# FIRST SUPPLEMENT TO THE OFFICIAL STATEMENT

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

**$182,845,000**
**Revenue Refunding Bonds,**
**Project No. 84**

Dated: March 23, 2005

**COMMONWEALTH OF KENTUCKY**
**State Property and Buildings Commission**
**$182,845,000**
**Revenue Refunding Bonds,**
**Project No. 84**

## INTRODUCTION

This First Supplement to the Official Statement of the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), supplements and amends the information provided in the Official Statement dated March 1, 2005 (the "Official Statement"), relating to its $182,845,000 Revenue Refunding Bonds, Project No. 84 (the "Bonds"). This First Supplement to the Official Statement should be read together with the Official Statement. Capitalized terms not otherwise defined herein shall have the meanings given them in the Official Statement.

The information set forth under the headings "BUDGETARY PROCESS IN THE COMMONWEALTH" and "THE COMMONWEALTH - Fiscal Year 2005 (Unaudited) and - State Tax Law Changes and State Budget" is additional information. The information set forth under the heading "THE STATE PROPERTY AND BUILDINGS COMMISSION – Future Financings" and in the first full paragraph appearing after subparagraph (c) under "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Resolution - *Events of Default*" replaces, in its entirety, the information set forth under that heading and in that paragraph in the Official Statement.

## BUDGETARY PROCESS IN THE COMMONWEALTH

The 2005 Kentucky General Assembly enacted a State Budget on March 21, 2005 (the "State Budget"), which (i) incorporates the quarterly State Budget Continuation Plans that authorized the Secretary of the Finance and Administration Cabinet to issue warrants for the payment of all claims made by the Executive Branch of government to continue the operation of state government in the absence of a legislatively adopted State Budget ("Continuation Plans") and (ii) appropriates funds for the remainder of the biennium. In addition, oral arguments regarding the legality of the Continuation Plans have been heard by the Kentucky Supreme Court.

## THE STATE PROPERTY AND BUILDINGS COMMISSION

### Future Financings

The 2005 Kentucky General Assembly authorized a substantial capital plan with $1.906 billion of new debt to be financed by the Commonwealth. Bond projects supported by the General Fund exceed $1.204 billion while Agency Restricted Fund and Road Fund supported bonds total $252 million and $450 million, respectively. The bonds are to fund a variety of capital investments in higher education, infrastructure, major maintenance and technology based projects for various state agencies. Additionally, $150 million in federal fund supported Grant Anticipation Revenue Vehicle (GARVEE) bonds have been authorized.

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future budgets. Bonds may also be issued to refund outstanding bonds that are appropriation supported.

## THE COMMONWEALTH

### Fiscal Year 2005 (Unaudited)

Fiscal Year 2005 General Fund revenues from July 2004 through February 2005 totaled $4,914.7 million versus $4,549.7 million for the same period one year ago, which represents an 8.0 percent increase. The forecasted growth rate for fiscal year 2005 by Consensus Forecasting Group (the "Group"), during January 2005 prior to the 2005 Tax Act, was 6.5 percent. Based upon year-to-date growth, the General Fund must expand by 3.7 percent for the remaining four months of the fiscal year to meet the original estimate.

February 2005 receipts were $509.3 million or 5.9 percent higher than February 2004 receipts of $480.9 million. Among the major categories, the sales and use tax receipts grew by 7.5 percent, property tax receipts increased 28.7 percent and coal severance receipts rose 23.8 percent. Individual income tax receipts were also up 6.6 percent. Corporate income tax receipts were significantly higher and lottery revenue was much lower for the month as compared to February 2004.

### State Tax Law Changes and State Budget

Governor Fletcher signed the *JOBS for Kentucky* tax modernization bill into law on March 18, 2005 (the "2005 Tax Act"). Passage of the bill was the culmination of a year-long effort to restructure Kentucky's tax laws to make the Commonwealth more competitive and to attract and retain human capital. The tax modernization plan is essentially revenue-neutral over a period of four years. It is designed to reduce income taxes for a majority of Kentuckians, broaden the base and lower the rates for business taxes and export some of the business tax burden to non-residents.

The two largest components of the tax modernization bill are in the area of individual income taxes and business taxes. The top marginal tax rate for middle income individuals has been cut from 6% to 5.8% while those earning more than $75,000 will continue to be taxed at 6.0% on income over $75,000. The state low-income credit has been expanded substantially. As a result approximately 496,000 Kentuckians will no longer owe any state income tax. The most significant change in business taxes is the repeal of the corporation license tax and the lowering of the top marginal rate from 8.25% to 6.0% over the course of two years.

In addition to the rate reductions, measures were taken to significantly broaden the tax base, especially in the area of corporation income tax. The definition of corporation now includes limited liability entities, some of which were able to utilize aggressive tax planning in the old tax regime to mitigate or eliminate their Kentucky tax burden. Moreover, an alternative minimum calculation, with a base of gross receipts, was added which further broadens the tax base to collect taxes from companies that do not show an accounting profit. The tax base was also broadened for the individual income tax by capping the pension exclusion. All of these measures are intended to add elasticity and stability into the tax system to counteract the rate reductions.

Other changes in tax law include an increase of taxes on cigarettes from 3 cents to 30 cents per pack; an increase of wholesales taxes on alcohol products; a restructuring of communications industry taxes; and the institution of a lodging tax for tourism development. The plan establishes several initiatives to promote economic growth. These include redirection of horse breeding fees to dedicated funds for preservation of the equine breeding industry in Kentucky; tax credits for postsecondary education tuition and historic preservation, and various economic development incentives linked to the environment and job creation.

Revenue estimates issued by the Group, described under the heading "Fiscal Year 2005 (Unaudited)" above, were subsequently revised by staff to the General Assembly to reflect the changes resulting from the 2005 Tax Act.

