**Book-Entry Only** **Ratings: See "Ratings" herein**

**NEW ISSUE**

*Subject to compliance by the Commission, the Cabinet, the State Agencies 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.*

# $223,730,000
# COMMONWEALTH OF KENTUCKY
## State Property and Buildings Commission
## Revenue and Revenue Refunding Bonds, Project No. 72

**Dated: October 1, 2001** **Due: April 1 and October 1, as shown below**

The Revenue and Revenue Refunding Bonds, Project No. 72 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof and will bear interest payable on each April 1 and October 1, commencing on April 1, 2002. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by BNY Trust Company of Missouri, St. Louis, Missouri as Trustee and Paying Agent.

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

The Bonds mature on the dates, in the principal amounts, bear interest at the rates per annum and have the prices or yields as follows:

| Maturity | Principal Amount | Interest Rate | Price/ Yield | Maturity | Principal Amount | Interest Rate | Price/ Yield |
|---|---|---|---|---|---|---|---|
| April 1, 2002 | $ 2,210,000* | 3.000% | 2.150% | October 1, 2015 | $ 260,000 | 4.625% | 4.660% |
| October 1, 2002 | 15,590,000* | 4.000% | 2.180% | October 1, 2015 | 17,780,000 | 5.375% | 4.660%+ |
| October 1, 2003 | 1,225,000* | 3.000% | 2.550% | October 1, 2016 | 19,035,000 | 5.375% | 4.760%+ |
| October 1, 2011 | 2,740,000 | 4.125% | 4.210% | October 1, 2017 | 20,085,000 | 5.375% | 4.850%+ |
| October 1, 2011 | 4,260,000 | 5.375% | 4.210% | October 1, 2018 | 320,000 | 4.875% | 4.920% |
| October 1, 2012 | 885,000 | 4.250% | 4.340% | October 1, 2018 | 20,875,000 | 5.375% | 4.920%+ |
| October 1, 2012 | 14,485,000 | 5.375% | 4.340%+ | October 1, 2019 | 3,500,000 | 5.000% | 100% |
| October 1, 2013 | 180,000 | 4.375% | 4.450% | October 1, 2019 | 18,860,000 | 5.375% | 5.000%+ |
| October 1, 2013 | 16,035,000 | 5.375% | 4.450%+ | October 1, 2020 | 23,540,000 | 5.000% | 5.070% |
| October 1, 2014 | 1,415,000 | 4.500% | 4.580% | October 1, 2021 | 7,720,000 | 5.100% | 5.120% |
| October 1, 2014 | 15,685,000 | 5.375% | 4.580%+ | October 1, 2021 | 17,045,000 | 5.125% | 5.120%+ |

(plus accrued interest)

*Not insured.

+Priced to the call date.

The scheduled payment of principal of and interest on the Bonds maturing on and after October 1, 2011 (the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by MBIA Insurance Corporation.

[LOGO]

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Resolution adopted September 14, 2001 to (i) refund certain of the Commission's outstanding bonds (as described herein), (ii) pay costs of constructing, acquiring, installing and equipping the Project (as described and defined herein) and (iii) pay costs of issuing the Bonds.

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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about October 11, 2001, in New York, New York, through the facilities of DTC, against payment therefor.

## Morgan Stanley

**UBS PaineWebber Inc.**

| | | |
|---|---|---|
| **J.J.B. Hilliard, W.L. Lyons, Inc.** | **Morgan Keegan & Company, Inc.** | **NatCity Investments, Inc.** |
| **A.G. Edwards & Sons, Inc.** | **Ross, Sinclaire & Associates, Inc.** | **First Kentucky Securities Corp.** |
| **Bear, Stearns & Co. Inc.** | **Edward D. Jones & Co., L.P.** | **Merrill Lynch & Co.** |
| **Raymond James and Associates, Inc.** | | **Salomon Smith Barney** |

Dated: September 26, 2001.

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

Members

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

STEPHEN L. HENRY
Lieutenant Governor

A. B. CHANDLER III
Attorney General

T. KEVIN FLANERY
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

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

DANA B. MAYTON
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.

## TABLE OF CONTENTS

## 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 $223,730,000 Revenue and Revenue Refunding Bonds, Project No. 72 (the "Bonds").

**Authority** The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission (i) authorizing the issuance of the Bonds, (ii) approving the lease (the "Lease") dated as of October 1, 2001, between the Commission, as lessor and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee and (iii) approving Subleases dated as of October 1, 2001 (the "Subleases") between the Cabinet, as sublessor, and various state agencies described herein (the "State Agencies"), as sublessees.

**Use of Proceeds** The Bonds are being issued to provide funds with which to (i) refund certain of the Commission's outstanding bonds (as described herein), (ii) pay costs of constructing, acquiring, installing and equipping the Project (as described and defined herein) and (iii) pay costs of issuing the Bonds.

