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

**NEW ISSUE**

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

# $385,455,000
# COMMONWEALTH OF KENTUCKY
# State Property and Buildings Commission
# Revenue and Revenue Refunding Bonds,
# Project No. 93

**Dated: Date of Delivery** **Due: February 1, as shown on the inside cover**

The Revenue and Revenue Refunding Bonds, Project No. 93 (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. The Bonds will bear interest payable on each February 1 and August 1, commencing on August 1, 2009. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as Trustee and Paying Agent.

Certain of the Bonds are subject to redemption prior to maturity as described herein.

The Bonds mature on the dates and in the principal amounts, bear annual interest and have the price or yield as shown on the inside cover.

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Resolution adopted January 15, 2009 to (i) finance the Project, including the payment of certain capitalized interest, described herein, (ii) refund certain of the Commission's outstanding bonds and certain outstanding project notes issued by the Kentucky Asset/Liability Commission, as more fully described herein and (iii) pay costs of issuing the Bonds.

The scheduled payment of principal of and interest on certain Bonds (as identified on the inside cover, the "Insured Bonds") when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Corp. ("Assured Guaranty"). See "BOND INSURANCE POLICY" herein.

ASSURED GUARANTY®

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 Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Kutak Rock LLP, Omaha, Nebraska. It is expected that delivery of the Bonds will be made on or about February 25, 2009, in New York, New York, through the facilities of DTC, against payment therefor.

**Citi**

**Morgan Stanley**

| | | |
|---|---|---|
| **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: February 18, 2009

**$385,455,000**
**COMMONWEALTH OF KENTUCKY**
**State Property and Buildings Commission**
**Revenue and Revenue Refunding Bonds,**
**Project No. 93**

| Maturity (February 1) | Principal Amount | Interest Rate | Yield | CUSIP[3] |
|---|---|---|---|---|
| 2011 | $ 3,345,000 | 3.000% | 2.120% | 49151EW90 |
| 2011 | 4,575,000 | 4.000 | 2.120 | 49151EX24 |
| 2012 | 925,000 | 3.000 | 2.260 | 49151EX32 |
| 2012 | 6,910,000 | 5.000 | 2.260 | 49151EX40 |
| 2013 | 3,735,000[1] | 3.000 | 2.330 | 49151EX57 |
| 2013 | 4,475,000[1] | 5.000 | 2.330 | 49151EX65 |
| 2014 | 1,270,000[1] | 3.000 | 2.610 | 49151EX73 |
| 2014 | 7,275,000[1] | 5.000 | 2.610 | 49151EX81 |
| 2015 | 1,580,000[1] | 2.500 | 2.790 | 49151EX99 |
| 2015 | 7,365,000[1] | 5.000 | 2.790 | 49151EY23 |
| 2016 | 3,340,000[1] | 2.750 | 2.970 | 49151EY31 |
| 2016 | 6,015,000[1] | 5.000 | 2.970 | 49151EY49 |
| 2017 | 17,560,000[1] | 3.000 | 3.200 | 49151EY56 |
| 2017 | 10,750,000[1] | 5.250 | 3.200 | 49151EY64 |
| 2018 | 475,000[1] | 4.000 | 3.440 | 49151EY72 |
| 2018 | 25,935,000 | 5.250 | 3.590 | 49151EY80 |
| 2019 | 1,250,000[1] | 4.000 | 3.690 | 49151EY98 |
| 2019 | 5,000,000 | 5.250 | 3.840 | 49151EZ22 |
| 2019 | 18,280,000[1] | 5.250 | 3.690 | 49151EZ30 |
| 2020 | 2,625,000[1] | 4.000 | 3.950[2] | 49151EZ48 |
| 2020 | 8,475,000[1] | 5.250 | 3.930[2] | 49151EZ55 |
| 2021 | 2,140,000[1] | 4.000 | 4.180 | 49151EZ63 |
| 2021 | 9,505,000[1] | 5.250 | 4.160[2] | 49151EZ71 |
| 2022 | 655,000[1] | 4.125 | 4.310 | 49151EZ89 |
| 2022 | 11,575,000[1] | 5.250 | 4.290[2] | 49151EZ97 |
| 2023 | 12,865,000[1] | 5.250 | 4.430[2] | 49151E2A0 |
| 2024 | 2,040,000[1] | 4.500 | 4.570 | 49151E2B8 |
| 2024 | 41,500,000[1] | 5.250 | 4.550[2] | 49151E2C6 |
| 2025 | 695,000[1] | 4.600 | 4.660 | 49151E2D4 |
| 2025 | 23,545,000[1] | 5.250 | 4.640[2] | 49151E2E2 |
| 2026 | 14,980,000[1] | 5.250 | 4.720[2] | 49151E2F9 |
| 2027 | 2,600,000[1] | 4.750 | 4.850 | 49151E2G7 |
| 2027 | 38,165,000[1] | 5.250 | 4.830[2] | 49151E2H5 |
| 2028 | 500,000[1] | 4.875 | 4.950 | 49151E2J1 |
| 2028 | 41,080,000[1] | 5.250 | 4.930[2] | 49151E2K8 |
| 2029 | 11,175,000[1] | 5.000 | 5.020 | 49151E2L6 |
| 2029 | 31,275,000[1] | 5.250 | 5.000[2] | 49151E2M4 |

[1] Insured Bond.
[2] Yield to February 1, 2019 optional redemption date.
[3] Copyright 2009, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the bondholders only at the time of issuance of the Bonds and the Commission does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

**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. The Official Statement is submitted in connection with the issuance of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Assured Guaranty makes no representation regarding the Bonds, including the Insured Bonds, or the advisability of investing in the Bonds, including the Insured Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE POLICY" and Exhibit F.

