

Book-Entry Only

Ratings: See "RATINGS" herein

**NEW ISSUE**

*Interest on the Bonds IS NOT EXCLUDED from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). In the opinion of Bond Counsel, under the existing constitution and laws of the Commonwealth of Kentucky, interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX MATTERS" herein.*

**\$151,225,000**  
**COMMONWEALTH OF KENTUCKY**  
**State Property and Buildings Commission**  
**Revenue Bonds, Project No. 78 (Taxable)**

**Dated: Date of Delivery**

**Due: As shown below**

The \$151,225,000 Revenue Bonds, Project No. 78 (Taxable) (the "Bonds") will be issued by the State Property and Buildings Commission (the "Commission") pursuant to a Resolution adopted by the Commission on August 18, 2003 (the "Resolution") 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. J.P. Morgan Trust Company, National Association, Louisville, Kentucky, is acting as Trustee and Paying Agent with respect to the Bonds. 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, 2004.

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:

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2004	\$10,375,000	1.38%	100%	2011	\$13,030,000	4.58%	100%
2005	10,550,000	1.99	100	2012	13,655,000	4.80	100
2006	10,795,000	2.65	100	2013	14,335,000	4.94	100
2007	11,120,000	3.22	100	2014	15,065,000	5.02	100
2008	11,510,000	3.64	100	2015	15,850,000	5.10	100
2009	11,955,000	3.96	100	2016	525,000	5.14	100
2010	12,460,000	4.32	100				

The Bonds are not subject to redemption prior to maturity.

The Bonds are being issued by the Commission, an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth pursuant to the Resolution to (i) pay costs of funding the Project (as described and defined herein under the caption "THE PROJECT") and (ii) 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 THE BIENNIALLY RENEWABLE LEASE AND SUBLEASES (ALL 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. SEE "SECURITY FOR THE BONDS" HEREIN.

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



The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Wyatt, Tarrant & Combs, LLP, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Frost Brown Todd LLC. It is expected that delivery of the Bonds will be made on or about October 9, 2003, in New York, New York, through the facilities of DTC, against payment therefor.

**Citigroup**

**Morgan Stanley**  
**J.J.B. Hilliard, W.L. Lyons, Inc.**  
**Ross, Sinclair & Associates, Inc.**  
**Edward D. Jones & Co., L.P.**

**Morgan Keegan & Company, Inc.**  
**First Kentucky Securities Corp.**  
**Merrill Lynch & Co.**

**UBS Financial Services Inc.**  
**A.G. Edwards & Sons, Inc.**  
**Banc One Capital Markets, Inc.**  
**NatCity Investments, Inc.**

Dated: September 24, 2003

**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

GORDON C. DUKE  
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

GEORGE R. BURGESS, 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.

This Official Statement is "deemed final" by the Commission as of its date for purposes of Rule 15c2-12(b)(1) of the Securities and Exchange Commission. This Official Statement has been prepared in connection with the original offering for sale of the Bonds.

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## SUMMARY

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

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

**The Offering** The Commission is offering its \$151,225,000 Revenue Bonds, Project No. 78 (Taxable) (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 on August 18, 2003 (i) authorizing the issuance of the Bonds, (ii) approving the Lease Agreement dated as of October 1, 2003 (the "Lease"), between the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee, and (iii) approving certain Subleases dated as of October 1, 2003 (the "Subleases") between the Cabinet, as sublessor, and various state agencies described herein, as sublessees (the "Sublessees").

**Use of Proceeds** The Bonds are being issued to provide funds with which to (i) pay costs of funding the Project (as described and defined herein under the caption "THE PROJECT") and (ii) pay costs of issuing the Bonds.

**Security** The Bonds and the interest thereon are payable solely from Pledged Receipts, which include, among other things, the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Lease and by the Sublessees under the Subleases. See "SECURITY FOR THE BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Lease and Subleases" herein. 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 TO THE CABINET BY THE SUBLESSEES UNDER THE BIENNIALLY RENEWABLE SUBLEASES, 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, when due, will be guaranteed under a financial guarantee insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" herein.