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

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

INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

| | |
|---|---|
| **Bond Insurance** | The scheduled payment of principal of and interest on the Bonds maturing on and after October 1, 2011 (the "Insured Bonds"), when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by MBIA Insurance Corporation. See the caption "BOND INSURANCE." |
| **Features of Bonds** | The Bonds are being offered in the authorized denominations of $5,000 or any integral multiple thereof, at the interest rates, yields and purchase prices set forth on the cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will bear interest payable on each April 1 and October 1, commencing on April 1, 2002. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by BNY Trust Company of Missouri, St. Louis, Missouri, as Trustee and Paying Agent (the "Trustee").<br><br>The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds maturing on or after October 1, 2012 are subject to optional redemption on or after October 1, 2011 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium. See "THE BONDS - Redemption Provisions". It is expected that delivery of the Bonds will be made on or about October 11, 2001, in New York, New York, against payment therefor. |
| **Tax Status** | Subject to compliance by the Commission, the Cabinet, the State Agencies 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 C. |
| **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, Morgan Stanley & Co. Incorporated, 1221 Avenue of the Americas, 30th Floor, New York, New York 10020, (212) 762-8183.

**OFFICIAL STATEMENT**
**Relating to**

**$223,730,000**
**COMMONWEALTH OF KENTUCKY**
**State Property and Buildings Commission**
**Revenue and Revenue Refunding Bonds, Project No. 72**

## 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 $223,730,000 Revenue and Revenue Refunding Bonds, Project No. 72 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refund 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 the Project (as hereinafter described and defined), (ii) pay costs of constructing, acquiring, installing and equipping the Project and (iii) pay costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE".

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

The Cabinet, as lessee, has entered into a Lease Agreement dated as of October 1, 2001, with the Commission, as lessor (the "Lease"), to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The initial term of the Lease ends June 30, 2002, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Cabinet, for each biennial period during which Bonds are outstanding, to seek legislative appropriations to the Cabinet in amounts which are sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Bonds. The Kentucky General Assembly has appropriated to the Cabinet and the State Agencies (as defined below) amounts sufficient to meet the rental payments under the Lease and the hereinafter described Subleases, and therefore to permit the Commission to meet the debt service requirements of the Bonds, through June 30, 2002.

In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project to the various state agencies described under "THE STATE AGENCIES" (the "State Agencies") under Subleases dated as of October 1, 2001 (the "Subleases"). The initial period of each Sublease ends June 30, 2002, and the Subleases renew automatically (unless terminated in writing by the last business day in the preceding April by the applicable State Agency) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. Each Sublease requires the applicable State Agency, for each biennial period of its Sublease, beginning July 1, 2002, to seek to have legislative appropriations made to the State Agency in amounts sufficient to permit the State Agency to make rental payments to the Cabinet. Under the Commonwealth's current budget process, appropriations to make payments under the Subleases which are included in the current budget will be made directly to the Cabinet in future biennial periods. If this process is continued, amounts sufficient to pay principal of and interest on all the Bonds will be appropriated to the Cabinet and the Subleases will terminate.

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

The scheduled payment of principal of and interest on the Bonds maturing on and after October 1, 2011 (the "Insured Bonds"), when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by MBIA Insurance Corporation. See the caption "BOND INSURANCE."

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Subleases, the Project, the State Agencies and the Cabinet are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

## THE BONDS

### General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of $5,000 or integral multiples thereof, will be dated October 1, 2001, and will bear interest payable on each April 1 and October 1, commencing April 1, 2002, at the interest rates set forth on the cover page of this Official Statement. BNY Trust Company of Missouri, St. Louis, Missouri is the trustee for the Bonds (the "Trustee").

### Book Entry Only System

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) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of § 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct 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, LLC, 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 Direct and Indirect 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 Direct and Indirect 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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any 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 Direct and Indirect 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.

Neither DTC nor Cede & Co. (nor such other DTC nominee) 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).

Redemption proceeds and distributions on the Bonds will be made to CEDE & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants accounts, upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. 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 redemption proceeds and distributions to CEDE & Co. (or such other nominee as may be requested by an authorized representative of 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered through its Participant, the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of the Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

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. The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

**Neither the Commission nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person not shown on the registration books of the Trustee as being a holder with respect to: (1) the Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the purchase price of tendered Bonds or the principal or interest on the Bonds; (4) the delivery by any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to holders; or (5) any consent given or other action taken by DTC as holder.**

In the event use of book-entry-system is discontinued, the Registered Owners of the Bonds may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The Commission cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner, or any other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

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

**Redemption Provisions**

*Optional Redemption*. The Bonds maturing on and after October 1, 2012 may be redeemed at the option of the Commission on any date on or after October 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 a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium.

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

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to The 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

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

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

The scheduled payment of principal of and interest on the Insured Bonds when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by MBIA Insurance Corporation. See the caption "BOND INSURANCE."

