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

NEW ISSUE

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

$375,000,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue and Revenue Refunding Bonds, Project No. 90

Dated: Date of delivery **Due: November 1, as shown on inside cover**

The Revenue and Revenue Refunding Bonds, Project No. 90 (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 May 1 and November 1, commencing on May 1, 2009. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent.

AMOUNTS, MATURITIES, INTEREST RATES, YIELDS AND CUSIP NUMBERS ON INSIDE COVER.

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 Bond Resolution adopted by the Commission on September 15, 2008, as supplemented and amended on October 3, 2008 to (i) finance and refinance the Project, including the payment of certain capitalized interest, as described herein, (ii) refund certain of the Commission's outstanding bonds and certain interim project notes issued by the Kentucky Asset/Liability Commission, as more fully described herein and (iii) pay costs of issuing the Bonds.

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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Chapman and Cutler LLP, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Perkins Coie LLP. It is expected that delivery of the Bonds will be made on or about October 21, 2008, through the facilities of DTC, against payment therefor.

Morgan Stanley

Citi

J.J.B. Hilliard, W.L. Lyons, LLC	**NatCity Investments, Inc.**	**Morgan Keegan & Co., Inc.**
JP Morgan	**Wachovia Bank, N.A.**	**Edward D. Jones & Co., L.P.**
First Kentucky Securities Corp.	**Ross, Sinclaire & Associates, LLC**	**Merrill Lynch & Co.**

Dated: October 8, 2008

$375,000,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue and Revenue Refunding Bonds, Project No. 90

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

Maturity (Nov. 1)	Principal Amount	Interest Rate	Yield	CUSIP†	Maturity (Nov. 1)	Principal Amount	Interest Rate	Yield	CUSIP†
2009	$2,000,000	5.000%	2.530%	49151ES87	2015	$14,645,000	5.000%	4.450%	49151ET86
2010	2,985,000	3.000	3.250	49151ES95	2016	4,230,000	4.500	4.650	49151ET94
2010	5,510,000	5.000	3.250	49151ET29	2017	2,160,000	4.750	4.800	49151EU27
2011	7,620,000	4.000	3.600	49151ET37	2017	6,860,000	4.800	4.800	49151EU35
2012	1,785,000	3.750	3.900	49151ET45	2018	40,000,000	5.000	5.064	49151EU43
2012	5,875,000	5.000	3.900	49151ET52	2019	40,000,000	5.750	5.180	49151EU50
2013	13,320,000	4.000	4.000	49151ET60	2020	35,000,000	5.000	5.312	49151EU68
2014	12,330,000	4.125	4.250	49151ET78					

$68,680,000 5.375% Term Bonds due November 1, 2023 Yield 5.674% CUSIP No. 49151EU76
$12,000,000 5.750% Term Bonds due November 1, 2023 Yield 5.650% CUSIP No. 49151EU84
$100,000,000 5.500% Term Bonds due November 1, 2028 Yield 5.800% CUSIP No. 49151EU92

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

Members

STEVEN L. BESHEAR
Governor
(Chairman of the Commission)

DANIEL MONGIARDO
Lieutenant Governor

JACK CONWAY
Attorney General

JONATHAN MILLER
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

LARRY M. HAYES
Interim Secretary
Cabinet for Economic Development

MARY E. LASSITER
State Budget Director

EDGAR C. ROSS
State Controller

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

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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(continued)

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 cover hereof and 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 $375,000,000 Revenue and Revenue Refunding Bonds, Project No. 90 (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 bond resolution (the "Resolution") adopted by the Commission on September 15, 2008, as supplemented and amended on October 3, 2008 (i) authorizing the issuance of the Bonds and (ii) authorizing the Lease Agreement dated as of October 1, 2008 by and between the Commission and the Cabinet (the "Project 90 Lease"), together with the Financing/Lease Agreement dated as of November 1, 2005 among the Commission and the Kentucky Asset/Liability Commission ("ALCo"), each as lessor, and the Cabinet, as lessee, as from time to time supplemented and amended (the "Prior Lease", and collectively with the Project 90 Lease, the "Lease").
Use of Proceeds	The Bonds are being issued to provide funds with which to (i) finance and refinance the Project, including the payment of certain capitalized interest, as described herein, (ii) refund certain of the Commission's outstanding bonds and certain interim project notes issued by the Kentucky Asset/Liability Commission (the "Prior Bonds"), as more fully described herein and (iii) pay costs of issuing the Bonds.
Security	The Bonds and the interest thereon are payable solely from the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Lease. See "SECURITY FOR THE BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Lease and the Subleases". The Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom. THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN

CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE AGREEMENT WITH THE CABINET AND TO THE CABINET BY CERTAIN STATE AGENCIES UNDER BIENNIALLY RENEWABLE SUBLEASES, THE RENTS FROM WHICH ARE SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPER TIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Features of Bonds

The Bonds are being offered in the authorized denominations of $5,000 or any integral multiple thereof, with the principal maturities and at the interest rates and yields set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest due on the Bonds will be made directly to DTC.

The Bonds will bear interest payable on each May 1 and November 1, commencing on May 1, 2009. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent (the "Trustee").

Optional Redemption

The Bonds maturing on and after November 1, 2019 are subject to redemption at the option of the Commission on any date on or after November 1, 2018, in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions – *Optional Redemption*."

Mandatory Sinking Fund Redemption

The Bonds maturing on November 1, 2023 bearing interest at 5.375%, November 1, 2023 bearing interest at 5.750% and November 1, 2028 bearing interest at 5.500% are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to 100% of the principal amount thereof being redeemed, plus accrued interest to the date fixed for redemption on November 1 of the years 2021 to 2023, 2021 to 2023, and 2024 to 2028, respectively, and in each case, inclusive. See "THE BONDS – Redemption Provisions – *Mandatory Sinking Fund Redemption*."

It is expected that delivery of the Bonds will be made on or about October 21, 2008, against payment therefor.

Tax Status

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

Continuing Disclosure

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended. 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, Morgan Stanley & Co. Incorporated, 1585 Broadway, New York, New York 10036, (212) 761-1554.

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OFFICIAL STATEMENT
Relating to

$375,000,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue and Revenue Refunding Bonds, Project No. 90

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 $375,000,000 Revenue and Revenue Refunding Bonds, Project No. 90 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) finance and refinance the Project, including the payment of certain capitalized interest, as described herein, (ii) refund certain of the Commission's outstanding bonds and certain outstanding notes of the Kentucky Asset/Liability Commission identified in EXHIBIT C hereto (collectively, the "Prior Bonds") and (iii) pay costs of issuing the Bonds.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Bond Resolution on September 15, 2008, as supplemented and amended on October 3, 2008 (the "Resolution") authorizing the issuance of the Bonds and affirming the Lease hereinafter described.

