for higher Transportation Fund expenditures by the Department of Highways. Related Federal government match accounts for the $49.5 million rise in Federal Fund expenditures of the Transportation Function. General Government costs went down $96.1 million, due mostly to a $154.1 million drop in Agency Revenue Fund expenditures, offset by $48.1 million more spending in the General Fund. Capital Outlay increased $131.1 million based primarily on $82.7 million more in the General Government Function. Debt Service Fund payments fell $80.3 million due to a $16.1 million drop in the principal amount of bonds maturing during the year and $64.8 million less in interest payments on principal outstanding. And, Human Resources expenditures rose by $243.0 million in the General Fund and $46.3 million in the Federal Fund, but were offset by a $173.7 million drop in the Agency Revenue Fund.

Ending fund balances for all governmental fund types decreased 3.8%, from $2.75 billion as restated for 1998, to $2.64 billion in 1999. Of these totals, unreserved fund balances decreased 21.3%, from $1.52 billion at June 30, 1998, to $1.19 billion at June 30, 1999.

During 1999, Kentucky issued revenue notes and bonds totaling $106,185,000 for general governmental functions which are supported by governmental fund appropriations. $31,550,000 of those bonds defeased existing debt and funded related reserve accounts. The remaining $74,635,000 of bonds funded new projects. All issues sold during 1999 received a rating of "A" or higher by the major rating services. At June 30, 1999, total principal outstanding for revenue bonds paid from governmental fund appropriations was $2,178,683,319.

Fiscal Year 2000 (unaudited)

Actual revenue receipts collected by the Commonwealth through December 31, 1999 were $3.1 billion. This represents an increase of 3.5% over the same period last year. The revised official estimate for fiscal year 2000 is $6.4 billion. During the first six months individual income tax collections increased by 5.1%, while the sales and use tax increased 3.8% as compared to the same period last fiscal year. The Governor's Office of Economic Analysis is confident that the new estimate will be achieved.

The Consensus Forecasting Group revised the official estimate for fiscal year 2000 on January 12, 2000. The new estimate represents an increase of $11.6 million over the preliminary estimate made in October of 1999. This estimate is required by statute and was used to determine the amounts available for the Biennial Budget submitted by the Governor to the General Assembly for action.

Investment Policy

The Commonwealth of Kentucky's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Community Independent Banker's Association and the Kentucky Banker's Association, is charged with the oversight of the

Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management.

At November 30, 1999, the Commonwealth's operating portfolio was approximately $3.0 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, including mortgage backed securities and collateralized mortgage obligations (45%); repurchase agreements collateralized by the aforementioned (17%); municipal securities (4%); and corporate and asset backed securities, including money market securities (17%). The portfolio had a current yield of 5.71% and a modified duration of 1.61 years. The total return for the fiscal year ending June 30, 1999 was 4.81%. The Commonwealth's investments are marked to market daily.

During Fiscal Year 1999, 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, Intermediate-term, Long-term 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 Intermediate-term Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the state. The Long-term Pool invests the Budget Reserve Trust Fund and other funds deemed appropriate for the pool where liquidity is not a serious concern. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

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

The Commonwealth has used over-the-counter treasury options since the mid-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 twenty percent of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The state reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible collateral is defined as securities authorized for purchase pursuant to KRS 42.500. The Commonwealth will receive a guaranteed rate of 7.5 basis points of the average market value of securities in the program through January 30, 2000. Thereafter, the guaranteed rate will be 10 basis points.

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. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. 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 investment securities with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate 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.

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five (5) years or less. Money market securities rated A1-P1 or higher are limited to 20% of any investment pool and when combined with corporate and Asset Backed Securities must not exceed 25% of any investment pool. Asset Backed Securities must have a weighted-average-life of not more than four (4) years at the time of purchase. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of twenty-five percent (25%) of any investment portfolio. MBS must have a stated final maturity of ten (10) years or less and a weighted-average-life of not more than four (4) years at time of purchase. CMO must have a weighted-average-life of four (4) years or less at time of purchase.

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. Furthermore, the Governor has submitted to the General Assembly a proposed Fiscal Year 2000 – 2002 Executive Budget for the period beginning July 1, 2000 through June 30, 2002 that includes an appropriation to the Cabinet of amounts sufficient to meet the rental payments due under the Lease during that period.