## BOND INSURANCE

### The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Exhibit D for a specimen of the Insurer's policy.

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

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

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

**The Insurer**

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

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and the Insurer set forth under the heading "Bond Insurance" and Exhibit D specimen. Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guaranty Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

**Information Regarding the Insurer**

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2000;

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001; and

(3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, and (3) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2000, the Insurer had admitted assets of $7.6 billion (audited), total liabilities of $5.2 billion (audited), and total capital and surplus of $2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2001, the Insurer had admitted assets of $8.1 billion (unaudited), total liabilities of $5.8 billion (unaudited), and total capital and surplus of $2.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

**Financial Strength Ratings of the Insurer**

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

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

Fitch, Inc. rates the financial strength of the Insurer "AAA".

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

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

## PLAN OF FINANCE

The proceeds of the Project No. 72 Bonds will be used by the Commission and the Cabinet to (i) refund the Prior Bonds described below, (ii) pay the cost of constructing, acquiring, installing and equipping the Project and (iii) pay the costs of issuance of the Bonds.

A portion of the proceeds of the Bonds will be used to refund the Prior Bonds, as listed below:

| Project No. | Date of Bond Issue | Maturities or Sinking Fund Installments Refunded | Principal Amount Refunded |
|---|---|---|---|
| 32 (Third Series) | December 1, 1990 | June 1, 2002 | $1,725,000 |
| 32 (Third Series) | December 1, 1990 | December 1, 2002 | 1,785,000 |
| 32 (Third Series) | December 1, 1990 | June 1, 2003 | 1,320,000 |
| 32 (Third Series) | December 1, 1990 | December 1, 2003 | 1,370,000 |
| 40 (Second Series) | June 1, 1991 | November 1, 2002 | 4,245,000 |
| 53 | November 1, 1991 | October 1, 2002 | 8,125,000 |

The proceeds of the Bonds required to refund the Prior Bonds will be deposited in separate and distinct escrow funds for each Series to be held by BNY Trust Company of Missouri, as Escrow Agent (the "Escrow Agent") under an Escrow Agreement (the "Escrow Agreement") dated as of October 1, 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.

The remaining proceeds of the 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 the Project. Amounts will be disbursed to pay the costs of construction, acquisition, installation and equipping of the Project as costs are incurred.

The Commission had outstanding bonds in the aggregate principal amount of $1,696,270,570.40 as of October 1, 2001. Upon the issuance of the Bonds, the Commission will have a total of $1,901,430,570.40 aggregate principal amount of bonds outstanding. The Commission has further committed to issue a series of bonds on a forward delivery basis as a part of the Commission's Project No. 69. The Project 69 Series D Bonds in the amount of $39,320,000 will be delivered on June 5, 2002, which will refund prior Commission bonds in the amount of $39,405,000.

## SOURCES AND USES OF FUNDS FOR THE BONDS

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

| | |
|---|---|
| **SOURCES OF FUNDS**: | |
| Par Amount of Bonds | $223,730,000 |
| Plus: Net Original Issue Premium | 7,854,157 |
| Accrued Interest | 319,510 |
| **TOTAL SOURCES** | $231,903,667 |
| | |
| **USES OF FUNDS**: | |
| Escrow Fund Deposit | $ 19,250,248 |
| Construction Fund Deposit | 210,442,000 |
| Costs of Issuance[1] | 751,465 |
| Bond Service Fund Deposit | 319,510 |
| Underwriters' Discount | 1,140,444 |
| **TOTAL USES** | $231,903,667 |

[1]Includes bond insurance premium.

## THE PROJECT

The Cabinet and the State Agencies will lease and sublease all of the facilities, renovations and improvements financed or refinanced with the proceeds of the Bonds from the Commission under the Lease and the Subleases (collectively, the "Project"). The State Agencies related to the Project are as follows:

Cabinet for Families and Children
Education, Arts and Humanities Cabinet
Finance and Administration Cabinet
Cabinet for Health Services
Justice Cabinet
Tourism Development Cabinet
Department for Military Affairs
Department for Local Government
Council on Postsecondary Education:
- Kentucky Community and Technical College System
- Murray State University
- Northern Kentucky University
- Western Kentucky University

A description of the projects being financed for each State Agency is included in Exhibit B.

## THE STATE PROPERTY AND BUILDINGS COMMISSION

### General

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

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease-rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Cabinet has applied to the Commission to issue the Bonds secured by revenues from the Lease and Subleases. The Resolution was adopted by the Commission on September 14, 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 FINANCE AND ADMINISTRATION CABINET

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

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

## THE STATE AGENCIES

### Education, Arts and Humanities Cabinet

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

Kentucky Educational Television signed on the air in September 1968 as Kentucky's statewide public broadcasting network. Today, KET is the largest PBS member network in America. KET's 16 transmitters and four translators deliver both the PBS national schedule and their own wide range of local arts, cultural, documentary, and public affairs productions to viewers throughout Kentucky and in parts of seven surrounding states. KET is a private/public partnership of individuals, organizations and corporate contributors.

The Kentucky Board of Education, as mandated by law, develops and adopts the regulations that govern Kentucky's 176 public school districts and the actions of the Kentucky Department of Education. Department officials follow board guidelines as they both lead and serve public elementary, middle and high schools.