<b>Features of Bonds</b>	<p>The Bonds are being offered in the authorized denominations of \$5,000 and integral multiples thereof at the interest rates and yields set forth on the cover hereof. The Bonds, when issued, will be registered in the name of Cede &amp; 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 bear interest payable on each April 1 and October 1, commencing on April 1, 2004. Principal of and interest on the Bonds will be paid directly to DTC by J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee").</p> <p>The Bonds are issuable only as fully registered Bonds, without coupons. It is expected that delivery of the Bonds will be made on or about October 9, 2003, in New York, New York, against payment therefor.</p>
<b>Redemption of Bonds</b>	<p>The Bonds are not subject to redemption prior to maturity.</p>
<b>Tax Status</b>	<p><b>Interest on the Bonds IS NOT EXCLUDED from gross income of the holders thereof for federal income tax purposes under Section 103 of the Code and accordingly Bond Counsel will render no opinion regarding the federal tax treatment of the interest on the Bonds.</b> Under the existing constitution and laws of the Commonwealth of Kentucky, interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth and all of its political subdivisions and taxing authorities. See "TAX MATTERS" herein and EXHIBIT D.</p>
<b>Continuing Disclosure</b>	<p>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.</p>
<b>General</b>	<p>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.</p>
<b>Information</b>	<p>Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601, Telephone: (502) 564-2924, or, during the initial offering period, by contacting the Underwriter, Citigroup Global Markets Inc., 390 Greenwich Street, 2<sup>nd</sup> Floor, New York, New York 10013, Telephone: (212) 723-7093.</p>



## **OFFICIAL STATEMENT**

**Relating to**

**\$151,225,000**

**COMMONWEALTH OF KENTUCKY  
State Property and Buildings Commission  
Revenue Bonds, Project No. 78 (Taxable)**

### **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 \$151,225,000 Revenue Bonds, Project No. 78 (Taxable) issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) pay costs of funding the Project (as described and defined herein under the caption "THE PROJECT") and (ii) 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 adopted a Resolution (the "Resolution") on August 18, 2003 authorizing the issuance of the Bonds. J.P. Morgan Trust Company, National Association, Louisville, Kentucky, acts as trustee (the "Trustee") and bond registrar with respect to the Bonds pursuant to the Resolution.

The Cabinet has entered into a Lease Agreement dated as of October 1, 2003 (the "Lease") with the Commission 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 on June 30, 2004, 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 Sublessees (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, 2004.

Portions of the Project will be used by various state agencies described under "THE STATE AGENCIES". In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project under Subleases dated as of October 1, 2003 (the "Subleases") to the following state agencies: the Cabinet for Economic Development and the Council on Postsecondary Education (collectively, the "Sublessees"). The initial period of each Sublease ends June 30, 2004, and the Subleases renew automatically (unless terminated in writing by the last business day in the preceding April by the applicable Sublessee) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. Each Sublease requires the applicable Sublessee, for each biennial period of its Sublease, beginning July 1, 2004, to seek to have legislative appropriations made to the Sublessee in amounts sufficient to permit the Sublessee 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 SUBLESSEE NOR IS THE CABINET UNDER ANY OBLIGATION TO RENEW THE LEASE NOR IS ANY SUBLESSEE UNDER ANY OBLIGATION TO RENEW ITS SUBLEASE. THE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND THE 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, when due, will be guaranteed under a financial guarantee insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" herein.

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Subleases, the Project and the Cabinet are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (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 the date of their delivery, and will bear interest payable on each April 1 and October 1, commencing April 1, 2004, at the interest rates set forth on the cover page of this Official Statement. All computations of interest on the Bonds will be based on a 360-day year of twelve 30-day months.

### **Book Entry Only System**

The Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution and Series Resolution. For additional information about DTC and the book-entry only system see "EXHIBIT C - Book Entry Only System."

### **Redemption of the Bonds**

The Bonds are not subject to redemption prior to maturity.

## **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 Pledged Receipts (hereinafter defined). See "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The Kentucky General Assembly has appropriated to the Cabinet and the Sublessees 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, 2004.

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 proceeds of the Bonds, except for issuance costs, will be deposited in various accounts of the Construction Fund established by the Commonwealth and will be used to fund the Project. See "THE PROJECT" herein and EXHIBIT B for information on the Project.

The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under an insurance policy on the Bonds to be issued concurrently with the delivery of the Bonds by the Bond Insurer. See "BOND INSURANCE" and EXHIBIT E.

## **BOND INSURANCE**

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

### **The Bond Insurance Policy**

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 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 MBIA'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 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").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA'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 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 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 MBIA from the Paying Agent 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, MBIA 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 U.S. Bank Trust National Association, 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 Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

## **The Bond Insurer**

MBIA Insurance Corporation ("MBIA") 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 MBIA. MBIA 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. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one 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 MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA 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 MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee 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 Bond 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, 2002; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.

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 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, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, 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, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2003 MBIA had admitted assets of \$9.5 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

## Financial Strength Ratings of the Bond Insurer

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

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

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA 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 Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

## PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Cabinet to (i) pay costs of funding the Project (as described and defined herein under the caption "THE PROJECT") and (ii) pay costs of issuing the Bonds. See "THE PROJECT" and EXHIBIT B herein.