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.

TABLE OF CONTENTS

## SUMMARY

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

**The Commission**

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

**The Offering**

The Commission is offering its $385,455,000 Revenue and Revenue Refunding Bonds, Project No. 93 (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 January 15, 2009 (i) authorizing the issuance of the Bonds and (ii) authorizing the Lease Agreement dated as of February 1, 2009 by and between the Commission and the Cabinet, which, together with the Amended and Restated Financing/Lease Agreement dated as of January 1, 2006 among the Commission and the Kentucky Asset/Liability Commission ("ALCo"), each as lessor, and the Cabinet, as lessee, as supplemented and amended, is hereinafter referred to as the "Lease".

**Use of Proceeds**

The Bonds are being issued to provide funds with which to (i) finance the Project, including certain capitalized interest, as described herein, (ii) refund certain of the Commission's outstanding bonds and certain outstanding project notes issued by the Kentucky Asset/Liability Commission, 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 PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

**Bond Insurance**

The scheduled payment of principal of and interest on those Bonds designated on the inside cover of this Official Statement as "Insured Bonds," when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Corp. See "BOND INSURANCE POLICY" herein.

**Features of Bonds**

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

The Bonds will bear interest payable on each February 1 and August 1, commencing on August 1, 2009. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee").

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

It is expected that delivery of the Bonds will be made on or about February 25, 2009, in New York, New York, against payment therefor.

**Tax Status**

Subject to compliance by the Commission, the Cabinet and others with certain covenants, in the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, under present law, interest on the Bonds (including original issue discount treated as interest) is excluded 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, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating alternative minimum taxable income. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof. See "TAX EXEMPTION" 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 Exchange Act of 1934, as amended ("Rule 15c2-12"). In general, Rule 15c2-12 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 Rule 15c2-12, if material. In order to enable the purchaser to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement with the Trustee. See "CONTINUING DISCLOSURE AGREEMENT" herein.

**General**

The Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in the Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available from the Office of Financial Management.

**Information**

Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924; or, during the initial offering period, by contacting the representative of the Underwriters, Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, (212) 723-7093.

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

# $385,455,000
# COMMONWEALTH OF KENTUCKY
## State Property and Buildings Commission
### Revenue and Revenue Refunding Bonds, Project No. 93

## 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 $385,455,000 Revenue and Revenue Refunding Bonds, Project No. 93 (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 the Project (as described and defined herein under the caption "THE PROJECT"), including the payment of certain capitalized interest, as described herein, (ii) refund the "Prior Bonds," consisting of those outstanding bonds of the Commission and those outstanding project notes of the Kentucky Asset/Liability Commission ("ALCo") identified in EXHIBIT C, 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 adopted a Bond Resolution (the "Resolution") on January 15, 2009 authorizing the issuance of the Bonds and approving and affirming the Lease hereinafter described.

The Cabinet, as lessee, has entered into the Amended and Restated Financing/Lease Agreement dated as of January 1, 2006 among the Commission and 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 February 1, 2009 by and between the Commission and the Cabinet (the "Project 93 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 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 May 1, 2008 and February 1, 2009, each as amended to date (collectively, the "Subleases"), to the Sublessees. The current term of each Sublease ends June 30, 2010, 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 and the Subleases will terminate.

The scheduled payment of the principal of and interest on those Bonds designated on the inside cover of this Official Statement as "Insured Bonds," when due, will be guaranteed under a financial guaranty insurance policy (the "Policy") to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Corp. (the "Insurer"). See "BOND INSURANCE POLICY" herein.

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 and will be dated the date of their delivery. The Bonds will bear interest payable on each February 1 and August 1, commencing August 1, 2009, at the interest rates set forth on the cover of this Official Statement. The Bank of New York Mellon Trust Company, N.A. Louisville, Kentucky 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-only 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 on or before February 1, 2019 are not subject to optional redemption prior to maturity. The Bonds maturing after February 1, 2019 may be redeemed at the option of the Commission on any date on or after February 1, 2019, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium.

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

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than 32 days before such redemption date to The Depository Trust Company, New York, New York, and at least two 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 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 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 are payable solely from the Bond Fund (hereinafter defined) and from the rental payments of the Cabinet and the Sublessees under the Lease and the Subleases, respectively. 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.

As of February 1, 2009, the Commission will have outstanding bonds in the aggregate principal amount of $2,805,115,000. Upon the issuance of the Bonds, the Commission will have a total of $3,190,570,000 aggregate principal amount of bonds outstanding. In addition, the Commission anticipates that it will issue approximately $32,935,000 of Road Fund Revenue Bonds, Project No. 94 on or about the date of issue of the Bonds.

The scheduled payment of principal of and interest on the Insured Bonds, when due, will be guaranteed under the Policy to be issued concurrently with the delivery of the Insured Bonds by the Insurer. See "BOND INSURANCE POLICY" and EXHIBIT F.

## BOND INSURANCE POLICY

The following Information is not complete and reference is made to Exhibit F for a specimen of the financial guaranty insurance policy (the "Policy") of Assured Guaranty Corp. ("Assured Guaranty" or the "Insurer").