The Cabinet, as lessee, has entered into the Financing/Lease Agreement dated as of November 1, 2005 among the Commission and the Kentucky Asset/Liability Commission ("ALCo"), each as lessor, and the Cabinet, as lessee, as from time to time supplemented and amended (the "Prior Lease"), and the Lease Agreement dated as of October 1, 2008 by and between the Commission and the Cabinet (the "Project 90 Lease" and collectively with the Prior Lease, the "Lease"). Payments made pursuant to the Lease will provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The current term of the Lease ends June 30, 2010, 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 the 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, 2010.

Portions of the Project will be used by various state agencies described under "THE STATE AGENCIES" (collectively, the "Sublessees"). In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project under Subleases dated as of November 1, 2005, December 1, 2006, May 1, 2008 and October 1, 2008, as amended to date, (collectively, the "Subleases") to the Sublessees. The terms of each Sublease are for biennial periods, 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 with the first July 1 occurring after the date of its Sublease, 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.

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.

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Subleases, the Project, the Cabinet and the State Agencies 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 May 1 and November 1, commencing on May 1, 2009, at the interest rates set forth on the inside cover 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 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 D – Book-Entry-Only System."

Redemption Provisions

Optional Redemption. The Bonds maturing before November 1, 2019, are not subject to optional redemption prior to maturity. The Bonds maturing on and after November 1, 2019, are subject to redemption at the option of the Commission on any date on or after November 1, 2018, in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on November 1, 2023 bearing interest at 5.375%, November 1, 2023 bearing interest at 5.750% and November 1, 2028 bearing interest at 5.500% (collectively, the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to 100% of the principal amount thereof being redeemed, plus accrued interest to the date fixed for redemption on November 1 of the years and in the amounts set forth in the tables below:

5.375% Bonds Maturing on November 1, 2023

YEAR	PRINCIPAL AMOUNT
2021	$22,760,000
2022	22,890,000
2023*	23,030,000

5.750% Bonds Maturing on November 1, 2023

YEAR	PRINCIPAL AMOUNT
2021	$4,000,000
2022	4,000,000
2023*	4,000,000

5.500% Bonds Maturing on November 1, 2028

YEAR	PRINCIPAL AMOUNT
2024	$19,660,000
2025	19,825,000
2026	19,990,000
2027	20,170,000
2028*	20,355,000

* Final Maturity

In lieu of mandatory sinking fund redemption, the Commission, or the Trustee on behalf of the Commission, may purchase Term Bonds at the most advantageous price obtainable, not to exceed the principal amount thereof plus accrued interest to the date of purchase. The purchase of such Bonds will be used to reduce the amount of Bonds of such maturity to be called by the Trustee on the next succeeding mandatory sinking fund redemption date. In the event that any of the Term Bonds are redeemed, the principal amount of the Term Bonds so redeemed shall be credited against mandatory sinking fund installments in such order as the Commission shall determine.

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. With respect to an optional redemption of any Bonds, unless moneys sufficient to pay the principal of and interest on the Bonds to be redeemed is received by the Trustee prior to the giving of such notice of redemption, such notice may, at the option of the Commission, state that such redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. 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 principal and interest and premium, if any, on the Bonds thereon are payable solely from the Bond Fund (hereinafter defined) and are secured by a first lien on the revenues derived or to be derived from the Lease. 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, 2010.

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 amounts used to refund the Prior Bonds and 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 regarding the Project.

The Commission had outstanding bonds in the aggregate principal amount of $2,459,325,000 as of October 1, 2008. The Commission has further committed to issue its Agency Fund Revenue Bonds, Project No. 91 in the amount of $15,720,000 for the Kentucky River Authority (the "KRA Bonds") and its Taxable Agency Fund Revenue Bonds, Project No. 92 in the amount of $4,975,000 for the Kentucky Department of Military Affairs (the "DMA Bonds"), which are expected to be issued simultaneously with the delivery of the Bonds. The KRA Bonds are payable from "Agency Fund" appropriations of the Kentucky River Authority and the DMA Bonds are payable from "Agency Fund" appropriations of the Department of Military Affairs. Upon the issuance of the Bonds, the KRA Bonds and the DMA Bonds, the Commission will have a total of $2,812,775,000 aggregate principal amount of bonds outstanding.

PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Cabinet to (i) pay costs of the Project, including the payment of certain capitalized interest, (ii) refund the Prior Bonds, which are further identified in EXHIBIT C hereto and (iii) pay costs of issuing the Bonds. See "SOURCES AND USES OF FUNDS FOR THE BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The Project financed with the proceeds of the Bonds consists of the different project components identified in EXHIBIT B (the "Project"). 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.

To provide for the refunding of the Prior Bonds, on the date of issuance of the Bonds, proceeds of the Bonds, together with certain funds provided by the Commission, will be deposited in the respective prior bond service funds and note payment fund maintained by the trustees for the Prior Bonds (the "Prior Trustees") and held in cash or used to purchase investments permitted by the resolutions and indentures authorizing the Prior Bonds (the "Escrow Obligations"), the principal of and interest on which will be sufficient to pay principal and redemption price of and interest on the Prior Bonds at their respective maturities or upon the redemption dates thereof.

The accuracy of (i) the arithmetical computations of the maturing principal of and interest on the Escrow Obligations purchased with proceeds of the Bonds to pay, when due, the principal and redemption price of and interest on the Prior Bonds and (ii) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder, will be verified by Causey Demgen & Moore Inc., independent certified public accountants (the "Verification Agent"), based upon information supplied by the Underwriters in connection with such matters.

Neither the Escrow Obligations nor the interest earned thereon will serve as security or be available for the payment of the principal of or interest on any of the Bonds.

Upon the making of the foregoing deposits with the Prior Trustees, the Prior Bonds will no longer be deemed to be outstanding for the purposes of the respective resolutions and indentures under which the

Prior Bonds were issued. Thereafter, amounts due from the Cabinet under the Prior Lease will be made payable to the Commission. In addition, to the extent that any amounts on deposit in the project fund created by the trust indenture for the interim project notes identified in EXHIBIT C hereto relate to projects financed with proceeds of the interim project notes that have been refunded by the Bonds, such amounts will be transferred to the Construction Fund created by the Resolution.

SOURCES AND USES OF FUNDS FOR THE BONDS

The following table sets forth the estimated sources and uses of the application of the funds related to the Bonds.