The Commission had outstanding bonds in the aggregate principal amount of \$1,943,199,490.55 as of September 2, 2003. The Commission's Revenue Bonds, Project No. 79 in the amount of \$145,290,000 (the "Project No. 79 Bonds") have been issued simultaneously with the delivery of the Bonds. Upon the issuance of the Bonds and the Project No. 79 Bonds, the Commission will have a total of \$2,239,714,490.55 aggregate principal amount of bonds outstanding.

## SOURCES AND USES OF FUNDS FOR THE BONDS

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

### SOURCES OF FUNDS:

Par Amount of Bonds	\$151,225,000.00
Plus/Less: Net Original Issue Premium/Discount	<u>0.00</u>
<b>TOTAL SOURCES</b>	<b>\$151,225,000.00</b>

### USES OF FUNDS:

Deposit to Construction Fund	\$150,000,000.00
Costs of Issuance*	<u>1,225,000.00</u>
<b>TOTAL USES</b>	<b>\$151,225,000.00</b>

\* Includes underwriters' discount and fees of the trustee and counsel and other costs of issuance including costs of bond insurance.

## **THE PROJECT**

The Project (the "Project") consists of (i) a loan pool for the Kentucky Economic Development Finance Authority, which loan pool will be used to provide loans and/or grants to new and existing companies in Kentucky, (ii) a program combining public moneys and private donations to encourage research at state universities (the Research Challenge Trust Fund Endowment) and (iii) a program combining public moneys and private donations to strengthen programs at state universities (the Regional University Excellence Trust Fund). The Cabinet and the Sublessees will lease and sublease the Project financed with the proceeds of the Bonds from the Commission under the Lease and Subleases. The state agencies originally related to the Project are the Cabinet for Economic Development and the Council on Postsecondary Education. Further information on the Project is included in EXHIBIT B.

## **THE STATE PROPERTY AND BUILDINGS COMMISSION**

### **General**

The Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission), the Secretary of the Cabinet for Economic Development and the Secretary of the Revenue Cabinet. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission and the Executive Director of the 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 August 18, 2003, authorizing the issuance of the Bonds.

### **Future Financings**

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in the budget for the current biennium or in future budgets. The 2003 Kentucky General Assembly authorized debt financing totaling \$835,188,380 to support various capital initiatives of the Commonwealth. Of the total authorization, \$628,188,380 is General Fund supported and \$207,000,000 is Agency Restricted Fund supported. This authorization is in addition to the authority to issue refunding bonds to refund outstanding issues. Upon delivery of the Bonds and the Project No. 79 Bonds, the Commission does not expect to issue any additional bonds during the current biennium that are General Fund supported other than potentially issuing refunding bonds to refund outstanding issues. It is anticipated that all authorized Agency Restricted Fund supported bonds will be issued by one of the various debt issuing entities of the Commonwealth, and possibly by the Commission, by June 30, 2004.

## **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**

### **Cabinet for Economic Development**

The 1992 General Assembly created the Kentucky Economic Development Partnership, a board governing the Cabinet for Economic Development. The Partnership consists of eleven voting members and the Secretary of the Cabinet for Economic Development and the Secretary of the Tourism Development Cabinet who serve as non-voting members. The Governor serves as Chairman.

The Cabinet for Economic Development promotes and facilitates increased economic development in the Commonwealth. This development is aimed toward increasing the standard of living and improving the opportunities of all Kentucky citizens. The Cabinet for Economic Development works to encourage new business to locate in Kentucky, to assist business in the Commonwealth to expand, to increase outside investment and spending in the Commonwealth, to promote Kentucky products and resources and to upgrade the quality and quantity of services provided by Kentucky communities.

The Kentucky Economic Development Finance Authority ("KEDFA") was established within the Cabinet for Economic Development to encourage economic development, business expansion and job creation, by providing financial support through an array of financial assistance and tax credit programs.

### **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.

The CPE oversees the Endowment Match Program which encourages private investment in public higher education research activities to stimulate business development, generate increases in externally sponsored research, create better jobs and a higher standard of living, and facilitate Kentucky's transition to a knowledge-based economy. The program matches public money with private gifts to fund endowed chairs, professorships, fellowships, scholarships, and mission support at the public universities and to encourage research at the University of Kentucky and the University of Louisville.