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

The scheduled payment of principal of and interest on the Bonds maturing in the years 2009 through 2014, inclusive, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. See the caption "BOND INSURANCE."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds maturing in the years 2009 through 2014, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Exhibit D to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is a New York Stock Exchange listed company whose major shareholders include White Mountains Insurance Group, Inc., XL Capital Ltd, The Tokio Marine and Fire Insurance Co., Ltd. and MediaOne Capital Corporation. The shareholders of Holdings are not liable for the obligations of Financial Security.

At September 30, 1999, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,136,027,000 and its total unearned premium reserve was approximately $655,723,000 in accordance with statutory accounting principles. At September 30, 1999, Financial Security's total shareholder's equity was approximately $1,148,705,000 and its total net unearned premium reserve was approximately $550,165,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Insured Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

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 February 1, 2000, and will bear interest payable on each August 1 and February 1, commencing August 1, 2000, at the interest rates set forth on the cover page of this Official Statement. Bank One, Kentucky, NA, Lexington, Kentucky is the trustee for the Bonds (the "Trustee").

Book Entry Only System

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of § 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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 February 1, 2011, may be redeemed at the option of the Commission at any time on or after February 1, 2010, in whole or in part on any date, and if in part, in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at the redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

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, 55 Water Street, New York, New York 10041; 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; *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 Series (the "Notes") which were issued on behalf of the Commission to provide funds on an interim basis 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 January 1, 1998 among the Commission, ALCo and the Cabinet, which agreement constitutes the Lease described under the heading "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Lease". A portion of the proceeds of the Bonds, together with other available moneys, if any, 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. The deposit in the Note Payment Fund will be sufficient to pay the Notes on their redemption date of April 14, 2000 and no further payments will be payable under the Lease with respect to the Notes and 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 $981,796,319.15 as of January 1, 2000. Upon the issuance of the Bonds, the Commission will have a total of $1,109,961,319.15 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	$128,165,000.00
Plus: Net Original Issue Premium	1,263,274.55
Plus: Accrued Interest	304,700.73
TOTAL SOURCES	$129,732,975.28
USES OF FUNDS:	
Deposit to Note Payment Fund	$128,449,520.00
Costs of Issuance	263,049.15
Deposit to Bond Service Fund	304,700.73
Underwriters' Discount	715,705.40
TOTAL USES	$129,732,975.28

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 (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 January 13, 2000, 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 investment and management of all Commonwealth funds other than pension funds; and (7) 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 refinanced with the proceeds of the Bonds from the Commission under the Lease (collectively, "Project No. 65"). The state agencies related to Project No. 65 are as follows:

Cabinet for Economic Development
Cabinet for Workforce Development
Finance and Administration Cabinet
Justice Cabinet
Tourism Development Cabinet
Department of Local Government
Public Protection and Regulation Cabinet-
Public Service Commission

Post Secondary Education:
Eastern Kentucky University
University of Louisville
University of Kentucky
Western Kentucky University
Kentucky Community and Technical College System

A description of the projects being financed for each state agency is included in Exhibit B.

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, 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 August 1, February 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 and other available moneys, if any, deposited by the Issuer at the time of delivery 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) or (b) 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 which ended June 30, 1998 and the current renewal term ends 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. The last renewal term for the Lease relating to the Bonds ends June 30, 2018, the final maturity date permissible for any Bonds to be issued by the Commission for the Project. 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 includable 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

Except for the Insured Bonds, Moody's Investors Service, Inc. ("Moody's") has given the Bonds the rating of "Aa3", Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P") has given the Bonds the rating of "A+" and Fitch IBCA, Inc. ("Fitch") has given the Bonds the rating of "A+".

Moody's, S&P and Fitch have given the Insured Bonds the ratings of "Aaa," "AAA" and "AAA," respectively.

Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300; an explanation of the rating given by S&P may be obtained from Standard & Poor's Rating Services at 55 Water Street, New York, New York 10041, (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 Wyatt, Tarrant & Combs, Louisville, Kentucky, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as Exhibit C.