Total appropriations for the State Budget are $7.5 billion for fiscal year 2005 and $8.1 billion for fiscal year 2006 and were based upon revenues estimated to be available upon implementation of the 2005 Tax Act. Highlights of the 2004-2006 State Budget include significant General Fund increases for Medicaid over fiscal year 2004 levels of $93.7 million and $163.7 million in fiscal years 2005 and 2006 respectively. Postsecondary education received an increase in funding of $81.6 million, a 9 percent increase; K-12 received a $524 million increase in funding, a 16.8 percent increase in fiscal year 2006 as compared to fiscal year 2004. With the exception of health insurance costs, most agencies' operating budgets were held to fiscal year 2004 levels, which were twice reduced. Phase II tobacco payments to tobacco farmers, in the amount of $114 million, will be made partially from General Fund bonds identified above in Future Financings and from Kentucky's revenue from the Master Settlement Agreement with cigarette manufacturers.

## SUMMARIES OF THE PRINCIPAL DOCUMENTS

### The Resolution

*Events of Default*. The first full paragraph appearing after subparagraph (c) under the sub – heading *"Events of Default"* in the original Official Statement is deleted in its entirety and replaced with the following paragraph:

The Resolution, as modified by the Commitment, provides that, subject to the right of the Bond Insurer, acting alone, to direct such action, 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 aggregate 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 aggregate 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.

## OTHER MATTERS

Charles F. Bell, Jr., Executive Director of the Office of Financial Management and Secretary to the Commission on the date of the Official Statement, has resigned and is no longer serving in those capacities. This First Supplement to the Official Statement has been prepared under the direction of the Office of Financial Management and the Executive Director of the Commission.

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. The information included in this First Supplement to the Official Statement is only intended to supplement the information contained in the Official Statement. Reference is made to the Official Statement for material information relating to the Bonds.

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

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

By: /s/ R.B. Rudolph, Jr.
Executive Director of the Commission
(Secretary to the Finance and Administration Cabinet)

30226\5

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

**NEW ISSUE**

*In the opinion of Wyatt, Tarrant & Combs, LLP, Bond Counsel, under existing statutes, regulations and court decisions and as of the date of original issuance thereof, and assuming the initial and continuing correctness and accuracy of certain representations, warranties and covenants and continuing compliance with certain covenants and procedures, interest on the Bonds is excluded from gross income for Federal income tax purposes, and the Bonds are exempt from ad valorem taxation and the interest thereon is exempt from income taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. In the opinion of Bond Counsel, interest on the Bonds is not an item of tax preference in determining "alternative minimum taxable income" of individuals for Federal income tax purposes. See "Tax Exemption" herein.*

# $182,845,000
# COMMONWEALTH OF KENTUCKY
## State Property and Buildings Commission
## Revenue Refunding Bonds, Project No. 84

**Dated:** Date of delivery **Due:** August 1, as shown below

The Revenue Refunding Bonds, Project No. 84 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will bear interest payable on each February 1 and August 1, commencing on August 1, 2005. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by The Huntington National Bank, as Trustee and Paying Agent.

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

| Maturity | Principal Amount | Rate | Yield | Maturity | Principal Amount | Rate | Yield |
|---|---|---|---|---|---|---|---|
| August 1, 2017 | $ 520,000 | 3.800% | 3.900% | August 1, 2020 | $ 50,000 | 4.000% | 4.050% |
| August 1, 2018 | 12,370,000 | 5.000 | 3.950 | August 1, 2021 | 75,120,000 | 5.000 | 4.100 |
| August 1, 2018 | 1,635,000 | 4.000 | 3.950 | August 1, 2021 | 260,000 | 4.000 | 4.100 |
| August 1, 2019 | 16,160,000 | 5.000 | 4.000 | August 1, 2022 | 24,675,000 | 5.000 | 4.150 |
| August 1, 2019 | 1,705,000 | 4.000 | 4.000 | August 1, 2023 | 4,210,000 | 4.125 | 4.200 |
| August 1, 2020 | 46,140,000 | 5.000 | 4.050 | | | | |

The Bonds are subject to redemption as described herein.

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Resolution adopted February 10, 2005 to (i) refund certain outstanding bonds, as more fully defined and described herein, and (ii) pay costs of issuing the Bonds.

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.

MBIA

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 (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 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Wyatt, Tarrant & Combs, LLP, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about March 23, 2005, in New York, New York, through the facilities of DTC, against payment therefor.

## CITIGROUP

**Morgan Stanley** **UBS Financial Services Inc.**

**J.J.B. Hilliard, W.L. Lyons, Inc.** **NatCity Investments, Inc.** **Morgan Keegan & Company, Inc.**

**JP Morgan** **Ross, Sinclaire & Associates, Inc.**

**A.G. Edwards & Sons, Inc.** **First Kentucky Securities Corp.** **Edward D. Jones & Co., L.P.** **Merrill Lynch & Co.**

Dated: March 1, 2005

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

Members

ERNIE FLETCHER
Governor
(Chairman of the Commission)

STEPHEN B. PENCE
Lieutenant Governor

GREGORY D. STUMBO
Attorney General

R. B. RUDOLPH, JR.
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

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

CHARLES F. BELL, 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 SECURITIES 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.

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## SUMMARY

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

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

**The Offering** The Commission is offering its $182,845,000 Revenue Refunding Bonds, Project No. 84 (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 February 10, 2005 (i) authorizing the issuance of the Bonds and (ii) approving the lease (the "Lease") dated as of March 1, 2005, between the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee.

**Use of Proceeds** The Bonds are being issued to provide funds with which to (i) refund certain outstanding bonds, as more fully defined and described herein, and (ii) pay costs of issuing the Bonds.