## **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, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to 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 2002 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2002 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12;

- (i) Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, New Jersey 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
Email: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)
- (ii) DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
Email: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)
- (iii) FT Interactive Data  
Attn: NRMSIR  
100 William Street  
New York, New York 10038  
Phone: (212) 771-6999  
Fax: (212) 771-7390 (Secondary Market Information)  
(212) 771-7391 (Primary Market Information)  
Email: [NRMSIR@ftid.com](mailto:NRMSIR@ftid.com)



- (iv) Standard & Poor's J.J. Kenny Repository  
55 Water Street, 45th Floor  
New York, New York 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
Email: [nrmsir\\_respository@sandp.com](mailto:nrmsir_respository@sandp.com)

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2002 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 2002 and certain prior Fiscal Years 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 2002**

During Fiscal Year 2002, the Commonwealth of Kentucky implemented several new accounting standards issued by the Governmental Accounting Standards Board, including Statement No. 33, No. 34, No. 35, No. 36, No. 37, and No. 38. The provisions of these standards have been incorporated into the Commonwealth's financial statements and notes. Since the Commonwealth implemented new reporting standards for this Fiscal Year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Commonwealth's financial position and results of operations.

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of a Fiscal Year.

As of the end of the Fiscal Year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.4 billion, a decrease of \$186.5 million in comparison with the prior year. Just over one-half (\$1.2 billion or 51 percent) of this total amount constituted an unreserved fund balance, which was available for spending in the following Fiscal Year. The remainder of the fund balance was reserved to indicate that it was not available for new spending. The reserves were established: (1) to fund statutory obligations (\$835.5 million), (2) for inventory on hand at year end (\$66.9 million), (3) to fund capital outlay (\$260.1 million), or (4) for other restricted purposes (\$25.8 million).

During Fiscal Year 2002 the unreserved fund balance in the governmental funds decreased to \$1.2 billion, which is approximately 8.3 percent of total governmental fund expenditures for the year. The unreserved fund balance is comprised of \$1.2 billion in the Special Revenue Fund, \$316.6 million in the Debt Service Fund, negative \$265.5 million in the Capital Projects Fund and negative \$36.0 million in the General Fund.

The General Fund is the chief operating fund of the Commonwealth. The fund balance of the Commonwealth's General Fund decreased by \$311.4 million during the Fiscal Year. This is a 78.66 percent decrease from the prior year. At the end of the Fiscal Year, unreserved fund balance of the General Fund was a negative \$36.0 million, while the total fund balance reached \$87.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0.54 percent of total General Fund expenditures, while total fund balance represents 1.32 percent of that same amount.

Due to the downturn in the economy, the General Fund experienced an increased number of interfund transfers out, leading to a decline in the General Fund's balance. In Fiscal Year 2002, the General Fund increased the amount of transfers out from \$303.0 million in Fiscal Year 2001 to \$468.0 million in Fiscal Year 2002. This is an increase of about \$165.0 million or a 54.45 percent rise from the previous year.

The Commonwealth's long-term debt increased by \$502.0 million, a 9.2 percent increase during the Fiscal Year. No general obligation bonds were authorized or outstanding at June 30, 2002. The key factor in this increase was the issuance of \$976.0 million in Revenue Bonds (a 15.6 percent increase).

The Commonwealth utilizes a consensus forecasting process as prescribed by KRS Chapter 48.115 to develop Estimated Revenues as defined in the Act (the "Estimated Revenues") for the General Fund and the Road Fund. The Biennial Budget of the Commonwealth is based upon the Official Estimate as determined by the Consensus Forecasting Group (the "Group"). The forecast is provided on a preliminary basis by October 15 of each odd numbered year and in final form by the fifteenth legislative day of each even year regular session of the General Assembly. The State Budget Director can convene the Group as the need arises to review and revise the forecast.

At the beginning of Fiscal Year 2002, the Group declared an estimated revenue shortfall of \$295.7 million in the General Fund and \$85.4 million in the Road Fund. Further budget cutbacks contained in a second Budget Reduction Order resulted in additional reductions of \$200.1 million in the General Fund and \$37.9 million in the Road Fund. A third and fourth Budget Reduction Order totaling \$179.2 million for the General Fund were each executed in the final days of the Fiscal Year to conform total spending to actual receipts for Fiscal Year 2002.

### **Fiscal Year 2003 (Unaudited)**

The Commonwealth began Fiscal Year 2003 without a legislatively enacted budget for the Executive branch of government and operated under an Executive Spending Plan implemented by an Executive Order of the Governor. In the General Assembly's 2003 Regular Session, which concluded on March 25, 2003, the legislature enacted House Bill 269, which included a budget for the Executive branch of government for the 2003-2004 biennium. The General Assembly also passed separate legislation that effectively ratified all amounts previously spent under the Executive Spending Plan. With the passage of these measures, all parties to a legal action filed by the State Treasurer seeking a determination of the validity of the Executive Order that established the Executive Spending Plan agreed to dismissal of the case as moot.

