

NEW ISSUE

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

\$218,275,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 85

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

The Revenue Bonds, Project No. 85 (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 February 1, 2006. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, 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 prices or yields as follows:

<u>Maturity</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Coupon</u>	<u>Price or</u> <u>Yield</u>	<u>Maturity</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Coupon</u>	<u>Price or</u> <u>Yield</u>
2006	\$7,180,000	3.000%	2.830%	2016	\$10,300,000	5.000%	3.820%*
2007	7,400,000	3.000	3.040	2017	175,000	3.950	3.980
2008	7,625,000	3.100	3.120	2017	10,965,000	5.000	3.880*
2009	7,870,000	3.200	3.240	2018	660,000	4.000	4.040
2010	8,135,000	3.350	100.00	2018	11,050,000	5.000	3.920*
2011	5,135,000	3.400	3.430	2019	25,000	4.050	4.090
2011	3,285,000	3.750	3.430	2019	12,280,000	5.000	3.950*
2012	4,390,000	3.500	3.510	2020	65,000	4.100	4.120
2012	4,365,000	5.000	3.510	2020	12,870,000	5.000	3.970*
2013	770,000	3.500	3.590	2021	13,600,000	5.000	4.000*
2013	8,395,000	5.000	3.590	2022	14,295,000	5.000	4.030*
2014	1,490,000	3.625	3.670	2023	300,000	4.200	4.240
2014	8,125,000	5.000	3.670	2023	14,730,000	5.000	4.060*
2015	1,120,000	3.750	100.00	2024	15,800,000	5.000	4.080*
2015	8,970,000	5.000	3.750	2025	1,420,000	4.300	4.320
2016	300,000	3.800	3.820	2025	15,185,000	5.000	4.100*

*Priced at the stated yield to the August 1, 2015 optional redemption date at a redemption price of 100%.

The Bonds are subject to redemption prior to maturity, 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 August 15, 2005 to (i) pay costs of funding the Project (as described and defined herein under the caption "THE PROJECT") and (ii) pay costs of issuing the Bonds.

The 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 Financial Security Assurance Inc.



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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Frost Brown Todd LLC, Louisville, Kentucky. It is expected that delivery of the Bonds will be made on or about September 14, 2005, in New York, New York, through the facilities of DTC, against payment therefor.

Citigroup

Bear Stearns & Co.

Morgan Stanley

J.J.B. Hilliard, W.L. Lyons, Inc.

NatCity Investments, Inc.

A.G. Edwards & Sons, Inc.

Seasongood & Mayer LLC

JPMorgan

Edward D. Jones & Co., L.P.

UBS Financial Services, Inc.

Morgan Keegan & Company, Inc.

Ross, Sinclair & Associates, Inc.

First Kentucky Securities Corp.

Merrill Lynch & Co.

Dated: August 24, 2005

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.

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

**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

F. THOMAS HOWARD
Acting Executive Director
Office of Financial Management
(Secretary to the Commission)

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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 \$218,275,000 Revenue Bonds, Project No. 85 (the "Bonds").

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission on August 15, 2005 (i) authorizing the issuance of the Bonds, (ii) approving the Lease Agreement dated as of September 1, 2005 (the "Lease"), between the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee, and (iii) approving certain Subleases dated as of September 1, 2005 (the "Subleases") between the Cabinet, as sublessor, and various state agencies described herein, as sublessees (the "Sublessees").

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

Security The Bonds and the interest thereon are payable solely from Pledged Receipts, which include, among other things, the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Lease and by the Sublessees under the Subleases. See "SECURITY FOR THE BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Lease and the Subleases" herein. The Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALY RENEWABLE LEASE AGREEMENT WITH THE CABINET AND TO THE CABINET BY THE SUBLESSEES UNDER THE BIENNIALY RENEWABLE SUBLEASES, THE RENT FROM WHICH IS

SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Bond Insurance

The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under a financial guarantee insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" 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 prices or yields set forth on the cover page hereof. The Bonds are issuable only as fully registered Bonds, without coupons. 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 February 1, 2006. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee").

