

NEW ISSUE

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

**COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission**

**\$512,155,000
Revenue and Revenue Refunding Bonds,
Project No. 69**

**\$10,620,000
Agency Fund Revenue Bonds,
Project No. 70**

Dated: See inside cover**Due: See inside cover**

The Revenue and Revenue Refunding Bonds, Project No. 69, Series A, Series B, Series C and Series D (collectively, the "Project No. 69 Bonds") and the Agency Fund Revenue Bonds, Project No. 70 (the "Project No. 70 Bonds") (collectively the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Project No. 69 Bonds will bear interest payable on each August 1 and February 1, commencing the first August 1 or February 1 occurring after the delivery date for the applicable Bonds shown on the inside cover. The Project No. 70 Bonds will bear interest payable on each May 1 and November 1, commencing November 1, 2001. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank One, Kentucky, NA, as Trustee and Paying Agent.

DELIVERY DATES, AMOUNTS, MATURITIES, INTEREST RATES AND PRICES ON INSIDE COVER

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

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to Resolutions adopted March 19, 2001. The Project No. 69 Bonds are being issued to provide funds with which to (i) refund certain of the Commission's outstanding bonds, as more fully defined and described herein, (ii) pay certain costs of Project No. 69 (defined herein), (iii) redeem the outstanding Kentucky Asset/Liability Commission Project Notes, 1999 General Fund Second Series, as more fully described herein, which were issued to pay certain costs of Project No. 69 and (iv) pay the costs of issuing the Project No. 69 Bonds. The Project No. 70 Bonds are being issued to provide funds with which to (i) pay certain costs of Project No. 70 (defined herein), (ii) redeem the outstanding Kentucky Asset/Liability Commission Project Notes, 1998 Agency Fund Series A, as more fully described herein, which were issued to pay certain costs of Project No. 70 and (iii) pay the costs of issuing the Project No. 70 Bonds.

Except for the Project No. 69 Series A Bonds maturing in the years 2001 through 2005, inclusive, the scheduled payment of principal of and interest on the Bonds (the "Insured Bonds"), when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by FINANCIAL SECURITY ASSURANCE INC.



THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESPECTIVE RESOLUTIONS AND FROM RENTAL INCOME DERIVED FROM THE RESPECTIVE BIENNIAL RENEWABLE LEASES (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 PROJECTS OR ANY AMOUNTS DERIVED THEREFROM.

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

Merrill Lynch & Co.

UBS PaineWebber Inc.**Salomon Smith Barney****Morgan Stanley Dean Witter**

**J.J.B. Hilliard, W.L. Lyons, Inc.
Banc One Capital Markets, Inc.
A.G. Edwards & Sons, Inc.
Seasongood & Mayer LLC**

**Morgan Keegan & Company, Inc.
Ross, Sinclair & Associates, Inc.
William R. Hough & Co.**

**NatCity Investments, Inc.
First Kentucky Securities Corp.
Edward D. Jones & Co., L.P.
Stephens Inc.**

**STATE PROPERTY AND BUILDINGS COMMISSION
REVENUE AND REVENUE REFUNDING BONDS
\$422,935,000**

PROJECT NO. 69, SERIES A

Dated Date: March 15, 2001
Delivery Date: April 18, 2001

Maturity: As shown below

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2001	\$9,465,000*	4.000%	3.050%	2009	\$15,980,000	5.250%	4.200%
2002	7,635,000*	4.000	3.330	2010	5,065,000	4.200	4.290
2003	1,805,000*	3.500	3.430	2010	21,035,000	5.250	4.290
2003	6,165,000*	5.000	3.430	2011	6,430,000	4.250	4.370
2004	3,000,000*	3.500	3.590	2011	29,220,000	5.500	4.370
2004	7,170,000*	5.000	3.590	2012	1,110,000	4.375	4.450
2005	685,000*	3.625	3.710	2012	37,925,000	5.500	4.450
2005	9,990,000*	5.000	3.710	2013	760,000	5.000	4.570
2006	840,000	3.750	3.820	2013	39,355,000	5.250	4.570
2006	10,385,000	5.250	3.820	2014	43,395,000	5.250	4.640
2007	1,380,000	3.875	3.960	2015	36,205,000	5.250	4.740
2007	13,475,000	5.250	3.960	2016	25,370,000	5.375	4.790
2008	680,000	4.000	4.090	2017	26,720,000	5.000	4.980
2008	9,425,000	5.250	4.090	2018	16,305,000	5.000	5.040
2009	3,320,000	4.100	4.200	2019	17,145,000	5.000	5.090

*Bonds Not Insured

\$15,495,000 5.000% Term Bond due August 1, 2021 – Yield 5.150%

**\$22,870,000
PROJECT NO. 69, SERIES B**

Dated Date: July 3, 2001
Delivery Date: July 3, 2001

Maturity: As shown below

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2003	\$8,785,000	5.000%	3.590%	2007	\$1,605,000	5.500%	4.130%
2004	1,860,000	5.000	3.750	2008	1,540,000	5.000	4.250
2005	1,945,000	5.000	3.870	2009	1,620,000	5.000	4.350
2006	2,035,000	4.000	4.000	2010	1,700,000	5.000	4.440
				2011	1,780,000	5.000	4.520

**\$27,030,000
PROJECT NO. 69, SERIES C**

Dated Date: August 3, 2001
Delivery Date: August 3, 2001

Maturity: As shown below

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2002	\$ 365,000	5.000%	3.600%	2005	\$5,340,000	5.000%	3.930%
2003	4,860,000	5.000	3.650	2006	5,560,000	4.000	4.030
2004	5,090,000	5.000	3.810	2007	5,815,000	5.500	4.160

**\$39,320,000
PROJECT NO. 69, SERIES D**

Dated Date: June 5, 2002
Delivery Date: June 5, 2002

Maturity: As shown below

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2005	\$ 9,930,000	5.500%	4.110%	2009	\$1,050,000	5.500%	4.600%
2006	10,520,000	5.500	4.220	2010	1,110,000	5.500	4.690
2007	11,145,000	5.500	4.360	2011	1,165,000	5.500	4.770
2008	3,165,000	5.500	4.490	2012	1,235,000	5.500	4.850

**\$10,620,000
AGENCY FUND REVENUE BONDS, PROJECT NO. 70**

Dated Date: March 15, 2001
Delivery Date: April 18, 2001

Maturity: As shown below

<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2002	\$340,000	4.000%	3.330%	2012	\$520,000	4.375%	4.450%
2003	370,000	3.500	3.410	2013	540,000	4.500	4.570
2004	380,000	3.500	3.570	2014	565,000	4.600	4.660
2005	395,000	3.625	3.690	2015	590,000	4.700	4.760
2006	410,000	3.750	3.820	2016	620,000	4.750	4.830
2007	425,000	3.875	3.960	2017	650,000	4.875	4.980
2008	440,000	4.000	4.090	2018	680,000	4.875	5.040
2009	460,000	4.100	4.200	2019	715,000	5.000	5.090
2010	480,000	4.200	4.290	2020	750,000	5.000	5.110
2011	500,000	4.250	4.370	2021	790,000	5.000	5.150

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

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

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

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

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SUMMARY

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

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

The Offering The Commission is offering its \$512,155,000 Revenue and Revenue Refunding Bonds, Project No. 69, Series A, Series B, Series C and Series D (collectively, the "Project No. 69 Bonds") and its \$10,620,000 Agency Fund Revenue Bonds, Project No. 70 (the "Project No. 70 Bonds") (collectively the "Bonds").

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"), the Project No. 69 Resolution (defined herein) and the Project No. 70 Resolution (defined herein) (collectively, the "Resolutions") adopted by the Commission (i) authorizing the issuance of the Bonds and (ii) affirming and supplementing the leases relating to the hereinafter described and defined Projects pursuant to (a) the Financing/Lease Agreement, originally dated as of July 1, 1999, as amended or supplemented (the "Project No. 69 Lease"), among the Commission, as lessor, the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee and the Kentucky Asset/Liability Commission ("ALCo") and (b) the Financing/Lease Agreement dated as of March 9, 2000 (the "Project No. 70 Lease") among the Commission, as lessor, the University of Kentucky (the "State Agency"), as lessee, ALCo and the Cabinet (collectively, the "Leases").

