

Book-Entry Only**Ratings: Moody's: Aa3****S&P: AA-****NEW ISSUE****Fitch: AA-**

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

\$47,060,000

**COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Refunding Bonds, Project No. 68 (Second Series)**

Dated: January 1, 2001**Due: October 1,
as shown below**

The Revenue Refunding Bonds, Project No. 68 (Second Series) (the "Second Series 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 Second Series Bonds. Purchasers will not receive certificates representing their ownership interest in the Second Series Bonds purchased. So long as DTC or its nominee is the registered owner of the Second Series Bonds, payments of the principal of and interest due on the Second Series Bonds will be made directly to DTC. The Second Series Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will bear interest payable on each April 1 and October 1, commencing on April 1, 2001. Principal of, redemption premium, if any, and interest on the Second Series Bonds will be paid directly to DTC by Chase Manhattan Trust Company, National Association, Louisville, Kentucky, as Trustee and Paying Agent.

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

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

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2016	\$ 745,000	4.750%	4.860%
2016	9,710,000	5.250%	4.860%*
2017	675,000	4.875%	4.920%
2017	10,335,000	5.250%	4.920%*
2018	540,000	4.900%	4.980%
2018	11,040,000	5.250%	4.980%*
2019	12,265,000	5.000%	5.030%
2020	1,750,000	5.000%	5.050%

(plus accrued interest)

*These Bonds have been priced to call.

The Second Series 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 on January 8, 2001 to (i) refund certain of the Commission's outstanding bonds, as more fully described herein and (ii) pay costs of issuing the Second Series Bonds.

THE SECOND SERIES BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SECOND SERIES 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, TOGETHER WITH THE PRIOR BONDS (AS MORE FULLY DEFINED AND DESCRIBED HEREIN), SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE SECOND SERIES RESOLUTION AND FROM RENTAL INCOME DERIVED FROM THE BIENNIAL RENEWABLE LEASE AND SUBLEASE (EACH AS DESCRIBED AND DEFINED HEREIN), 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 Second Series Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Gardner, Carton & Douglas, Chicago, Illinois. It is expected that delivery of the Second Series Bonds will be made on or about February 7, 2001, in New York, New York, through the facilities of DTC, against payment therefor.

PaineWebber Incorporated

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

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

**NatCity Investments, Inc.
First Kentucky Securities Corp.**

Dated: January 24, 2001.

**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

T. KEVIN FLANERY
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 Second Series Bonds to any person, or the solicitation of an offer from any person to buy the Second Series 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 Second Series 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 Second Series 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 SECOND SERIES BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Second Series 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 Second Series 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 Second Series 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 \$47,060,000 Revenue Refunding Bonds, Project No. 68 (Second Series) (the "Second Series Bonds").

Authority The Second Series 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 "Second Series Resolution") adopted by the Commission (i) authorizing the issuance of the Second Series Bonds and (ii) affirming the lease of the hereinafter described and defined Project pursuant to the Financing/Lease Agreement, originally dated as of September 1, 1999, and as amended or supplemented (the "Lease"), among the Commission, as lessor, the Kentucky Asset/Liability Commission and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee.

Use of Proceeds The Second Series Bonds are being issued to provide funds with which to (i) refund certain of the Commission's outstanding Revenue Bonds, Project No. 68 (the "Prior Bonds" and together with the Second Series Bonds, the "Bonds"), as more fully defined and described herein and (ii) pay costs of issuing the Second Series Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS FOR THE SECOND SERIES BONDS."

Security The Second Series Bonds, together with the Prior Bonds, are payable solely from amounts deposited in certain funds and accounts created by the Second Series Resolution and from the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Lease and the Sublease dated as of October 1, 2000 (the "Sublease"), between the Cabinet, as sublessor, and the Council on Postsecondary Education (the "State Agency"), as sublessee. The Second Series Bonds will be issued on a parity with the Prior Bonds. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS — The Lease and Sublease" and "— The Second Series Resolution." The Second Series Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom.