SOURCES OF FUNDS:	
Par Amount of Bonds	$375,000,000.00
Net Original Issue Discount	(4,008,535.50)
Equity Contribution	5,000,000.00
TOTAL SOURCES	$375,991,464.50
USES OF FUNDS:	
Refunding of Interim Project Notes	$200,000,000.00
Payment of Project Costs	121,434,039.01
Refunding of Prior Bonds	43,283,367.27
Capitalized Interest	9,064,126.15
Costs of Issuance*	2,209,932.07
TOTAL USES	$375,991,464.50

* Includes underwriters' discount, legal fees, printing and miscellaneous costs.

THE STATE PROPERTY AND BUILDINGS COMMISSION

General

The Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission), the Secretary of the Cabinet for Economic Development, the State Budget Director and the State Controller. The State Budget Director and the State Controller were added to the Commission by Executive Order 2008-506 dated June 6, 2008 and effective June 16, 2008. 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 and revenue refunding 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 and revenue refunding 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 General Assembly enacted a State Budget for the biennium ending June 30, 2006, which authorized $2.056 billion of bond funded capital projects. The General Fund authorization was $1,204 million; the Road Fund authorization was $450 million; Agency Funds were authorized at $251.7 million; and $150 million was authorized to be supported by the Federal Highway Trust Funds. The Road Fund and Federal Highway Trust Fund authorizations have been issued. A significant portion of the Agency Fund and General Fund projects have been permanently funded.

The 2006 General Assembly adopted a State Budget for the biennium ending June 30, 2008 which authorized an additional $2.3 billion of capital projects to be funded with debt. The General Fund authorization is $1,392.9 million; the Agency Fund authorizations total $267.5 million; while the Road Fund and Federal Highway Trust Fund authorizations are $350 million and $290 million, respectively. The Federal Highway Trust Fund and a portion of the Agency Fund, Road Fund and General Fund projects have been permanently funded.

The 2008 General Assembly adopted a State Budget for the biennium ending June 30, 2010 which authorized debt financing for projects totaling $1.659 billion to support various capital initiatives of the Commonwealth. Of the total authorization, $650.3 million is General Fund supported, $643.2 million is Agency Restricted Fund supported, $135 million is Road Fund supported and $231 million is Federal Highway Trust Fund supported bonds (Grant Anticipation Revenue Vehicle Bonds) designated for the Louisville-Southern Indiana Ohio River Bridges Project. This authorization is in addition to the authority to issue refunding bonds to refund outstanding issues. The proposed budget also includes $50 million of debt restructuring for fiscal relief in each of Fiscal Years 2009 and 2010.

A portion of the General Fund projects from each of the above authorizations will be financed with the proceeds of the Bonds and the timing of the issuance of bonds or notes for the remaining projects is uncertain. In addition, the Bonds will also provide approximately $50 million in fiscal relief in Fiscal Year 2009.

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future sessions. Bonds may also be issued to refund outstanding Commission bonds.

THE FINANCE AND ADMINISTRATION CABINET

General. 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 these 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.

Department of Revenue. The Department of Revenue is responsible for the administration and enforcement of all state revenue laws and for the assessment and collection of state taxes. The Department of Revenue bills and collects the tax revenue necessary to support the state services provided by the Commonwealth.

THE STATE AGENCIES

Cabinet for Economic Development

The Cabinet for Economic Development is the primary state agency in Kentucky responsible for creating new jobs and investment in the state. Programs administered by the Cabinet are designed to support and promote economic development within the state, primarily by attracting new industries to the state, assisting in the development of existing industries, and assisting communities in preparing for economic development opportunities. By statute, the Cabinet is governed by the Kentucky Economic Development Partnership (or the Partnership Board). The Partnership Board is responsible for directing and overseeing the Cabinet and adopting a Strategic Plan. The Kentucky Economic Development Finance Authority (KEDFA) is a statutorily created committee under the authority of the Partnership Board. KEDFA is responsible for awarding most of the financial incentives offered by the Cabinet.

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. This includes developing a strategic plan, measures of efficiency, educational attainment, and effectiveness, approves all educational programs, monitors tuition and admission rates and houses a database of information. Information on each of the individual institutions can be found at http://cpe.ky.gov/institutions.

Kentucky Infrastructure Authority

The Kentucky Infrastructure Authority ("KIA") was created to provide a mechanism for funding infrastructure projects for governmental agencies in the Commonwealth. Through the various programs currently offered, KIA has become the answer for local financing needs. 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 SPBC Project No. 79, in addition to the following four programs:

The Clean Water State Revolving Fund ("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.

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.

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 State Revolving 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.

Kentucky River Authority

The Kentucky River Authority was first established by the Kentucky General Assembly in 1986 to take over operation of the Kentucky River Locks and Dams 5 through 14 from the United States Corps of Engineers. Following the drought of 1988, the Authority was given a mission to protect and improve the waters of the Kentucky River through environmental management of the entire watershed.

The Authority is charged with developing comprehensive plans for the management of the Kentucky River Basin, including long range water supply, drought response and ground water protection plans. It is charged to adopt regulations to improve and coordinate water resource activities within the basin among state agencies. It is also charged to develop recreational areas within the basin.

The Authority is responsible for maintaining the 14 lock and dam structures on the Kentucky River. These structures were constructed by the United States Army Corps of Engineers for navigation purposes, but are now only used for recreational boating and water supply.

The Authority is supported by water-user fees (the "Water-user Fees") collected from facilities which withdraw water from the basin. Exemptions are given to facilities using water for agricultural purposes. These fees are then passed on to the citizens in the basin who purchase water or the product manufactured by use of the water resources. At or near the time of issuance of the Bonds, the Commission expects to issue its bonds in the aggregate principal amount of approximately $15 million to finance or refinance improvements to certain Authority facilities through a lease with the Cabinet and the Authority. The Authority's obligations under that lease will be paid from collections of the Water-user Fees.

Tourism, Arts and Heritage Cabinet

The Tourism, Arts and Heritage Cabinet combines Kentucky's assets in parks, tourism, cultural heritage, outdoor attractions and arts to effectively promote and market these assets. The cabinet is comprised of the Kentucky Department of Travel, Kentucky Department of Parks, Kentucky Department of Fish and Wildlife Resources, Kentucky Historical Society, Kentucky Humanities Council, Kentucky State Fair Board, Kentucky Sports Authority, Kentucky Heritage Council, Kentucky Center for the Performing Arts, Frankfort Convention Complex, Governor's School for the Arts, Kentucky Artisans Center in Berea, Kentucky Arts Council, Kentucky Horse Park and the Office of Creative Services.