Use of Proceeds The Project No. 69 Bonds are being issued to provide funds with which to (i) refund certain of the Commission's outstanding bonds, as more fully defined and described herein, (ii) pay certain costs of Project No. 69 (defined herein), (iii) redeem the outstanding Kentucky Asset/Liability Commission Project Notes, 1999 General Fund Second Series, as more fully described herein, which were issued to pay certain costs of Project No. 69 and (iv) pay the costs of issuing the Project No. 69 Bonds. The Project No. 70 Bonds are being issued to provide funds with which to (i) pay certain costs of Project No. 70 (defined herein), (ii) redeem the outstanding Kentucky Asset/Liability Commission Project Notes, 1998 Agency Fund Series A, as more fully described herein, which were issued to pay certain costs of Project No. 70 and (iii) pay the costs of issuing the Project No. 70 Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS FOR THE BONDS."

Security

The Project No. 69 Bonds are payable solely from amounts deposited in certain funds and accounts created by the Project No. 69 Resolution and from the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Project No. 69 Lease. The Project No. 70 Bonds are payable solely from amounts deposited in certain funds and accounts created by the Project No. 70 Resolution and from the Revenues to be derived from the rental payments of the State Agency to the Commission under the Project No. 70 Lease. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS" The Bonds are not secured by a lien on any of the properties constituting the Projects or any amounts derived therefrom.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESPECTIVE RESOLUTIONS AND FROM RENTAL INCOME DERIVED FROM THE RESPECTIVE LEASES, 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 PROJECTS OR ANY AMOUNTS DERIVED THEREFROM.

Bond Insurance

Except for the Project No. 69 Series A Bonds maturing in the years 2001 through 2005, inclusive, the scheduled payment of principal of and interest on the Bonds (the "Insured Bonds"), when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. See the caption "BOND INSURANCE."

Features of Bonds

The Bonds are being offered in the authorized denominations of \$5,000 or any integral multiple thereof, at the interest rates, yields and purchase prices set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Project No. 69 Bonds will bear interest payable on each August 1 and February 1, commencing the first August 1 or February 1 occurring after the delivery date for the applicable Bonds. The Project No. 70 Bonds will bear interest payable on each May 1 and November 1, commencing November 1, 2001. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank One, Kentucky, NA, Lexington, Kentucky, as Trustee and Paying Agent (the "Trustee").

The Bonds are issuable only as fully registered Bonds, without coupons. The Project No. 69 Bonds, Series A maturing on and after August 1, 2013 are subject to optional redemption on or after August 1, 2011 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without penalty. The Project No. 69 Bonds, Series B, Series C and Series D are not subject to redemption prior to maturity. The Project No. 70 Bonds maturing on and after May 1, 2012 are subject to optional redemption on or after May 1, 2011 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without penalty. The Bonds are issuable only as fully registered Bonds, without coupons. See "THE BONDS - Redemption Provisions." It is expected that delivery of the respective

Bonds will be made on the dates shown on the inside cover, in New York, New York, against payment therefor.

Tax Status

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

Continuing Disclosure

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

General

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

Information

Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924, or, during the initial offering period, by contacting the representative of the Underwriters, Merrill Lynch & Co., 5500 Sears Tower, Chicago, Illinois 60606 (312) 906-6357.

COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission

\$512,155,000
Revenue and Revenue Refunding Bonds,
Project No. 69

\$10,620,000
Agency Fund Revenue Bonds,
Project No. 70

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 \$512,155,000 Revenue and Revenue Refunding Bonds, Project No. 69, Series A, Series B, Series C and Series D (collectively, the "Project No. 69 Bonds") and its \$10,620,000 Agency Fund Revenue Bonds, Project No. 70 (the "Project No. 70 Bonds") (collectively the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"). The Project No. 69 Bonds are being issued to provide funds with which to (i) refund certain of the Commission's outstanding bonds (collectively, the "Prior Bonds"), as more fully described herein, which Prior Bonds were issued pursuant to resolutions, previously adopted by the Commission, to pay costs of constructing, acquiring, installing and equipping a portion of Project No. 69 (as hereinafter described and defined), (ii) pay certain costs of Project No. 69, (iii) redeem the outstanding Kentucky Asset/Liability Commission Project Notes, 1999 General Fund Second Series, as more fully described herein, which were issued to pay certain costs of Project No. 69 and (iv) pay the costs of issuing the Project No. 69 Bonds. The Project No. 70 Bonds are being issued to provide funds with which to (i) pay certain costs of Project No. 70 (as hereinafter described and defined), (ii) redeem the outstanding Kentucky Asset/Liability Commission Project Notes, 1998 Agency Fund Series A, as more fully described herein, which were issued to pay certain costs of Project No. 70 and (iii) pay the costs of issuing the Project No. 70 Bonds. See the caption "PLAN OF FINANCE".

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Resolution authorizing the Project No. 69 Bonds (the "Project No. 69 Resolution") and a Resolution authorizing the Project No. 70 Bonds (the "Project No. 70 Resolution") (collectively, the "Resolutions") authorizing the issuance of the Bonds and affirming and supplementing the lease of the Projects pursuant to the Leases hereinafter described.

The Cabinet, as lessee, has entered into a Financing/Lease Agreement dated as of July 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 Lease Agreement dated as of March 15, 2001 between the Commission and the Cabinet (collectively, the "Project No. 69 Lease"), to provide the Commission with amounts to pay the principal of and interest on the Project No. 69 Bonds as they become due. The University of Kentucky (the "State Agency"), as lessee, has entered into a Financing/Lease Agreement dated March 9, 2000, with ALCo and the Commission, as lessor (the "Project No. 70 Lease"), to provide the Commission with amounts to pay the principal of and interest on the Project No. 70 Bonds as they become due. (The Project No. 69 Lease and the Project No. 70 Lease are hereinafter referred to as the "Leases").

The current renewal period of the Project No. 69 Lease ends June 30, 2002, and the Project No. 69 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 Project No. 69 Bonds. The Project No. 69 Lease requires the Cabinet, for each biennial period during which the Project No. 69 Bonds are outstanding to seek legislative appropriations for 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 Project No. 69 Bonds. The Kentucky General Assembly has appropriated to the Cabinet amounts sufficient to meet the rental payments under the Project No. 69 Lease, and therefore to permit the Commission to meet the debt service requirements of the Project No. 69 Bonds, through June 30, 2002.

The Kentucky General Assembly has approved a budget for the State Agency having amounts projected to be sufficient to pay required Rent (hereinafter defined) under the Project No. 70 Lease for the current renewal period which ends June 30, 2002. The required Rent payments are sufficient to meet principal and interest requirements on the Project No. 70 Bonds through June 30, 2002. Under the provisions of the Constitution of the Commonwealth, the State Agency is prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for the State Agency are submitted to the General Assembly of the Commonwealth every two years and 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 (i) that the State Agency will include Rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the State Agency to make Rent payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations. Notwithstanding the foregoing, the Project No. 70 Lease will be automatically renewed unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

Except for the Project No. 69 Series A Bonds maturing in the years 2001 through 2005, inclusive, the scheduled payment of principal of and interest on the Bonds (the "Insured Bonds"), when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. See the caption "BOND INSURANCE."

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 ITS LEASE. THE PROJECT NO. 69 BONDS ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE PROJECT NO. 69 RESOLUTION AND FROM A PLEDGE OF RENTAL PAYMENTS UNDER THE PROJECT NO. 69 LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING PROJECT NO. 69 OR ANY AMOUNTS DERIVED THEREFROM. THE PROJECT NO. 70 BONDS ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE PROJECT NO. 70 RESOLUTION AND FROM A PLEDGE OF RENTAL PAYMENTS UNDER THE PROJECT NO. 70 LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING PROJECT NO. 70 OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commonwealth, the Commission, the Resolutions, the Bonds, the Leases, the Projects, the Cabinet, the State Agency and ALCo are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolutions. 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 BONDS

General

The Bonds are issuable only as fully registered Bonds. The Project No. 69 Bonds are being issued in four series denominated as Series A, Series B, Series C and Series D and are referred to as Project No. 69 Bonds, Series A, Series B, Series C and Series D, respectively. The dated dates and delivery dates for the Bonds vary and are shown on the inside cover page of this Official Statement. The Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will bear interest at the interest rates set forth on the inside cover. Interest on the Project No. 69 Bonds will be payable on each August 1 and February 1, commencing the first August 1 or February 1 occurring after the delivery date for the applicable Bonds. Interest on the Project No. 70 Bonds will be payable on each May 1 and November 1, commencing November 1, 2001. Bank One, Kentucky, NA, Lexington, Kentucky is the trustee for the Bonds (the "Trustee").