The Commonwealth reported General Fund revenue for the Fiscal Year 2003 of \$6,783.5 million versus \$6,560.2 million for Fiscal Year 2002, an increase of 3.4 percent. General Fund revenues were boosted in the early part of Fiscal Year 2003 by one-time events not reflective of overall economic activity. Of the \$223.3 million in additional revenue received in Fiscal Year 2003 versus Fiscal Year 2002, approximately \$192.5 million is estimated to have resulted from these events, which include the impact of tax amnesty as well as several large unanticipated payments in the sales, individual income, and inheritance taxes.

Sales and Use and Individual Income tax receipts increased 2.8 percent and 1.6 percent, respectively, for the Fiscal Year. Corporate income tax collections increased approximately \$70.7 million or 34.1 percent for the year. The second half of Fiscal Year 2003 saw revenue declines below the previous year.

Total General Fund resources for Fiscal Year 2003 were \$7,443.4 million, which included \$130.8 million of Tobacco Settlement Revenues and \$68.7 million for the Federal Jobs Growth Tax Relief Reconciliation Act of 2003. Expenditures and Fund Transfers Out totaled \$7,178.8 million leaving a balance of \$264.6 million of which

\$102.1 million was reserved for continuing appropriations and \$162.5 million was unallocated. The \$162.5 million undesignated Fiscal Year-end balance was \$23.8 million higher than the original amount budgeted of \$138.7 million.

### **Fiscal Year 2004 (Unaudited)**

State General Fund receipts for July, excluding tobacco receipts, totaled \$495.1 million. This represents an increase of 8.4 percent over July 2002. The official revenue estimate prepared by the Group in January 2003 projected growth of 4.6 percent for Fiscal Year 2004 to \$7,096.5 million. Preliminary planning numbers for the remainder of Fiscal Year 2004 and the next biennium being considered by the Group indicate a reduced growth rate of approximately 0.5 percent for Fiscal Year 2004 to \$6,816.6 million, or \$279.9 million less than previously forecast. The preliminary forecast reflects a lower base resulting from a \$75.7 million shortfall in Fiscal Year 2003 and reduced expectations for growth in personal income, which is reflected in the individual income and sales tax projections for Fiscal Year 2004. The Group is required to reconvene in October to prepare a preliminary official estimate for the Fiscal Year 2004-2006 biennium.

### **Investment Policy**

The Commonwealth'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, 2003, the Commonwealth's operating portfolio was approximately \$2.73 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (19%); 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 (13%); municipal securities (5%); and corporate and asset backed securities, including money market securities (21%). The portfolio had a current yield of 1.71% and an effective duration of 1.55 years.

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 Commonwealth. The Long-term Pool invests 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 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, mortgage backed securities, collateralized mortgage obligations and asset backed securities.

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 Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth 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. In an agent program the agent lends the Commonwealth treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth. At the present time the Commonwealth has entered into an agent agreement that has a guarantee of 10 basis points of the average market value of securities in the program.

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a \$200 million notional amount to a net market value approach, the absolute value of which cannot exceed \$50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. As of June 30, 2003, the Commonwealth had no asset-based swap transactions outstanding.

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five 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 (ABS) must not exceed 25% of any investment pool. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of 25% of any investment portfolio. ABS, MBS and CMO must have a weighted-average-life of four years or less at time of purchase.

## SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution, the Lease and the Subleases. 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. 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 and interest on all Bonds Outstanding under the Bond Resolution when due. The Resolution requires the Commission to deposit or cause to be deposited on or before any April 1 or October 1 (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of 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.

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 Service 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 the Project. 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 Service Fund.

*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" to include:

- (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 any Bond at 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) 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 as described in the Resolution. 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 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 or interest on any Bond, or a reduction in the amount of principal or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

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

the Bonds, or (vi) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

*Change, Substitution or Other Modification of Project.* Anything in the Resolution or the Lease notwithstanding, the 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 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 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 and interest 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 give notice as described therein.