The Bonds maturing on or before August 1, 2015 are not subject to optional redemption prior to maturity. The Bonds maturing after August 1, 2015 are subject to redemption at the option of the Commission on or after August 1, 2015, in whole or in part at any time, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See "THE BONDS - Redemption Provisions."

It is expected that delivery of the Bonds will be made on or about September 14, 2005, in New York, New York, against payment therefor.

Tax Status

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

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 76, 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.

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OFFICIAL STATEMENT

\$218,275,000

**COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 85**

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 \$218,275,000 Revenue Bonds, Project No. 85 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) pay costs of the Project (as described and defined herein under the caption "THE PROJECT") 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 adopted a Resolution on August 15, 2005, (the "Resolution") authorizing the issuance of the Bonds and approving the Lease hereinafter described.

The Cabinet has entered into a Lease Agreement dated as of September 1, 2005 (the "Lease") with the Commission to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The initial term of the Lease ends on June 30, 2006, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Cabinet, for each biennial period during which Bonds are outstanding, to seek legislative appropriations to the Cabinet in amounts which are sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Bonds.

The Kentucky General Assembly has appropriated to the Cabinet and the Sublessees (as defined below) amounts sufficient to meet the rental payments under the Lease and the hereinafter described Subleases, and therefore to permit the Commission to meet the debt service requirements of the Bonds, through June 30, 2006.

Portions of the Project will be used by various state agencies described under "THE STATE AGENCIES". In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project under Subleases dated as of September 1, 2005 (the "Subleases") to the following state agencies: the Commerce Cabinet, the Education Cabinet, the Council on Postsecondary Education, the Cabinet for Economic Development, the Environmental and Public Protection Cabinet, the Governor's Office for Local Development, and the Department of Military Affairs (collectively, the "Sublessees"). The initial period of each Sublease ends June 30, 2006, and the Subleases renew automatically (unless terminated in writing by the last business day in the preceding April by the applicable Sublessee) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. Each Sublease requires the applicable Sublessee, for each biennial period of its Sublease, beginning July 1, 2006, to seek to have legislative appropriations made to the Sublessee in amounts sufficient to permit the Sublessee to make rental payments to the Cabinet. Under the Commonwealth's current budget process, appropriations to make payments under the Subleases which are included in the current budget will be made directly to the Cabinet in future biennial periods. If this process is continued,

amounts sufficient to pay principal of and interest on all the Bonds will be appropriated to the Cabinet and the Subleases will terminate.

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

The scheduled payment of the principal of and interest on the Bonds, when due, will be guaranteed under a municipal bond insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc. (the "Bond Insurer"). See "BOND INSURANCE" herein.

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Subleases, the Project and the Cabinet are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924.

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will be dated the date of their delivery, and will bear interest payable on each February 1 and August 1, commencing February 1, 2006, at the interest rates set forth on the cover page of this Official Statement. U.S. Bank National Association, 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 maturing on or before August 1, 2015 are not subject to optional redemption prior to maturity. The Bonds maturing after August 1, 2015 are subject to redemption at the option of the Commission on or after August 1, 2015, in whole or in part at any time, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

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

The Kentucky General Assembly has appropriated to the Cabinet and the Sublessees amounts sufficient to meet the rental payments under the Lease (and each Sublease), and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2006.

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

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

The Commission had outstanding bonds in the aggregate principal amount of \$2,148,598,460 as of June 30, 2005. The Commission has further committed to issue its Agency Fund Revenue Bonds, Project No. 86 in the amount of \$5,840,000 (the "Project No. 86 Bonds"), which are expected to be issued simultaneously with the delivery of the Bonds. Upon the issuance of the Bonds and the Project No. 86 Bonds, the Commission will have a total of \$2,372,713,460 aggregate principal amount of bonds outstanding.