Book Entry Only System

General. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of each series of the Project No. 69 Bonds and each maturity of the Project No. 70 Bonds which bear interest at the same rate, each in the aggregate principal amount of such maturity having the same rate, and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

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

Redemption Provisions

Optional Redemption of Project No. 69 Bonds, Series A. The Project No. 69 Bonds, Series A maturing on or prior to August 1, 2012 are not subject to redemption prior to maturity. The Project No. 69 Bonds, Series A maturing on and after August 1, 2013 may be redeemed at the option of the Commission on any date on or after August 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.

Optional Redemption of Project No. 69 Bonds, Series B, Series C and Series D. The Project No. 69 Bonds, Series B, Series C and Series D are not subject to redemption prior to maturity.

Optional Redemption of Project No. 70 Bonds. The Project No. 70 Bonds maturing on or prior to May 1, 2011 are not subject to redemption prior to maturity. The Project No. 70 Bonds maturing on or after May 1, 2012 may be redeemed at the option of the Commission on any date on or after May 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.

Mandatory Sinking Fund Redemption of Project No. 69 Series A Bonds. The Project No. 69, Series A Bonds maturing on August 1, 2021 are subject to mandatory sinking fund redemption, by lot, on August 1 of the years and in the principal amount, at the redemption price of par plus accrued interest to the redemption date, as follows:

<u>Year</u>	<u>Principal Amount</u>
August 1, 2020	\$7,555,000
August 1, 2021*	7,940,000

*Final maturity

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

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to The Depository Trust Company, New York, New York, and at least two (2) national information services that disseminate notices of redemption of obligations such as the Bonds; *provided however*, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds.

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

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

SECURITY FOR THE BONDS

Project No. 69 Bonds

The Project No. 69 Bonds and the interest thereon are payable solely from the revenues to be derived from the rental payments of the Cabinet under the Project No. 69 Lease. The Project No. 69 Bonds are not secured by a lien on any properties constituting Project No. 69 or any amounts derived therefrom. See the captions "SUMMARIES OF THE PRINCIPAL DOCUMENTS — The Project No. 69 Lease."

The Kentucky General Assembly has appropriated to the Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Project No. 69 Bonds through June 30, 2002.

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

The Project No. 69 Bonds are also secured by certain other funds and accounts pledged therefor and described in the Project No. 69 Resolution.

THE PROJECT NO. 69 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS SPECIFICALLY PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE PROJECT NO. 69 BONDS.

Except for the Project No. 69 Series A Bonds maturing in the years 2001 through 2005, inclusive, the scheduled payment of principal of and interest on the Project No. 69 Bonds, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Project No. 69 Bonds by Financial Security Assurance Inc. ("Financial Security"). See the caption "BOND INSURANCE."

Project No. 70 Bonds

The Commission has pledged to the payment of its obligations under the Project No. 70 Resolution payments to be received by the Commission pursuant to the Project No. 70 Lease. The Kentucky General Assembly has approved the budget for the State Agency having amounts projected to be sufficient to pay required Rent (defined herein) under the Project No. 70 Lease. The required Rent

payments are, in the aggregate, sufficient to meet principal and interest requirements on the Project No. 70 Bonds through June 30, 2002.

Under the provisions of the Constitution of the Commonwealth, State Agencies are prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for State Agencies are submitted to the General Assembly of the Commonwealth every two years and 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 (i) that the State Agency will include Rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the State Agency to make Rent payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations. Notwithstanding the foregoing, the Project No. 70 Lease will be automatically renewed unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The appropriations of the State Agency, from which payment of principal of and interest on the Bonds are derived, are "Agency Fund" appropriations and not "General Fund" appropriations. See "THE STATE AGENCY – Agency Fund Appropriations" for a discussion of the difference between Agency Fund appropriations and General Fund appropriations.

The Project No. 70 Bonds are also secured by certain other funds and accounts pledged therefor and described in the Project No. 70 Resolution.

THE PROJECT NO. 70 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS SPECIFICALLY PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE PROJECT NO. 70 BONDS.

The scheduled payment of principal of and interest on the Project No. 70 Bonds, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Project No. 70 Bonds by Financial Security. See the caption "BOND INSURANCE."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Insured Bonds, Financial Security will issue the Bond Insurance Policy (the "Policy") for the Insured Bonds. The Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Bond Insurance Policy included as an appendix to this Official Statement. See *Exhibit F* — "SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

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

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the

business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2000, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,436,681,000 and its total unearned premium reserve was approximately \$707,587,000 in accordance with statutory accounting principles. At December 31, 2000, Financial Security's total shareholder's equity was approximately \$1,488,866,000 and its total net unearned premium reserve was approximately \$582,709,000 in accordance with generally accepted accounting principles.

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

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

PLAN OF FINANCE

Project No. 69

The proceeds of the Project No. 69 Bonds will be used by the Commission and the Cabinet to (i) refund the Prior Bonds which are further identified in *Exhibit B* (ii) pay the cost of constructing, acquiring, installing and equipping Project No. 69, (iii) redeem certain notes issued by ALCo on behalf of the Commission, and (iv) pay the costs of issuance of the Project No. 69 Bonds.

The proceeds of the Project No. 69 Bonds required to refund the Prior Bonds will be deposited in separate and distinct escrow funds for each Series to be held by Bank One, Kentucky, NA, as Escrow Agent (the "Escrow Agent") under an Escrow Agreement (the "Escrow Agreement") dated as of March 15, 2001, by and between the Commission and the Escrow Agent. The Escrow Agent is required in the Escrow Agreement to apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the "United States Treasury Obligations"), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held invested in the escrow fund, to pay the interest on the Prior Bonds as same become due and the redemption price of Prior Bonds subject to redemption prior to maturity through mandatory sinking fund installments and optional redemptions. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the making of the foregoing deposit with the Escrow Agent on behalf of the prior trustees, in the opinion of Bond Counsel, the Prior Bonds will no longer be deemed to be outstanding for the purposes of the resolution under which the Prior Bonds were issued.

A portion of the proceeds of the Project No. 69 Bonds will be deposited in a note payment fund established for the payment of bond anticipation notes issued on behalf of the Commission by ALCo. The notes were originally issued by ALCo to provide interim financing for various Commission projects. The Commission is obligated to issue bonds to provide permanent financing for those projects under the

Project No. 69 Lease. The deposit of amounts in the note payment fund is being made pursuant to that obligation.

The remaining proceeds of the Project No. 69 Bonds, except for issuance costs and accrued interest, will be deposited in various accounts of the Construction Fund established by the Commonwealth for paying the costs of construction, acquisition, installation and equipping of Project No. 69. Amounts will be disbursed to pay the costs of construction, acquisition, installation and equipping of Project No. 69 as costs are incurred.

Project No. 70

The proceeds of the Project No. 70 Bonds will be used by the Commission and the State Agency to (i) pay certain costs of Project No. 70, (ii) refund certain notes issued on behalf of the Commission and the State Agency to provide funds on an interim basis to pay certain costs of Project No. 70 and (iii) to pay the costs of issuance of the Project No. 70 Bonds. A portion of the proceeds of the Project No. 70 Bonds will be deposited in a note payment fund established for the payment of bond anticipation notes issued on behalf of the Commission and the State Agency by ALCo. The notes were originally issued by ALCo to provide interim financing for various State Agency projects. The Commission agreed to issue bonds to provide permanent financing for those projects under the Project No. 70 Lease. The deposit of amounts in the note payment fund is being made pursuant to that obligation. The remaining proceeds of the Project No. 70 Bonds, except for issuance costs and accrued interest, will be deposited in the Construction Fund established by the Commonwealth for paying the costs of construction, acquisition, installation and equipping of Project No. 70. Amounts will be disbursed to pay the costs of construction, acquisition, installation and equipping of Project No. 70 as costs are incurred.

SOURCES AND USES OF FUNDS FOR THE BONDS

The following tables set forth the application of the proceeds of the Bonds, exclusive of accrued interest, if any.