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

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

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| **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. As a condition to the issuance of such financial guarantee insurance policy, certain provisions of the Resolution, which were summarized in the preliminary Official Statement have been modified. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein. |
| **Features of Bonds** | The Bonds are being offered in the authorized denominations of $5,000 or any integral multiple thereof, at the interest rates and yields set forth on the cover page hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest due on the Bonds will be made directly to DTC. The Bonds will bear interest payable on each February 1 and August 1, commencing on August 1, 2005. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by The Huntington National Bank, as Trustee and Paying Agent (the "Trustee").<br><br>The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds are not subject to optional redemption prior to their stated maturity. The Bonds are subject to redemption upon a Determination of Taxability on any date, see "THE BONDS - Redemption Provisions." It is expected that delivery of the Bonds will be made on or about March 23, 2005, in New York, New York, against payment therefor. |
| **Tax Status** | In the opinion of Bond Counsel, under existing laws, statutes, regulations, administrative rulings and official interpretations, and assuming the initial and continuing correctness and accuracy of certain representations, warranties and covenants and continuing compliance with certain covenants and procedures, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference in determining alternative minimum taxable income for individuals under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds, however, is included in the adjusted current earnings of certain corporations for purposes of the alternative minimum tax imposed under the Code on such corporations. In the opinion of Bond Counsel, the Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX EXEMPTION" herein for a more complete discussion, and EXHIBIT D. |
| **Continuing Disclosure** | The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee. |

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| **General** | The Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in the Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available from the Office of Financial Management. |
| **Information** | Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601, (502) 564-2924; or, during the initial offering period, by contacting the representative of the Underwriters, Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, (212) 723-7093. |
| **Supplemental Official Statement** | This Official Statement is being delivered on the date shown on the cover page hereto in order to comply with the requirements of SEC Rule 15c2-12. HOWEVER, THE KENTUCKY GENERAL ASSEMBLY IS CURRENTLY IN SESSION AND IN THE PROCESS OF CONSIDERING THE ADOPTION OF A STATE BUDGET AND CERTAIN TAX LAW CHANGES (THE "LEGISLATION"). NO FINAL ACTION HAS BEEN TAKEN REGARDING THE LEGISLATION. THE GENERAL ASSEMBLY ADJOURNS ON MARCH 22, 2005. A SUPPLEMENT TO THIS OFFICIAL STATEMENT WILL BE ISSUED BY THE COMMISSION UPON FINAL DISPOSITION OF THE LEGISLATION. THIS OFFICIAL STATEMENT SHOULD BE READ TOGETHER WITH THAT SUPPLEMENT. SEE "BUDGETARY PROCESS IN THE COMMONWEALTH" HEREIN. |

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

**$182,845,000**
**COMMONWEALTH OF KENTUCKY**
**State Property and Buildings Commission**
**Revenue Refunding Bonds, Project No. 84**

## 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 $182,845,000 Revenue Refunding Bonds, Project No. 84 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refund certain of the Commission's outstanding bonds identified in EXHIBIT B hereto (collectively, the "Prior Bonds"), and (ii) pay costs of issuing the Bonds.

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

The Cabinet, as lessee, has entered into a Lease Agreement dated as of March 1, 2005, with the Commission, as lessor (the "Lease"), to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The initial term of the Lease ends June 30, 2006, and the Lease renews automatically (unless the Lease is terminated in writing by the Cabinet by the last business day of the preceding May). The Lease renews 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 in amounts which are sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of, premium, if any, and interest on the Bonds. A budget act for the current biennium has not yet been adopted, therefore no legislative appropriations have been made to the Cabinet to pay rental payments under the Lease. Rental payments have been paid, when due, under all Commission leases, from funds authorized through gubernatorial executive orders. House Bill 267 of the General Assembly of the Commonwealth of Kentucky, 2005 Regular Session, the budget act for the current biennium (the "2005 Budget Act"), is currently before the Kentucky General Assembly. Although not yet adopted, the 2005 Budget Act includes amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2006. See the caption "BUDGETARY PROCESS IN THE COMMONWEALTH."

The scheduled payment of the principal of and interest on the Bonds, when due, will be guaranteed under a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation (the "Bond Insurer"). See "BOND INSURANCE" herein.

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

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

THIS OFFICIAL STATEMENT IS BEING DELIVERED ON THE DATE SHOWN ON THE COVER PAGE HERETO IN ORDER TO COMPLY WITH THE REQUIREMENTS OF SEC RULE 15C2-12. HOWEVER, THE KENTUCKY GENERAL ASSEMBLY IS CURRENTLY IN SESSION AND IN THE PROCESS OF CONSIDERING THE ADOPTION OF A STATE BUDGET AND CERTAIN TAX LAW CHANGES (THE "LEGISLATION"). NO FINAL ACTION HAS BEEN TAKEN REGARDING THE LEGISLATION. THE GENERAL ASSEMBLY ADJOURNS ON MARCH 22, 2005. A SUPPLEMENT TO THIS OFFICIAL STATEMENT WILL BE ISSUED BY THE COMMISSION UPON FINAL DISPOSITION OF THE LEGISLATION. THIS OFFICIAL STATEMENT SHOULD BE READ TOGETHER WITH THAT SUPPLEMENT. SEE "BUDGETARY PROCESS IN THE COMMONWEALTH" HEREIN.

## 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 February 1 and August 1, commencing August 1, 2005, at the interest rates set forth on the cover page of this Official Statement. The Huntington National Bank, is the trustee for the Bonds (the "Trustee").

### 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 described in EXHIBIT C, 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. For additional information about DTC and the book-entry only system see "EXHIBIT C - Book Entry Only System."

### Redemption Provisions

*Optional Redemption.* The Bonds are not subject to optional redemption prior to their stated maturity.

*Mandatory Redemption Upon Determination of Taxability*. The Bonds are subject to mandatory redemption upon a Determination of Taxability on any date, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at a redemption price equal to 120% of the principal amount to be redeemed, plus accrued interest on such principal amount.

"Determination of Taxability" means (a) a final decree or judgment of any federal court or a final action of the Internal Revenue Service or the United States Treasury Department determining or (b) an opinion of Bond Counsel concluding, that interest (i) paid on any Bond is, or (ii) to be paid on any Bond will be, unless such Bond is redeemed, includible in the gross income of an owner of the Bonds for federal income tax purposes under the Code. No such decree, judgment, action or opinion under (a) above will be considered final for this purpose, however, until the Commission has been afforded the opportunity to contest the same, either directly or in the name of any owner of the Bonds, and until conclusion of any appellate review if sought. "Determination of Taxability" shall not include the application of any alternative minimum tax, any branch profits tax or any collateral governmental tax on an owner due to interest received from any Bonds.

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

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

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

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

## SECURITY FOR THE BONDS

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

The 2005 Budget Act is currently before the Kentucky General Assembly. Although not yet adopted, the 2005 Budget Act includes amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds, through June 30, 2006.

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

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.