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

BOND INSURANCE

The following information has been furnished by Financial Security Assurance Inc. (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

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

The Bond Insurer

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2005, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,321,918,000 and its total unearned premium reserve was approximately \$1,672,672,000 in accordance with statutory accounting principles. At March 31, 2005, Financial Security's total shareholder's equity was approximately \$2,726,667,000 and its total net unearned premium reserve was approximately \$1,356,678,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by

reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

SOURCES AND USES OF FUNDS FOR THE BONDS

The following table sets forth the application of the proceeds of the Bonds.

SOURCES OF FUNDS:	
Par Amount of Bonds	\$218,275,000.00
Plus: Net Original Issue Premium	<u>13,635,084.35</u>
TOTAL SOURCES	\$231,910,084.35
USES OF FUNDS:	
Deposit to Construction Fund	230,053,000.00
Costs of Issuance*	<u>1,857,084.35</u>
TOTAL USES	\$231,910,084.35

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

THE PROJECT

The Project (the "Project") financed with the proceeds of the Bonds consists of the different project components identified on EXHIBIT B. The Cabinet and the Sublessees will lease and sublease the Project from the Commission under the Lease and Subleases. For further information on the Sublessees and the state agencies benefiting from the Project, see "THE STATE AGENCIES" herein.

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.

Future Financings

The 2005 Kentucky General Assembly authorized debt financing for projects totaling \$2,056,315,300 to support various capital initiatives of the Commonwealth. Of the total authorization, \$1,204,589,300 is General Fund supported, \$251,726,000 is Agency Restricted Fund supported, \$450,000,000 is Road Fund supported and \$150,000,000 is Federal Highway Trust Fund supported (Grant Anticipation Revenue Vehicle Bonds). This authorization is in addition to the authority to issue refunding bonds to refund outstanding issues. It is anticipated that the projects will be funded in whole or in part prior to June 30, 2006. The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future budgets.

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.

Senate Bill 49 of the 2005 General Assembly reorganized the Finance and Administration Cabinet to assume 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.

Department of Facilities and Support Services. The Department of Facilities and Support Services is responsible for the Commonwealth's capital construction program; real property acquisition, disposition and leasing services; the daily operation and maintenance of state-owned office properties and surplus property services. The Department includes four divisions: Division of Historic Properties, Division of Engineering and Contract Administration, Division of Surplus Properties, and Division of Real Properties. The Department of Facilities and Support Services also includes the Office of Building and Mechanical Services which provides building and grounds maintenance, mechanical maintenance, and electronic security to state-owned facilities across the Commonwealth. It consists of two divisions, the Division of Building Services and the Division of Mechanical Services.

THE STATE AGENCIES

Commerce Cabinet

The Commerce Cabinet was reorganized by Senate Bill 40 of the 2005 General Assembly and Executive Order 2005-0561 dated June 16, 2005 and combines the former Tourism Development Cabinet and elements of the Education, Arts, and Humanities Cabinet. The Commerce Cabinet's mission is to

promote the tourism industry in Kentucky. The Cabinet estimates tourism spending in excess of \$8.8 billion annually, making tourism Kentucky's third-largest industry. The tourism industry, Kentucky's second-largest private employer, provides employment for approximately 163,000 Kentuckians. In addition, tourism related industries and businesses generate approximately \$917 million of state and local tax revenues in the Commonwealth. The Commerce Cabinet includes various tourism and arts related agencies, including the Department of Parks, the Department of Tourism, the Kentucky Horse Park, and the Kentucky State Fair Board.

Kentucky Horse Park. The 1,032-acre Kentucky Horse Park is a recreational and educational park dedicated to mankind's relationship to the horse. It features an exclusive movie, farrier shop, tack shop, parade of breeds show, horse-drawn tours, the International Museum of the Horse, and the American Saddlebred Museum. Other attractions include the Man O'War Memorial, Hall of Champions, Secretariat Memorial, a gift shop, an art gallery, food service facilities, and horseback riding. A 260-site campground features a grocery, souvenir shop, pool, croquet, tennis, two playgrounds, and basketball courts. There are 1,076 stalls for horse shows and some of the finest equine eventing facilities in the world, including a covered arena, six polo fields, show rings, and a steeplechase course. Central Kentucky Riding for the Handicapped and the National Horse Center Office Complex, which includes 14 horse-related organizations employing an additional 150 people, are also located at the Park. The purpose of the Kentucky Horse Park is to be the world's definitive equestrian educational facility dedicated to all breeds of horses, to provide show facilities capable of hosting national and international equestrian competitions in many disciplines, and to provide a positive impact on both the local and state economies by establishing itself as a nationally recognized tourist attraction. The Horse Park provides recreational and educational activities for over 800,000 visitors a year through its regular activities and special events. In addition, the Park serves as an educational facility for approximately 20,000 student visitors a year.