### The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the Insured Bonds, effective as of the date of issuance of such Insured Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Insured Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the Commission solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Insured Bonds, the stated maturity date thereof, or the date on which such Insured Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Insured Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the Commission to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on the Insured Bonds. It is further understood that the term Nonpayment in respect of an Insured Bond also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such Insured Bond in respect of any Insured Payment by or on behalf of the Commission, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or the Paying Agent to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the Insured Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

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

**The Insurer**

Assured Guaranty Corp. ("Assured Guaranty") is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated "AAA" (stable) by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "AAA" (stable) by Fitch, Inc. ("Fitch") and "Aa2" (stable) by Moody's Investors Service, Inc. ("Moody's"). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

*Recent Developments*

Agreement to Acquire FSA

On November 14, 2008, AGL announced that it had entered into a definitive agreement with Dexia SA to purchase Financial Security Assurance Holdings Ltd. ("FSA"), the parent of financial guaranty insurance company, Financial Security Assurance, Inc. For more information regarding the proposed acquisition by AGL of FSA, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "SEC") on November 17, 2008.

Ratings

On July 21, 2008, Moody's issued a press release stating that it had placed under review for possible downgrade the "Aaa" insurance financial strength rating of Assured Guaranty. In a press release dated November 14, 2008, Moody's responded to AGL's announcement of its agreement to acquire FSA, stating that "the potential impact of the proposed transaction on the ratings of Assured Guaranty and FSA will be considered in the context of its ongoing rating reviews of both companies; those reviews are now expected to conclude in the near term." Reference is made to the press releases for the complete text of Moody's comments; copies of such documents are available at www.moodys.com.

On November 21, 2008, Moody's issued a press release announcing that it had downgraded the insurance financial strength rating of Assured Guaranty to "Aa2" from "Aaa" and that the status of Assured Guaranty's insurance financial strength rating had been changed to "outlook stable" from "on review for possible downgrade." In the release, Moody's stated that "Today's rating action concludes a review for possible downgrade that was initiated on July 21, 2008, and primarily reflects Moody's updated views on Assured's exposure to weakness inherent in the financial guaranty business model. The outlook for the ratings is stable, and the announced acquisition of FSA's financial guaranty business is not expected to have a meaningful impact on the credit profile of Assured Guaranty. The rating agency added that the acquisition of FSA by AGL will, if completed as planned, create a combined entity with substantial financial resources and a strong market position." Reference is made to such release for the complete text of Moody's comments; a copy of such document is available at www.moodys.com.

Assured Guaranty's "AAA" (stable) financial strength ratings by S&P and by Fitch were affirmed on June 18, 2008 and December 12, 2007, respectively. On November 14, 2008, Fitch issued a press release responding to AGL's announcement of its agreement to acquire FSA, indicating that they do not expect the acquisition, as presented, to have a negative impact on Assured Guaranty's rating. Reference is made to the press release for the complete text of Fitch's comments; a copy of such press release is available at www.fitchratings.com. On November 17, 2008, S&P issued a press release responding to AGL's announcement of its agreement to acquire FSA, stating that the agreement "appears to pose limited rating risk" for Assured Guaranty. Reference is made to the press release for the complete text of S&P's comments; a copy of such press release is available at www.ratingsdiret.com. There can be no assurance as to what impact, if any, Moody's downgrade or the proposed acquisition will have on the company's financial strength ratings from Fitch or S&P.

For more information regarding Assured Guaranty's insurance financial strength ratings, see AGL's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008 (which was filed by AGL with the SEC on November 7, 2008).

*Capitalization of Assured Guaranty Corp.*

As of September 30, 2008, Assured Guaranty had total admitted assets of $1,767,134,629 (unaudited), total liabilities of $1,341,373,221 (unaudited), total surplus of $425,761,408 (unaudited) and total statutory capital (surplus plus contingency reserves) of $1,106,199,863 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2007, Assured Guaranty had total admitted assets of $1,361,538,502 (audited), total liabilities of $961,967,238 (audited), total surplus of $399,571,264 (audited) and total statutory capital (surplus plus contingency reserves) of $982,045,695 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States in making such determinations.

*Incorporation of Certain Documents by Reference*

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the SEC on February 29, 2008);
- The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 (which was filed by AGL with the SEC on May 9, 2008);
- The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008 (which was filed by AGL with the SEC on August 8, 2008);
- The Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008 (which was filed by AGL with the SEC on November 7, 2008); and

- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Insured Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "BOND INSURANCE POLICY – The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at http://www.sec.gov and at AGL's web site at http://www.assuredguaranty.com, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds, including the Insured Bonds, or the advisability of investing in the Bonds, including the Insured Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE POLICY."

## PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Cabinet to (i) pay costs of financing the Project, including the payment of certain capitalized interest, (ii) refund the Prior Bonds, as identified in EXHIBIT C, 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 indenture authorizing the Prior Bonds (the "Escrow Obligations"), the principal of and interest on which will be sufficient to pay principal of, premium, if any, and interest on the Prior Bonds at their respective maturities or redemption date. See "VERIFICATION" herein.

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 with respect to the Prior Bonds will be payable under the Lease to the Commission.