## BUDGETARY PROCESS IN THE COMMONWEALTH

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1. Governor Fletcher submitted a proposed State Budget, for the two-year period that began July 1, 2004, during the regularly scheduled legislative session that began in January 2004. The regular legislative session of the General Assembly adjourned without adoption of a State Budget.

The General Assembly did not adopt a State Budget prior to the start of the new fiscal year on July 1, 2004 and there is no requirement that the Governor call a Special Session to consider the budget. On June 28, 2004, the Governor signed Executive Order 2004-650 authorizing the Secretary of the Finance and Administration Cabinet to issue warrants for the payment of all claims as may be made by the Executive Branch of government in accordance with a Public Services Continuation Plan providing for the continued operation of state government in the absence of a legislatively adopted State Budget for the first quarter of the Fiscal Year 2005 (the "Continuation Plan"). Although the Continuation Plan expressly addressed the period from July 1, 2004 through September 30, 2004, the Continuation Plan provided full spending authority for the total debt service payments due for the entirety of the Fiscal Year 2005 (the only expenditure item to receive such treatment). The Continuation Plan expired on September 30, 2004 and the Governor has issued Public Services Continuation Plans for each subsequent quarter. The 2005 Budget Act is currently before the Kentucky General Assembly.

Kentucky courts have previously held that the Executive Branch has certain authority to expend funds where a legislative budget appropriation is inadequate. The nature and extent of a governor's power to authorize expenditures by Executive Order in lieu of an enacted State Budget has not been addressed by the Kentucky judicial system. The 2003-2004 biennium (which commenced on July 1, 2002), began without a legislatively enacted State Budget for the Executive Branch of government. The state operated under an Executive Spending Plan implemented by an Executive Order of the Governor. A suit was filed by the State Treasurer in 2002 seeking a determination of the validity of the Executive Order that established the Executive Spending Plan (the "Litigation"). 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 remainder of the 2003-2004 biennium. The General Assembly also passed legislation that effectively ratified all amounts previously spent under the Executive Spending Plan. With the passage of these measures, all parties agreed to dismissal of the Litigation as moot.

The Attorney General of the Commonwealth filed a lawsuit on May 27, 2004 in Franklin County, Kentucky Circuit Court requesting a determination of the Governor's authority, through a Public Services Continuation Plan implemented by Executive Order, to suspend statutory laws which have traditionally been suspended by enactment of a State Budget. The suit names the Governor, the Treasurer, the Secretary of the Finance and Administration Cabinet as well as the President of the Senate and the Speaker of the House of Representatives as defendants. A consumer advocacy group in a separate petition and three legislators in another separate petition sought permission from the court to join the suit and questioned the Governor's ability to spend money in the absence of an enacted budget. The Circuit Court heard initial arguments in the lawsuit on June 30, 2004 and issued an order finding that "the Governor's Public Services Continuation Plan must be implemented to continue essential state services for the first quarter of Fiscal Year 2004-2005." The order, however, places limits on the implementation of the plan, stating that "pending the final disposition of the litigation," (i) no funds shall be expended on capital projects not previously authorized by the General Assembly and (ii) no funds shall be expended on any new program not previously authorized by the General Assembly. Since that time, the Circuit Court has ruled that a budget must be enacted by June 30, 2005, or state government will then have to shut down except for "essential services." An appeal of the Circuit Court's rulings has been accepted by the Kentucky Supreme Court and is in the initial briefing stages.

The 2005 Budget Act (House Bill 267) has been presented to the General Assembly by the Executive Branch for enactment. The Kentucky House of Representatives ("House") has passed a revised version of the 2005 Budget Act which was submitted to the Kentucky Senate ("Senate") for their consideration. In conjunction with the 2005 Budget Act, the House also passed a version of House Bill 272, which includes components of the Governor's Tax Modernization Plan. The Senate subsequently passed their version of the 2005 Budget Act and House Bill 272. The Legislation will now go to a conference committee, where members of the House and Senate will attempt to resolve differences before each chamber takes another vote. Prior to the 2005 Budget Act becoming effective, (i) the House and Senate must adopt a revised version that will be submitted by a conference committee of the House and Senate by March 22, 2005, the date the current session of the General Assembly is required to adjourn and (ii) the 2005 Budget Act must be signed or allowed to become law by the Governor.

## BOND INSURANCE

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

### The Bond Insurance Policy

The Bond Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Commission to the Trustee and 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 the Bond Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Bond Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of 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").

The Bond Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Bond Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurer'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 the Bond Insurer 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, the Bond 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 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 the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer 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 therefore.

**The Bond Insurer**

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer 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 the Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Bond Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and the Bond Insurer set forth under the heading "BOND INSURANCE" and "EXHIBIT E - FORM OF FINANCIAL GUARANTY INSURANCE POLICY." Additionally, the Bond Insurer 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, 2003; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

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 the Company's most recent Quarterly Report on form 10-Q, 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, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) 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, 2003, the Bond Insurer had admitted assets of $9.9 billion (audited), total liabilities of $6.2 billion (audited), and total capital and surplus of $3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004 the Bond Insurer had admitted assets of $10.4 billion (unaudited), total liabilities of $6.7 billion (unaudited), and total capital and surplus of $3.7 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 the Bond Insurer "Aaa."

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

Fitch Ratings rates the financial strength of the Bond Insurer "AAA."

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

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The

Bond Insurer 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) refund the Prior Bonds which are further identified in EXHIBIT B, hereto and (ii) pay costs of issuing the Bonds. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The proceeds of the Bonds required to refund the Prior Bonds will be deposited in a separate and distinct escrow fund to be held by The Huntington National Bank (the "Escrow Trustee") under an Escrow Trust Agreement (the "Escrow Agreement") dated as of March 1, 2005, by and between the Commission and the Escrow Trustee. The Escrow Trustee is required in the Escrow Agreement to apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the "United States Treasury Obligations"), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held invested in the escrow fund, to pay the principal, interest and any applicable premium on the Prior Bonds as same become due at maturity or upon redemption. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the making of the foregoing deposit with the Escrow Trustee on behalf of the trustees for the Prior Bonds, the Prior Bonds will no longer be deemed to be outstanding for the purposes of the respective resolutions under which the Prior Bonds were issued.