Department of Parks. The Department of Parks administers and operates the Kentucky State Park System. The Department strives to provide quality recreational facilities and to preserve and protect historically significant sites and natural phenomena in the Commonwealth of Kentucky. The activities of the Department include the operation and maintenance of 17 resort parks, 22 recreational parks and ten historic sites.

Education Cabinet

The Kentucky Education Cabinet provides life-long educational and workforce services through learning opportunities for all Kentucky's residents, from pre-school to senior citizens. The Education Cabinet was reorganized by Executive Order 2005-0576 dated June 20, 2005 and combines several departments and offices from the former Education, Arts and Humanities Cabinet and the former Workforce Development Cabinet.

Department of Education. The Kentucky Department of Education provides services and resources to Kentucky's public school system, grades preschool through 12. The department's responsibilities include data reporting, assistance to local school districts, assessment and accountability for school improvement, and implementation of state and federal education legislation. Some of the Department's activities include: administering the statewide assessment and accountability system; providing technical assistance to schools and districts in the areas of finance, management and curriculum; providing support and information to the Kentucky Board of Education as it promulgates state education regulations; overseeing the state's education technology system; and monitoring school and district compliance with state and federal laws.

The Office of Career and Technical Education is one of four agencies in the Education Cabinet's Department for Workforce Investment. The Office of Career and Technical Education's state operated system of Kentucky TECH schools provides quality technical education through (1) secondary institutions (buildings are locally owned by boards of education and the schools are state-operated by

Kentucky TECH, including 53 area technology centers, and (2) training programs for business and industry designed to meet a company's specific employees training needs. The primary purpose of area technology centers is to serve high school students by enhancing and expanding student career options that lead to continuation of education at the postsecondary level and/or successful employment upon graduation from high school. Students receive instruction in sound academic principles, theory, laboratory and clinical experiences to ensure they can compete successfully in today's changing workplace.

Council on Postsecondary Education

The Council on Postsecondary Education ("CPE"), created and governed by the provisions of KRS 164.011, is an agency, instrumentality and political subdivision of the Commonwealth. It is composed of the Commissioner of Education, a faculty member, a student member and 13 citizen members appointed by the Governor. Its work involves coordinating the change and improvement of Kentucky postsecondary education. It is responsible for general planning and oversight of a system that includes the eight universities of the Commonwealth and the Kentucky Community and Technical College System.

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

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

Morehead State University. Morehead State University offers approximately 80 degree programs that are available on the two-year, four-year and graduate levels. The University is composed of four colleges concentrating in humanities, business, education, and science and technology. The university's six divisions: Academic Affairs, Administration and Fiscal Services, Development and Alumni Relations, Planning, Budgets and Technology, Student Life and University Relations work in harmony to implement strategies to fulfill the institution's ongoing strategic goals for quality education. The University is located in Rowan County, Kentucky, halfway between Lexington, Kentucky, and Huntington, West Virginia on Interstate 64.

Cabinet for Economic Development

In 1992, the Kentucky General Assembly created the Kentucky Economic Development Partnership, a board governing the Cabinet for Economic Development and directing the state's economic development efforts. The Partnership is composed of thirteen members. Eight private sector members represent each of the state's congressional districts and different sectors of its economy. The secretaries of four Cabinets – Economic Development, Finance and Administration, Environmental and Public Protection, and Commerce – serve as public sector, ex-officio members. The Governor serves as chairman of the Partnership.