## SOURCES AND USES OF FUNDS FOR THE BONDS

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

| | |
|---|---|
| **SOURCES OF FUNDS**: | |
| Par Amount of Bonds | $385,455,000 |
| Net Original Issue Premium | 21,531,601 |
| **TOTAL SOURCES** | $406,986,601 |
| | |
| **USES OF FUNDS**: | |
| Deposit to Construction Fund | $308,838,076 |
| Refunding of Prior Bonds | 53,665,263 |
| Capitalized Interest | 22,667,773 |
| Costs of Issuance* | 21,815,489 |
| **TOTAL USES** | $406,986,601 |

* Includes Underwriters' discount, legal fees, printing, swap termination payment, bond insurance premium and miscellaneous costs.

## THE PROJECT

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.

## 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 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 authorization has been issued and a significant portion of the General Fund, Agency Fund and Road 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 through 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 budget also included $50 million of debt restructuring for fiscal relief in each of Fiscal Years 2009 and 2010. A portion of the General Fund and Agency Fund projects has been permanently funded, and the Fiscal Year 2009 debt restructuring has been completed. The Commission anticipates that it will issue on or about the date of issue of the Bonds approximately $32,935,000 of Road Fund Revenue Bonds, Project No. 94, which are authorized in the State Budget adopted by the 2008 General Assembly.

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 2010.

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. 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) 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) 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.

*Commonwealth Office of Technology ("COT")* The Commonwealth Office of Technology is headed by the Commonwealth's Chief Information Officer (and Commissioner of Technology). The agency carries out the functions necessary for the efficient, effective and economical administration of information technology and resources within the Executive Branch. These duties include overseeing shared Information Technology ("IT") infrastructure resources and services; developing and implementing statewide IT applications; establishing IT policy and standards, strategic and tactical IT planning, assessing; recommending and implementing IT governance and organization design; and establishing partnerships and alliances for effective implementation of IT projects.

## THE STATE AGENCIES

### 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 public universities of the Commonwealth and the Kentucky Community and Technical College System ("KCTCS"). CPE's role includes developing a strategic plan, measures of efficiency, educational attainment, and effectiveness, approving all educational programs, monitoring tuition and admission rates, and housing a database of information. Information on each of the individual institutions can be found at http://cpe.ky.gov/institutions.

### 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.

### Department for Local Government

The Department for Local Government ("DLG") (*formerly known as the Governor's Office for Local Development*) provides financial help in the way of grant and loan assistance, as well as advising local governments in matters of budget, personnel and other items relevant to those entities. The mission of DLG is to empower partners with effective advocacy, information and funding resources. DLG includes six divisions: Office of Financial Management and Administration, Office of Federal Grants, Office of State Grants, Office of Legal Services, Office of Field Services and the Kentucky Infrastructure Authority. DLG also partners with the state's fifteen Area Development Districts in serving the local governments of Kentucky.

*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 administers 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.

**Cabinet for Health and Family Services**

The Cabinet for Health and Family Services is composed of nine main agencies directed toward the goal of fostering a coordinated approach to health care issues in Kentucky. The nine program agencies are as follows: Department for Aging and Independent Living, Commission for Children with Special Health Care Needs, Department for Community Based Services, Department for Family Resource Centers and Volunteer Services, Office of Health Policy, Department for Income Support, Department for Medicaid Services, Department for Mental Health, Development Disabilities and Addiction Services (formerly known as the Department of Mental Health and Mental Retardation), and Department for Public Health.

*Department for Community Based Services* ("DCBS"). DCBS's services are administered through a network of nine service regions and offices in each of Kentucky's 120 counties. In addition, DCBS utilizes a network of contract officials to deliver services, such as child care. The provision of services is enhanced through a close relationship and coordination with local community partners. DCBS provides family support; child care; child and adult protection; eligibility determinations for Medicaid and food stamps; and energy assistance to low-income households through weatherization services and administration of an energy cost assistance program. The Department administers the state foster care and adoption systems and recruits and trains parents to care for the state's children who are waiting for a permanent home.

*Department for Public Health.* The Department is the sole organizational unit of Kentucky's state government responsible for developing and operating all public health programs and activities for the citizens of Kentucky. These activities include health service programs for the prevention, detection, care, and treatment of physical disability, illness and disease.

*Department of Mental Health, Departmental Disabilities, and Addiction Services (formerly known as the Department for Mental Health and Mental Retardation).* The Department's purpose is to provide leadership, in partnership with others, to prevent disability, build resilience in individuals and their communities, and facilitate recovery for people whose lives have been affected by mental illness, mental retardation or other developmental disability, substance abuse or an acquired brain injury.

**Justice and Public Safety Cabinet**

With close to 8,000 employees, the Kentucky Justice and Public Safety Cabinet ("JPSC") is the second largest agency in state government. It is the state entity responsible for criminal justice services, which encompasses law enforcement activities and training; prevention, education and treatment of substance abuse; juvenile treatment and detention; adult incarceration; autopsies, death certifications and toxicology analyses; special investigations; paroling of eligible convicted felons; and long range planning and recommendations on statewide criminal justice reform issues. JPSC's vision is to continuously improve public safety and the quality of life.

*Department of Corrections.* Corrections' mission is to protect the citizens of the Commonwealth and to provide a safe, secure and humane environment for staff and offenders in carrying out the mandates of the legislative and judicial processes; and to provide opportunities for offenders to acquire skills which facilitate non-criminal behavior.

*Kentucky State Police*. Since being established in 1948 by act of the Legislature of the Commonwealth of Kentucky, the Kentucky State Police has defined itself as a professional and efficient law enforcement agency dedicated to preserving law and order for the protection of Kentucky's citizens.