THE SECOND SERIES BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SECOND SERIES 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,

TOGETHER WITH THE PRIOR BONDS, SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE SECOND SERIES RESOLUTION AND FROM RENTAL INCOME DERIVED FROM THE LEASE AND THE SUBLEASE, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Features of Bonds The Second Series 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 Second Series 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 Second Series Bonds. Purchasers will not receive certificates representing their ownership interest in the Second Series Bonds purchased. So long as DTC or its nominee is the registered owner of the Second Series Bonds, payments of the principal of and interest due on the Second Series Bonds will be made directly to DTC. The Second Series Bonds will bear interest payable on each April 1 and October 1, commencing on April 1, 2001. Principal of, redemption premium, if any, and interest on the Second Series Bonds will be paid directly to DTC by Chase Manhattan Trust Company, National Association, Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee").

The Second Series Bonds are issuable only as fully registered Bonds, without coupons. The Second Series Bonds are subject to optional redemption on or after April 1, 2011 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without penalty. See "THE SECOND SERIES BONDS - Redemption Provisions." It is expected that delivery of the Second Series Bonds will be made on or about February 7, 2001, in New York, New York, against payment therefor.

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

Continuing Disclosure The Second Series 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 Second Series Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924, or, during the initial offering period, by contacting the representative of the Underwriters, PaineWebber Incorporated, 181 West Madison Street, 42nd Floor, Chicago, Illinois 60002 Telephone: (312) 683-6061.

OFFICIAL STATEMENT
Relating to
\$47,060,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Refunding Bonds, Project No. 68 (Second Series)

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 \$47,060,000 Revenue Refunding Bonds, Project No. 68 (Second Series) (the "Second Series Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refund certain of the Commission's outstanding Revenue Bonds, Project No. 68 (the "Prior Bonds" and collectively with the Second Series Bonds, the "Bonds"), as more fully described herein, which Prior Bonds were issued pursuant to the Resolution adopted by the Commission on September 18, 2000 (the "Prior Resolution") to pay costs of constructing, acquiring, installing and equipping a portion of the Project (as hereinafter described and defined), and (ii) pay costs of issuing the Second Series Bonds, all as more fully described herein under the caption "PLAN OF FINANCE."

The Second Series 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 "Second Series Resolution") authorizing the issuance of the Second Series Bonds and affirming the lease of the Project pursuant to the Lease hereinafter described.

The Cabinet, as lessee, has entered into a Financing/Lease Agreement dated as of September 1, 1999, with the Kentucky Asset/Liability Commission ("ALCo") and the Commission, as lessor, which Financing/Lease Agreement was supplemented and amended by a First Supplemental Financing Agreement dated as of October 1, 2000 between the Commission and the Cabinet (collectively, the "Lease"), 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, 2002, 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 and the State Agency (as defined below) amounts sufficient to meet the rental payments under the Lease and the hereinafter described Sublease, and therefore to permit the Commission to meet the debt service requirements of the Bonds, through June 30, 2002.

In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project to the Council on Postsecondary Education (the "State Agency") under a Sublease dated as of October 1, 2000 (the "Sublease"). The initial period of the Sublease ends June 30, 2002, and the Sublease renews automatically (unless terminated in writing by the last business day in the preceding April by the State Agency) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Sublease requires the State Agency, for each biennial period of its Sublease, beginning July 1, 2002, to seek to have legislative appropriations made to the State Agency in amounts sufficient to permit the State Agency to make rental payments to the Cabinet. Under the Commonwealth's current budget process, appropriations to make payments under the Sublease which are included in the current budget will be made directly to the Cabinet in future biennial periods. If this process is continued, amounts sufficient to pay principal and interest on all the Bonds will be appropriated to the Cabinet and the Sublease will terminate.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET OR THE STATE AGENCY NOR IS THE CABINET OR THE STATE AGENCY UNDER ANY OBLIGATION TO RENEW THE LEASE OR THE SUBLEASE. THE SECOND SERIES BONDS, TOGETHER WITH THE PRIOR BONDS, ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE SECOND SERIES RESOLUTION AND FROM A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND THE SUBLEASE 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 Second Series Resolution, the Bonds, the Lease, the Sublease, the Project, the Cabinet and ALCo are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Second Series 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 (502) 564-2924.