The Cabinet for Economic Development is the primary state agency in Kentucky responsible for creating new jobs and new investment in the state. New business investment in Kentucky in 2004 totaled nearly \$2.3 billion with the creation of just over 16,600 new jobs. The Cabinet for Economic Development promotes and facilitates increased economic development in the Commonwealth. This development is aimed toward increasing the standard of living and improving the opportunities of all Kentucky citizens. The Cabinet for Economic Development works to encourage new businesses to locate in Kentucky, to assist business in the Commonwealth to expand, to increase outside investment and spending in the Commonwealth, to promote Kentucky products and resources and to upgrade the quality and quantity of services provided by Kentucky communities.

Environmental and Public Protection Cabinet

The Environmental and Public Protection Cabinet (EPPC) was created when the former Natural Resources and Environmental Protection Cabinet, the Kentucky Labor Cabinet and the Public Protection and Regulation Cabinet were combined through reorganization by Senate Bill 41 of the 2005 General Assembly. The EPPC is divided into four departments: The Department for Environmental Protection, the Department for Natural Resources, the Department of Labor and the Department of Public Protection. The Environmental and Public Protection Cabinet is charged with the protection and preservation of land, air and water resources, supervision and regulation of industries providing services to the citizens of the Commonwealth and the administration of rules for the state concerning employer-employee relationships. The Cabinet is responsible for environmental leadership, monitoring environmental trends and shaping a vision for Kentucky's environmental future. The Cabinet enforces statutes and regulations ensuring the integrity of supervised industries and the safety of employees through oversight activities relating to wages and hours, occupational safety and employee health, child labor, apprenticeship, and workers' compensation.

Division of Waste Management. The Kentucky Division of Waste Management is a state agency operating under the umbrella of the Kentucky Department for Environmental Protection. The division's mission is to protect human health and the environment by minimizing adverse impacts on all citizens of the Commonwealth through the development and implementation of fair, equitable and effective waste management programs. The Division protects human health and the environment by minimizing adverse impacts on all citizens of the Commonwealth through the development and implementation of fair, equitable and effective waste management programs. The Division of Waste Management now manages the Petroleum Storage Tank Environmental Assurance Fund (PSTEAF) which assists owners and operators of underground storage tanks (UST) in meeting federal responsibility requirements and providing reimbursement of eligible costs of corrective action required as a result of a release from a UST system. The Fund serves as a mechanism for petroleum storage tank owners or operators to demonstrate compliance with federal financial assistance responsibility requirements of 40 CFR, subpart H. In addition, the Fund provides financial assistance to owners and operators in performing remedial cleanups at contaminated facilities. Its mission is to provide for the prevention, abatement and control of contaminants from regulated underground storage tanks (USTs) that may threaten human health, safety and the environment. This Branch regulates the registration, compliance, closure, inspections and corrective actions of UST systems.

Governor's Office for Local Development

The Governor's Office for Local Development, or GOLD, provides financial help in the way of grant and loan assistance, as well as advising local governments in matters of budget, personnel and other items relevant to those entities. The mission of GOLD is to empower partners with effective advocacy, information, and funding resources. Gold includes six Divisions and Programs: Division of Financial Management and Administration, Division of Grants, Kentucky Community Development Office, Renaissance on Main, Local Initiatives for a New Kentucky, and the Kentucky Infrastructure Authority.

GOLD also partners with the state's fifteen Area Development Districts in serving the local governments of Kentucky.

Kentucky Infrastructure Authority. The Kentucky Infrastructure Authority ("KIA") was created to provide a mechanism for funding infrastructure projects for governmental agencies in the Commonwealth. KIA will administer the Infrastructure for Economic Development Funds Bond Pool projects. KIA also administers the Water and Sewer Resources Development Funds Bond Pool Projects which were financed by the State Property and Buildings Commission Revenue Bonds, Project No. 79, in addition to the following four programs:

The Federally Assisted Wastewater Revolving Loan Program ("Fund A") is used to finance local wastewater treatment and collection facilities that qualify under the U.S. Environmental Protection Agency requirements. The state match for Fund A projects is funded through bonds supported by General Fund appropriations, however no proceeds of the Bonds will be allocated to Fund A.