**Personnel Cabinet**

The Personnel Cabinet provides leadership and guidance to attract, develop, motivate and retain a talented, diverse workforce; foster an understanding of and adherence to regulatory requirements; and create a positive, supportive work environment that values all employees. The Cabinet strives to be regarded by the state's employees and stakeholders as a trusted and valuable resource for innovative, accessible and responsive human resource services.

**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 Commission and the Office of Creative Services.

*Kentucky Department of Parks.* The Department of Parks was created in 1924 by the General Assembly and has grown to include 49 parks and historic sites and one interstate park. The parks have facilities for meetings and conferences with fine accommodations and camping, golf, and education. The Department of Parks maintains 32 campgrounds, 260 miles of trails and offers seventeen state resort parks, more than any other state. The Kentucky State Parks also operate three airfields at Rough River, Lake Barkley and Kentucky Dam Village and oversees three cafeterias in Frankfort. Nearly 8 million people visit Kentucky State Parks each year.

*Kentucky State Fair Board*. The State Fair Board was created in 1938 by the General Assembly and is comprised of governor appointments, elected members of university administrations and pertinent associations. Since 1950, when the Fair Board began construction of the Kentucky Exposition Center, the Kentucky State Fair Board has been at the forefront of Kentucky tourism development. The State Fair Board now operates two of the largest facilities in the state - the Kentucky Exposition Center and the Kentucky International Convention Center - in addition to producing three signature events annually - the Kentucky State Fair, National Farm Machinery Show and North American International Livestock Exposition.

*The Kentucky Center for the Performing Arts*. The mission of The Kentucky Center for the Performing Arts is to provide artistically diverse performances of the highest quality. The Center serves Kentucky through education and initiatives which expand and diversify audiences while enhancing their understanding, appreciation and support for the arts. The Center strives to challenge, stimulate, and entertain while operating in a fiscally responsible manner and acting as an economic and cultural catalyst for the Commonwealth.

*Kentucky Horse Park Commission.* The Kentucky Horse Park Commission has seventeen members who provide broad management expertise and direction in the operation of the Kentucky Horse Park and represent the diverse interest of the Kentucky horse industry. The Kentucky Horse Park is located in Lexington, Kentucky, the heart of the Bluegrass. It is a working horse farm with 1,224 acres surrounded by 34 miles of white plank fencing with 110 structures and 260 campsites. The park features two outstanding museums, twin theaters and nearly 50 different breeds of horses. It is also the site for the 2010 World Equestrian Games, which will be the first time the Games have been held outside of Europe.

**Education and Workforce Development Cabinet**

*General*. The Kentucky Education and Workforce Development Cabinet provides life-long educational and workforce services through seamless, efficient and accessible learning opportunities for all Kentucky's citizens, from pre-school to senior citizens.

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

*Kentucky Educational Television* ("KET"). KET's mission is to make Kentucky a better place and strengthen its communities by educating, inspiring, and connecting its citizens through communication and technology. It is Kentucky's public television network, but their vision goes beyond the television or computer screen. They promote learning, the arts and culture, and citizenship, working each day to use television and related media for the benefit of everyone in Kentucky.

**Department of Veterans' Affairs**

The Department of Veterans' Affairs ("KDVA") mission is to ensure Kentucky's 357,000 veterans and their families receive all the benefits and services they have earned. KDVA provides benefits counseling, skilled nursing care at state veterans' centers, dignified interment at state veterans' cemeteries, and special programs for women veterans, homeless veterans and others.

**Kentucky River Authority**

The Kentucky River Authority (the "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 also 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 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.

## THE COMMONWEALTH

The Commonwealth of Kentucky, nicknamed the Bluegrass State, was the first state west of the Alleghenies to be settled by pioneers. Kentucky is bounded by the Ohio River to the north and the Mississippi River to the west, and is bordered by the States of Illinois, Indiana, Ohio, West Virginia, Tennessee, Missouri and the Commonwealth of Virginia.

The Commonwealth's economy in many ways resembles a scaled-down version of the U.S. economy in its diversity. The Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified modern economy including manufacturing of industrial machinery, automobiles and automobile parts and consumer appliances. In addition, Kentucky's nonmanufacturing industries have grown considerably in recent years, with strong gains in air transportation, health and business services, and retail trade. The Commonwealth's parks, horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in expanding the tourism industry in the Commonwealth.

**Financial Information Regarding the Commonwealth**

Information regarding debt issuing authorities of the Commonwealth is included in EXHIBIT A.

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 2008 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2008 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("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 2008 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 2008 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 (as hereinafter defined) in order to enable the purchaser of the Bonds to comply with the provisions of Rule 15c2-12. See "CONTINUING DISCLOSURE AGREEMENT" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

**Budgetary Process in the Commonwealth**

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1.

In 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 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**

The Commonwealth's combined net assets (governmental and business-type activities) totaled $16.3 billion at the end of 2008, as compared to $17.4 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $20.2 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 $1.45 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 $(5.4) 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 $10 billion and general revenues (including transfers) of $10.4 billion for total revenues of $20.4 billion during Fiscal Year 2008. Expenses for the Commonwealth during Fiscal Year 2008 were $21.7 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $1.3 billion, net of contributions, transfers and special items.