THE SECOND SERIES BONDS

General

The Second Series Bonds are issuable only as fully registered Bonds. The Second Series Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will be dated January 1, 2001, and will bear interest payable on each April 1 and October 1, commencing April 1, 2001, at the interest rates set forth on the cover page of this Official Statement. Chase Manhattan Trust Company, National Association, Louisville, Kentucky is the trustee for the Second Series Bonds (the "Trustee").

Book Entry Only System

General. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Second Series Bonds. The Second Series 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 Second Series 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 Second Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Second Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Second Series 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 Second Series 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 Second Series Bonds, except in the event that use of the book-entry system for the Second Series Bonds is discontinued.

To facilitate subsequent transfers, all Second Series Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Second Series 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 Second Series Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Second Series 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 Second Series 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 Second Series 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 Second Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

Notice of Redemption. At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Second Series 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 Second Series 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 Second Series Bond shall not affect the validity of the redemption of any other Second Series 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 Second Series 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 Second Series 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 Second Series Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Second Series Bonds to be redeemed and, in the case of Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series Bonds receives the notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Second Series Bonds so called for redemption shall cease to accrue after the date fixed for redemption.

SECURITY FOR THE SECOND SERIES BONDS

The Second Series Bonds are not secured by a lien on any properties constituting the Project or any amounts derived therefrom. The Second Series Bonds and the interest thereon are payable solely from, and are on a parity with the Prior Bonds with respect to, the revenues to be derived from the rental payments of the Cabinet under the Lease, a portion of which will be derived from the State Agency under the Sublease, and the amounts on deposit in the Escrow Fund (as hereinafter defined). See the captions "SUMMARIES OF THE PRINCIPAL DOCUMENTS — The Lease and Sublease" and "PLAN OF FINANCE."

The Kentucky General Assembly has appropriated to the Cabinet and the State Agency amounts sufficient to meet the rental payments under the Lease and Sublease, and therefore to permit the Commission to meet the debt service requirements of the Prior Bonds through June 30, 2002. Amounts deposited in the Escrow Fund are sufficient to meet the debt service requirements of the Second Series Bonds to and including October 1, 2008 and a portion of such debt service requirements to and including October 1, 2010. On October 1, of the years 2008, 2009 and 2010, certain amounts will be transferred from the Escrow Fund to pay maturing principal amounts of the Prior Bonds. After October 1, 2008, rental payments under the Lease and the Sublease will be required to pay a portion of the debt service requirements on the Second Series Bonds and after October 1, 2010, rental payments under the Lease and the Sublease will be the sole source of payment for all Bonds. See "PLAN OF FINANCE" herein.

Under the provisions of the Constitution of the Commonwealth, the Cabinet is prohibited from entering into financing obligations extending beyond the biennial budget. Appropriations for the rental payments under the Lease and the Sublease 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 SECOND SERIES BONDS.**

PLAN OF FINANCE

The proceeds of the Second Series Bonds will be used by the Commission and the Cabinet to (i) pay the principal at maturity of certain of the Commission's Prior Bonds further identified below (the "*Refunded Bonds*"), (ii) pay the interest on the Second Series Bonds until such time as the Refunded Bonds have matured and (iii) pay costs of issuing the Second Series Bonds.

Except for amounts used to pay costs of issuance, the proceeds of the Second Series Bonds will be deposited in the Escrow Fund established pursuant to the Second Series Resolution (the "Escrow Fund") and used to purchase certain direct obligations of the United States of America, which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held in the Escrow Fund to pay (i) a portion of the principal amount of the Prior Bonds maturing on October 1 of the years 2008, 2009 and 2010 in the amounts of \$15,000,000, \$15,000,000 and \$16,355,000, respectively (the "*Refunded Bonds*"), and (ii) interest on the Second Series Bonds to and including October 1, 2010 (excluding interest after October 1, 2008 on approximately \$15,228,000 of principal of Second Series Bonds and after October 1, 2009 on approximately \$30,456,000 of principal of Second Series Bonds). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

Rental payments under the Lease and the Sublease will be required to pay debt service on the Prior Bonds other than the principal amount of the Refunded Bonds. After October 1, 2008, rental payments under the Lease and the Sublease will be required to pay the debt service requirements on the Second Series Bonds not payable from the Escrow Fund and after October 1, 2010, rental payments under the Lease and the Sublease will be the sole source of payment for all Bonds.