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 illustrated by the fact that Kentucky's manufacturing employment concentration as a percentage of non-farm employment is now higher than the national average. 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 2007 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2007 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2 12:

(i) Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
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) Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Internet: nrmsir@interactivedata.com
Tel: (212) 771-6999; 800-689-8466
Fax: (212) 771-7390

(iv) Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Internet: nrmsir_repository@sandp.com
Tel: (212) 438-4595
Fax: (212) 438-3975

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2007 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 2007 and certain other fiscal years may be found on the Internet at:

http://finance.ky.gov/ourcabinet/caboff/ooc/ofm/debt/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 SEC 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 SEC 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 the two even numbered years prior to 2006, 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 November of the following odd numbered year, which incorporated the Continuation Plans and appropriated funds for the remainder of the biennium.

Fiscal Year 2006

The *Government-Wide Financial Statements* provide a broad view of the Commonwealth’s operations in a manner similar to a private-sector business. The Commonwealth’s combined net assets (governmental and business-type activities) totaled $17.9 billion at the end of 2006, as compared to $17.4 billion at the end of the previous year.

At $17.9 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 $1.77 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 $1.80 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 $8.7 billion and general revenues (including transfers) of $10.0 billion for total revenues of $18.7 billion during Fiscal Year 2006. Expenses for the Commonwealth during Fiscal Year 2006 were $18 billion, which resulted in a total increase of the Commonwealth’s net assets in the amount of $662 million, net of contributions, transfers and special items.

As a result of the improving economy during the fiscal year, the net assets of governmental activities increased by $431 million or 2.47 percent. Approximately 56 percent of the governmental activities’ total revenue came from taxes, while 34 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. As of the end of Fiscal Year 2006, the Commonwealth’s governmental funds reported combined ending fund balances of $3.14 billion, an increase of $527 million in comparison with the prior year. The unreserved portion of fund balance ($2.36 billion), which is the portion of fund balance available for spending in the coming year, has increased to 75 percent of the total fund balance. 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 Fiscal Year 2006, total fund balance reached $897 million, with an unreserved balance of $713 million. This compares to a General Fund unreserved Fund Balance of $593 million as of June 30, 2005. 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 $226 million during Fiscal Year 2006. This is a 33.8 percent increase in fund balance from the prior year. The contributing factors to this increase were continuing spending reduction efforts, an improving economy and tax reform.

The major special revenue funds had moderate increases in revenues and slight fluctuations in expenditures with no significant changes in fund balance. The major contributing factors include an increase in motor fuels tax receipts, in the Transportation Fund, increased benefit payments in the Federal Fund, and increased spending in the Transportation function in the Agency Revenue Fund.

The Commonwealth of Kentucky's bonded debt increased by $310 million to $3,546,468,000, a 9.57 percent increase during Fiscal Year 2006. No general obligation bonds were authorized or outstanding at June 30, 2006. The key factor in this increase was the issuance of new debt during fiscal year 2006.

Fiscal Year 2007

The Commonwealth's combined net assets (governmental and business-type activities) totaled $17.4 billion at the end of 2007, as compared to $17.9 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $18.2 billion, is invested in capital assets (*e.g.*, land, infrastructures, buildings and improvements and machinery and equipment), and minus any related debt, which is still outstanding and used to acquire those assets. 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 $1.6 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, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $2.4 billion; therefore funds are not 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 $9.5 billion and general revenues (including transfers) of $10.2 billion for total revenues of $19.7 billion during Fiscal Year 2007. Expenses for the Commonwealth during Fiscal Year 2007 were $20.2 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $(507) million, net of contributions, transfers and special items.

The slowing economy, during Fiscal Year 2007, caused revenues to decline resulting in the decrease in net assets of governmental activities by $(466) million or 2.6 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 34 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.

As of the end of Fiscal Year 2007, the Commonwealth's governmental funds reported combined ending fund balances of $2.86 billion, a decrease of $(280) million in comparison with the prior year. The unreserved portion of fund balance ($1.86 billion), which is the portion of fund balance available for spending in the coming year, has increased to 65 percent of the total fund balance. 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 Fiscal Year 2007, total fund balance reached $813 million, with an unreserved balance of $517 million. This compares to a General Fund unreserved Fund Balance of $713 million as of June 30, 2006. 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 Commonwealth's general fund balance, after several years of growth, has decreased by $81 million during Fiscal Year 2007, which represents a decline of 9 percent, of the prior year balance. The slow economy which reduced tax revenues is the major factor for this decline.

The major special revenue funds had no significant changes in fund balances, however, some changes in a fund's revenues and/or expenditures, might be considered significant. These changes include an increase in motor fuels tax receipts, in the Transportation Fund; increased benefit payments in the Federal Fund, and increased spending in the Transportation function of the Agency Revenue Fund.

The Commonwealth of Kentucky's bonded debt decreased by $104 million to $3.4 billion, a 2.93 percent decrease during Fiscal Year 2007. The major factor in this decrease was the maturity of bonds outstanding and the issuance of notes for interim financing, rather than bonds. No general obligation bonds were authorized or outstanding at June 30, 2007.

Fiscal Year 2008 (Unaudited)

Fiscal Year 2008 General Fund revenues totaled $8,664.3 million versus $8,573.8 million for the prior fiscal year, which represents an increase of 1.1 percent. Actual revenues for Fiscal Year 2008 were $28 million above the official revised revenue estimate rendered in January 2008 by the Consensus Forecasting Group ("CFG") as modified by the 2008 General Assembly, which projected revenue growth of 0.7 percent. Tobacco tax receipts rose by 0.6 percent compared to the previous fiscal year. Reduced revenue estimates in December 2007 and January 2008 resulted in a budget reduction during Fiscal Year 2008.

Individual income tax receipts grew by 14.5 percent in FY 2008 compared to the previous fiscal year, due largely to a shift in the reporting requirement for limited liability pass-through entities. Sales and use tax receipts grew 2.1 percent, as the national housing slump and higher energy prices cut into consumers' ability to make other taxable purchases. Corporate income tax collections declined 56.0 percent due primarily to the offsetting factor affecting individual income tax receipts. The limited liability pass-through shift was the main contributor to the decline. Coal severance taxes increased by 5.0 percent in FY 2008 reflecting both increased volume and prices. Property tax receipts increased by 1.7 percent from the previous fiscal year. Meanwhile, Lottery receipts rose by 0.4 percent.