Project No. 69

SOURCES OF FUNDS:

Par Amount of Bonds	\$512,155,000.00
Net Original Issue Premium	<u>22,331,802.30</u>

TOTAL SOURCES	<u>\$534,486,802.30</u>
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USES OF FUNDS:

Series A Escrow Fund Deposit	\$200,954,357.13
Series B Escrow Fund Deposit	23,517,902.44
Series C Escrow Fund Deposit	26,878,027.33
Series D Escrow Fund Deposit	40,955,484.54
ALCo Note Payment Fund Deposit	129,016,065.47
Construction Fund Deposit	108,318,300.00
Costs of Issuance	<u>4,846,665.39*</u>

TOTAL USES	<u>\$534,486,802.30</u>
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*Includes Bond Insurance premium, underwriter's discount and swap termination payment

Project No. 70

SOURCES OF FUNDS:

Par Amount of Bonds	\$10,620,000.00
Net Original Issue Discount	<u>(87,171.10)</u>

TOTAL SOURCES \$10,532,828.90

USES OF FUNDS:

ALCo Note Payment Fund Deposit	\$6,834,115.13
Construction Fund Deposit	3,612,000.00
Costs of Issuance	<u>86,713.77</u>

TOTAL USES \$10,532,828.90

THE PROJECT

Project No. 69

The Cabinet will lease all of the facilities, renovations and improvements financed with the proceeds of the Project No. 69 Bonds from the Commission under the Project No. 69 Lease (collectively, "Project No. 69"). The non-refunding portion of the Project No. 69 Bonds is related to the Finance and Administration Cabinet, the Department of Veterans' Affairs and the Natural Resources and Environmental Protection Cabinet. A description of the new projects being financed is included in *Exhibit C*. The state agencies related to the refunding portion of Project No. 69 are the following:

Cabinet for Economic Development	Post Secondary Education:
Cabinet for Health Services	Eastern Kentucky University
Cabinet for Workforce Development	Kentucky Community and Technical
Education, Arts and Humanities Cabinet	College System
Finance and Administration Cabinet	Kentucky State University
Department for Local Government	Morehead State University
Justice Cabinet	Murray State University
Public Protection and Regulation Cabinet	Northern Kentucky University
Tourism Development Cabinet	University of Kentucky
Department of Veterans' Affairs	University of Louisville
	Western Kentucky University

Project No. 70

The University of Kentucky (the "State Agency") will lease all of the facilities, renovations and improvements financed with the proceeds of the Project No. 70 Bonds from the Commission under the Project No. 70 Lease which includes various authorized projects (collectively, "Project No. 70") that will be used by the State Agency. A further description of Project No. 70 is included in *Exhibit C*.

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 Project No. 69 Bonds secured by revenues from the Project No. 69 Lease. The Commission has agreed, under the Project No. 70 Lease, to issue the Project No. 70 Bonds secured by the revenues therefrom. The Resolutions were adopted by the Commission on March 19, 2001, authorizing the issuance of the Bonds.

Future Financings

The 2000 Kentucky General Assembly authorized debt financing totaling \$1,046,927,600 to support various capital initiatives of the Commonwealth. Of the total authorization, \$901,202,600 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 received or will receive requests from the Cabinet to authorize in its own name and to issue Bonds to finance capital projects authorized by the 2000 General Assembly. Many of the projects authorized by the General Assembly will receive initial funding through project notes, that are also bond anticipation notes, to be 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 is obligated to pay lease payments under the Project No. 69 Lease. 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 STATE AGENCY

The State Agency is obligated to pay lease payments under the Project No. 70 Lease.

Agency Fund Appropriations

The State Agency is required to develop and submit a balanced budget for consideration by the General Assembly during its regular session at which budgets are adopted, which begins in January of each even-numbered year. These budgets are required to include all fund sources, which include General Funds, Road Funds, Federal Funds and Agency Funds. Agency Funds are defined as any fund except General, Road or Federal Funds. Examples of Agency Funds would include, but are not limited to, tuition, student fees, insurance premium receipts and certain other revenues associated with the day to day operation of the applicable State Agency.

The State Agency has agreed to include an amount for Rent in each request. While the State Agency has a variety of fund sources, Rent payments for the Project No. 70 Bonds may only be made from Agency Funds available to the State Agency.

The Kentucky General Assembly has approved the budget for the State Agency with amounts projected to be sufficient to enable the State Agency to pay required Rent through June 30, 2002. The required Rent payments are sufficient to meet principal and interest requirements on the Bonds through June 30, 2002.

Under the provisions of the Constitution of the Commonwealth, the State Agency is prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for the State Agency are submitted to the General Assembly of the Commonwealth every two years and 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 (i) that the State Agency will include Rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the State Agency to make Rent payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations. Notwithstanding the foregoing, the Project No. 70 Lease will be automatically renewed unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

Financial Information Regarding the State Agency

Financial information with respect to the State Agency is presented in *The Kentucky Comprehensive Annual Financial Report* ("CAFR") published annually by the Commonwealth. A copy of the CAFR for Fiscal Year 2000 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 CAFR for Fiscal Year 2000 may be found on the Internet at:

<http://www.state.ky.us/agencies/finance/manuals/tax/cafr.htm>

The CAFR for the Fiscal Year ended June 30, 2000 contains the following information with respect to Component Units – All University and College Funds, including the University of Kentucky: (i) Combining balance sheet, page 162; (ii) Combining statement of revenues, expenditures, and other changes, page 164; and (iii) Combining statement of changes in fund balance, page 166 (e.g. General Fund, Agency Fund and other). Copies of the foregoing pages from the CAFR are set forth in *Exhibit D*.

Additional information on revenues, expenditures (expenses) and changes in fund balance for Fiscal Years 1999 and 2000 has been excerpted from the individual financial statements of the University of Kentucky and is included in *Exhibit D*. Copies of the complete financial statements for the State Agency for the Fiscal Year ended June 30, 2000 may be obtained from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

The outstanding Agency Fund Supported Debt of the State Agency is set forth in *Exhibit D*. Further information on the outstanding obligations of the State Agency as well as more detailed financial information on the State Agency may be obtained from the Office of Financial Management at the above address.

General Information on the State Agency

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

These primary functions, (1) instruction - the dissemination of knowledge, (2) research - the creation of knowledge, (3) public service - the application of knowledge, and the scope of programs conducted in each functional area are defined by statute. KRS 164.125 authorizes the University of Kentucky to offer baccalaureate, professional, master's, specialist, doctoral and postdoctoral programs and to conduct joint doctoral programs in cooperation with other institutions. It designates the University of Kentucky as the Commonwealth's principal institution to conduct statewide research and service programs.

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

The University of Kentucky is organized into sixteen colleges and graduate schools plus extension programs, and also operates the Lexington Community College.

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 Bonds will be used to refund outstanding Kentucky Asset/Liability Commission project notes, the proceeds of which were used to pay costs of constructing, acquiring, installing and equipping a portion of the Projects.

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 2000 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 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) 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>

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 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 2000 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 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 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

General Fund revenue on a budgetary basis for 2000 was \$6.72 billion, an increase of 7.8% over 1999. This amount includes \$6.48 billion in tax and non-tax receipts, and \$239.85 million of Operating Transfers In. Taxes represented 92.2% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 2000 totaled \$6.55 billion, including Operating Transfers Out of \$596.17 million. During 2000, expenditures increased by 2.4% and transfers decreased by 18.1% compared to 1999. The general government function includes \$880.57 million of expenditures and transfers for the state supported universities, which together amount to 13.4% of the General Fund total.

The General Fund had a 2000 budgetary undesignated fund balance of \$176,353,716. This is an increase of \$112,160,629 over the 1999 year-end budgetary undesignated fund balance of \$64,193,087.

Revenue for general governmental functions totaled \$12.99 billion for 2000, an increase of 10.4% over the amount recognized during 1999.

2000 Governmental Funds Revenue rose \$1.23 billion over 1999. Intergovernmental Income was up almost \$777 million, due primarily to almost \$754 million more in Federal Fund receipts from the United States Government. Tax Revenue improved by nearly \$310 million, including over \$263 million more in the General Fund where Individual Income Tax collections climbed over \$162 million and Sales and Gross Receipts Taxes jumped an additional \$84 million. Sales and Gross Receipts Taxes also rose more than \$144 million in the Transportation Fund. These four specifically described gains account for 93.2% of revenue growth since last year.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$12.07 billion for 2000, an increase of 8.8% compared to 1999.

2000 Governmental Funds Expenditures grew \$971.5 million over 1999. The cost of Human Resources services rose nearly \$741 million, both in the Federal Fund, where spending went up almost \$496 million, and in the Agency Revenue Fund where payments climbed close to \$240 million. Transportation costs jumped about \$146 million, based on \$143 million more spent in the Federal Fund, offset by \$10 million less spent in the Agency Revenue Fund. And, nearly \$87 million more in General Fund grants and subsidies was the major contributor to the \$101 million growth in Education and Humanities expenditures. These increases were partially offset by nearly \$41 million less spending for Capital Outlay and Debt Service Fund payments of almost \$55 million less than last year. The combined effect of these differences account for 88.6% of the net growth in expenditures this year.