SOURCES AND USES OF FUNDS FOR THE SECOND SERIES BONDS

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

SOURCES OF FUNDS:

Par Amount of Second Series Bonds	\$47,060,000.00
Plus: Net Original Issue Premium	730,195.70
Accrued Interest	<u>242,746.63</u>
TOTAL SOURCES	<u>\$48,032,942.33</u>

USES OF FUNDS:

Escrow Fund Deposit	\$47,395,754.78
Costs of Issuance	78,197.72
Bond Service Fund Deposit	242,746.63
Underwriters' Discount	<u>316,243.20</u>
TOTAL USES	<u>\$48,032,942.33</u>

THE PROJECT

The Cabinet and the State Agency will lease all of the facilities, renovations and improvements financed with the proceeds of the Bonds from the Commission under the Lease and the Sublease (collectively, the "Project"). Other state agencies related to the Project include the Public Protection and Regulation Cabinet and the Tourism Development Cabinet. A description of the Project financed with proceeds of the Prior Bonds is included in Exhibit B.

THE STATE PROPERTY AND BUILDINGS COMMISSION

General

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 ("OFM") 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 Second Series Bonds secured, together with the Prior Bonds, by revenues from the Lease and the amounts on deposit in the Escrow Fund. The Second Series Resolution was adopted by the Commission on January 8, 2001, authorizing the issuance of the Second Series Bonds.

Future Financings

The 2000 Kentucky General Assembly authorized debt financing totaling \$1,046,727,600 to support various capital initiatives of the Commonwealth. Of the total authorization, \$901,002,600 is General Fund supported, \$28,200,000 is Road Fund supported and \$117,525,000 is Agency Restricted Fund supported. It is anticipated that all authorized debt will be issued by one of the various debt issuing entities of the Commonwealth by June 30, 2002, including the Commission.

The Commission has or will receive requests from the Cabinet to authorize in its own name and to issue Bonds to finance capital projects authorized by the 1998 and 2000 General Assemblies. Many of the projects authorized by the General Assembly have received initial funding through project notes, that are also bond anticipation notes, sold by ALCo. Project notes are issued as General Fund Series, Agency Fund Series and Road Fund Series depending upon the appropriation fund source that is being used to fund the payments under the related financing/lease agreements. Certain project notes that are bond anticipation notes will receive permanent financing through the issuance of bonds to be issued by the Commission. (See "THE KENTUCKY ASSET/LIABILITY COMMISSION" herein.)

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 KENTUCKY ASSET/LIABILITY COMMISSION

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

ALCo is composed of five members, each serving in an *ex officio* capacity. The members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairperson; the Attorney General; the State Treasurer; the Secretary of the Revenue Cabinet and the State Budget Director. The Secretary to the Commission is the Executive Director of OFM.

A portion of the Prior Bonds was used to refund the outstanding Kentucky Asset/Liability Commission Project Notes, 1999 General Fund Third Series A, the proceeds of which were used to pay costs of constructing, acquiring, installing and equipping a portion of the Project.

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.

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

- (v) Interactive Data
Attn: Repository
100 Williams Street
New York, NY 10038
Internet: NRMSIR@interactivedata.com
Tel: (212) 771-6899
Fax: (212) 771-7390
Website: <http://www.InteractiveData.com>

*No longer a NRMSIR

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>

Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

The Commission will enter into a Continuing Disclosure Agreement in order to enable the purchaser of the Second Series 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 expenditures.

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 for fiscal year end June 30, 2000 were \$6.48 billion. This represents an increase of 4.5% over the previous fiscal year. The revised official estimate for fiscal year 2000 was \$6.43 billion. During the fiscal year individual income tax collections increased by 6.7%, while the sales and use tax increased 4.1% as compared to last fiscal year.

Fiscal Year 2001 (unaudited)

The Commonwealth has collected \$3.2 billion in General Fund receipts for the six months ended December 31, 2000. This represents an increase of 3.2% over the same period last year. Personal income, which represents 41% of total General Fund receipts grew by 4.2% to \$1.27 billion; sales and use, 35% of the General Fund receipts grew by 3.3% to \$1.1 billion. The revenue estimate for Fiscal Year 2001 was revised to \$6.81 billion on May 11, 2000.