**Cabinet for Families and Children**

The Cabinet for Families and Children provides human services for the citizens of Kentucky. The Cabinet's services include protection for vulnerable children and adults, child abuse investigations, foster care, adoptions, child support collections, cash assistance, food stamps, disability determination among other duties.

The Cabinet for Families and Children was created by Executive Order 95-79 (which also abolished the Cabinet for Human Resources) on December 28, 1995, and ratified by the 1996 General Assembly. The Office of Aging Services was transferred to the Cabinet for Health Services by Executive Order 99-80.

Executive Order 98-731, effective June 16, 1998, consolidated the field operations of the Departments for Social Insurance and Social Services into one department, the Department for Community Based Services.

The Department for Community Based Services, the Office of Administration Services, the Department of Disability Determinations, and the Office of Family Resources and Youth Services Centers form the Cabinet for Families and Children. General Funds which support the Office of Family Resources and Youth Services are appropriated to the Department of Education and transferred to the Cabinet.

**Finance and Administration Cabinet**

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

**Cabinet for Health Services**

The Cabinet for Health Services is the state government agency that administers programs to promote the mental and physical health of Kentuckians. The Cabinet was created by Executive Order 95-79 (which also abolished the Cabinet for Human Resources) on December 28, 1995, and is codified as KRS 194A. The Department for Medicaid Services, Department for Mental Health/Mental Retardation Services, Department for Public Health, Commission for Children with Special Health Care Needs, the Office of Certificate of Need, the Office of Aging Services, the Office of Program Support, the Office of the General Counsel, the Office of the Inspector General and the Office of the Secretary form the Cabinet for Health Services. These last four units are included in one appropriation unit called Administrative Support. The Office of Aging Services was transferred to the Cabinet for Health Services from the Cabinet for Families and Children by Executive Order 99-80.

The mission of the Department for Mental Health/Mental Retardation Services is to promote the well-being of all Kentuckians by assuring the provision of quality information, services and supports for individuals and their families through education, prevention, behavioral healthcare, monitoring and public planning in the areas of mental health, mental retardation/developmental disabilities, substance abuse, and traumatic brain injury.

## Justice Cabinet

The Justice Cabinet has overall responsibility for the criminal justice system of the Commonwealth, including all powers and duties formerly vested in the Department of Public Safety, the Kentucky Crime Commission and the Kentucky Law Enforcement Council. The Justice Cabinet is comprised of seven organizational units, each of which is under the exclusive direction and control of the Secretary of Justice: the Department of State Police, the Department of Criminal Justice Training, the Office of Administration, the Department of Corrections, the Department of Juvenile Justice, the Parole Board and the Kentucky State Corrections Commission.

*Department of Corrections*. Under a plan of reorganization adopted by the 1992 General Assembly, the Department of Corrections has replaced the former Corrections Cabinet and, as a department of the Justice Cabinet, exercises all functions of the State in relation to management of penal, reform, and correctional institutions; supervision of probation and parole; the giving of assistance to other departments, agencies and institutions of the state and federal government and the administration, enforcement and development of jail standards, training of jailers and jail personnel, and jail planning and construction. The Department of Corrections is responsible for administrating the Kentucky State Reformatory (KSR), the Kentucky Correctional Institution for Women (KCIW), the Kentucky State Penitentiary (KSP), Northpoint Training Center (NTC), the Luther Luckett Correctional Complex (LLCC), the Eastern Kentucky Correctional Complex (EKCC), the Western Kentucky Correctional Complex (WKCC), the Roederer Correctional Complex (RCC), Blackburn Correctional Facilities Complex (BCFC), and three private minimum security prisons or other correctional institutions which may be established.

*Department of Juvenile Justice*. The Kentucky Department of Juvenile Justice was established in 1996 with the passage of HB 117 by Kentucky's General Assembly. The Department includes two main divisions-Program Operations and Support Services. These main divisions are subdivided into smaller divisions and branches.

Program Operations includes the East Region Division, West Region Division, Central Region Division, Mental Health Services, and the Classification Branch. The three Regional Divisions provide oversight of the daily operations of Day Treatment Centers, Group Homes, Residential Facilities, Community Services (including the Juvenile Intensive Supervision Team program and the Juvenile Community Work Program), and state-operated Secure Juvenile Detention Facilities. The East Region Division also provides oversight of the Bluegrass Assessment Center and the Cadet Leadership and Education Program (C.L.E.P.). The Classification Branch coordinates and makes final decisions regarding the placement of all youth committed to the Department.

Support Services includes the Program Services Division, Administrative Services Division, Staff Development Division, and Health Services. Support Services also coordinates the Department's partnership with the National Guard for the operation of the Kentucky Youth challenge program.