Ending fund balances for all governmental fund types increased 8.0%, from \$2.68 billion as restated for 1999, to \$2.90 billion in 2000. Of these totals, unreserved fund balances increased 17.7%, from \$1.23 billion as restated at July 1, 1999, to \$1.45 billion at June 30, 2000.

During 2000, Kentucky issued revenue bonds totaling \$308,490,000 for general governmental functions which are supported by governmental fund appropriations. No bonds were defeased during the period and this entire amount funded new projects. At June 30, 2000, total principal outstanding for revenue bonds paid from governmental fund appropriations was \$2,315,533,850.

Fiscal Year 2001 (unaudited)

The Commonwealth has completed eight months of operations through the end of February 2001. Total receipts for that period were \$4.28 billion, which represents 3% growth over the same period last fiscal year. The major sources of revenue are personal income and sales and use taxes which represent 41% and 35% of current year General Fund receipts, respectively. Personal income grew by 3.5% to \$1.78 billion and sales and use grew by 4.2% to \$1.52 billion. Current growth rates are below the levels needed to reach the Official Estimate of \$6.81 billion for fiscal year 2001. As a result, the Consensus Forecasting Group (the "CFG") was convened to review the receipts and the assumptions underlying the forecast. On March 8, 2001, the CFG recommended the reduction of the estimate to \$6.72 billion, a reduction of \$90.8 million. The Secretary of the Finance and Administration Cabinet and the State Budget Director are reviewing a variety of alternatives to ensure that the General Fund budget will be in balance at June 30, 2001. These alternatives include a review of agency budgets, timing of major purchases, and lapse of unneeded funds. If these steps are insufficient, it is possible that a transfer of approximately \$23.2 million from the Budget Reserve Trust Fund (the "Trust Fund") may be needed to balance the budget. The Trust Fund currently contains \$278,620,900 including \$39,337,500 which was deposited earlier this fiscal year. In the event the transfer from the Trust Fund is required to balance the budget, it would be the first withdrawal from the Fund since it became a Statutory Fund in November 1995.

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 December 31, 2000, the Commonwealth's operating portfolio was approximately \$3.6 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 (39%); repurchase agreements collateralized by the aforementioned (17%); municipal securities (5%); and corporate and asset backed securities, including money market securities (26%). The portfolio had a current yield of 6.06% and a modified duration of 1.26 years. Investment income through December 31, 2000 was \$163.0 million versus \$160 million the previous fiscal year.

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 supranational governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset backed securities rated in the highest category by a nationally recognized rating agency.

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 Resolutions and the Leases. Such statements do not purport to be complete and reference is made to the Resolutions and the Leases, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601. Each Resolution and the Lease relating to each Resolution is separate from and will operate independently of the other Resolution and Lease and the occurrence of an event of default under one Resolution will not, in and of itself, constitute an event of default under the other Resolution. The Resolutions contain substantially the same terms and provisions.

The Resolutions

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

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

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

3. The Construction Fund. Each Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the related Resolution, each Construction Fund shall constitute a trust fund for the benefit of the related Bondholders. Each Construction Fund will be used for the purposes of financing that portion of the related Project consisting of the acquisition, construction or undertaking of new property in connection with buildings or real estate (and in the case of the Project 69 Lease, economic development projects or community development projects) including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings, appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in each Construction Fund after the related Project is completed in full will be transferred to the Trustee to be held, in trust, in the related Bond Fund.

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

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

Events of Default. Each 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 related Resolution or in the related 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 such 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 under the related Resolution if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

Each Resolution provides that upon the happening and continuance of any event of default described in clause (a), (b) or (c) above, unless the principal of all the related 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 under the related Resolution (by notice in writing to the Commission and the Trustee) may declare the principal of all such 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 related Resolution or in any of the related

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 such 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 related 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.

Each 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 under the related Resolution must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky Revised Statutes and under such 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 such 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 such Resolution.

In the enforcement of any right or remedy under each 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 related Resolution or of the related Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Bonds then Outstanding under the related Resolution, to the extent permitted by law together with any and all costs and expenses of collection and of all proceedings under such Resolution and under the related 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 related Resolution and in the related 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 such 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 under each Resolution, if requested in writing to take any action under such Resolution or the related Bonds by the Holders of not less than 25% of the principal amount of such 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 related Resolution or the related 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 such Bonds, provided that such request will not be otherwise than in accordance with the provisions of law and of the related 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 related 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 then 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 related 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 such 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 related 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 either Resolution or in the related Bonds affects or impairs the right of any Holder of any Bond to payment of the principal of or interest on such Bond at and after the maturity thereof or the obligation of the Commission to pay the principal of, premium, if any, and interest on such 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 each 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 a Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the related Resolution by the Holders of 66 2/3% of the principal amount of Bonds outstanding thereunder and unless and until the opinion of counsel to the Commission required by such Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the related 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 either 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 related Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the related 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 such 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 such Resolution with any federal tax law, (v) to maintain or improve any rating on the related Bonds, or (vi) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of such Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

Change, Substitution or Other Modification of Project. Anything in each Resolution or each Lease notwithstanding, the Commission may, in its sole discretion, change, substitute or otherwise modify components of each of the Projects, including, in the case of the Project 69 Lease, economic development projects and community 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 related Lease such that rental payments thereunder will be sufficient to pay principal of, premium, if any, and interest on the related Bonds; provided that any such change, substitution or modification shall not cause the Commission to be in violation of certain covenants of such Resolution.

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues under each Resolution 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 related Rebate Fund) and shall be entitled to a preference therefor over any related outstanding Bonds. The Trustee may be

removed at any time at the written request of the Commission or a majority of Bondholders under a Resolution.

Discharge of the Resolution. If the Commission pays or causes to be paid, or there is otherwise paid, to the Holders of the Bonds the total principal and interest due or to become due thereon, including premium, if applicable at the times and in the manner stipulated therein and in the related Bond Resolution then the pledge of Revenues under such Resolution, and all covenants, agreements and other obligations of the Commission to the Holders of such 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 under a Resolution or an escrow fund established for such purpose under a Resolution, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in such 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 related Bonds or any part thereof to and including the date upon which such Bonds or any of them will be redeemed in accordance with the related Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of such Resolution, and the Trustee will and is irrevocably instructed by the Resolution to publish notice thereof.

As used herein, "Defeasance Obligations" means:

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

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

Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (1) which are rated, based on the escrow, in the highest rating category of Standard and Poor's Credit Market Services, a Division of The McGraw Hill Companies Inc., and Moody's Investors Service, Inc. 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 Project No. 69 Lease

The Commission and the Cabinet have entered into the Project No. 69 Lease whereby the Cabinet will lease Project No. 69 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 Project No. 69 Bonds.

The Project No. 69 Lease is for a current term ending June 30, 2002. The Commission has granted the Cabinet the exclusive option to renew the Project No. 69 Lease for successive ensuing renewal terms of two years commencing July 1 in each even-numbered year beginning July 1, 2002. The last renewal term for the Project No. 69 Lease ends June 30, 2022, the final maturity of the Project No. 69 Bonds being August 1, 2021. Under the provisions of the Constitution of the Commonwealth, the

Commission and the Cabinet are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Project No. 69 Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Cabinet to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Cabinet is bound for the entire amount of the rent becoming due during such term as a general obligation of the Cabinet, limited to amounts appropriated for such purpose payable from any and all funds of the Cabinet, including, 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 Project No. 69 in a manner inconsistent with law.

The Cabinet has covenanted and agreed in the Project No. 69 Lease that when appropriations bills are prepared for introduction at the various successive biennial sessions of the General Assembly of the Commonwealth it will cause to be included in the appropriations proposed to be made for the Cabinet for that biennial period, sufficient amounts (over and above all other requirements of the Cabinet) to enable the Cabinet to make rental payments under the Project No. 69 Lease and thereby produce income and revenues to the Commission to permit timely payment of the Project No. 69 Bonds as the same become due during such period.

If the Project No. 69 Lease is renewed, then on the first day of the biennial renewal term the Cabinet is firmly bound for the entire amount of rental payments coming due during such renewal term.

In the Project No. 69 Resolution, the Commission has covenanted that it will receive and apply the lease-rental payments from the Cabinet to pay the Project No. 69 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 Project No. 69 Lease include a default in the due and punctual payment of any rent or a default in the performance of any covenants, terms or conditions therein not remedied (or in the process of being remedied) within 30 days.