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, 2000, the Commonwealth's operating portfolio was approximately \$3.75 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (13%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (36%); repurchase agreements collateralized by the aforementioned (25%); municipal securities (5%); and corporate and asset backed securities, including money market securities (21%). The portfolio had a current yield of 6.09% and a modified duration of 1.17 years. Investment income through June 30, 2000 was \$160.0 million versus \$152.4 million the previous fiscal year. Total return for the Fiscal Year ending June 30, 2000 was 5.01% versus 4.81% for Fiscal Year 1999.

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. Currently, the Commonwealth receives a guaranteed rate of 10 basis points of the average market value of securities in the program.

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.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

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

The Second Series Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Second Series Resolution. Deposits of the proceeds of the Second Series Bonds and Revenues will be made as described below.

1. Bond Service Fund. The Second Series Resolution creates a Bond Service Fund with respect to the Second Series 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 or transfers from the Escrow Fund (as described below) as will be sufficient to pay when due the principal of, premium, if any, and interest on all Second Series Bonds Outstanding under the Second Series Bond Resolution at or before their maturity. Accrued interest on the Second Series Bonds will be deposited in the Bond Fund. The Second Series Resolution requires the Commission to deposit or cause to be deposited on or before any April 1, October 1 or other date set for the redemption of the Second Series 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 Second Series 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 Second Series 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 Second Series Resolution creates a Cost of Issuance Fund for the Second Series Bonds to be held and maintained by the Trustee. From the proceeds of the Second Series Bonds and other available moneys, if any, deposited by the Issuer at the time of delivery of the Second Series Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection

with the issuance of the Second Series Bonds. On payment of all duly authorized expenses incident to the issuance of such Second Series Bonds, any remaining balance in the Cost of Issuance Account will be transferred to the Bond Fund.

3. The Escrow Fund. The Second Series Resolution creates an Escrow Fund, to be maintained by the Trustee as a separate trust fund, separate and apart from other funds and accounts, and to be used, by transfer to the Bond Fund and deposit in the bond service fund created by the Prior Resolution, solely for the payment, when due, of the principal amount of the Refunded Bonds and the interest on the Second Series Bonds until a corresponding principal amount of the Refunded Bonds is paid, all in accordance with the Second Series Resolution. Any moneys remaining in the Escrow Fund after disbursement of all amounts described in the preceding sentence will be transferred by the Trustee to 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 Second Series 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 Second Series Bonds to be or become "arbitrage bonds" as defined in the Code.

Investment of Funds. Moneys in any Fund or Account established under the Second Series Resolution will be invested in obligations permitted by Kentucky law as specified in the Second Series Resolution; provided amounts in the Escrow Fund will only be invested in Defeasance Obligations (as defined below), and will not be reinvested, unless the Trustee receives an opinion of nationally recognized bond counsel that such reinvestment would not have the effect of causing the interest on the Second Series Bonds or the Refunded Bonds to be includible in gross income of the owners thereof for federal income tax purposes.

Events of Default. The Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series Resolution.

In the enforcement of any right or remedy under the Second Series 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 Second Series Resolution or of the Second Series Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Second Series 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 Second Series Resolution and under the Second Series 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 Second Series Resolution and in the Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series 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 Second Series Resolution or in the Bonds affects or impairs the right of any Holder of any Second Series Bond to payment of the principal of or interest on such Second Series 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 Second Series 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 Second Series Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Second Series Bonds in any particular, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Second Series Resolution by the Holders of 66 2/3% of the principal amount of Second Series Bonds outstanding and unless and until the opinion of counsel required by the Second Series 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 Second Series 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 Second Series Bonds whose approval is required by the Second Series 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 Second Series 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 Second Series Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the Second Series 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 Second Series 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 Second Series 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 Second Series Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

Change, Substitution or Other Modification of Project. Anything in the Second Series 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 Second Series Resolution.

The Trustee. The Second Series 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 Second Series Bonds. The Trustee may be removed at any time at the written request of the Commission or by the Holders of not less than a majority in aggregate principal amount of the Second Series Bonds then Outstanding.