As long as the Bond Insurer's policy remains in effect, the term "Defeasance Obligations," as defined in Resolution, shall be limited to the following:

- (a) Cash;
- (b) U.S. Treasury certificates, notes and bonds (including State and Local Government Series ("SLGs"));
- (c) Direct Obligations of the United States Treasury (the "Treasury") which have been stripped by the Treasury itself (not including "CATS," "TIGRS" and "TRS" unless the Commission obtains a confirmation that the Bonds defeased thereby shall be rated in the highest rating category by S&P and Moody's Investors Service, Inc. ("Moody's") with respect thereto);
- (d) The interest component of Resolution Funding Corp. ("REFCORP") strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;
- (e) Pre-refunded 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 (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (b), (c) or (d) which fund may be applied only to the payment when due of such bonds or other obligations and (iii) rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch Ratings ("Fitch") (if rated by Fitch); and
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States of America:
  - (i) U.S. Export-Import Bank direct obligations or fully guaranteed certificates of beneficial ownership;
  - (ii) Farmers Home Administration certificates of beneficial ownership;
  - (iii) Federal Financing Bank;
  - (iv) General Services Administration participation certificates;
  - (v) U.S. Maritime Administration Title XI financing; and
  - (vi) Project notes, local authority bonds, New Communities Debentures and U.S. Public Housing Notes and Bonds issued by the U.S. Department of Housing and Urban Development.

### **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, 2004. 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, 2024, 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 Sublessees are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease and the Subleases provide that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Cabinet or the Sublessees, respectively, to not so renew is given to the Commission by the last business day of May (or the last business day of 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 the Sublessees 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 the Sublessees 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 Sublessees sufficient amounts (over and above all other requirements of the Cabinet and the Sublessees) to enable the Cabinet and the Sublessees 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 Sublessees 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. The Cabinet has similar remedies in the event of a default by the Sublessees 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"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have given the Bonds ratings of "Aaa," "AAA," and "AAA," respectively, each with the understanding that upon delivery of the Bonds, the Bond Insurance Policy will be issued by the Bond Insurer. The underlying ratings for the Bonds are "Aa3", "A+" and "AA-" from Moody's, S&P and Fitch, respectively.

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, Inc., 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 Ratings Services, a Division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the [rating](#) given by Fitch may be obtained from Fitch [Ratings](#), 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 respective rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Wyatt, Tarrant & Combs, LLP, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT D.

## 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.

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Commission taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Bonds or due existence or powers of the Commission.

## TAX MATTERS

### General

**Interest on the Bonds is not excluded from gross income of the holders thereof for federal income tax purposes under Section 103 of the Code and accordingly Bond Counsel will render no opinion regarding the federal tax treatment of the interest on the Bonds.** 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, and concerning the consequences, in their particular circumstances, under the Code and the laws of any other taxing jurisdiction, of ownership of the Bonds.

### Collateral Tax Consequences

The summary below applies only to Bonds held as capital assets by initial purchasers and does not apply to special classes of holders, such as dealers in securities or currencies, banks, tax-exempt organizations, life insurance companies, persons that hold Bonds that are a hedge or that are hedged against currency risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. The summary is based on the Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

#### *United States Holders*

Interest on the Bonds will be taxable to a "United States Holder" (as defined below) as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes in accordance with generally applicable principles. A "United States Holder" is a beneficial owner of a Bond for U.S. federal income tax law purposes who or which is:

- a citizen or resident of the United States;
- a corporation or partnership which is created or organized in or under the laws of the United States or of any political subdivision thereof;

- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) the trust was in existence on August 10, 1996 and properly elected to continue to be treated as a U.S. person.

The term "Non-U.S. Holder" refers to any beneficial owner of a Bond who or which is not a United States Holder.

#### *Sale and Retirement of the Bonds*

United States Holders of Bonds will recognize gain or loss on the sale, retirement or other disposition of the Bonds. The gain or loss is measured by the difference between the amount realized on the disposition of the Bond and the United States Holder's adjusted tax basis in the Bond. Such gain or loss will be capital gain or loss, except to the extent of accrued market discount not previously included in income, and will be long term capital gain or loss if at the time of disposition such Bond has been held for more than one year.

#### *United States Federal Income Tax Considerations for Non-U.S. Holders*

*Withholding Tax on Payments of Principal and Interest on Bonds.* Generally, payments of principal and interest on a Bond will not be subject to U.S. federal withholding tax, provided that in the case of an interest payment:

- the Non-U.S. Holder is not a bank to whom the Bonds would constitute an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and
- either (A) the beneficial owner of the Bond certifies to the Commission or its agent, under penalties of perjury on an Internal Revenue Service ("IRS") Form W-8BEN (or a suitable substitute form), that such owner is not a United States person and provides such owner's name and address or (B) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (a "financial institution") and holds the Bond, certifies under penalties of perjury that such an IRS Form W-8BEN (or suitable substitute form) has been received from the beneficial owner by it or by a financial institution acting on behalf of the beneficial owner and furnishes the payor with a copy thereof.

Except to the extent otherwise provided under an applicable tax treaty, a Non-U.S. Holder generally will be taxed in the same manner as a United States Holder with respect to interest and original issue discount payments on a Bond if such interest and original issue discount is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. Effectively connected interest and original interest discount received by a corporate Non-U.S. holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or, if applicable, a lower treaty rate), subject to certain adjustments. Such effectively connected interest and original issue discount will not be subject to withholding tax if the holder delivers an IRS Form W-8ECI to the Commission or its agent.