The Infrastructure Revolving Loan Program ("Fund B") provides financing for construction or acquisition of any type of infrastructure project. Fund B also includes the 2020 Water Service Account, which has been used to fund drinking water projects and improvements to drinking water systems. General Fund appropriations are the source of payment for Fund B bonds, however no proceeds of the Bonds will be allocated to Fund B.

The Governmental Agencies Program ("Fund C") is a pooled loan program that seeks to provide local governmental agencies access to funding at better terms than could be obtained on an individual basis. Financing for approved projects is provided through the issuance of Fund C bonds secured by local governmental agency receipts.

The Drinking Water Revolving Loan Fund ("Fund F") is used to finance local drinking water treatment facilities that qualify under the U.S. Environmental Protection Agency requirements. The state match for Fund F projects is funded through bonds supported by General Fund appropriations, however no proceeds of the Bonds will be allocated to Fund F.

Department of Military Affairs

The Department of Military Affairs (DMA) is a unique and diverse organization within state government, having both a state government organizational component and a federal government component under the Office of the Adjutant General for Kentucky. The strategic mission of DMA is to provide highly trained, appropriately resourced and properly equipped professionals and unique services required to successfully meet state and federal missions worldwide. The primary goals of DMA are readiness to accomplish militarily both the state and federal missions of the Kentucky Army and Air National Guard and readiness to perform important response functions before, during and after a disaster or emergency.

DMA is attached to the Office of the Governor and consists of the Office of the Adjutant General for Kentucky and nine state divisional elements and two federal organizational elements, which oversee fourteen federal divisions. Additionally, KRS 36.255 administratively attaches the Kentucky Community Crisis Response Board to DMA.

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 76, 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.

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.

In each of the last two even numbered years, the regular legislative session of the General Assembly adjourned without adoption of a State Budget. On both occasions, the Governor signed Executive Orders authorizing the Secretary of the Finance and Administration Cabinet to issue warrants for the payment of all claims 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 (the "Continuation Plan"). The Continuation Plans provided full spending authority for the total debt service payments. In both cases, the Kentucky General Assembly

enacted a State Budget in March of the following odd numbered year, which incorporated the Continuation Plans and appropriated funds for the remainder of the biennium.

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)

The Commonwealth began Fiscal Year 2005 without a legislatively enacted budget for the Executive branch of government and operated under quarterly Public Services Continuation Plans implemented by Executive Orders of the Governor. In the General Assembly's 2005 Regular Session, which concluded on March 22, 2005, the legislature enacted House Bill 267 (the "Budget Bill") which included a budget for the Executive branch of government for the 2005-2006 biennium and effectively ratified all amounts previously spent under the Public Services Continuation Plans.

Fiscal Year 2005 General Fund revenues totaled \$7,645.0 million versus \$6,997.6 million for the prior fiscal year, which represents an increase of 9.6 percent. Actual revenues for Fiscal Year 2005 were \$195.1 million above the official revenue estimate on which the Budget Bill was based. Most major taxes exhibited across-the-board growth. Sales and use tax grew 6.0 percent (\$147.4 million), the highest growth rate since 1996. Individual income taxes increased 8.6 percent (\$239.9 million), while corporate income taxes increased by a sharp 57.8 percent (\$175.3 million) due primarily to lower refund payments. Coal severance taxes rose 25 percent (\$36.9 million) due to strong energy markets. Property tax receipts grew 5.3 percent (\$23.8 million), while the lottery fell 7.2 percent (\$12.5 million). Cigarette tax receipts rose 97.1 percent (\$16.5 million) in the last month due to an increase in the rate of the tobacco tax and the

imposition of a one-time floor stock tax as of May 31, 2005. Per pack taxes increased from 3 cents to 30 cents per pack. The ending General Fund undesignated balance was \$468.8 million, which is \$214.3 million above the budgeted undesignated balance. \$90.6 million of the undesignated balance will be deposited in the Budget Reserve Trust Fund, bringing the balance in the Fund to 1.5 percent of the estimated General Fund revenues in the Budget Bill for Fiscal Year 2006.