The slowing economy, during Fiscal Year 2008, caused revenues to decline resulting in the decrease in net assets of governmental activities by $1.29 billion or 7.4 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 36 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 2008, the Commonwealth's governmental funds reported combined ending fund balances of $2.44 billion, a decrease of $434 million in comparison with the prior year. $1.21 billion of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is $1.23 billion.

The General Fund is the primary operating fund of the Commonwealth. The fund balance at the end of Fiscal Year 2008 was $288 million. The balance reported reflects a decrease of $525 million from the previously reported amount, which represents a decline of 65%. The major factor for the decline is attributable to the slow national and state economy which has reduced tax revenues.

The fund balance is segregated into reserved and unreserved amounts. The reservations of the fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at the end of Fiscal Year 2008 had $290 million as a reserved fund balance and a negative $(2.0) million unreserved. The unreserved represents the amount available for current expenditures.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures. The significant change in fund balance recorded in the Agency Revenue Fund is attributable to the issuance of General Receipts Notes. These Notes are to be repaid by the revenues of the agency for which they were issued.

The Commonwealth of Kentucky's bonded debt increased by $174 million to $3.6 billion, a 5.00 percent increase during Fiscal Year 2008. The major factors in this increase were the issuance of bonds to replace notes which had been issued as an interim financing source and additional bonds to fund new projects. No general obligation bonds were authorized or outstanding at June 30, 2008.

**Fiscal Year 2009 (Unaudited)**

On November 21, 2008, Central Forecasting Group ("CFG") revised the official General Fund revenue estimate for Fiscal Year 2009 to $8,429.9 million, which is $393.7 million less than the original CFG estimate and is $456.1 million less than the level upon which the Fiscal Year 2009 budget was enacted. The official forecast reflects a 2.7 percent decrease 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 to be $118.49 million in Fiscal Year 2009 under the revised CFG estimate, a decrease of $1.2 million from the original estimate.

Fiscal Year 2009 General Fund actual revenues total $5,050.8 million through January 2009, an increase of 1.1 percent over the same period in Fiscal Year 2008. Based on year-to-date receipts, General Fund receipts must decline 7.9 percent over the last five months of Fiscal Year 2009 in order to meet the revised official estimate.

General Fund revenues for January 2009 were $722.5 million, a decrease of 4.0 percent compared to January 2008. During January 2009, sales and use tax revenues were down 4.2 percent for the month and are up only 0.5 percent for the year. Individual income tax receipts fell by 13.5 percent over the same period in Fiscal Year 2008 as the principal components (withholding, declaration payments, and net returns) posted January declines. Corporation income tax receipts for January 2009 grew by 425.6 percent when compared to January 2008, but are down 36.2 percent for the year. Property taxes for January 2009 increased 12.1 percent compared to January 2008 on the strength of real and tangible property receipts. Coal severance tax receipts grew by 17.6 percent in January 2009 compared to January 2008 and are up 31.4 percent for Fiscal Year 2009. The Kentucky Lottery Corporation dividend payment for January 2009 was $16 million, up from $15.5 million last January.

**Fiscal Year 2010 (Unaudited)**

The official General Fund revenue estimate for Fiscal Year 2010 was published by CFG in January 2008 and is estimated to be $9,096.3 million. The official revenue estimate is the basis for expenditures found in H.B. 406, the enacted budget bill of the 2008 Session of the General Assembly. Subsequently, CFG reconvened on November 21, 2008 and revised the official Fiscal Year 2009 revenue estimate down 4.5% to $8,429.9 million, while taking no action with regard to the original Fiscal Year 2010 estimate. Although CFG has not revised the official General Fund revenue estimate for Fiscal Year 2010, it is likely that revenues will be less than original forecast in light of current economic conditions.

**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 January 31, 2009, the Commonwealth's operating portfolio was approximately $3.1 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (14%); securities issued by agencies and instrumentalities of the United States Government (23%); mortgage–backed securities and collateralized mortgage obligations (15%); repurchase agreements collateralized by the aforementioned (11%); municipal securities (10%); and corporate and asset–backed securities, including money market securities (27%). The portfolio had a current yield of 4.08% and an effective duration of 1.08 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 20% 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, Credit Suisse, lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in Eligible Collateral authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split among Credit Suisse and the Commonwealth. 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 million notional amount to a net market value approach, the absolute value of which cannot exceed $50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. 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.

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 $25 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.

**Interest Rate Swaps**

From time to time, the Commonwealth of Kentucky utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. The Kentucky Asset Liability Commission ("ALCo") is the agency with specific statutory authority to enter into and manage interest rate swaps and other similar vehicles. As of January 31, 2009, ALCo had three interest rate swap transactions outstanding with a total notional amount outstanding of $782,575,000. Two of the three transactions will terminate in 2009.

One interest rate swap transaction with a notional amount of $400 million is related to the ALCo General Fund Tax and Revenue Anticipation Notes and matures June 25, 2009. This swap is used to hedge the sensitivity between short term General Fund cash investments and the fixed interest rate liability on such Notes. The purpose of the other maturing 2009 swap transaction is to hedge the issuance of approximately $150 million of the Commonwealth's authorized, but unissued tax-exempt debt. This cash settled swap has a mandatory termination date of November 1, 2009 and will be terminated in conjunction with the issuance of the Bonds in advance of the mandatory termination date. The remaining swap transaction consists of a series of four amortizing "cost of funds" interest rate swaps that totaled $243.08 million at the time of execution and having maturity dates beginning November 1, 2017 through November 1, 2027. This transaction is integrated as part of the issuance of the ALCo's 2007 $243.08 million General Fund Floating Rate Project Notes.