*Gain on Disposition of the Bonds.* A Non-U.S. Holder generally will not be subject to U.S. federal income tax on gain realized on the sale or exchange of a Bond unless:

- the Non-U.S. Holder is an individual present in the United States for 183 days or more in the year of such sale or exchange and either (A) has a "tax home" in the United States and certain other requirements are met, or (B) the gain from the disposition is attributable to the Non-U.S. Holder's office or other fixed place of business in the United States; or

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States.

*U.S. Federal Estate Tax.* A Bond held by an individual who at the time of death is not a citizen or resident of the United States (as specifically defined for U.S. federal estate tax purposes) will not be subject to United States federal estate tax if at the time of the individual's death, payments with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business in the United States. The United States federal estate tax recently was repealed; however, the repeal does not take effect until 2010. In addition, the legislation repealing the estate tax expires in 2011, and thus the estate tax will be reinstated at that time unless future legislation extends the repeal.

#### *Backup Withholding and Information Reporting*

*United States Holders.* Information reporting will apply to payments of interest made on a Bond by the Commission or its agent, or the proceeds of the sale or other disposition of the Bond with respect to certain non-corporate United States Holders, and backup withholding may apply unless the recipient of such payment supplies a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

*Non-U.S. Holders.* Backup withholding and information reporting on IRS Form 1099 will not apply to payments of principal and interest on the Bonds by the Commission or its agent to a Non-U.S. Holder provided the Non-U.S. Holder provides the certification described above under "United States Federal Income Tax Considerations for Non-U.S. Holders--Withholding Tax on Payments of Principal and Interest on Bonds" or otherwise establishes an exemption (provided that neither the Commission nor its agent has actual knowledge that the holder is a United States person or that the conditions of any other exemption are not in fact satisfied). Interest payments made to a Non-U.S. Holder may, however, be reported to the IRS and to such Non-U.S. Holder on Form 1042-S.

Information reporting and backup withholding generally will not apply to a payment of the proceeds of a sale of Bonds effected outside the United States by a foreign office of a foreign broker. However, information reporting requirements (but not backup withholding) will apply to a payment of the proceeds of a sale of Bonds effected outside the United States by a foreign office of a broker if the broker (i) is a United States person, (ii) derives 50 percent or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a "controlled foreign corporation" as to the United States, or (iv) is a foreign partnership that, at any time during its taxable year is 50 percent or more (by income or capital interest) owned by United States persons or is engaged in the conduct of a U.S. trade or business, unless in any such case the broker has documentary evidence in its records that the holder is a Non-U.S. Holder (and has no actual knowledge to the contrary) and certain conditions are met, or the holder otherwise establishes an exemption. Payment by a United States office of a broker of the proceeds of a sale of Bonds will be subject to both backup withholding and information reporting unless the holder certifies its non-United States status under penalties of perjury or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against that holder's U.S. federal income tax liability provided the required information is furnished to the IRS.

## **UNDERWRITING**

The Bonds are to be purchased by a syndicate managed by Citigroup Global Markets Inc., as representative of the underwriters identified on the cover hereof and on behalf of itself (collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of \$150,580,781.50 (which is equal to the principal amount of the Bonds less underwriting discount of \$644,218.50). 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. Specifically, the Commission will covenant to provide notice in a timely manner to each nationally recognized municipal securities depository or the Municipal Securities Rulemaking Board, and the appropriate state information depository, if any, of any of the following types of events with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) modifications to rights of security holders; (vii) bond calls; (viii) defeasances; (ix) release, substitution, or sale or property securing repayment of the securities; and (x) rating changes. The Commonwealth is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities.

The Disclosure Agreement further provides that there have been no instances since the effective date of the continuing disclosure requirements under the Rule in which the Commission has failed to comply, in all material respects, with any undertakings to provide continuing disclosure as contemplated by the Rule.

### **OTHER MATTERS**

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

The information set forth herein has been obtained from sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and Resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Resolutions. The summaries of the documents herein contained do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to official documents in all respects.

This Official Statement has been approved, and its execution and delivery have been authorized, by the Commission.

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

By: /s/ George R. Burgess, Jr.  
Executive Director  
Office of Financial Management  
(Secretary to the Commission)

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## EXHIBIT A

### DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY - COMMONWEALTH DEBT MANAGEMENT

#### **Management**

The Office of Financial Management ("OFM"), Finance and Administration Cabinet has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists state agencies which currently are active issuing entities. 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 I.