Fiscal Year 2006 (Unaudited)

On August 10, 2005, the Consensus Forecasting Group (the "Group") made a preliminary planning estimate for the Fiscal Year 2006 General Fund revenues of \$8,151.6 million, an increase of \$325.8 million over the estimate used in the Budget Bill. The Fiscal Year 2006 General Fund revenue estimate assumes 6.6 percent growth over the actual Fiscal Year 2005 General Fund revenues. These estimates exclude Phase I Tobacco Settlement Agreement ("MSA") payments, expected to be \$108.6 million in Fiscal Year 2006. The MSA estimate remains unchanged from prior estimates.

July 2005 receipts were \$596.8 million versus \$546.9 million in July 2004, which represents an increase of 9.1 percent. There was solid growth in most of the major categories with sales and use up \$12.3 million or 5.5 percent, while individual income tax collections were up \$13.8 million or 6.2 percent as compared to July 2004 collections. Cigarette taxes and the floor stock tax provided an additional \$17.6 million, which resulted from tax law changes authorized in the last session of the General Assembly. Coal severance was up \$3.7 million or 26 percent due to continued strength in the energy sector. Lottery payments were down \$2 million versus last year.

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management.

At June 30, 2005, the Commonwealth's operating portfolio was approximately \$3.4 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 (29%); repurchase agreements collateralized by the aforementioned (23%); municipal securities (5%); and corporate and asset backed securities, including money market securities (32%). The portfolio had a current yield of 3.19% and an effective duration of 0.85 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 June 30, 2005, 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 June 30, 2005 was \$ 564,641.

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

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

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution, the Lease and the Subleases. Such statements do not purport to be complete and reference is made to the

Resolution, the Lease and the Subleases, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601.

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution.

1. Bond Service Fund. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into the 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, will be deposited to the Bond Service Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any August 1 or February 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 Fund will be transferred to the Bond Fund.

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

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

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of 66 2/3% of the 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 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.

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, 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.

The Lease and the Subleases

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

The Lease and the Subleases have an initial term ending June 30, 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 and the Subleases have corresponding renewal provisions. The last renewal term for the Lease and Subleases relating to the Bonds ends June 30, 2026, the final maturity date permissible for any Bonds to be issued by the Commission for the Project. Under the provisions of the Constitution of the Commonwealth, the Commission, the Cabinet and the Sublessees are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease and the Subleases provide that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Cabinet or the Sublessees, respectively, to not so renew is given to the Commission by the last business day of May (or the last business day of April under the Subleases) prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Cabinet and the Sublessees are bound for the entire amount of the rent becoming due during such term as a general obligation of the Cabinet or applicable Sublessee, limited to amounts appropriated for such purpose payable from any and all funds of the Cabinet or applicable Sublessee, including, but not limited to, appropriations, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law.

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

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

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

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof to any party it deems appropriate, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Cabinet's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Cabinet under the Lease. The Cabinet has similar remedies in the event of a default by the

Sublessees under the Subleases. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have given the Bonds 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 Peck, Shaffer & Williams LLP, Covington, 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, Frost Brown Todd LLC, Louisville, Kentucky. Certain legal matters will be passed upon for the Commission by their counsel.

LITIGATION

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

TAX TREATMENT

General

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

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

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

Certain requirements and procedures contained or referred to the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

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

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

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

Original Issue Discount

The Bonds that have an interest rate that is lower than the yield, as shown on the cover page hereto (the "Discount Bonds"), are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price

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

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

Premium

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

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

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 \$230,876,351.36 (which is equal to the principal amount of the Bonds plus net original issue premium of \$13,635,084.35 and less underwriting discount of \$1,033,732.99). 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 Acting 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/ F. Thomas Howard

Acting Executive Director
Office of Financial Management
(Secretary to the Commission)