LITIGATION

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

TAX MATTERS

General

In the opinion of Bond Counsel, under existing laws, statutes, regulations, administrative rulings and official interpretations, and assuming the initial and continuing correctness and accuracy of certain representations, warranties and covenants and continuing compliance with certain covenants and procedures, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference in determining alternative minimum taxable income for individuals under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds, however, is included in the adjusted current earnings of certain corporations for purposes of the alternative minimum tax imposed under the Code on such corporations.

In the opinion of Bond Counsel, the Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities.

Bond Counsel will express no opinion regarding other federal or state tax consequences arising with respect to the Bonds.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excludable from gross income for federal income tax purposes under § 103 of the Code. These requirements include, but are not limited to, requirements relating to the use, investment and expenditure of bond proceeds and the requirement that certain amounts be rebated to the federal government. Noncompliance with such requirements could cause interest on the Bonds to become subject to federal income taxation, retroactive to the date of the Bonds, irrespective of the date on which such noncompliance is ascertained. The Federal Tax Certificate of the Commission will contain provisions and procedures pursuant to which such requirements can be satisfied. The Commission has covenanted to comply with such requirements.

Certain Federal Tax Information

General. The following is a discussion of certain federal income tax matters under existing statutes. It does not purport to deal with all aspects of federal taxation that may be relevant to particular holders or beneficial holders. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Alternative Minimum Tax. The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the Bonds is not treated as a preference item in calculating alternative minimum taxable income. The Code provides, however, that a portion of the adjusted current earnings of a corporation includes the amount of any income received that is otherwise exempt from taxes, such as interest on the Bonds.

Social Security and Railroad Retirement Payments. The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits received are to be included in taxable income of individuals.

Earned Income Credit. The Code denies the earned income credit to individuals otherwise eligible for the credit if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds $2,350 for 1999 or as such amount is adjusted for inflation in subsequent years. Interest on the Bonds will constitute disqualified income under the Code.

Branch Profits Tax. The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

Borrowed Funds. The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations is not deductible. Under rules applied by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or holding tax-exempt obligations, the purchase of tax-exempt obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies. Certain loss deductions allowable to property and casualty insurance companies for taxable years beginning after 1986 are reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

Financial Institutions. The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct the portion of their interest expense allocable to tax exempt obligations acquired after August 7, 1986 (other than certain "qualified" obligations). The Bonds are not "qualified" obligations for this purpose.

S Corporations. The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Passive investment income includes interest on tax-exempt obligations.

Market Discount. The Code requires gain on the sale or other disposition of tax-exempt obligations acquired after April 30, 1993, including the Bonds, to be included in gross income as ordinary income, and not as capital gain, to the extent of accrued market discount. Accrued market discount in the case of tax-exempt obligations, such as the Bonds, originally issued at a price equal to their principal amount is generally equal to the difference, if any, between such principal amount and the price at which the taxpayer purchased such obligations in the secondary market.

Original Issue Discount. Some of the Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity over the "issue price" of the Discount Bonds. The issue price of a Discount Bond is the initial offering price to the public set forth on the cover page of this Official Statement, assuming that a substantial amount of the Discount Bonds of the same maturity are sold to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at such price pursuant to the initial public offering.

For Federal income tax purposes, OID accrues to the holder of a Discount Bond on a daily basis over the period to maturity based on the constant interest rate method, compounded semiannually. With respect to a Discount Bond purchased at the issue price pursuant to the initial public offering, the portion of OID that accrues during the period the initial holder owns the Discount Bond (i) is tax-exempt interest to the same extent and subject to the same considerations discussed above and (ii) is added to the holder's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of the Discount Bond.

Premium Bonds. Some of the Bonds ("Premium Bonds") may be offered and sold to the public at prices in excess of the respective stated redemption prices thereof at maturity. For Federal income tax purposes, the excess of the cost to the holder of a Premium Bond over the amount payable at maturity constitutes amortizable bond premium. The holder of a Premium Bond will realize gain or loss upon the sale or other disposition of the Premium Bond equal to the difference between the amount realized and the adjusted basis of the Premium Bond determined by accounting for reductions due to the amortization of the bond premium during the holder's period of ownership. No deduction is allowable in respect of any amount of amortizable bond premium on the Premium Bonds.

Prior to any purchase of the Bonds, prospective purchasers of the Bonds are advised to consult their own tax advisors as to the impact of the Code on their acquisition, holding or disposition of the Bonds.