## Tourism Development Cabinet

The Tourism Development Cabinet was established by KRS 148.522 to facilitate efficiency and improved administration by the Commonwealth in promoting the tourism industry in Kentucky. Estimates project tourism spending in excess of $8.8 billion annually, making tourism Kentucky's third-largest industry. The Tourism Development Cabinet administers 17 resort parks, 22 recreational parks and 10 historical sites. In addition, it includes the Kentucky Fair and Exposition Center, the Kentucky International Convention Center, the Kentucky Horse Park, the Department of Fish and Wildlife Resources and the Department of Travel. The tourism industry, Kentucky's second largest private employer, provides employment for approximately 163,000 Kentuckians. In addition, tourism related industries and businesses annually generate approximately $900 million of state and local tax revenue in the Commonwealth.

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

The Resort Parks program encourages tourism and economic development in Kentucky by providing excellent overnight accommodations, quality food service, and recreational activities for visitors at the 17 resort parks. In fiscal year 2000 the resort parks provided overnight accommodations for approximately 558,000 guests and served approximately 1.5 million meals.

The Recreation Parks and Historic Sites program encourages tourism and economic development in Kentucky by providing modern recreational and camping facilities and preserving significant scenic and historic landmarks, as well as operating museums and shrines. In fiscal year 2000, the camping areas attracted approximately 630,000 visitors and museum visitation approached 192,000.

**Department for Military Affairs**

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

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

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

**Department for Local Government**

The Department for Local Government is an independent agency attached to the Office of the Governor. The functions of the Department include: acting as the technical support and service agency of state government for local government units of the Commonwealth; serving as a clearinghouse for data, information and assistance useful or necessary to local governmental units; and assisting the Governor in coordinating activities having an impact upon the solution of local governmental problems. The Department is comprised of the Commissioner's Office and four divisions: Financial Services, Community Development, Local Resources, and Support Services.

The Division of Community Development administers the federally-funded community development block grant program as well as the Renaissance Kentucky program. These programs are geared to enhance the quality of life of all Kentucky communities by working through and with city and county governments.

**Council on Postsecondary Education**

The Council on Postsecondary Education ("CPE"), created and governed by the provisions of KRS 164.011, is an agency, instrumentality and political subdivision of the Commonwealth. It is composed of the Commissioner of Education, a faculty member, a student member and 13 citizen members appointed by the Governor. Its work involves coordinating the change and improvement of Kentucky postsecondary education. It is responsible for general planning and oversight of a system that includes the eight universities of the Commonwealth and the Kentucky Community and Technical College System. Further information may be obtained over the Internet from the CPE website, http://www.cpe.state.ky.us.

**Postsecondary Education Institutions**

*Kentucky Community and Technical College System.* The Kentucky Community and Technical College System ("KCTCS") was created by the Postsecondary Education Improvement Act of 1997. KCTCS blends two education systems with long histories of service to Kentucky: 13 community colleges and 15 technical colleges. In this powerful new alliance, KCTCS provides accessible and affordable education and training through academic and technical associate degrees; diploma and certificate programs in occupational fields; pre-baccalaureate education; adult, continuing and developmental education; customized training for business and industry; and distance learning opportunities.

The colleges also sponsor an array of fine-arts programs that enrich their communities. KCTCS institutions offer federal financial aid. The community colleges are accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The technical colleges are accredited by the Council on Occupational Education. Credits from KCTCS institutions transfer within the system and to four-year universities. All coursework taken within the general education block leading to the associate in arts or associate in science degree can be transferred to all public universities in Kentucky.

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

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

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

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

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

*Northern Kentucky University*. Northern Kentucky University ("NKU"), the newest of Kentucky's eight state universities, was founded in 1968. However, the roots of Northern can be traced back another twenty years. In 1948, a two-year Extension Center of the University of Kentucky was located in Covington, Kentucky. Then, as Northern Community College, the Center moved to the Park Hills area of Covington in 1962. Six years later the General Assembly of Kentucky authorized the creation of a four-year college, Northern Kentucky State College. A board of regents and a consultant were appointed by the Governor to assist in planning the new school.

In September 1970, Northern Kentucky State College began offering courses for students pursuing a bachelor's degree. Also, technical and semi-professional two-year programs leading to the degree of Associate of Applied Science were offered in accounting technology, nursing, and professional secretaryship. In 1971, third-year courses were added to the curriculum with the degrees of Bachelor of Arts and Bachelor of Science being initiated in business, education, and most of the basic arts and sciences. Also in 1971, the Salmon P. Chase College of Law, formerly an independent law school in Cincinnati, merged with Northern Kentucky State College.

Graduate programs were initiated in education in 1975; in business administration in 1979; in public administration in 1989; and in nursing in 1992; and in accountancy in 1998. The Graduate Center was established on the NKU campus in 1977 to administer graduate programs; programs in social work, library science, nursing, public affairs, and community nutrition are available through the center.

The first building on the new campus in Highland Heights was completed in time for fall semester in 1972. In addition to the opening of Louis B. Nunn Hall, the University added fourth-year courses to the curriculum in 1972. The first bachelor's degrees were awarded in May 1973, and course offerings have been continually expanded to meet the needs of a growing student body. On February 25, 1976, Governor Julian Carroll signed House Bill 180, making Northern Kentucky State College a university. Full status was recognized on June 19, 1976. Major construction of the campus began in 1972 and continues today to accommodate a growing enrollment that now is about 12,000 students.