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

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

The Project

Sublessee/State Agency¹	Project Description	Amount²
Commerce Cabinet		
Kentucky Horse Park	Horse Park Indoor Arena – Design	\$1,500,000
Department of Parks	Herrington Lake State Park and Lodge – Design and Land Acquisition	2,000,000
Department of Parks	Kincaid Lake Lodge – Design and Engineering	500,000
Department of Parks	Parks Renovation Pool	35,000,000
Education Cabinet		
Department of Education	Butler County Area Vocational Center	1,500,000
Department of Education	Letcher County Central Vocational Center	2,000,000
Department of Education	Russell County Learning Center	3,500,000
Council on Postsecondary Education		
	Biotechnology Building – Shrimp Production	1,700,000
Kentucky Community and Technical College System	Franklin Technology Center	12,000,000
Kentucky Community and Technical College System	Owensboro Technology Center	13,088,000
Kentucky Community and Technical College System	Warren County Technology Center	7,500,000
Morehead State University	Clay Community Center – Eight Additional Classrooms	1,500,000
Cabinet for Economic Development		
	Crispus Attucks – Small Business Incubator	250,000
	Gallatin County/Argent Metals Technology	200,000
	Montgomery County/Nestle Prepared Foods	100,000
	Warren County/Retail Logic, Inc. (Pan-Oston)	340,000
	Warren County/South Central Ky. Regional Dev. Authority/Bowling Green Metalforming LLC (Magna)	1,500,000

¹ Names of Sublessees under the Subleases in Bold; names of related State Agencies for whose benefit the Projects are being undertaken in non-bold.

² Excludes allocable costs of issuance.

Sublessee/State Agency¹	Project Description	Amount²
Environmental and Public Protection Cabinet		
Division of Waste Management	Petroleum Storage Tank Environmental Assurance Fund	25,000,000
Finance and Administration Cabinet		
	Renovate State Office Bldg. Phase II	35,000,000
	Statewide Repair, Maintenance, and Replacement Pool Fund	18,225,000
Governor's Office for Local Development		
	Community Economic Growth Program	10,000,000
	E.P. Tom Sawyer Park	400,000
	Knox Partners Community Education Center	2,000,000
	Louisville Science Center	700,000
	Louisville Zoo	750,000
Kentucky Infrastructure Authority	Infrastructure for Economic Development Fund for Coal- Producing Counties	20,000,000 ³
Kentucky Infrastructure Authority	Infrastructure for Economic Development Fund for Tobacco Counties	31,500,000 ³
Department of Military Affairs	Various Facilities – Deferred Maintenance	2,300,000
Total		\$230,053,000

³ Represents one-fourth of the Authorized Project Amount.

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: \$218,275,000 Commonwealth of Kentucky State Property and Buildings Commission
Revenue Bonds, Project No. 85

Ladies and Gentlemen:

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its Revenue Bonds, Project No. 85, in the aggregate principal amount of \$218,275,000 (the "Bonds"), dated on original issuance as of the date of their delivery.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on August 15, 2005 (the "Resolution") for the purpose of (i) providing financing for the projects described in Exhibit B to the Resolution; and (ii) paying the costs of issuing the Bonds.

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

We have also examined records relating to the authorization and 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 September 1, 2005 (the "Lease"), between the Commission, as lessor, and the Cabinet, as lessee, and from certain subleases dated as of September 1, 2005 (the "Subleases") between the Cabinet, as sublessor, and certain state agencies (the "State Agencies"), as sublessees. 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 and the Subleases have been duly authorized, executed and delivered by the Cabinet. The Lease and the Subleases are the legal, valid and binding obligations of the Cabinet and the respective State Agencies. The Lease and the Subleases are enforceable in accordance with their respective 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, the State Agencies 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 and the State Agencies. The Lease and the Subleases currently have terms ending June 30, 2006, with the right to renew the Lease and the Subleases for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

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

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

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

In rendering our opinion as to the due authorization, execution and delivery of the Lease and the Subleases by the Cabinet, we have relied on opinions of counsel to the Cabinet.

Very truly yours,

EXHIBIT E

FORM OF MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)