**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 2008, 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 ("OPEB"). 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, 2008 actuarial valuation reports used in preparing the associated Pension Plans' 2008 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $5,163 million, while KTRS had a UAAL of $7,139 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2008 had funding percentages of 54.5 percent for the Kentucky Retirement Systems and 68.2 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2008 pension benefits was $292.7 million versus the Actual Contribution of $127.4 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2008 was $563.8 million; $438.8 million was contributed.

*Other Post Employment Benefits* ("*OPEB*"). 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, 2008 has been estimated to not exceed $5,403 million for the Kentucky Retirement Systems and $6,255 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, 2008. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities slightly increased from the $5,151 million previously reported in the Kentucky Retirement Systems' 2007 CAFR. The actuarial estimates for KTRS increased from $5,788 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 ended June 30, 2008 healthcare benefits was $653.4 million versus the Actual Contribution of $93 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2008 was $397.2 million; $166.3 million was contributed. Previously, the General Assembly directed transfers of $125.0 million in Fiscal Year 2008, $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 ended June 30, 2008 had funding percentages of 15.8 percent for the Kentucky Retirement Systems and 4.0 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 conducted an operational and governance review of the state retirement systems and studied the issues in dispute during the 2008 Regular 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 working group was divided into six subcommittees, including: best practices in investments; future funding strategies; a County Employees Retirement System and Local Government Employees Retirement System committee that was tasked to study the transfer of classified school employees to a new retirement system and the potential for a new local government employees retirements system; a committee that considered defined contribution options; a group that evaluated healthcare costs and strategies; and a committee that evaluated and ensured best practices in securities litigation. The working group provided its final report to the Governor in November 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 retirements 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 liability that have accrued over time.

## SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution, the Lease, the Subleases and the Insurance Agreement dated as of February 1, 2009 (the "Insurance Agreement") among the Commission, the Insurer and the Trustee. The Insurance Agreement modifies certain rights of Bondholders described under "The Resolution" below. The statements regarding the Resolution, the Lease, the Subleases and the Insurance Agreement do not purport to be complete and reference is made to the Resolution, the Lease, the Subleases and the Insurance Agreement, 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 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. Capitalized interest and accrued interest on the Bonds, if any, will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any February 1 or August 1 and any date set for redemption of Bonds prior to maturity (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

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

Under the Resolution "Revenues" means, with respect to the Lease, all of the rental payments and other payments to be made by the Cabinet to the Commission pursuant to the Lease, or any other amounts received by the Commission for the use or occupancy of the Project and any other payments or deposits to be made to the Bond 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, including the cost of terminating a certain forward starting interest rate swap agreement that was executed on August 2, 2007. See "THE COMMONWEALTH—Interest Rate Swaps" herein. On payment of all duly authorized expenses incident to the issuance of the Bonds, any remaining balance in the Cost of Issuance Fund will be transferred to the Bond Fund.

3. Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund constitutes a trust fund for the benefit of the owners of the Bonds. 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 Fund.

*Federal Tax Covenants of the Commission*. The Commission has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that the interest paid on the Bonds by the Commission shall be excludable from the gross income of the 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 hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

Upon the happening and continuance of any event of default described in clause (a) or (b) above, unless the principal of all the Bonds has already become due and payable, either the Trustee (by notice in writing to the Commission) or the 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 happening and continuance of any event of default thereunder, 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 of the Bonds 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 of the Bonds, 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 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 Owner 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 any of the rights and obligations of the Commission or the owners of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the owners of at least 66 2/3% of the aggregate principal amount of Bonds Outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal 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 set forth above, make any amendment or change to the Resolution (i) to cure any formal defect or ambiguity, if in the opinion of the Trustee such amendment or change is not adverse to the interest of the 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 Cabinet 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 the owners of the Bonds.

*Discharge of the Resolution*. If the Commission pays or causes to be paid, or there is otherwise paid, to the owners of the Bonds the total principal and interest due or to become due thereon, including premium, if applicable, at the times and in the manner stipulated therein and in the 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 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 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 of the Bonds.

As used herein, “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 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 to the 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, to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof;

(c) certificates rated “AAA” by S&P, “Aaa” by Moody’s and “AAA” by Fitch (if rated by Fitch) (each as hereinafter defined) 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 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 or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (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 at the time of purchase); 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 at the time of purchase).

**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 net of the amounts payable with capitalized interest.

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

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

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

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

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof to any party it deems appropriate, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Cabinet's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Cabinet under the Lease upon delivery of an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in gross income for federal income tax purposes. The Cabinet has similar remedies in the event of a default by the Sublessees under the Subleases. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

**Insurance Agreement**

The Insurance Agreement establishes (i) procedures for claims upon the Policy, (ii) procedures for payments by and to the Insurer, (iii) reimbursement obligations of the Commission with respect to any claims paid and (iv) certain additional requirements regarding the defeasance of the Insured Bonds (including requirements for any related escrow agreement).

The Insurer has certain rights regarding the consent to actions under the Resolution, so long as the Insurer is not in default under the Policy, including:

1. The Insurer's prior written consent wherever the Resolution requires the consent of Bondholders.

2. The right to vote on behalf of all Bondholders who hold Insured Bonds, absent a payment default by the Insurer under the Policy.