The Commission had outstanding bonds in the aggregate principal amount of $2,158,820,771.80 as of March 1, 2005. Upon the issuance of the Bonds, the Commission will have a total of $2,156,445,771.80 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 | $182,845,000.00 |
| Net Original Issue Premium | 18,590,813.20 |
| **TOTAL SOURCES** | $201,435,813.20 |
| | |
| **USES OF FUNDS**: | |
| Escrow Fund Deposit | $199,531,609.46 |
| Costs of Issuance* | 1,904,203.74 |
| **TOTAL USES** | $201,435,813.20 |

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

## THE PROJECT

The Cabinet will lease all of the facilities, renovations and improvements (the "Project") refinanced with the proceeds of the Bonds from the Commission under the Lease. State agencies originally related to the Project are the following:

| | |
|---|---|
| Commerce Cabinet | Environmental and Public Protection Cabinet |
| Department of Agriculture | Finance and Administration Cabinet |
| Department for Military Affairs | Governor's Office for Local Development |
| Department of Veterans' Affairs | Health and Family Services Cabinet |
| Cabinet for Economic Development | Justice and Public Safety Cabinet |
| Education Cabinet | |

## 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) and the Secretary of the Cabinet for Economic Development. 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. The Resolution was adopted by the Commission on February 10, 2005, authorizing the issuance of the Bonds.

### Future Financings

The Governor's proposed 2005 Budget Act was submitted to the House of Representatives and introduced on February 2, 2005. The House adopted a revised version of the 2005 Budget Act, and the Senate has subsequently adopted a revised version of the 2005 Budget Act. The 2005 Budget Act will now go to the conference committee, where members of the House and Senate will attempt to resolve differences before each Chamber takes another vote. The amount of bonds authorized in each version of the 2005 Budget Act includes a substantial increase from the amount proposed in the Governor's version. The 2005 Budget Act includes projects to be funded by bond funds, with debt service appropriated in the General Fund, Agency Restricted Funds and Road Fund. The proposed General Fund supported authorization would fund a variety of major capital maintenance, infrastructure and technology based projects for various state agencies. See "BUDGETARY PROCESS IN THE COMMONWEALTH" herein.

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future budgets. Bonds may also be issued to refund outstanding bonds that are General Fund supported.

## 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.

On December 23, 2003, Governor Fletcher signed an executive order authorizing the reorganization of state government, reducing the number of Executive Branch Cabinets from fourteen to eight. The executive order put into effect the primary recommendations proposed by the Governor's Blue Ribbon Commission on Governmental Organization and Efficiency. As a result, the Finance and Administration Cabinet has assumed the responsibilities of the former Revenue Cabinet and the Governor's Office of Technology. In addition to the newly assumed responsibilities, Cabinet functions include, (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 certain agencies; (5) providing administrative services of a financial nature to other agencies of state government; (6) the investment and management of all Commonwealth funds other than pension funds; and (7) oversight of the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

## 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 attached 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 2004 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

(i) Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
Internet: munis@bloomberg.com
Tel: (609) 279-3225
Fax: (609) 279-5962

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

(iii) Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Internet: nrmsir_repository@sandp.com
Tel: (212) 770-4595
Fax: (212) 770-7994

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

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 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 2004 and certain other fiscal years may be found on the Internet at:

http://finance.ky.gov/ourcabinet/caboff/ooc/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 *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

**Fiscal Year 2003**

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.

The Commonwealth's Government-Wide Financial Statements provide a broad view of the state's operations in a manner similar to a private-sector business. The Commonwealth's combined net assets (governmental and business-type activities) totaled $16.2 billion at the end of 2003, as compared to $15.4 billion at the end of the previous year. Over time, net assets may serve as a useful indicator of a government's financial position.

The largest portion of the Commonwealth's net assets $16.6 billion reflects its investment in capital assets (e.g. land, infrastructure, buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

An additional portion of the Commonwealth's net assets $1.65 billion is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets which, if positive could be used at the Commonwealth's discretion, showed a negative balance of $(2.06) billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $7.7 billion and general revenues of $8.1 billion for total revenues of $15.8 billion during Fiscal Year 2003. Expenses for the Commonwealth during Fiscal Year 2003 were $15 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of $770 million, net of contributions, transfers and special items.

During the fiscal year, the net assets of governmental activities increased by $724 million or 4.6 percent. Approximately 57 percent of the governmental activities' total revenue came from taxes, while 43 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. The net program expenses of these governmental activities were therefore supported by general revenues, mainly taxes.

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.

At the end of the fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of $2.16 billion, a decrease of $196 million in comparison with the prior year. Just over two-thirds ($1.47 billion or 68 percent) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of the fiscal year, the total fund balance reached $298 million, with an unreserved balance of $184 million. This compares to a General Fund unreserved balance of $(36) million as of June 30, 2002. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance of the Commonwealth's General Fund increased by $214 million during the fiscal year. This is a 253 percent increase from the prior year. The increase is the result of spending reduction efforts, lapses of appropriations, and an increased number of interfund transfers-in.

The Transportation Fund balance at June 30, 2003 totaled $439 million, a decrease of $114 million during the fiscal year. The decrease primarily relates to an accelerated program for the construction of road projects.

The Commonwealth of Kentucky's bonded debt decreased by $240 million to $3,165,223,000, a seven percent decrease during the fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2003. The key factor in this decrease was the payment of principal on bonds outstanding and the absence of any new money bonds issued during Fiscal Year 2003.

**Fiscal Year 2004**

The Commonwealth's Government-Wide Financial Statements provide a broad view of the state's operations in a manner similar to a private-sector business. The Commonwealth's combined net assets (governmental and business-type activities) totaled $16.6 billion at the end of 2004, as compared to $16.2 billion at the end of the previous year.

At $17.4 billion, the largest portion of the Commonwealth's net assets is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.38 billion is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, which if positive could be used at the Commonwealth's discretion, showed a negative balance of $2.2 billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $7.3 billion and general revenues of $8.5 billion for total revenues of $15.8 billion during Fiscal Year 2004. Expenses for the Commonwealth during Fiscal Year 2004 were $15.5 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of $311 million, net of contributions, transfers and special items.

During the fiscal year, the net assets of governmental activities increased by $344 million or 2.10 percent. Approximately 54 percent of the governmental activities' total revenue came from taxes, while 35 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

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.