NKU serves the citizens of northern Kentucky with a particular focus on the metropolitan area contiguous to greater Cincinnati. Student residential services are provided.

NKU offers students a broad range of educational programs emphasizing traditional collegiate and liberal studies. Recognizing the needs of its region, NKU's primary mission is to provide instruction at the associate and bachelor's degree levels.

NKU offers selected master's degree programs, approved by the Council on Post-Secondary Education, and the degree of Juris Doctor through Chase College of Law.

A metropolitan university, NKU takes advantage of its close proximity to other higher education and post-secondary institutions through reciprocity agreements with the University of Cincinnati and Cincinnati State Technical and Community College. NKU serves Indiana students through a contract agreement with the State of Indiana. NKU also provides applied research, service, and continuing education programs related to the needs of the region.

The proximity of NKU to urban area provides unusual potential for growth. It is not only situated within the Greater Cincinnati metropolitan community, but also within 50 miles of 350,000 Kentuckians. NKU's headcount enrollment has been stable over the last nine years in the range of 11,260 to 12,024 after a period of substantial growth.

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

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

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

## 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, and consumer appliances. 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
100 Business Park Drive
Skillman, New Jersey 08558
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: nrmsir_repository@sandp.com
Tel: (212) 770-4595
Fax: (212) 770-7994

(iv) FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Internet: nrmsir@ftid.com
Tel: (212) 771-6899
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
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" herein. 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)**

General Fund receipts for Fiscal Year 2001 totaled $6,653.9 million, an increase of 2.7 percent over Fiscal Year 2000. The major sources of General Fund revenue are personal income and sales and use taxes, which represent approximately 42 percent and 34 percent of the total receipts, respectively.

Individual income tax receipts increased 2.8 percent, or $76.9 million over Fiscal Year 2000. Sales and use tax receipts grew 3.5 percent or $77.1 million versus the prior fiscal year. The sales and use tax grew at the slowest rate in 10 years due to expanded exemptions, remote commerce and general economic conditions. General Fund revenue projections were revised downward in March and June of this year to reflect the slowdown in economic growth nationally and in Kentucky. Fiscal Year 2001 revenues were $159.2 million below or 2.3 percent of the original Consensus Forecasting Group revenue estimate.

The Governor, in order to balance the Fiscal Year 2001 budget, made two transfers from the Budget Reserve Trust Fund (the "Trust Fund"). The first transfer in the amount of $21.46 million occurred on April 4, 2001. The second transfer in the amount of $17.3 million occurred on June 22, 2001 for a total reduction in the Trust Fund balance of $38.79 million. The Trust Fund balance after the withdrawals was $240,014,383. The transfers from the Trust Fund were the first withdrawals from the fund since it became a statutory fund in November 1995.

**Fiscal Year 2002 (unaudited)**

The Consensus Forecasting Group (the "Group") revised the official estimate of General Fund receipts for Fiscal Year 2002 on June 14, 2001 from $7.29 billion to approximately $7 billion, a reduction of approximately $290 million. In order to effect a balanced budget, the Governor, State Budget Director, and Secretary of the Finance and Administration Cabinet issued General Fund Budget Reduction Order 02-01 (the "Order") on September 7, 2001. The Order made reductions in budgeted amounts for most governmental agencies with the exception of scheduled Support Education Excellence in Kentucky ("SEEK") payments for education, Medicaid and postsecondary education institutions. The majority of the reductions are generated from three sources, $120 million from the Budget Reserve Trust Fund, $50 million of excess SEEK funds above the amount needed to meet FY 2002 targeted spending levels and $26 million in unutilized Agency Funds will be transferred to the General Fund. The $120 million withdrawal from the Budget Reserve Trust Fund represents 50 percent of the available balance and is the maximum amount permitted by House Bill 502. Amounts above the 50 percent statutory threshold may be accessed only with the approval of the General Assembly. The remaining amounts identified in the Order represent unexpended appropriations carried forward from Fiscal Year 2001 and amounts deemed available from current year budgets.

The Commonwealth has reported General Fund revenue through August 31, 2001 with $926.3 million collected versus $926.2 million for the same period last year. Revenue growth year-over-year is flat and in order to meet the current fiscal year official estimate, revenues must grow by 4.1 percent for the remainder of the fiscal year to meet the revised 3.5 percent growth estimate. Sales tax receipts grew 4.4 percent versus last fiscal year, but individual income tax receipts lag prior year performance declining 1.4 percent in Fiscal Year 2002. Kentucky, like many parts of the nation continues to experience only marginal growth supported primarily by consumer spending. The official revenue estimates will be reviewed as part of the budget preparation cycle and the Group will publish its views on October 15, 2001.

**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 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 June 30, 2001, 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 (17%);

securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (42%); repurchase agreements collateralized by the aforementioned (12%); municipal securities (4%); and corporate and asset backed securities, including money market securities (25%). The portfolio had a current yield of 4.69% and a modified duration of 1.5 years. Investment income through June 30, 2001 was $316 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 supranatural governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset backed securities rated in the highest category by a nationally recognized rating agency.