Fiscal Year 2009 (Unaudited)

On January 16, 2008, the CFG revised the official General Fund revenue estimate for Fiscal Year 2009 to $8,823.6 million; which is the estimated levels upon which the Fiscal Year 2009 budget was enacted. The official forecast reflects a 1.8 percent increase in General Fund receipts for Fiscal Year

2009 when compared to Fiscal Year 2008 actual receipts. The estimate excludes Phase I Tobacco Master Settlement Agreement ("MSA") payments, which are estimated by CFG to be $119.69 million in Fiscal Year 2009.

Fiscal Year 2009 General Fund actual revenues total $2,084.9 million through September 2008, an increase of 0.9 percent over the same period in Fiscal Year 2008. Based on year-to-date receipts, a 3.1 percent rate of growth is required in the final nine months of Fiscal Year 2009 to meet the revised official estimate.

General Fund revenues for September 2008 were $804.6 million, a decrease of 4.6 percent compared to September 2007. During September 2008, sales and use tax revenues dropped by 0.8 percent compared to the previous year. Individual income tax receipts rose 3.2 percent. Corporation income tax receipts fell 45.2 percent, more than offsetting the modest gains in the individual income tax. Property taxes fell 10.3 percent due to a reversal of the timing in the public service property account that inflated August collections. Coal severance tax receipts grew by 45.3 percent in September and are up 36.0 percent for the first quarter of Fiscal Year 2009. The Kentucky Lottery Corporation dividend payment for September 2008 was $15.5 million, up from $14.5 million last September.

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 August 31, 2008, 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 (15%); securities issued by agencies and instrumentalities of the United States Government (24%); mortgage backed securities and collateralized mortgage obligations (16%); repurchase agreements collateralized by the aforementioned (14%); municipal securities (9%); and corporate and asset backed securities, including money market securities (22%). The portfolio had a current yield of 4.63% and an effective duration of 1.03 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 currently has no options positions outstanding.

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 among the agent, Credit Suisse 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. Through the re-investment of loan proceeds, the Commonwealth owns a $25 million par medium-term note issued by Lehman Brothers Holdings Inc. This bond is currently in default. Additionally, the Commonwealth owns a $25 million Senior Bank Note issued by Washington Mutual which is also in default.

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 $200,000,000 notional amount to a net market value approach, the absolute value of which cannot exceed $50,000,000 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. The Commonwealth currently has no asset-based interest rate swaps outstanding.

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional investment securities with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, including sovereign and supranational governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset backed securities rated in the highest category by a nationally recognized rating agency. The Commonwealth currently holds several asset backed securities that have been downgraded from the highest rating category. All of these positions are rated investment grade. Additionally, the Commonwealth holds a $5 million par medium-term note issued by Lehman brothers Holdings Inc. This note is currently in default.

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.

State Retirement Systems

Following is information about the state's retirement system, including pension plans and other post employment benefits. Capitalized terms used under this heading and not otherwise defined shall have the respective meanings given by the CAFRs, as herein defined.

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Kentucky Teacher's Retirement System ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits ("OPEB") to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2007, Note 8 beginning on page 76. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at http://www.kyret.com and http://www.ktrs.ky.gov, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits. 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.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2007 actuarial valuation reports used in preparing the associated Pension Plans' 2007 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $4,380 million, while KTRS had a UAAL of $5,970 million. The state supported portion of the Pension Plans for Fiscal Year 2007 had funding percentages of 58.7 percent for the Kentucky Retirement Systems and 71.9 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year 2007 pension benefits was $214.2 million versus the Actual Contribution of $107.6 million. The KTRS state supported Annual Required Contribution for Fiscal Year 2007 was $494.6 million, of which $421.6 million was contributed.

Other Post Employment Benefits. The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"). The State is required to adopt the standards after the Fiscal Year ending June 30, 2008.

The State is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the state pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the State commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Employees insurance through the state health insurance program, which has since become self insured.

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was completed for the period ending June 30, 2006 for the Kentucky Retirement Systems and the next scheduled experience study period will be prepared in January, 2011. KTRS' last five-year experience study was for the period ending June 30, 2005, the next five year experience study will be for the period ending June 30, 2010. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2007 has been estimated to not exceed $5,151 million for the Kentucky Retirement Systems and $5,788 million for KTRS. These estimates represent the amount of healthcare benefits under the respective Health Plans, payable for the ensuing 30-year period and allocated by the actuarial cost method, as of June 30, 2007. The actuarial estimates for the Kentucky Retirement Systems OPEB liabilities substantially decreased from the $8,089.5 million previously reported in the Kentucky Retirement Systems' 2006 CAFR, primarily due to the Board's policy of incrementally increasing employer contributions to the funds in order to reach full entry age normal cost by 2016. The actuarial estimates for KTRS actually increased from $4,210.3 million due to health care costs escalating at a much faster rate than revenue growth in the Medical Insurance Plan.

The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year 2007 healthcare benefits was $146.3 million versus the Actual Contribution of $101.2 million. The KTRS state supported Annual Required Contribution for Fiscal Year 2007 was $231.5 million, of which $123.6 million was contributed. The Commonwealth's Fiscal Year 2008-2010 biennial budget contemplates $125 million of direct transfers from the KTRS Guarantee Fund to the Medical Insurance Stabilization Fund. Previously, the General Assembly directed transfers of $73.0 million in Fiscal Year 2007, $62.3 million in Fiscal Year 2006 and $29.1 million in Fiscal Year 2005. These amounts are to be repaid from the State General Fund over a 10-year period corresponding with each transfer. The state supported portion of the Health Plans for Fiscal Year 2007 had funding percentages of 16.1 percent for the Kentucky Retirement Systems and 2.4 percent for KTRS.

The Commonwealth's 2008-2010 biennial budget increased employer contribution rates by 37 percent for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 18 percent.

Changes to State Retirement Systems. During the 2008 Regular Session, Governor Steve Beshear presented the Kentucky Public Pension Protection and Modernization Act to address the long-term financial stability of the Commonwealth's pension systems. While there was significant discussion and debate between both the House and the Senate resulting in different versions of the pension legislation being considered, ultimately both sides of the General Assembly failed to reach an agreement.

On May 29, 2008, Governor Beshear issued an executive order creating the Kentucky Public Pension Working Group and urged both the House and Senate to work together toward an agreement for a special session. Governor Beshear's May 29th executive order created a working group composed of senior executive branch officials, pension fund directors, employee representatives, and private sector investment experts. The working group is conducting an operational and governance review of the state retirement systems and is also studying the issues in dispute during the 2008 regular legislative session that had not been recommended by the prior administration's Blue Ribbon Commission, to determine their viability and cost. To accomplish these tasks, the workgroup has been divided into six subcommittees including: best practices in investments; future funding strategies; a County Employees Retirement System ("CERS") and Local Government Employees Retirement System ("LGERS") committee that is tasked to study the transfer of classified school employees to a new retirement system, and the potential for a new local government employees retirement system; a committee to consider defined contribution options; a group that will evaluate healthcare costs and strategies; and a committee to evaluate and ensure best practices in securities litigation. The working group will provide its final report to the Governor by November 1, 2008 and will also offer to provide testimony to the Interim State

Government Committee, allowing the General Assembly to address these issues in the 2009 regular legislative session.