At the end of the fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of $2.03 billion, a decrease of $74 million in comparison with the prior year. Approximately half ($999 million or 49 percent) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of the fiscal year, total fund balance reached $389 million, with an unreserved balance of $304 million. This compares to a General Fund unreserved balance of $184 million as of June 30, 2003. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance of the Commonwealth's General Fund increased by $94 million during the fiscal year. This is a 31.4 percent increase in net assets from the prior year. The increase is the result of spending reduction efforts, lapses of appropriations, and an increased number of interfund transfers-in.

The Transportation Fund balance at June 30, 2004 totaled $228 million, a decrease of $207 million during the fiscal year. The decrease primarily relates to an accelerated program for the construction of road projects.

The Commonwealth of Kentucky's bonded debt increased by $60 million to $3,225,431,000, a 1.90 percent increase during the fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2004. The key factor in this increase was the issuance of new debt during Fiscal Year 2004.

**Fiscal Year 2005 (Unaudited)**

On January 19, 2005, the Consensus Forecasting Group (the "Group") made an official revision to the FY05 and FY06 revenue estimates for the General Fund. The official revised estimate for FY05 is $7,433 million, an increase of $279 million over the estimate provided a year earlier, on January 9, 2004. General Fund revenues are projected to be $7,665 million in FY06, with 3 percent growth. These General Fund revenue estimates exclude Phase I Tobacco Settlement Agreement ("MSA") payments, expected to be $108.8 million and $108.6 million in FY05 and FY06, respectively. The MSA estimates remain unchanged from prior estimates. The official revenue estimate for the biennium will serve as the basis for appropriations made in the branch budget bills.

Fiscal Year 2005 General Fund revenues from July 2004 through January 2005 totaled $4,405.4 million versus $4,068.7 million for the same period one year ago, which represents a 8.3 percent increase. The forecasted growth rate for FY05 by the Group is 6.5 percent. Based upon year-to-date growth, the General Fund must expand by 4.1 percent for the remaining five months of the fiscal year to meet the estimate.

January 2005 receipts were $681.8 million or 10.7 percent higher than January 2004 receipts of $615.8 million. Among the major categories, the sales and use tax receipts grew by 8.8 percent, lottery revenue and property tax receipts dropped by 30.4 and 3.7 percent, respectively. Corporate income tax receipts were up 63.0 percent, individual income taxes rose 21.9 percent, and coal severance receipts were 22.6 percent higher.

**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 December 31, 2004, the Commonwealth's operating portfolio was approximately $3.08 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (11%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (46%); repurchase agreements collateralized by the aforementioned (17%); municipal securities (7%); and corporate and asset backed securities, including money market securities (19%). The portfolio had a current yield of 2.72% and an effective duration of 0.89 years.

The Commonwealth's investments are currently categorized into three investment pools: Short-term, Intermediate-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 and related accounts 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 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's 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 December 31, 2004, the Commonwealth owned an asset-based interest rate swaption straddle. This straddle gives the Commonwealth the right, but not the obligation, to enter into either a receiver or payer five year interest rate swap on December 13, 2005. The market value of the position as of December 31, 2004 was $925,336.

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, as modified by the bond insurance commitment (the "Commitment") relating to the Bond Insurance Policy, and the Lease. Such statements do not purport to be complete and reference is made to the Resolution and the Lease, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601.

### The Resolution

*Funds and Accounts*. The following Funds and Accounts have been established under the Resolution. In addition to the deposit to the escrow fund described under "PLAN OF FINANCE" above, deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. <u>Bond Service Fund</u>. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into such Bond Service Fund all or such portion of the Revenues as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds Outstanding under the Bond Resolution at or before their maturity. Accrued interest on the Bonds, if any, shall be deposited to the Bond Service Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any February 1 or August 1 and any date set for redemption of Bonds prior to maturity (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

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

Under the Resolution "Revenues" means, with respect to the Lease, all of the rental payments and other payments to be made by the Cabinet to the Commission pursuant to the Lease, or any other amounts received by the Commission for the use or occupancy of the Project and any other payments or deposits to be made to the Bond Service Fund, including proceeds from the disposition of any portion of the Project pursuant to the Bond Resolution.

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 Commission at the time of delivery of the Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Bonds. On payment of all duly authorized expenses incident to the issuance of such Bonds, any remaining balance in the Cost of Issuance Account will be transferred to the Bond Fund.

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

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

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

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

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

(c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Commission in the Resolution or in the Bonds contained, and the continuance thereof for a period of 30 days after written notice given by the Trustee to the Commission or by the Holders of not less than 25% in aggregate principal amount of Bonds outstanding, to the Commission and the Trustee; provided, however, that if such event of default can, in the opinion of the Commission, 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 aggregate 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 aggregate 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, as modified by the Commitment, provides that, subject to the right of the Bond Insurer, acting alone, to direct such action, 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.

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

The Resolution, as modified by the Commitment, provides that, subject to the right of the Bond Insurer, acting alone, to direct such action, 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 aggregate principal amount of Bonds outstanding, has no duty to act until it is furnished with indemnification satisfactory to it. The Trustee may institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Resolution or the Bonds and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interest of the Holders of the Bonds, provided that such request will not be otherwise than in accordance with the provisions of law and of the Resolution and will not be unduly prejudicial to the interest of the Holders of the Bonds not making such request.

Notwithstanding the above, while the Bond Insurance Policy is in effect, the Bond Insurer is also to be recognized as the registered owner of each Bond for the purposes of exercising all rights and privileges available to the Holders of Bonds.

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

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

In addition to the foregoing, the Commission and the Trustee, with Bond Insurer consent, 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.

*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, with the consent of the Bond Insurer so long as the Bond Insurance Policy remains in effect.

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

Whenever there shall be held by the Trustee in the Bond Service Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Service Fund or such escrow fund, shall be sufficient, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed or will mature, as the case may be, and subject to the delivery of an opinion of legal counsel acceptable to the Bond Insurer that the Bonds have been legally defeased and defeased within the meaning of the Resolution, 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 thereof.