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

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

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

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the Commonwealth. 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 these types 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	<b>KRS 56.450</b> Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	<b>KRS 56.860</b> 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	<b>KRS 175.410-175.990</b> 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/A+/AA-
The State Universities (consisting of nine)	<b>KRS 56.495</b> Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	<b>KRS 198A</b> 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	<b>KRS 224A</b> 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 \$500 million of debt outstanding.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	<b>KRS 164A</b> Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$950 million of debt outstanding; effective July 15, 2002, limit became \$1.95 billion.	Aaa/AA-
School Facilities Construction Commission	<b>KRS 157.800-157.895</b> 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	<b>KRS 154</b> 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	<b>KRS 441.605-441.695</b> 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 (Insured)

\*Ratings, where applicable, include Moody's, Standard & Poor's and Fitch. On October 9, 2002, Standard & Poor's lowered the Commonwealth's issuer credit rating from AA to AA- and the rating on the Commonwealth's appropriation-backed debt from AA- to A+. Standard & Poor's also lowered the Kentucky Infrastructure Authority's moral obligation pledge from A to A-.



**EXHIBIT B**

**THE PROJECT**

<b><u>State Agency</u></b>	<b><u>Project Description</u></b>	<b><u>Authorized Amount*</u></b>
Cabinet for Economic Development	Kentucky Economic Development Finance Authority (KEDFA) Loan Pool	\$ 30,000,000
Council on Postsecondary Education	Research Challenge Trust Fund Endowment	100,000,000
Council on Postsecondary Education	Regional University Excellence Trust Fund	<u>20,000,000</u>
	Total	\$150,000,000

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\* Excludes allocable costs of issuance

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## EXHIBIT C

### BOOK ENTRY ONLY SYSTEM

The Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution and Series Resolution.

The following information about the book-entry only system applicable to the Bonds has been supplied by DTC. Neither the Commission nor the Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Securities 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 in the aggregate principal amount of the Bonds and will be deposited with DTC.

DTC, the world's largest depository, 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 Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as 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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of 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. Beneficial Owners are, however, 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 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 DTC 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments 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 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 Bonds 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 or its nominee, 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, distributions, and interest payments 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 will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 REDEMPTION PRICE OF 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; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners 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 redemption or 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.

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**EXHIBIT D**  
**FORM OF BOND COUNSEL OPINION**

October 9, 2003

Commonwealth of Kentucky  
State Property and  
Buildings Commission  
Room 261 Capitol Annex  
Frankfort, Kentucky 40601

Re: \$151,225,000 Commonwealth of Kentucky State Property and Buildings  
Commission Revenue Bonds, Project No. 78 (Taxable)

Ladies and Gentlemen:

We have examined a copy of the transcript of proceedings of the State Property and Buildings Commission of Kentucky (the "Commission") relating to the authorization, sale and original issuance on the date hereof of the Commission's Revenue Bonds, Project No. 78 (Taxable), in the aggregate principal amount of \$151,225,000 (the "Bonds"), dated on original issuance as of October 9, 2003. The Bonds are being issued for the purpose of paying the costs of funding certain economic development programs and education trust fund endowment match programs authorized in the biennial budget of the Commonwealth of Kentucky (the "Commonwealth") (collectively, the "Project").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on August 18, 2003 (the "Resolution").

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

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

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

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

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

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

3. The Bonds have been duly authorized and issued by the Commission and are the valid and binding limited and special obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal and interest from and are secured by a pledge of the revenues to be derived by the Commission from a lease dated as of October 1, 2003 (the "Lease"), between the Commission, as lessor, and the Cabinet, as lessee. A sufficient portion of the revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

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

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

6. The Bonds are not secured by a pledge of, or lien on, any properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by a pledge of the revenues to be derived from the Lease. The ability of the Cabinet to make payments under the Lease is dependent on legislative appropriations to the Cabinet. The Lease currently has a term ending June 30, 2004, with the right to renew the Lease for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

7. Based on existing laws, statutes, regulations, administrative rulings and official interpretations, the interest on the Bonds, including any original issue discount properly allocable to a holder thereof, will be included in gross income for federal income tax purposes.

8. Based on existing laws, statutes, regulations, administrative rulings and official interpretations, the Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth and all of its political subdivisions and taxing authorities.

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

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

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

Very truly yours,

WYATT, TARRANT & COMBS, LLP



**EXHIBIT E**

**FORM OF FINANCIAL GUARANTY INSURANCE POLICY**

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**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation**

**Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) 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 hereby 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 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. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]**

**[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation 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 U.S. Bank Trust National Association, 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 Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefore. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

**SPECIMEN**