In June 2008, Governor Beshear called a special session of the General Assembly after both the House and Senate reached an agreement on pension reform, which ultimately became House Bill 1. The final agreement accomplished several things, including: a schedule to improve state funding by reaching the full actuarially required contribution ("ARC") by 2025; proposed a new benefit tier for future hires that would require workers to stay longer and place more money into their own retirement over time in order to reach their full retirement benefit; established a floor for annual cost of living adjustments ("COLA") equal to 1.5% of the Consumer Price Index with the potential for future increases if the COLA is pre-funded; closed several loopholes; and created increased legislative oversight of the pension funds in future years.

As a result of the passage of House Bill 1, the growth in the state's unfunded liability is expected to be slowed. These results are expected to be augmented by proposed changes in the Commonwealth's investment strategies and allocations to bring the retirement systems closer to their peer group performance levels over time. By using the dual combination of the best practices and findings of the Kentucky Public Pension Working Group and by following the schedule of payments included in House Bill 1 the state expects to see reductions in the liabilities that have accrued over time.

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. In addition to the deposit to the bond funds described under "PLAN OF FINANCE" above, deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. Bond Service Fund. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into 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 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 May 1 or November 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, plus interest due and 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 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.

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 owners. 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 excludible from the gross income of the owners of the Bonds 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 owners of not less than 25% in aggregate principal amount of Bonds Outstanding, to the Commission and the Trustee; *provided*, *however*, that if such event of default can, in the opinion of the Trustee, be corrected, but not within such period, it shall not constitute an event of default under the Resolution 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 owners 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 owners 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 upon the occurrence and continuation of any event of default under the Resolution, the Trustee may proceed, and upon the written request of the owners 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 owners 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 owners, 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 owners 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 by any acts which may be unlawful or in violation of the Resolution 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 owners 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 owners of the Bonds not making such request.

Individual Holder Action Restricted. No owner 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 owner 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 owners 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 owners 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 owners of all of such Bonds then Outstanding. Nothing contained in the Resolution or in the Bonds affects or impairs the right of any owner 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 owners 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 owners of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending the Resolution, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the owners of 66-⅔% 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 or premium, if any, or the rate of interest thereon without the written consent of the owner thereof, or which would reduce the percentage of owners 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 described 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 owners of the Bonds, (ii) to grant to or confer on the Trustee for the benefit of the owners 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 owners of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

Change, Substitution or Other Modification of Project. Anything in the Resolution or the Lease notwithstanding, the Commission may, in its sole discretion, change, substitute or otherwise modify components of the Project, including economic development projects and community development projects, so long as all Bond proceeds are applied to facilities, payments or undertakings which are included in and subject to rental payments under the Lease such that rental payments thereunder will be sufficient to pay principal of, premium, if any, and interest on the Bonds; provided that any such change, substitution or modification shall not cause the Commission to be in violation of certain covenants of the Resolution.

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any Outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of owners, but such removal shall not be effective until a successor Trustee is approved pursuant to the Resolution.

Discharge of the Resolution. If the Commission pays or causes to be paid, or there is otherwise paid, to the owners of all 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 Resolution then the pledge of Revenues under the Resolution, and all covenants, agreements and other obligations of the Commission to the owners 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 Resolution, and the Trustee will and is irrevocably instructed by the Resolution to give notice thereof to the owners.

As used in the Resolution, "Defeasance Obligations" means:

(a) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which is fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS, "TIGRS" and "TRS" unless the Commission obtains a confirmation that the Bonds defeased thereby shall be rated in the highest rating category by S&P and Moody's (as each term is hereinafter defined) with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request of Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

(b) non-callable obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof), including, but not limited to, debt obligations of the Resolution Funding Corp., and U.S. Agency for International Development guaranteed notes (which must mature at least four business days before the appropriate payment date);

(c) certificates rated "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("*S&P*"), "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") and "AAA" by Fitch, Inc. ("*Fitch*") (if rated by Fitch) evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), *provided* that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee, including the Trustee or any of its affiliates, in a segregated trust account in the trust department separate from the general assets of such custodian;

(d) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (a), (b) or (c) which fund may be applied only to the payment when due of such bonds or other obligations, and (iii) rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch (if rated by Fitch); and

(e) non-callable senior debt obligations of U.S. government-sponsored agencies that are not backed by the full faith and credit of the U.S. government, including, but not limited to, Federal Home Loan Mortgage Corp. debt obligations, Farm Credit System consolidated systemwide bonds and notes, Federal Home Loan Banks consolidated debt obligations, Federal National Mortgage Association debt obligations, Resolution Funding Corp. debt obligations and U.S. Agency for International Development guaranteed notes (which must mature at least four business days before the appropriate payment date); provided, that, in each case, the obligations are rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch (if rated by Fitch).

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 has a current term ending June 30, 2010 and the Subleases have a current term ending June 30, 2010. 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, 2030 (the final maturity date permissible for any Bonds to be issued by the Commission for the Project being November 1, 2028). 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 at any time after the adjournment of the Session of the General Assembly of the Commonwealth at which appropriations shall have been made for the operation of the state government for each succeeding renewal term 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. The Lease and Subleases renew automatically for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. 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, payable from any and all funds of the Cabinet or applicable Sublessee, including, but not limited to, appropriations, and in the case of the Cabinet, 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; provided that nothing shall be construed as binding the Cabinet or applicable Sublessee to pay rentals for more than one biennial renewal term at a time.

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 in the case of the Cabinet, thereby provide to the Commission moneys sufficient for the payment of debt service on the Bonds. 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 (or in the process of being remedied) within 30 days.

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 owners 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 "Aa3", "A+" and "AA-", 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 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 583-0300; 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 Chapman and Cutler LLP, Chicago, Illinois, 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 E. Certain legal matters will be passed upon for the Underwriters by their counsel, Perkins Coie LLP, Chicago, Illinois. Certain legal matters will be passed upon for the Commission and the Cabinet by their respective 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 the due existence or powers of the Commission.