Discharge of the Second Series Resolution. If the Commission pays or causes to be paid, or there is otherwise paid, to the Holders of all Second Series 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 Second Series Resolution then the pledge of Revenues under the Second Series Resolution, and all

covenants, agreements and other obligations of the Commission to the Holders of the Second Series 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 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 Second Series Bonds or any part thereof to and including the date upon which the Second Series Bonds or any of them will be redeemed in accordance with the Second Series Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Second Series Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Second Series Resolution, and the Trustee will and is irrevocably instructed by the Second Series 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 Credit Market 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 and Sublease

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 had an initial term which ended June 30, 2000 and the current renewal term for the Lease and the initial term of the Sublease ends June 30, 2002. 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 and the Sublease has corresponding renewal provisions. The last renewal term for the Lease and the Sublease relating to the Bonds ends June 30, 2022, 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, the Cabinet and the State Agency 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 or State Agency, respectively, to not so renew is given to the Commission by the last business day of May or April under the Sublease prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Cabinet and the State Agency are 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 and the State Agency have covenanted and agreed in the Lease and the Sublease that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth, they will cause to be included in the appropriations proposed for that biennial period to be made for the Cabinet and the State Agency sufficient amounts (over and above all other requirements of the Cabinet and the State Agency to enable the Cabinet and the State Agency to make rental payments under the Lease and the Sublease and thereby produce income and revenues to the Commission to permit timely payment of the Bonds as the same become due during such period. If appropriations relating to payments under the Sublease are made directly to the Cabinet in future biennial periods so that amounts sufficient to pay principal and interest on all Bonds are appropriated to the Cabinet, the Sublease will terminate.

The ability of the Cabinet and the State Agency 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, 2002. 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 Second Series 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 and the Sublease are renewed, then on the first day of the biennial renewal term the Cabinet and the State Agency are firmly bound for the entire amount of rental payments coming due during such renewal term.

In the Second Series 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 under the Lease, 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

Moody's Investors Service, Inc. ("Moody's") has given the Second Series Bonds the rating of "Aa3," Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has given the Second Series Bonds the rating of "AA-" and Fitch, Inc. ("Fitch") has given the Second Series Bonds the rating of "AA-." 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 Credit Market 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, 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 Second Series Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Second Series Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as *Exhibit 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 Second Series Bonds or which would adversely affect the application of the revenues of the Commission to the payment of the Second Series Bonds.

TAX EXEMPTION

General

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

A copy of the opinion of Bond Counsel for the Second Series Bonds is set forth in *Exhibit C*, attached hereto.

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

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Second Series Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Second Series Bonds or the

interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

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

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

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

Premium

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. Certain of the Second Series Bonds maturing on October 1 in the years 2016 through 2018 (the "Premium Bonds") are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining Bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Second Series Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original Bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Second Series Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount

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

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Tuscaloosa, Alabama (the "Verifier") will verify, from the information provided to them, the mathematical accuracy as of the date of the closing on the Second Series Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the amounts described above under the caption "PLAN OF FINANCE" and (2) the computations of yield on both the securities and the Second Series Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Second Series Bonds is excludable from gross income of the owners thereof for federal income tax purposes. The Verifier will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Second Series Bonds.

UNDERWRITING

The Second Series Bonds are to be purchased by a syndicate managed by PaineWebber Incorporated 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 \$47,473,952.50 (which is equal to the principal amount of the Bonds plus net original issue premium of \$730,195.70 and less underwriting discount of \$316,243.20) plus accrued interest from the dated date of the Second Series Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Second Series Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Second Series 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 Second Series Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Second Series 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 Underwriters 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.

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 attached hereto 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 and the Kentucky Local Correctional Facilities Construction Authority.

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt as displayed in Table II *in the Supplemental Information to the Kentucky Comprehensive Annual Financial Report*.

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 notes and bonds 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. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does 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 this type of indebtedness. 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*
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/AA-/AA-
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.	Aa3/AA-/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of project 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 \$2.5 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/AA-/AA-
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+/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

*Ratings, where applicable, include Moody's, Standard & Poor's and Fitch. Fitch, on August 17, 2000, upgraded ratings to AA- from A+ for the State Property and Buildings Commission and certain General Fund lease obligations of the Kentucky Asset/Liability Commission and the Kentucky Infrastructure Authority. As of November 16, 2000, Moody's, Standard & Poor's and Fitch upgraded the ratings of the Turnpike Authority of Kentucky Economic Development Road Revenue Bonds to Aa3, AA- and AA-, respectively, from A1, A+ and A+, respectively. The bonds of the Kentucky Local Correctional Facilities Construction Authority are insured.