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

## SUMMARIES OF THE PRINCIPAL DOCUMENTS

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

### The Resolution

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

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

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

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

terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Fund.

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

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

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

(a) Default in the due and punctual payment of the interest on any Bond;

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

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

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

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

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

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

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

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

In addition to the foregoing, the Commission and the Trustee may, without regard to the provisions set forth above, make any amendment or change to the Resolution (i) to cure any formal defect or ambiguity, if in the opinion of the Trustee such amendment or change is not adverse to the interest of the Holders of the Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect, (iii) to permit the Trustee to comply with any obligations imposed on it by law, (iv) to achieve compliance of the Resolution with any federal tax law, (v) to maintain or improve any rating on the Bonds, or (vi) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

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

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

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

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

As used herein, "Defeasance Obligations" means:

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

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

Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (1) which are rated, based on the escrow, in the highest rating category of Standard and Poor's Ratings Services, a Division of The McGraw Hill Companies Inc. and Moody's Investors Service or any successors thereto; or (2) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraph (a) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

### The Lease and Subleases

The Commission and the Cabinet have entered into the Lease whereby the Cabinet will lease the Project from the Commission and will pay rentals to the Commission during biennial renewal terms which will provide funds, together with amounts required to be paid under the Subleases, sufficient to pay the amounts due on the Bonds.

The Lease and the Subleases have an initial term ending June 30, 2002. The Commission has granted the Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year and the Subleases have corresponding renewal provisions. The last renewal term for the Lease and Subleases relating to the Bonds ends June 30, 2022, the final maturity date permissible for any Bonds to be issued by the Commission for the Project. Under the provisions of the Constitution of the Commonwealth, the Commission, the Cabinet and the State Agencies are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease and Subleases provide that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Cabinet or State Agencies, respectively, to not so renew is given to the Commission by the last business day of May (or April under the Subleases) prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Cabinet and State Agencies are 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 the Project in a manner inconsistent with law.

The Cabinet and State Agencies have covenanted and agreed in the Lease and Subleases that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth, they will cause to be included in the appropriations proposed for that biennial period to be made for the Cabinet and the State Agencies sufficient amounts (over and above all other requirements of the Cabinet and the State Agencies) to enable the Cabinet and the State Agencies to make rental payments under the Lease and Subleases and thereby produce income and revenues to the Commission to permit timely payment of the Bonds as the same become due during such period. If appropriations relating to payments under the Subleases are made directly to the Cabinet in future biennial periods so that amounts sufficient to pay principal and interest on all the Bonds are appropriated to the Cabinet, the Subleases will terminate.

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

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

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

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

## RATINGS

Moody's Investors Service, Inc. ("Moody's") has given the Insured Bonds the rating of "Aaa", Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") has given the Insured Bonds the rating of "AAA" and Fitch, Inc. ("Fitch") has given the Insured Bonds the rating of "AAA" with the understanding that upon delivery of the Insured Bonds, a policy insuring the payment when due of the principal of and interest on the Insured Bonds will be issued by MBIA Insurance Corporation.

Moody's, S&P and Fitch have assigned their municipal bond ratings of "Aa3," "AA-" and "AA-", respectively, to the Bonds which are not Insured Bonds, which ratings are also underlying ratings for the Insured Bonds.

Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the ratings 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 ratings given by S&P may be obtained from Standard & Poor's Rating Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the ratings 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 Bonds are subject to the approving legal opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as Exhibit C.

## LITIGATION

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

## TAX EXEMPTION

### 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 Agencies, 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 Agencies 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 Agencies with respect to certain material facts solely within the knowledge of the Commission, the Cabinet and the State Agencies 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 Grant Thornton LLC, Minneapolis, Minnesota. 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 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 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 Agencies 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

Grant Thornton LLC, Minneapolis, Minnesota (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 Morgan Stanley & Co. Incorporated as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The

Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of $230,443,713 (which is equal to the principal amount of the Bonds plus net original issue premium of $7,854,157 and less underwriting discount of $1,140,444) plus accrued interest from the dated date of the Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering prices or yields set forth on the cover page hereof, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

## CONTINUING DISCLOSURE AGREEMENT

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

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

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

**EXHIBIT A**

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

**COMMONWEALTH DEBT MANAGEMENT**

## Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I 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 bonds and notes are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenues are not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases, the direct revenues generated from the project funded constitute the entire source of payment.