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet terminate the Project No. 69 Lease or, without terminating the Project No. 69 Lease, take possession (actually or constructively) of Project No. 69. In such event, the Commission may sublet Project No. 69 or any portion thereof to any party it deems appropriate, 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 Project No. 69, and then to the payment of rent and all other sums due from the Cabinet under the Project No. 69 Lease upon delivery of an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Project No. 69 Bonds to be includible in the gross income of the holders of the Bonds for federal income tax purposes. The Bondholders have no security interest in any properties constituting Project No. 69 or any amounts derived therefrom.

The Project No. 70 Lease

The Commission and the State Agency have entered into the Project No. 70 Lease whereby the State Agency will lease Project No. 70 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 Project No. 70 Bonds (the "Rent").

The Project No. 70 Lease is for a current term ending June 30, 2002. The Commission has granted the State Agency the exclusive option to renew the Project No. 70 Lease for successive ensuing renewal terms of two years commencing July 1 in each even-numbered year. Notwithstanding the

foregoing, the Project No. 70 Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the State Agency is bound for the entire amount of the Rent becoming due during such term as a general obligation of the State Agency, limited to amounts appropriated for such purpose payable from any and all funds of the State Agency, including 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 Project No. 70 in a manner inconsistent with law.

The State Agency has covenanted and agreed in the Project No. 70 Lease that when appropriations bills are prepared for introduction at the various successive biennial sessions of the General Assembly of the Commonwealth they will cause to be included in the budget and seek an appropriation for that biennial period for the State Agency, sufficient amounts (over and above all other requirements of the State Agency) to enable the State Agency to pay Rent under the Project No. 70 Lease and thereby produce income and revenues to the Commission to permit timely payment of the Project No. 70 Bonds as the same become due during such period.

If the Project No. 70 Lease is renewed, then on the first day of the biennial renewal term the State Agency is firmly bound for the entire amount of Rent payments coming due during such renewal term.

In the Project No. 70 Resolution, the Commission has covenanted that it will receive and apply the Rent payments from the State Agency to pay the Project No. 70 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 Project No. 70 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 (or in the process of being remedied) within 30 days.

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet terminate the Project No. 70 Lease or, without terminating the Project No. 70 Lease, take possession (actually or constructively) of Project No. 70. In such event, the Commission may sublet Project No. 70 or any portion thereof, to any party it deems appropriate 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 State Agency's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of Project No. 70, and then to the payment of Rent and all other sums due from the State Agency under such Project No. 70 Lease. The Bondholders have no security interest in any properties constituting Project No. 70 or any amounts derived therefrom.

RATINGS

Except for the Insured Bonds, Moody's Investors Service, Inc. ("Moody's") has given the Project No. 69 Bonds the rating of "Aa3," Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has given the Project No. 69 Bonds the rating of "AA-" and Fitch, Inc. ("Fitch") has given the Project No. 69 Bonds the rating of "AA-." Moody's, S&P and Fitch have given the Project No. 69 Bonds which are Insured Bonds the ratings of "Aaa," "AAA" and "AAA," respectively.

The Project No. 70 Bonds are Insured Bonds and Moody's has given the Project No. 70 Bonds the rating of "Aaa," S&P has given the Project No. 70 Bonds the rating of "AAA" and Fitch has given the Project No. 70 Bonds the rating of "AAA."

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 Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Project No. 69 Bonds, Series A, Series B, Series C and Series D and the Project No. 70 Bonds are subject to the approving legal opinions of Chapman and Cutler, Chicago, Illinois, Bond Counsel. The forms of the respective approving legal opinions of Bond Counsel are included as *Exhibit E*.

LITIGATION

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

TAX EXEMPTION

General

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

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

In rendering its opinion, Bond Counsel will rely upon certifications of the Commission, the Cabinet and the State Agency with respect to certain material facts solely within the knowledge of the Commission, the Cabinet and the State Agency relating to the application of the proceeds of the Bonds. In rendering its opinion, Bond Counsel will also rely upon the mathematical computation of the yield on the Bonds and the yield on certain investments contained in the Verification Report of The Arbitrage Group, Tuscaloosa, Alabama. The opinion of Bond Counsel represents its legal judgment based on its review of the law and facts that it deems relevant to render such opinion, and is not a guarantee of result.

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

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

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

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

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

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

Premium

An investor may purchase a Bond at a price in excess of its stated principal amount (a "Premium Bond"). Each Bond having a "Yield" that is lower than the "Interest Rate," as shown on the inside cover, has an issue price that is in excess of the Bond's stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield

basis over the remaining term of the Premium Bond in a manner that takes into account potential call dates and call prices. An investor in a Premium Bond cannot deduct amortized bond premium relating to such Premium Bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Premium Bond. Investors who purchase a Premium Bond should consult their own tax advisors regarding the amortization of bond premium and its affect on the Premium Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Premium Bond.

Original Issue Discount

Each Bond having a "Yield" that is higher than the "Interest Rate," as shown on the inside cover, has an issue price that is less than the principal amount payable at maturity. The difference between the Issue Price (defined below) of each such maturity of the Bonds and the amount payable at maturity is original issue discount. The issue price (the "Issue Price") for each such maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of each such maturity of the Bonds is expected to be the amount set forth on the inside cover, but is subject to change based on actual sales.

For an investor who purchases a Bond in the initial public offering at the Issue Price for any such maturity and who holds such Bond to its stated maturity, subject to the condition that the Commission, the Cabinet, the State Agency and others comply with the covenants discussed under "TAX EXEMPTION" above, (a) the full amount of original issue discount with respect to such Bond constitutes interest which is not includible in the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year.

If a Bond issued with original issue discount is purchased at any time for a price that is less than the Issue Price of such Bond plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased such Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Such treatment would apply to any purchaser who purchases such Bond for a price that is less than its Revised Issue Price.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors. Owners of Bonds issued with original issue discount should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Tuscaloosa, Alabama (the "Verifier") has verified, from the information provided to them, the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the principal of, premium, if any and interest on the Prior Bonds described above under the caption "PLAN OF FINANCE" and (2) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludible from gross income of the owners thereof for federal income tax purposes. The

Verifier will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

UNDERWRITING

The Bonds are to be purchased by a syndicate managed by Merrill, Lynch & Co. as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase (i) the Project No. 69, Series A Bonds at an aggregate purchase price of \$441,375,475.85 (which is equal to the principal amount of such Bonds plus a premium of \$18,723,721.40 and less underwriting discount of \$2,266,900.19 plus accrued interest from March 15, 2001 to the date of Closing of \$1,983,654.64); (ii) the Project No. 69, Series B Bonds at an aggregate purchase price of \$23,570,909.12 (which is equal to the principal amount of such Bonds plus a premium of \$791,531.50 and less underwriting discount of \$90,622.38); (iii) the Project No. 69, Series C Bonds at an aggregate purchase price of \$27,841,464.37 (which is equal to the principal amount of such Bonds plus a premium of \$911,272.65 and less underwriting discount of \$99,808.28); (iv) the Project No. 69, Series D Bonds at an aggregate purchase price of \$41,050,990.85 (which is equal to the principal amount of such Bonds plus a premium of \$1,905,276.75 and less underwriting discount of \$174,285.90); and (v) the Project No. 70 Bonds at an aggregate purchase price of \$10,517,949.20 (which is equal to the principal amount of such Bonds less net original issue discount of \$87,171.10 and less underwriting discount of \$58,117.95 plus accrued interest from March 15, 2001 to the date of Closing of \$43,238.25); in each case, plus accrued interest from the dated date of the Bonds to the date of delivery. The Underwriters will be obligated to purchase all of each series of Bonds if any Bonds of that series are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering prices or yields set forth on the inside cover, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

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

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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 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

SUMMARY OF REFUNDED BONDS

Bonds to be Refunded by Series A

Project No. 54
Issue Date: July 15, 1992

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
September 1, 2004	5.600%	\$1,835,000
September 1, 2005	5.700	1,950,000
September 1, 2006	5.800	2,070,000
September 1, 2007	5.900	<u>2,200,000</u>
TOTAL PROJECT NO. 54:		\$8,055,000

Project No. 56
Issue Date: July 15, 1994

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
September 1, 2007	5.800%	\$3,040,000

Project No. 59
Issue Date: November 1, 1995

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
November 1, 2009	5.375%	\$8,675,000
November 1, 2010	5.375	9,155,000
November 1, 2011	5.600	9,670,000
November 1, 2012	5.625	10,230,000
November 1, 2013	5.700	10,825,000
November 1, 2014	5.700	11,460,000
November 1, 2015	5.625	<u>12,130,000</u>
TOTAL PROJECT NO. 54:		\$72,145,000