TAX MATTERS

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

Subject to the compliance by the Commission, the Cabinet, the State Agencies and others with the above-referenced covenants, under present law, in the opinion of Chapman and Cutler LLP, Bond Counsel, interest on the Bonds is excludible from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the alternative minimum taxable income of the corporation ("AMTI"), which is the taxable income of the corporation with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation is an amount equal to 75% of the excess of the "adjusted current earnings" of such corporation over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

In rendering its opinion, Bond Counsel will rely upon certifications of the Commission, the Cabinet and the State Agencies with respect to certain material facts solely within the knowledge of the Commission, the Cabinet and the State Agencies relating to the application of the proceeds of the Bonds and upon the verification of the accuracy of mathematical computation of the yield on the Bonds and the yield on certain investments by Causey Demgen & Moore Inc., Certified Public Accountants. The opinion of Bond Counsel represents its legal judgment based on its review of the law and facts that it deems relevant to render such opinion, and is not a guarantee of result.

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

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page of this Official Statement.

If the issue price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of such maturity of the Bonds (the "OID Bonds") and the principal amount payable at maturity is original issue discount.

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

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

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

An investor may purchase a Bond at a price in excess of its stated principal amount (a "Premium Bond"). Such excess is characterized for federal income tax purposes as "bond premium," and must be amortized by an investor on a constant yield basis over the remaining term of the Premium Bond in a manner that takes into account potential call dates and call prices. An investor in a Premium Bond cannot deduct amortized bond premium relating to such Premium Bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Premium Bond. Investors who purchase a Premium Bond should consult their own tax advisors regarding the amortization of bond premium and its affect on the Premium Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Premium Bond.

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

Payments of the interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Bonds, are in certain cases required to be reported to the Internal Revenue Service (the "Service"). Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

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

UNDERWRITING

The group of underwriters listed on the cover hereof, on behalf of which Morgan Stanley & Co. Incorporated is acting as representative (the "Underwriters") have agreed to purchase the Bonds for a purchase price of $369,089,302.00, which is an amount equal to the par amount of the Bonds, less a net original issue discount of $4,008,535.50 and less an underwriters' discount of $1,902,162.50. 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 inside cover 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 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 of property securing repayment of the securities; and (xi) rating changes. The Commonwealth is already providing ongoing market disclosure as required by the Rule pursuant to agreements entered into in connection with other outstanding securities, and has complied with requirements of the Rule.

OTHER MATTERS

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

The information set forth herein has been obtained from sources which are considered reliable. There is no guarantee that any of the assumptions, projections, expectations 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
F. Thomas Howard
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 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 lease 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 revenue debt is 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.

The payment of debt service by the state universities is enhanced by a state intercept provision that provides that in the event of a default, the Secretary of the Finance Cabinet is required to intercept any funds appropriated to the University, but not yet disbursed, and to remit those funds to the Trustee to remedy the default.

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Kentucky Infrastructure Authority Governmental Agencies Program and certain Kentucky Higher Education Student Loan Corporation bond issues are no longer moral obligation debt.

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	RATINGS*
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 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/AA+/AA-
The State Universities (consisting of nine)	**KRS 56.495** Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of 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 to moderate income residents of the State.	Limited to $5.0 billion of debt outstanding.	Aaa/AAA/NR
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 $5.0 billion of debt outstanding.	NR/AAA/AAA (Sr. Series) NR/A/A (Subord. Series)
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
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.	A2/AA/NR** (Insured)

*Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch.
**Based on MBIA rating
Certain State Property and Buildings Commission Agency Fund Revenue bonds may have ratings different from those identified above. The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers.

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EXHIBIT B

THE PROJECT

PROJECT DESCRIPTION – Fully Financed Projects	Authorized Project Amount [(1)]
Cabinet for Economic Development	
Economic Development Bond Pool – Sekisui S-LEC America, LLC	200,000
Economic Development Bond Pool – Webasto Roof Systems, Inc	500,000
Economic Development Bond Pool – NPR Manufacturing Kentucky, LLC	300,000
Economic Development Bond Pool – ABC Automotive Systems, Inc	200,000
Economic Development Bond Pool – Sister Schubert's Homemade Rolls, Inc.	100,000
TOTAL – Fully Financed Projects	**1,300,000**

PROJECT DESCRIPTION – Partially Financed Projects	*AGENCY*	Authorized Project Amount [(1)]
Infrastructure for Economic Development Fund for Coal-Producing Counties	KIA	13,000,000 [(2)]
Infrastructure for Economic Development Fund for Tobacco Counties	KIA	7,500,000 [(2)]
Business Refund Off-Set System	Revenue	1,750,000
Construct Business Technology Center – Phase II	EKU	32,850,000
Expand & Upgrade Livestock Disease Diagnostic Center	UK	8,500,000
Renovate Science Campus, Phase II	WKU	33,000,000
LCC Classroom/Lab Building	KCTCS	31,741,000
Replace Records and Secure Evidence Facility	State Police	6,075,000
Economic Development Bond Pool	Economic Development	7,188,000 [(2)]
Child Support Enforcement (KASES II)	CHFS	2,040,000
Upgrade KASPER System DPH	Public Health	5,000,000
Upgrade HVAC Pipes & Electric – Glasgow	MHMR	2,200,000
KHRIS	Personnel	25,000,000
Subtotal – 2005 General Assembly		**175,844,000**
Western Kentucky Veteran's Center-Alzheimer's/General Care Unit	Veterans' Affairs	1,757,000
Public Safety Commission – Infrastructure – KEWS	COT	13,000,000 [(2)]
Infrastructure for Economic Development Fund for Non-Coal Producing Counties	KIA	112,500,000 [(2)]
Infrastructure for Economic Development Fund for Coal Producing Counties	KIA	75,000,000 [(2)]
Community Development Fund Projects	Local Development	28,958,000 [(2)]
Warren County Fiscal Court Transpark Rail Spur	Local Development	4,500,000
Implement Comprehensive Tax System – Phase I	Revenue	23,250,000 [(2)]
Construct Science Building	EKU	54,108,000 [(2)]
Construct Manchester Postsecondary Education Center	EKU	3,500,000 [(2)]
Renovate Hathaway Hall Phase II	KSU	4,920,000 [(2)]
Space Science Center – Completion	Morehead State	3,400,000 [(2)]
Construct Center for Health Education and Research	Morehead State	23,000,000 [(2)]
Construct New Science Complex – Phase III	Murray State	15,000,000 [(2)]
Construct Center for Informatics	NKU	35,500,000
Construct Biological/Pharmaceutical Complex Phase II	UK	79,892,000 [(2)]