UNDERWRITING

The Bonds are to be purchased by a syndicate managed by Merrill Lynch & Co. as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of $128,712,569.15 (which is equal to the principal amount of the Bonds plus net original issue premium of $1,263,274.55 and less underwriting discount of $715,705.40) 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.

OTHER MATTERS

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

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 (Secretary to the Commission)

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management ("OFM"), 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. OFM 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 as displayed in Table II.

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+ Fitch 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 nine)	**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. Without legislative approval, 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 $950 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+ Fitch 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
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

EXHIBIT B

THE PROJECT

State Agency	Project Description	Project Amount*
Economic Development	Northern Kentucky Convention Center Enhancement	$ 3,000,000
General Government	Department of Local Government Flood Control Projects	2,500,000
Justice	KY State Police-Law Information Network of KY (LINK)	3,150,000
Justice	Green River Correctional Complex 314 Bed Medium Security Dorm	7,960,000
Justice	Roederer Correctional Complex 150 Bed Medium Security Dorm	5,702,000
Justice	KY State Reformatory – Replacement of Unit E. Maximum Security	8,800,000
Justice	Roederer Correctional Complex - 200 Bed Boot Camp Facility	5,500,000
Justice	Secure Juvenile Detention Facility in Northern Kentucky	4,300,000
Justice	Secure Juvenile Detention Facility in Western Kentucky	4,300,000
Postsecondary Education	UK Community College (Hopkinsville) Regional Technical Training Center	11,445,000
Postsecondary Education	UK Community College (Ashland) Classroom Building	5,500,000
Postsecondary Education	University of Louisville – Health Science Research Facility	14,000,000
Postsecondary Education	University of Kentucky - Pin Oak Research Center	12,480,000
Postsecondary Education	UK Community College (Prestonsburg) Classroom-Health Education Building	5,500,000
Postsecondary Education	Western Kentucky University - Renovation of Institute for Economic Development	4,000,000
Postsecondary Education	Eastern Kentucky University - Classroom Building/Wellness Center	4,000,000
Postsecondary Education	UK Community College (Madisonville) Student/Auditorium Parking	800,000
Postsecondary Education	UK Community College (Hazard) Classroom and Faculty Offices	5,500,000
Public Protection	Public Service Commission – New Building	4,684,000
Tourism Development	Blue Licks State Park – Guest House	1,500,000
Tourism Development	Buckhorn State Park – New Conference Room	1,120,000
Tourism Development	Cumberland Falls State Park - New Interpretive Center	636,000
Tourism Development	Dale Hollow State Park – Lodge Completion	1,500,000
Tourism Development	General Butler State Park – New Conference Center	2,230,000
Tourism Development	Jefferson Davis Historic Site - Visitors Center	650,000
Tourism Development	Lake Barkley State Park – Covered Pool	1,427,000
Tourism Development	Lake Cumberland State Park - Additional Parking	968,000
Tourism Development	My Old Kentucky Home State Park - Visitors Center	1,300,000
Tourism Development	Pine Mountain State Park – Develop Lake Area	2,938,000
Tourism Development	Taylorsville Lake State Park - Campground Development	2,125,000
Tourism Development	Yatesville Lake – Campground Development	2,200,000
Tourism Development	Yatesville Lake - Marina Development	1,173,000
Tourism Development	KY Horse Park – Additional Special Event Horse Stalls	550,000
Workforce Development	KY Tech - Pike County Technology Center	8,244,000
	TOTAL	$141,682,000

*Excludes allocable costs of issuance.

EXHIBIT C

FORM OF BOND COUNSEL OPINION FOR THE BONDS

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: $128,165,000
Commonwealth of Kentucky
State Property and Buildings Commission
Revenue Bonds, Project No. 65

Ladies and Gentlemen:

We have examined a copy of the transcript of proceedings of the State Property and Buildings Commission of Kentucky (the "Commission") relating to the authorization, sale and original issuance on the date hereof of the Commission's Revenue Bonds, Project No. 65, in the aggregate principal amount of $128,165,000 (the "Bonds"), dated on original issuance as of February 1, 2000. The Bonds are being issued for the purpose of providing permanent financing for various public projects (collectively, the "Project") for various cabinets, departments, and other agencies of the Commonwealth of Kentucky.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on January 13, 2000 (the "Resolution"), for the purpose of providing funds sufficient, together with other available moneys, to: [i] retire the Kentucky Asset/Liability Commission Project Notes, 1998 General Fund Series, the proceeds of which were used to pay the cost of constructing, acquiring, installing and equipping a portion of the Project and [ii] pay 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 original 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 on certificates of officials of the Commonwealth, the Commission, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") as to certain factual matters.