Project No. 64
Issue Date: September 1, 1999

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
May 1, 2011	5.750%	\$ 5,665,000
May 1, 2012	5.750	6,500,000
May 1, 2013	5.375	7,905,000
May 1, 2014	5.750	7,285,000
May 1, 2015	5.500	<u>8,800,000</u>
TOTAL PROJECT NO. 64:		\$36,155,000

Project No. 65
Issue Date: February 1, 2000

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
February 1, 2012	6.000%	\$ 7,435,000
February 1, 2013	6.000	7,880,000
February 1, 2013	5.650	350,000
February 1, 2014	6.000	8,110,000
February 1, 2014	5.750	615,000
February 1, 2015	5.850	9,245,000
February 1, 2016	5.900	9,785,000
February 1, 2017	5.950	10,365,000
February 1, 2018	6.000	<u>10,980,000</u>
TOTAL PROJECT NO. 65:		\$64,765,000
 TOTAL SERIES A:		 <u>\$184,160,000</u>

Bonds to be Refunded by Series B

Project No. 53
Issue Date: November 1, 1991

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
October 1, 2003	6.300%	\$ 8,630,000
October 1, 2004	6.625	1,765,000
October 1, 2005	6.625	1,880,000
October 1, 2006	6.625	2,005,000
October 1, 2007	6.625	1,615,000
October 1, 2008	5.750	1,565,000
October 1, 2009	5.750	1,655,000
October 1, 2010	5.750	1,750,000
October 1, 2011	5.750	<u>1,850,000</u>
TOTAL SERIES B:		<u>\$22,715,000</u>

Bonds to be Refunded by Series C

Project No. 40 (Second Series)
Issue Date: June 1, 1991

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
November 1, 2003	6.625%	\$ 4,510,000
November 1, 2004	6.750	4,805,000
November 1, 2005	6.750	5,130,000
November 1, 2006	6.875	5,465,000
November 1, 2007	6.875	<u>5,835,000</u>
TOTAL SERIES C:		<u>\$25,745,000</u>

Bonds to be Refunded by Series D

Project No. 54
Issue Date: July 15, 1992

<u>Maturity/Sinking Fund</u>	<u>Coupon</u>	<u>Principal Amount</u>
September 1, 2005	5.700%	\$ 9,865,000
September 1, 2006	5.800	10,475,000
September 1, 2007	5.900	11,135,000
September 1, 2008	6.000	3,185,000
September 1, 2009	6.000	1,085,000
September 1, 2010	6.000	1,150,000
September 1, 2011	6.000	1,215,000
September 1, 2012	6.000	<u>1,295,000</u>
TOTAL SERIES D:		<u>\$39,405,000</u>

TOTAL BONDS REFUNDED (ALL SERIES): \$272,025,000

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EXHIBIT C

THE PROJECTS

Project No. 69

The following is a description of Project No. 69. This description does not include any information regarding the projects that were financed with the proceeds of the Prior Bonds that comprise the refunding portion of Project No. 69. See "THE PROJECT – Project No. 69".

<u>State Agency</u>	<u>Project Description</u>	<u>Authorized Project Amount</u>
<u>Finance and Administration Cabinet</u>	State Office Building Asbestos Removal (Transportation)	\$11,900,000
	Community Development	103,661,300
<u>Justice Cabinet</u> State Police	Integrated Criminal Apprehension Program Upgrade	1,583,000
	Accident Reporting System	1,587,000
	Basic Radio Replacement	20,082,000
	LaGrange State Police Post Replacement	1,200,000
	Hazard State Police Post	1,450,000
<u>Council on Postsecondary Education</u>		
	Eastern Ky. University	Student Service/Classroom Building
Northern Kentucky Univ.	Natural Science Building	36,500,000
University of Kentucky	Aging/Allied Health Building Phase II	20,000,000
	Mechanical Engineering Building	19,600,000
<u>Department of Veterans' Affairs</u>	Western Kentucky Veterans' Center - Additional	229,000
	Eastern Kentucky Veterans' Center - Additional	328,000
<u>Natural Resources and Environmental Protection Cabinet</u>		
	Black Mountain Preservation Project	4,100,000
	TOTAL	\$242,220,300

Project No. 70

<u>State Agency</u>	<u>Project Description</u>	<u>Authorized Project Amount</u>
<u>University of Kentucky</u>	Crisp Building Replacement	\$2,200,000
	Aging/Allied Health Building, Phase II (Agency Bond Pool)	8,222,000
	TOTAL	\$10,422,000

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EXHIBIT D

FINANCIAL INFORMATION REGARDING THE UNIVERSITY OF KENTUCKY

Included in this *Exhibit D* are excerpts from *The Kentucky Comprehensive Annual Financial Report* ("CAFR") for Fiscal Year 2000 with respect to Component Units – all University and College Funds, including the University of Kentucky, comprised of the following: (i) Combining balance sheet, page 162; (ii) Combining statement of revenues, expenditures, and other changes, page 166; and (iii) Combining statement of changes in fund balance, page 164 (e.g. General Fund, Agency Fund and other). A copy of the *CAFR* for Fiscal Year 2000 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 *CAFR* for Fiscal Year 2000 may be found on the Internet at:

<http://www.state.ky.us/agencies/finance/manuals/tax/cafr.htm>

The last page of this *Exhibit D* is a Statement of Current Funds Revenues, Expenditures and Other Changes from the University of Kentucky 2000 Annual Report, showing results for 2000 and 1999, page 33. A copy of the University of Kentucky 2000 Annual Report may be obtained from the Office of Financial Management.

OUTSTANDING AGENCY FUND SUPPORTED DEBT

As of June 30, 2000

AMOUNT ISSUED	PRINCIPAL OUTSTANDING 6/30/2000		FISCAL YEAR ENDING 6/30/2001		FISCAL YEAR ENDING 6/30/2002		FISCAL YEAR ENDING 6/30/2003		FISCAL YEAR ENDING 6/30/2004	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
\$161,220,000	\$100,575,000		\$11,370,000	\$4,991,188	\$11,945,000	\$4,452,555	\$10,625,000	\$3,882,688	\$8,240,000	\$3,387,885
	FISCAL YEAR ENDING 6/30/2005		REMAINING DEBT SERVICE TO MATURITY							
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>						
	\$8,675,000	\$2,986,605	\$49,720,000	\$10,926,703						

Recently Issued Bonds

Since the date of the CAFR, the University of Kentucky has issued its Consolidated Educational Building Revenue Bonds, Series Q and Series R in the principal amounts of \$29,870,000 and \$20,510,00, respectively. As a result of the issuance of those bonds, the current annual principal and interest requirements for the University of Kentucky are as follows:

AMOUNT ISSUED	PRINCIPAL OUTSTANDING 6/30/2000		FISCAL YEAR ENDING 6/30/2001		FISCAL YEAR ENDING 6/30/2002		FISCAL YEAR ENDING 6/30/2003		FISCAL YEAR ENDING 6/30/2004	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
\$211,600,000	\$150,955,000		\$11,960,000	\$5,956,982	\$13,520,000	\$6,833,608	\$12,265,000	\$6,193,990	\$9,985,000	\$5,626,538
	FISCAL YEAR ENDING 6/30/2005		REMAINING DEBT SERVICE TO MATURITY							
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>						
	\$10,460,000	\$5,147,845	\$92,765,000	\$30,980,281						

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[Insert CAFR Table]

[Insert CAFR Table]

[Insert CAFR Table]

[Insert UK Summary Financial Statement]

EXHIBIT E
FORMS OF BOND COUNSEL OPINIONS

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State Property and Buildings Commission
Frankfort, Kentucky

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "*Commission*"), authorizing the issuance by the Commission of its Revenue and Revenue Refunding Bonds, Project No. 69, Series A (the "*Bonds*") in the aggregate principal amount of \$422,935,000, issued for the purpose of providing funds (i) to finance and refinance certain projects, (ii) to refund certain outstanding notes issued by the Kentucky Asset/Liability Commission and to provide long-term financing for certain projects financed on an interim basis with such notes, (iii) to refund certain outstanding bonds of the Commission (the "*Prior Bonds*") and (iv) to pay the costs of issuance of the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "*Cabinet*").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "*Act*"), H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session, and H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session (collectively, the "*Budget Act*"), and a resolution adopted by the Commission on March 19, 2001 (the "*Bond Resolution*"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "*Project*") have been leased to the Cabinet, pursuant to the Financing/Lease Agreement dated as of July 1, 1999, by and among the Kentucky Asset/Liability Commission, the Commission, as lessor, and the Cabinet, as lessee, as supplemented and amended by the First Supplemental Lease Agreement dated as of March 15, 2001, by and between the Commission, as lessor, and the Cabinet, as lessee (the "*Lease*").