PROJECT DESCRIPTION – Partially Financed Projects	AGENCY	Authorized Project Amount [1]	
Construct HSC Research Facility IV	UL	69,680,000	(2)
Replace College of Education Building – Tate Page Hall	WKU	35,000,000	
Construct Advanced Manufacturing Tech Center – Gateway CTC	KCTCS	28,000,000	
Construct Emerging Technology Center West Kentucky CTC	KCTCS	16,518,000	
Construct Allied Health/Tech Ed Building – Laurel	KCTCS	14,015,000	
Construct Administration Building Phase I Maysville CC	KCTCS	5,008,000	
Construct Science/Allied Health Building – Jefferson CTC	KCTCS	25,557,000	
Construct Central Reg. PSE Center Phase II Elizabethtown CTC	KCTCS	20,000,000	
Advanced Manufacturing Center – Design – Bluegrass CTC	KCTCS	1,500,000	
Springfield Community and Technical College	KCTCS	14,500,000	
McCreary Center – Somerset CC	KCTCS	6,500,000	
Construct Tech Dr Campus Ashland CTC – Phase III	KCTCS	17,600,000	(2)
Letcher County Central Vocational Center	Education	2,000,000	
Replace Master Control & Production Infrastructure	KET	15,707,000	
Economic Development Bond Pool	Economic Development	17,500,000	
Construct New Indoor Arena	Horse Park	36,500,000	
Safeguarding Children at Risk – TWIST Rewrite II	CHFS	3,134,000	(2)
Oakwood – Replace Chillers Heating & Cooling Lines	MHMR	2,131,000	
Home of the Innocents – Phase II Children's Village	Comm. Based Services	8,250,000	
Capital Plaza Complex – Renovation – Design	Facilities Management	4,942,000	
Subtotal – 2006 General Assembly		**822,327,000**	
Kentucky River Locks and Dams Maintenance & Renovation Pool	KRA	17,500,000	
Replace Power Plant Pollution Control System	Morehead State	5,700,000	
Subtotal – 2008 General Assembly		**23,200,000**	
TOTAL – Partially Financed Projects		**1,021,371,000**	

(1) Excludes allocable costs of issuance
(2) Less than full Authorization
Note: Proceeds from the Bonds in the amount of $121,434,039.01 will be available for payment of the costs of these projects.

EXHIBIT C

SUMMARY OF THE REFUNDED BONDS AND NOTES

(i) Commonwealth of Kentucky State Property and Buildings Commission Revenue Bonds, Project No. 64.

Maturity	Interest Rate	Principal Amount
May 1, 2009	5.125%	$3,100,000

(ii) Commonwealth of Kentucky State Property and Buildings Commission Revenue Bonds, Project No. 65.

Maturity	Interest Rate	Principal Amount
February 1, 2009	5.375%	$2,945,000
February 1, 2009	5.750%	$3,645,000

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

Maturity	Interest Rate	Principal Amount
February 1, 2009	5.375%	$8,085,000

(iv) Commonwealth of Kentucky State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 87.

Maturity	Interest Rate	Principal Amount
March 1, 2009	4.000%	$3,390,000
March 1, 2009	5.000%	$5,785,000

(v) Commonwealth of Kentucky State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 88.

Maturity	Interest Rate	Principal Amount
November 1, 2008	4.500%	$15,295,000

(vi) $200,000,000.00 Kentucky Asset/Liability Commission Project Notes, 2005 General Fund Second Series.

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EXHIBIT D

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, the Trustee nor any Underwriter makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. 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 and www.dtc.org.

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 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 MNI 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).

Payment of principal of, premium (if any) and interest 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, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium (if any) and interest on the Bonds 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 D concerning DTC and DTC's book-entry system has been obtained from sources that the Commission and the Underwriters believe to be reliable, but the Commission and the Underwriters take no responsibility for the accuracy thereof.

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EXHIBIT E

FORM OF BOND COUNSEL OPINION FOR THE BONDS

(To Be Dated the Date of Issuance)

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: State Property and Buildings Commission of the Commonwealth of Kentucky
$375,000,000 Revenue and Revenue Refunding Bonds, Project No. 90

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "*Commission*"), authorizing the issuance by the Commission of its Revenue and Revenue Refunding Bonds, Project No. 90 (the "*Bonds*") in the aggregate principal amount of $375,000,000, issued for the purpose of providing funds (i) to finance and refinance certain projects, (ii) to refund certain outstanding bonds of the Commission (the "*Prior Commission Bonds*"), (iii) to refund certain outstanding notes of the Kentucky Asset/Liability Commission (the "*Prior ALCo Notes*"), and (iv) to pay the costs of issuance of the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "*Cabinet*").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statues,* as supplemented and amended (the "*Act*"), H.B. 267 of the General Assembly of the Commonwealth of Kentucky, 2005 Regular Session, H.B. 380 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part, as amended by H.B. 557 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part, and H.B. 406 of the General Assembly of the Commonwealth of Kentucky, 2008 Regular Session, as enacted and vetoed in part (collectively, the "*Budget Act*"), and a resolution adopted by the Commission on September 15, 2008, as supplemented and amended on October 3, 2008 (the "*Bond Resolution*"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "*Project*") have been leased to the Cabinet, pursuant to the Lease dated as of October 1, 2008, by and between the Commission and the Cabinet (the "*Lease*"). A portion of the Project has been subleased by the Cabinet to the Kentucky River Authority (the "*Sublessee*"), pursuant to the Sublease dated as of October 1, 2009, by and between the Cabinet and the Sublessee (the "*Sublease*").

The Bonds are dated the date hereof, are issued in fully registered form in the denomination of $5,000 each and any integral multiple thereof, are lettered R and numbered 1 and upward, mature on the dates and in the principal amounts, and bear interest at the rates per annum, payable on May 1 and November 1 of each year, commencing on May 1, 2009, as follows:

Date	Principal Amount	Rate	Date	Principal Amount	Rate
November 1, 2009	$2,000,000	5.000%	November 1, 2016	$4,230,000	4.500%
November 1, 2010	2,985,000	3.000	November 1, 2017	2,160,000	4.750
November 1, 2010	5,510,000	5.000	November 1, 2017	6,860,000	4.800
November 1, 2011	7,620,000	4.000	November 1, 2018	40,000,000	5.000
November 1, 2012	1,785,000	3.750	November 1, 2019	40,000,000	5.750
November 1, 2012	5,875,000	5.000	November 1, 2020	35,000,000	5.000
November 1, 2013	13,320,000	4.000	November 1, 2023	68,680,000	5.375
November 1, 2014	12,330,000	4.125	November 1, 2023	12,000,000	5.750
November 1, 2015	14,645,000	5.000	November 1, 2028	100,000,000	5.500

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

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

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

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

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

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

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

Respectfully submitted,

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