EXHIBIT B

THE PROJECT

<u>State Agency</u>	<u>Project Description</u>	<u>Authorized Amount</u> ¹
Council on Postsecondary Education	Capital Renewal and Maintenance Pool	\$30,000,000 ²
Council on Postsecondary Education		
Kentucky State University	Hill Student Center Addition	8,250,000
Murray State University	Carr Health/Business Building Renovations and Educ. Bldg. Addition	10,184,000
Kentucky Community and Technical College System	Central Regional PSE Center – Phase I @ Western KY University	13,452,000
	Hazard Community College Classroom Building Phase II	6,500,000
	KY Tech. College of Arts & Crafts	4,100,000
	South Central Regional PSE Center	6,537,000
	KY Tech. Danville: Regional Tech. Center Phase I	6,985,000
	Madisonville C.C. – Science & Tech. Classroom Building	4,900,000
	Maysville C.C. and KY Tech. Maysville: New Maysville: New Technology Center	7,500,000
	KY Tech. Shelby Co. Campus and Jefferson C.C. Extension Center	10,758,000
	Northeast Regional PSE Center @ Morehead State University	6,650,000
	Somerset C.C. and KY Tech. Academic Support/Tech. Education Center	10,258,000
	South Regional PSE Ctr. @ WKU Phase I	9,000,000
	Southeast Regional PSE Ctr. @ EKU Phase I	13,185,000
	West Regional PSE Center @ Murray State University	6,650,000
	Belinda Mason Academic/Tech. Building	5,000,000
Public Protection and Regulation Cabinet (PSC)	Public Service Commission Building	1,100,000
Tourism Development Cabinet (Dept. of Parks)	Dale Hollow Golf Course and Clubhouse	<u>5,500,000</u>
	TOTAL	<u>\$166,509,000</u>

¹ Excludes allocable costs of issuance.

² 2000 Budget Act, Subleased to Council on Postsecondary Education.

EXHIBIT C

FORM OF BOND COUNSEL OPINION FOR THE BONDS

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: \$47,060,000 Commonwealth of Kentucky State Property and
Buildings Commission Revenue Refunding Bonds, Project No. 68
(Second Series)

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its Revenue Refunding Bonds, Project No. 68 (Second Series), in the aggregate principal amount of \$47,060,000 (the "Bonds"), dated January 1, 2001. The Bonds are being issued on behalf of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet"), a state agency of the Commonwealth of Kentucky (the "Commonwealth").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly (i) Chapter 56 of the Kentucky Revised Statutes, (ii) Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, (iii) H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session, and (iv) H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session and in accordance with a resolution of the Commission adopted on January 8, 2001 (the "Resolution") for the purpose of (a) refunding certain of the Commission's outstanding bonds (the "Refunded Bonds") and (b) paying the costs of issuing the Bonds.

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

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

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

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

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

3. The Bonds have been duly authorized and issued by the Commission and are the valid and binding limited and special obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal and interest from and are secured by a pledge of and a first lien on the revenues derived or to be derived by the Commission from a Financing/Lease Agreement dated as of September 1, 1999 among the Commission, the Cabinet and the Kentucky Asset/Liability Commission, as supplemented and amended by a First Supplemental Financing Agreement dated as of October 1, 2000 between the Cabinet and the Commission (collectively, the "Lease"), a sufficient portion of which revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

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

5. The Bonds are not secured by a pledge of or lien on the properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by a pledge of and first lien on the revenues to be derived from the Lease. The ability of the Cabinet to make payments under the Lease is dependent upon legislative appropriations to the Cabinet. The Lease has a current term ending June 30, 2002, with the right to renew the Lease for additional successive terms of two years each until the Bonds and interest thereon have been paid and discharged.

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

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

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

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

Very truly yours,

PECK, SHAFFER & WILLIAMS LLP

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