We have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies. We have assumed that parties other than the Commission and the Cabinet had the requisite power and authority to enter into and perform all obligations of all documents to which they are parties. We have assumed the due authorization by all requisite action, and the execution and delivery by such other parties of such documents, and the validity and binding effect thereof on such other parties. We have relied for purposes of the opinions set forth below on the representations and warranties made in such documents by all parties thereto.

Based on the foregoing, and in reliance thereon, and on the basis of our examination of such other matters of fact and questions of law as we have deemed relevant in the circumstances, it is our opinion, under the law existing on the date of this opinion, that:

1. The Commission is an independent agency and public body corporate 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 purpose of providing permanent financing 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 the revenues to be derived by the Commission from a lease dated as of January 1, 1998 (the "Lease"), between the Commission, as lessor, and the Cabinet, as lessee. A sufficient portion of the revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

4. The Lease has been duly authorized, executed and delivered by the Cabinet. The Lease is the legal, valid and binding obligation of the Cabinet. The Lease is enforceable in accordance with its respective terms.

5. 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.

6. The Bonds are not secured by a pledge of, or lien on, any 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 the revenues to be derived from the Lease. The ability of the Cabinet to make payments under the Lease is dependent on legislative appropriations to the Cabinet. The Lease currently has a term ending June 30, 2000, with the right to renew the Lease for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

7. Based on existing laws, statutes, regulations, administrative rulings and official interpretations, and assuming the correctness and accuracy of certain representations, warranties and covenants of the Commission and the Cabinet made in connection with the issuance of the Bonds, including covenants of the Commission and the Cabinet which must continuously be complied with after the date on which the Bonds are issued, interest on the Bonds [i] is excluded from gross income for federal income tax purposes and [ii] is not an item of tax preference in determining alternative minimum taxable income for individuals under the Internal Revenue Code of 1986, as amended (the "Code"). It is

our further opinion that the Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth and all of its political subdivisions and taxing authorities.

Our opinion on the exclusion of interest on the Bonds from gross income for federal income tax purposes is based on and assumes the accuracy of certain representations and compliance by the Commission and the Cabinet with certain covenants set forth in the proceedings authorizing the Bonds which are intended to assure that the Bonds are and will remain obligations the interest on which is not includable in gross income of the recipients thereof under the law in effect on the date of such opinion. On the date hereof and subsequent to the original delivery of the Bonds, such representations must be accurate and such covenants must continue to be complied with in order that interest on the Bonds be and remain excludable from gross income of the recipients thereof for federal income tax purposes under existing law. Provisions of the Code applicable to corporations (as defined for federal income tax purposes) which impose an alternative minimum tax on a portion of the excess of adjusted current earnings over other alternative minimum taxable income may subject a portion of the interest on the Bonds earned by certain corporations to such corporate alternative minimum tax.

Holders of the Bonds should be aware that the ownership of the Bonds may result in collateral tax consequences. Holders of the Bonds should consult their own tax advisors with respect to the state and local tax consequences of ownership and disposition of the Bonds.

Our opinion set forth above is further subject to the qualification that the enforceability of the Resolution, the Lease and the Bonds may be limited by bankruptcy, reorganization, moratorium, insolvency or other similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights and remedies and by general equitable principles. We express no opinion on the availability of equitable rights or remedies.

We are not expressing an opinion on the investment quality of the Bonds. We are members of the Bar of the Commonwealth and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth and the United States of America, and we express no opinion on the laws of any jurisdiction other than those specified. Our opinion relates solely to the questions set out herein and does not consider other questions of law.

Very truly yours,

WYATT, TARRANT & COMBS

EXHIBIT D
FORM OF MUNICIPAL BOND INSURANCE POLICY

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