The Bonds are dated March 15, 2001, are issued in fully registered form in the denomination of \$5,000 each and any integral multiple thereof, are lettered RA and numbered from 1 upwards, mature on August 1 of each of the years and in the amounts, and bear interest at the rates per annum, as follows:

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2001	\$9,465,000	4.00%	2009	\$15,980,000	5.25%
2002	7,635,000	4.00	2010	5,065,000	4.20
2003	1,805,000	3.50	2010	21,035,000	5.25
2003	6,165,000	5.00	2011	6,430,000	4.25
2004	3,000,000	3.50	2011	29,220,000	5.50
2004	7,170,000	5.00	2012	1,110,000	4.375
2005	685,000	3.62	2012	37,925,000	5.50
2005	9,990,000	5.00	2013	760,000	5.00
2006	840,000	3.75	2013	39,355,000	5.25
2006	10,385,000	5.25	2014	43,395,000	5.25
2007	1,380,000	3.87	2015	36,205,000	5.25
2007	13,475,000	5.25	2016	25,370,000	5.375
2008	680,000	4.00	2017	26,720,000	5.00
2008	9,425,000	5.25	2018	16,305,000	5.00
2009	3,320,000	4.10	2019	17,145,000	5.00
			2021	15,495,000	5.00

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

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

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

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

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

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

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission and the Cabinet relating to the application of the Bonds and the Prior Bonds and upon the report of The Arbitrage Group, Tuscaloosa, Alabama with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Project No. 69 Bonds, Series B

[Date of Delivery]

State Property and Buildings Commission
Frankfort, Kentucky

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "*Commission*"), authorizing the issuance by the Commission of its Revenue and Revenue Refunding Bonds, Project No. 69, Series B (the "*Bonds*") in the aggregate principal amount of \$22,870,000, issued for the purpose of providing funds (i) to refund certain outstanding bonds of the Commission (the "*Prior Bonds*") and (ii) to pay the costs of issuance of the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "*Cabinet*").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "*Act*"), H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session, and H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session (collectively, the "*Budget Act*"), and a resolution adopted by the Commission on March 19, 2001 (the "*Bond Resolution*"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "*Project*") have been leased to the Cabinet, pursuant to the Financing/Lease Agreement dated as of July 1, 1999, by and among the Kentucky Asset/Liability Commission, the Commission, as lessor, and the Cabinet, as lessee, as supplemented and amended by the First Supplemental Lease Agreement dated as of March 15, 2001, by and between the Commission, as lessor, and the Cabinet, as lessee (the "*Lease*").

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

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2003	\$8,785,000	5.000%	2007	\$1,605,000	5.500%
2004	1,860,000	5.000	2008	1,540,000	5.000
2005	1,945,000	5.000	2009	1,620,000	5.000
2006	2,035,000	4.000	2010	1,700,000	5.000
			2011	1,780,000	5.000

The Bonds are not subject to redemption prior to maturity.

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

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

Cabinet, enforceable against the Commission and the Cabinet in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

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

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

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission and the Cabinet relating to the application of the Bonds and the Prior Bonds and upon the report of The Arbitrage Group, Tuscaloosa, Alabama with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Project No. 69 Bonds, Series C

[Date of Delivery]

State Property and Buildings Commission
Frankfort, Kentucky

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "*Commission*"), authorizing the issuance by the Commission of its Revenue and Revenue Refunding Bonds, Project No. 69, Series C (the "*Bonds*") in the aggregate principal amount of \$27,030,000, issued for the purpose of providing funds (i) to refund certain outstanding bonds of the Commission (the "*Prior Bonds*") and (ii) to pay the costs of issuance of the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "*Cabinet*").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "*Act*"), H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session, and H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session (collectively, the "*Budget Act*"), and a resolution adopted by the Commission on March 19, 2001 (the "*Bond Resolution*"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "*Project*") have been leased to the Cabinet, pursuant to the Financing/Lease Agreement dated as of July 1, 1999, by and among the Kentucky Asset/Liability Commission, the Commission, as lessor, and the Cabinet, as lessee, as supplemented and amended by the First Supplemental Lease Agreement dated as of March 15, 2001, by and between the Commission, as lessor, and the Cabinet, as lessee (the "*Lease*").

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

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2002	\$ 365,000	5.000%	2005	\$5,340,000	5.000%
2003	4,860,000	5.000	2006	5,560,000	4.000
2004	5,090,000	5.000	2007	5,815,000	5.500

The Bonds are not subject to redemption prior to maturity.

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

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

extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

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

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

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission [and the Cabinet relating to the application of the Bonds and the Prior Bonds and upon the report of The Arbitrage Group, Tuscaloosa, Alabama with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Project No. 69 Bonds, Series D

[Date of Delivery]

State Property and Buildings Commission
Frankfort, Kentucky

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "*Commission*"), authorizing the issuance by the Commission of its Revenue and Revenue Refunding Bonds, Project No. 69, Series D (the "*Bonds*") in the aggregate principal amount of \$39,320,000, issued for the purpose of providing funds (i) to refund certain outstanding bonds of the Commission (the "*Prior Bonds*") and (ii) to pay the costs of issuance of the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "*Cabinet*").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "*Act*"), H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session, and H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session (collectively, the "*Budget Act*"), and a resolution adopted by the Commission on March 19, 2001 (the "*Bond Resolution*"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "*Project*") have been leased to the Cabinet, pursuant to the Financing/Lease Agreement dated as of July 1, 1999, by and among the Kentucky Asset/Liability Commission, the Commission, as lessor, and the Cabinet, as lessee, as supplemented and amended by the First Supplemental Lease Agreement dated as of March 15, 2001, by and between the Commission, as lessor, and the Cabinet, as lessee (the "*Lease*").

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

<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2005	\$ 9,930,000	5.500%	2009	\$1,050,000	5.500%
2006	10,520,000	5.500	2010	1,110,000	5.500
2007	11,145,000	5.500	2011	1,165,000	5.500
2008	3,165,000	5.500	2012	1,235,000	5.500

The Bonds are not subject to redemption prior to maturity.

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

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

extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

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

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

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission and the Cabinet relating to the application of the Bonds and the Prior Bonds and upon the report of The Arbitrage Group, Tuscaloosa, Alabama with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Project No. 70 Bonds

[Date of Delivery]

State Property and Buildings Commission
Frankfort, Kentucky

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "*Commission*"), authorizing the issuance by the Commission of its Agency Fund Revenue Bonds, Project No. 70 (the "*Bonds*") in the aggregate principal amount of \$10,620,000, issued for the purpose of providing funds (i) to finance and refinance certain projects, (ii) to refund certain outstanding notes issued by the Kentucky Asset/Liability Commission and to provide long-term financing for certain projects financed on an interim basis with such notes, and (iii) to pay the costs of issuance of the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "*Cabinet*").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "*Act*"), H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session, and H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session (collectively, the "*Budget Act*"), and a resolution adopted by the Commission on March 19, 2001 (the "*Bond Resolution*"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "*Project*") have been leased to the Cabinet, pursuant to the Financing/Lease Agreement dated as of March 9, 2000, by and among the Kentucky Asset/Liability Commission, the Commission, the Cabinet and the University of Kentucky (the "*Lease*").

The Bonds are dated March 15, 2001, are issued in fully registered form in the denomination of \$5,000 each and any integral multiple thereof, are lettered R and numbered from 1 upwards, mature on May 1 of each of the years and in the amounts, and bear interest at the rates per annum, as follows:

<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2002	\$340,000	4.000%	2012	\$520,000	4.375%
2003	370,000	3.500	2013	540,000	4.500
2004	380,000	3.500	2014	565,000	4.600
2005	395,000	3.625	2015	590,000	4.700
2006	410,000	3.750	2016	620,000	4.750
2007	425,000	3.875	2017	650,000	4.875
2008	440,000	4.000	2018	680,000	4.875
2009	460,000	4.100	2019	715,000	5.000
2010	480,000	4.200	2020	750,000	5.000
2011	500,000	4.250	2021	790,000	5.000

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

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

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

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

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

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

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission and the Cabinet relating to the application of the Bonds and the Prior Bonds. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

EXHIBIT F
FORM OF MUNICIPAL BOND INSURANCE POLICY

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[Insert Specimen Policy]