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and do not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by 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

## THE PROJECT

| State Agency | Project Description | Authorized Amount* |
|---|---|---|
| **Justice Cabinet** | | |
| Department of Corrections | Blackburn Correction Complex - Roof Replacement | $ 1,400,000 |
| | Kentucky State Reformatory - New Gas Boiler Plant | 7,000,000 |
| | New Medium Security Prison/Design/Build - Elliott County | 87,408,000 |
| | Western Kentucky Correctional Complex – 44 Bed Segregation Unit | 4,300,000 |
| Department of Juvenile Justice | Combined Residential/Detention Facility - Hardin County | 11,211,000 |
| **Cabinet for Families and Children** | | |
| Administration Services | Children's Advocacy Centers | 640,000 |
| **Council on Postsecondary Education** | | |
| Kentucky Community and Technical College System (KCTCS) | Elizabethtown CC - Science Building Renovation | 2,200,000 |
| | Mayo Technical College - Campus Renovation | 7,582,000 |
| | Southeast CC Newman Hall Renovation | 2,000,000 |
| Northern Kentucky University | New Power Plant | 12,000,000 |
| Murray State University | New Science Building | 13,000,000 |
| Western Kentucky University | Science Complex Renovation and Expansion | 15,000,000 |
| **Education, Arts and Humanities Cabinet** | | |
| Kentucky Educational Television | NTSC Transmitters | 2,800,000 |
| Department of Education | Kentucky School for the Blind Roofing and Weatherproofing | 1,122,000 |
| | Kentucky School for the Deaf Fire Safety/Dorm Renovation | 1,250,000 |
| | Kentucky School for the Deaf Roof Replacement | 850,000 |
| **Finance and Administration Cabinet** | | |
| Department for Facilities Management | Kentucky History Center Area Restoration | 4,000,000 |
| | Statewide Property Acquisition/Demolition Fund | 5,000,000 |
| | Sprinkler Recall/Replacement | 1,500,000 |
| | Kentucky State Capitol Complex – Historic Restoration Design Infrastructure | 12,678,000 |
| | Kentucky State Capitol Complex - Historic Restoration Design Infrastructure | 6,447,000 |
| **Cabinet for Health Services** | | |
| Department for Mental Health/Mental Retardation Services | Miscellaneous Roof Replacement/Repair Pool | 500,000 |
| | New Power Plant - Western State Hospital | 3,880,000 |
| **Department for Military Affairs** | Environmental Pool | 174,000 |
| **Department for Local Government** | Renaissance Kentucky Program | 6,000,000 |
| **Tourism Development Cabinet** | | |
| Department of Parks | Fort Boonesborough - Park Improvements | 500,000 |
| **TOTAL** | | $210,442,000 |

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*Excludes allocable costs of issuance

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**EXHIBIT C**

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

[Date of Delivery]

Commonwealth of Kentucky
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. 72 (the *"Bonds"*) in the aggregate principal amount of $223,730,000, issued for the purpose of providing funds (i) to finance certain projects, (ii) to refund certain outstanding bonds of the Commission (the *"Prior Bonds"*) 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 Statues,* as supplemented and amended (the *"Act"*), H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session (the *"Budget Act"*), and a resolution adopted by the Commission on September 14, 2001 (the *"Bond Resolution"*). The projects to be financed with the proceeds of the Bonds (collectively, the *"Project"*) have been leased to the Cabinet, pursuant to the Lease dated as of October 1, 2001, by and between the Commission, as lessor, and the Cabinet, as lessee (the *"Lease"*).

The Bonds are dated October 1, 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 the dates and in the amounts, and bear interest at the rates per annum, as follows:

| MATURITY DATE | PRINCIPAL AMOUNT | INTEREST RATE | MATURITY DATE | PRINCIPAL AMOUNT | INTEREST RATE |
|---|---|---|---|---|---|
| April 1, 2002 | $ 2,210,000 | 3.000% | October 1, 2015 | $ 260,000 | 4.625% |
| October 1, 2002 | 15,590,000 | 4.000% | October 1, 2015 | 17,780,000 | 5.375% |
| October 1, 2003 | 1,225,000 | 3.000% | October 1, 2016 | 19,035,000 | 5.375% |
| October 1, 2011 | 2,740,000 | 4.125% | October 1, 2017 | 20,085,000 | 5.375% |
| October 1, 2011 | 4,260,000 | 5.375% | October 1, 2018 | 320,000 | 4.875% |
| October 1, 2012 | 885,000 | 4.250% | October 1, 2018 | 20,875,000 | 5.375% |
| October 1, 2012 | 14,485,000 | 5.375% | October 1, 2019 | 3,500,000 | 5.000% |
| October 1, 2013 | 180,000 | 4.375% | October 1, 2019 | 18,860,000 | 5.375% |
| October 1, 2013 | 16,035,000 | 5.375% | October 1, 2020 | 23,540,000 | 5.000% |
| October 1, 2014 | 1,415,000 | 4.500% | October 1, 2021 | 7,720,000 | 5.100% |
| October 1, 2014 | 15,685,000 | 5.375% | October 1, 2021 | 17,045,000 | 5.125% |

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 issuance 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, the Cabinet and certain state agencies 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, the Cabinet and certain other state agencies with respect to certain material facts solely within the respective knowledge of the Commission, the Cabinet and said state agencies relating to the application of the Bonds and the Prior Bonds and upon the report of Grant Thornton LLC, Minneapolis, Minnesota, 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 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.

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# EXHIBIT D

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