As used herein, "Defeasance Obligations" means:

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

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

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

*Obligations of Issuer with Respect to Bonds Not Deemed to be Discharged, if Paid Pursuant to Insurance Policy*. The Resolution, as modified by the Commitment, provides that payments with respect to claims for interest on and principal of the Bonds disbursed from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Issuer with respect to such Bonds, and the Bond Insurer shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the Commitment or otherwise.

**The Lease**

The Commission and the Cabinet have entered into the Lease whereby the Cabinet will lease the Project from the Commission and will pay rentals to the Commission during biennial renewal terms which will provide funds sufficient to pay the amounts due on the Bonds.

The Lease has an initial term ending June 30, 2006. The Commission has granted the Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. The last renewal term for the Lease relating to the Bonds ends June 30, 2024. Under the provisions of the Constitution of the Commonwealth, the Commission and the Cabinet are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Cabinet to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Cabinet is bound for the entire amount of the rent becoming due during such term 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 has covenanted and agreed in the Lease that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth, it will cause to be included in the appropriations proposed for that biennial period to be made for the Cabinet sufficient amounts (over and above all other requirements of the Cabinet) to enable the Cabinet to make rental payments under the Lease and thereby produce income and revenues to the Commission to permit timely payment of the Bonds as the same become due during such period.

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

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

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

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof to any party it deems appropriate, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Cabinet's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Cabinet under the Lease upon delivery of an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in the gross income of the holders of the Bonds for federal income tax purposes. The Bondholders have no security interest in any properties constituting 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 the 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. at 99 Church Street, New York, New York 10007, (212) 553-0300; an explanation of the ratings given by S&P may be obtained from Standard & Poor's Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Wyatt, Tarrant & Combs, LLP, Louisville, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel, to the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT D. Certain legal matters will be passed upon for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. Certain legal matters will be passed upon for the Commission by their counsel, Gary Bale, Esq.

## LITIGATION

Except as described herein, 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. See the caption "BUDGETARY PROCESS IN THE COMMONWEALTH" for a discussion of litigation regarding the Commonwealth's budget.

## TAX EXEMPTION

### General

In the opinion of Wyatt, Tarrant & Combs, LLP, Bond Counsel, under existing law and as of the date of issuance of the Bonds, interest on the Bonds is excluded from gross income for Federal income tax purposes.

Interest on the Bonds is not an item of tax preference in determining "alternative minimum taxable income" under the Internal Revenue Code of 1986, as amended (the "Code"). However, interest on the Bonds, as well as all other interest excluded from gross income under the Code ("tax-exempt interest"), is includable in computing "adjusted current earnings" for purposes of determining the alternative minimum taxable income of a corporation.

The Code disallows as a deduction 100% of the interest expense incurred by commercial banks, thrift institutions, and other financial institutions, to the extent such interest expense is allocable to tax-exempt obligations acquired after August 7, 1986, including the Bonds. The Bonds are not eligible for a limited exception provided under the Code from this 100% disallowance rule.

For purposes of determining their taxable income under the Code, property and casualty insurance companies must reduce their losses incurred in any taxable year by an amount equal to 15% of the tax-exempt interest they receive or accrue during such taxable year, including interest on the Bonds.

Interest on the Bonds, as well as all other tax-exempt interest, may be taken into account in computing a foreign corporation's branch profits tax under the Code.

Recipients of Social Security benefits must include tax-exempt interest income, including interest on the Bonds, in computing their "modified adjusted gross income" for purposes of determining to what extent, if any, such benefits are includable in their gross income under the Code.

Tax-exempt interest income, including interest on the Bonds, is taken into account in determining whether certain taxpayers are denied the earned income credit under the Code by reason of having excessive investment income.

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

In the opinion of Bond Counsel, under the laws of the Commonwealth as presently enacted and construed, 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.

For the purpose of rendering their opinion described above, Bond Counsel will assume compliance by the Commission with the requirements of the Code that must be met subsequent to the issuance of the Bonds in order that interest thereon be and remain excluded from gross income for Federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds. The Commission has covenanted in the Resolution to comply with such requirements.

Purchasers of the Bonds should consult their own tax advisors for a further description of the Federal income tax rules mentioned above and for an analysis of the effect on their individual tax situations of their ownership of and receipt of interest on the Bonds.

A copy of the opinion of Bond Counsel for the Bonds is set forth in EXHIBIT D, attached hereto.

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

**Tax Treatment of Original Issue Discount**

The Bonds that have an original yield above their interest rate, as shown on the cover, are being sold at a discount (the "Discounted Obligations"). The difference between the initial public offering prices, as set forth on the cover page hereof, of the Discounted Obligations and their stated amounts to be paid at maturity, constitutes original issue discount treated as interest which is not includible in gross income for federal income tax purposes.

In the case of an owner of a Discounted Obligation, the amount of original issue discount which is treated as having accrued with respect to such Discounted Obligation is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of a Discounted Obligation (including its sale or payment at maturity). Amounts received upon disposition of a Discounted Obligation which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discounted Obligation, on days which are determined by reference to the maturity date of such Discounted Obligation. The amount treated as original issue discount on a Discounted Obligation for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such Discounted Obligation (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discounted Obligation at the beginning of the particular accrual period if held by the original purchaser, (b) less the amount of any interest payable for such Discounted Obligation during the accrual period. The tax basis is determined by adding to the initial public offering price of such Discounted Obligation the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If a Discounted Obligation is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The Code contains additional provisions relating to the accrual of original issue discount in the case of owners of a Discounted Obligation who purchase such Discounted Obligations after the initial offering. Owners of Discounted Obligations including purchasers of the Discounted Obligations in the secondary market should consult their own tax advisors with respect to the determination for federal income tax purposes of original issue discount accrued with respect to such obligations as of any date and with respect to the state and local tax consequences of owning a Discounted Obligation.

**Tax Treatment of Bond Premium**

The Bonds that have an original yield below their interest rate, as shown on the cover, are being sold at a premium (collectively, the "Premium Obligations"). An amount equal to the excess of the issue price of a Premium Obligation over its stated redemption price at maturity constitutes premium on such Premium Obligation. An initial purchaser of such Premium Obligation must amortize any premium over such Premium Obligation's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Obligations callable prior to their maturity, by amortizing the premium to the call date, based upon the purchaser's yield to the call date and giving effect to any call premium). As premium is amortized, it offsets the interest allocable to the corresponding payment period and the purchaser's basis in such Premium Obligation is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Obligation prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. The same treatment is afforded to Bonds purchased at a premium in the secondary market. Purchasers of Premium Obligations should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning such Premium Obligations.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

Concurrently with the delivery of the Bonds, The Arbitrage Group, Inc., Tuscaloosa, Alabama (the "Verifier"), will deliver a verification report stating that they have verified the mathematical accuracy of certain computations relating to the sufficiency of the principal of and interest on certain United States Treasury Obligations to provide for the timely payment of the principal or respective redemption prices of and interest on the Prior Bonds as they become due and upon redemption prior to maturity, as described above under the caption "PLAN OF FINANCE". Such computations will be based solely on assumptions and information supplied by the Underwriters on behalf of the Commonwealth. The Verifier will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the anticipated outcome.

## UNDERWRITING

The Bonds are to be purchased by a syndicate managed by Citigroup, as representative of the underwriters identified on the cover page hereof (the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of $200,475,048.28 (which is equal to the principal amount of the Bonds plus net original issue premium of $18,590,813.20 and less underwriting discount of $960,764.92). 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 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) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale or property securing repayment of the securities; and (xi) rating changes. The Commonwealth is already providing ongoing market disclosure as required by the Rule pursuant to agreements entered into in connection with other outstanding securities and has complied with requirements of 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.

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

By: /s/ Charles F. Bell, 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 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. OFM 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.

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

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

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

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the State. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and 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. In the event of a shortfall the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

### Default Record

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation indebtedness or its project revenue obligations.

**TABLE I**
**ACTIVE DEBT ISSUING ENTITIES**

| ENTITY | STATUTORY AUTHORITY/ PURPOSE | DEBT LIMITATIONS | RATING* |
|---|---|---|---|
| State Property and Buildings Commission | **KRS 56.450** Provide financing for capital construction projects and financing programs approved by the General Assembly. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Aa3/A+/AA- |
| Kentucky Asset/Liability Commission | **KRS 56.860** Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year. | Varies |
| Turnpike Authority of Kentucky | **KRS 175.410-175.990** Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Aa3/A+/AA- |
| The State Universities (consisting of nine) | **KRS 56.495** Construct educational buildings and housing and dining facilities. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Varies |
| Kentucky Housing Corporation | **KRS 198A** Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State. | Limited to $2.5 billion of debt outstanding | Aaa/AAA |
| Kentucky Infrastructure Authority | **KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities. | Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of $500 million. | Aa3/A+/AA- |
| Kentucky Higher Education Student Loan Corporation | **KRS 164A** 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 $1.95 billion of debt outstanding. | Aaa/AA- |
| School Facilities Construction Commission | **KRS 157.611-157.665** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities. | Cannot incur debt without appropriation of debt service by General Assembly. | Aa3/A+/A |
| Kentucky Economic Development Finance Authority | **KRS 154** Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state. | None. | Varies |
| Kentucky Local Correctional Facilities Construction Authority | **KRS 441.605-441.695** Provide an alternative method of constructing, improving, repairing and financing local jails. | Limited to the level of debt service supported by court fees pledged as repayment for the bonds. | AAA (Insured) |

*Ratings, where applicable, include Moody's, S&P and Fitch. S&P rates the Kentucky Infrastructure Authority's bonds which are paid from revenues (not appropriated funds), AA. Certain State Property and Buildings Commission Agency Fund Revenue Bonds may have ratings different than those identified above.

**EXHIBIT B**

**SUMMARY OF THE REFUNDED BONDS**

Commonwealth of Kentucky State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 69, Series A.

| Maturity | Coupon | Principal Amount |
|---|---|---|
| August 1, 2021 | 5.000% | $15,495,000 |

Commonwealth of Kentucky State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 72.

| Maturity | Coupon | Principal Amount |
|---|---|---|
| October 1, 2018 | 4.875% | $320,000 |
| October 1, 2019 | 5.000 | 3,500,000 |
| October 1, 2020 | 5.000 | 23,540,000 |
| October 1, 2021 | 5.100 | 7,720,000 |
| October 1, 2021 | 5.125 | 17,045,000 |

Commonwealth of Kentucky State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 74.

| Maturity | Coupon | Principal Amount |
|---|---|---|
| February 1, 2018 | 4.950% | $970,000 |
| February 1, 2019 | 5.000 | 13,840,000 |
| February 1, 2020 | 5.000 | 14,530,000 |
| February 1, 2021 | 5.000 | 15,255,000 |
| February 1, 2022 | 5.000 | 8,180,000 |
| February 1, 2022 | 5.150 | 7,840,000 |

Commonwealth of Kentucky State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 77.

| Maturity | Coupon | Principal Amount |
|---|---|---|
| August 1, 2023 | 5.000% | $14,935,000 |

Commonwealth of Kentucky State Property and Buildings Commission Revenue Bonds, Project No. 79.

| Maturity | Coupon | Principal Amount |
|---|---|---|
| October 1, 2021 | 5.000% | $21,395,000 |
| October 1, 2022 | 5.000% | $20,655,000 |

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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 (as hereinafter defined) of beneficial ownership interests, 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.

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 each maturity of the Bonds, 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.

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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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 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 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.

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

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**EXHIBIT D**

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

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky 40601

Re: $182,845,000 Commonwealth of Kentucky State Property and Buildings Commission Revenue Refunding Bonds, Project No. 84

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 Refunding Bonds, Project No. 84, in the aggregate principal amount of $182,845,000 (the "Bonds"), dated on original issuance as of ________________, 2005. The Bonds are being issued for the purpose of accomplishing the refunding of certain outstanding revenue bonds previously issued by the Commission which originally financed or refinanced public projects (collectively, the "Project") for certain cabinets, departments or other agencies of the Commonwealth of Kentucky (the "Commonwealth").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly 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 February 10, 2005 (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.

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 March 1, 2005 (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, 2006, with the right to renew the Lease for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

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

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

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

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

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

Very truly yours,

WYATT, TARRANT & COMBS, LLP

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# 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

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