3. The right to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee under the Resolution, including, without limitation, (a) the right to accelerate the principal of the Insured Bonds and (b) the right to annul any declaration of acceleration. The Insurer is also entitled to approve all waivers of events of default.

4. Upon the occurrence of an Event of Default under the Resolution, the Trustee may, with the prior written consent of the Insurer, and shall at the direction of the Insurer or the Bondholders with the prior written consent of the Insurer, by written notice to the Commission and the Insurer, declare the principal of the Insured Bonds to be immediately due and payable, whereupon that portion of the principal of the Insured Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Bond Resolution or the Insured Bonds to the contrary notwithstanding.

5. The Insurer is deemed to be the holder of all of the Insured Bonds for purposes of (a) exercising all remedies and directing the Trustee to take actions or for any other purposes following an Event of Default under the Resolution, and (b) granting any consent, waiver, direction or approval or taking any action permitted by or required under the Resolution to be granted or taken by the Bondholders.

Under the Insurance Agreement, so long as the Insurer is not in default under the Policy:

1. No removal or resignation of the Trustee shall take effect until a successor, acceptable to the Insurer, has been appointed.

2. The Trustee may be removed at any time, at the request of the Insurer, for any breach of its obligations under the Resolution.

3. Notwithstanding any provision of the Resolution, in determining whether the rights of Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Resolution, the Trustee shall consider the effect on the Bondholders as if there were no Policy.

4. With respect to amendments or supplements to the Resolution, the Lease or the Subleases which do not require the consent of the Bondholders, the Insurer must be given prior written notice of any amendments or supplements. With respect to amendments or supplements to the Resolution, the Lease or the Subleases which require the consent of the Bondholders, the Insurer's prior written consent is required.

5. The Insurer is deemed a third party beneficiary to the Resolution, the Lease or the Subleases.

## 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”) are expected to assign the Insured Bonds the ratings of “Aa2”, “AAA” and “AAA”, respectively, each with the understanding that upon delivery of the Bonds, the Policy will be issued by the Insurer. The ratings for the Bonds that are not Insured Bonds and the underlying ratings for the Insured Bonds are “Aa3,” “A+” and “AA-” from Moody’s, S&P and Fitch, respectively.

Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the ratings given by Moody’s may be obtained from Moody’s Investors Service, Inc. at 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 Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel to, the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT E. Certain legal matters will be passed upon for the Commission by its counsel. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, Omaha, Nebraska.

## LITIGATION

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

## TAX EXEMPTION

### General

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

A copy of the opinion of Bond Counsel for the Bonds is set forth in EXHIBIT E.

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

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

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

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

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

**Tax Treatment of Original Issue Discount**

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

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

**Tax Treatment of Bond Premium**

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

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

## UNDERWRITING

The Underwriters have agreed to purchase the Bonds for an aggregate purchase price of $404,405,686.64, which is an amount equal to an aggregate par amount of the Bonds, plus a net premium of $21,531,600.95 and less an underwriters' discount of $2,580,914.31. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering yields set forth on the cover 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.

J.P. Morgan Securities Inc., one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

## CONTINUING DISCLOSURE AGREEMENT

The Bonds are subject to Rule 15c2-12. In general, Rule 15c2-12 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 Rule 15c2-12, if material. In order to enable the Underwriters to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee. Specifically, the Commission will covenant (1) annually to file the Commonwealth's annual financial information, including its audited financial statements, with each NRMSIR or the Municipal Securities Rulemaking Board (the "MSRB"), and the appropriate state information depository, if any, and (2) to provide notice in a timely manner of any of the following types of events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale or property securing repayment of the securities; and (xi) rating changes. Effective on July 1, 2009 (or such other date as the Securities and Exchange Commission may announce), the MSRB will be the sole NRMSIR and the Commission's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access (EMMA) system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities and has complied with requirements of Rule 15c2-12.

## VERIFICATION

Causey Demgen & Moore Inc. (the "Verifier") has verified, from the information provided to them, the mathematical accuracy, as of the date of the closing on the Bonds, of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriters' schedules, to be held in escrow, will be sufficient to pay the principal of, premium, if any, and interest on the Prior Bonds, when due, and (ii) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. The Verifier will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

## OTHER MATTERS

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

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

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

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

By: /s/ F. Thomas Howard

F. Thomas Howard
Executive Director
Office of Financial Management
(Secretary to the Commission)

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## EXHIBIT A

## DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

## COMMONWEALTH DEBT MANAGEMENT

### Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet, has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists 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, the Turnpike Authority of Kentucky, 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 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)<br>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. | Baal/AA/NR (MBIA Insured) |

* Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch.
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.

## EXHIBIT B

## THE PROJECT

The Cabinet will lease all of the property, economic development projects or community development projects, as described below, to the extent proceeds of the Bonds are used to pay the costs thereof (portions of which costs have been paid with proceeds of the Commission's Revenue and Revenue Refunding Bonds, Project No. 90 and may be paid from the proceeds of Commission bonds to be issued in the future). In addition, certain property, economic development projects or community development projects that are not specifically described below, that relate to the refunding of the Prior Bonds, also constitute a part of the Project.

| **Project Description – 2005 Projects** | Authorized Project Amount (1) |
|---|---|
| Council on Postsecondary Education | |
| Eastern Kentucky University - Construct Business Technology Center – Phase II | $32,850,000 |
| Kentucky Community and Technical College System - LCC Classroom/Lab Building | 31,741,000 |
| University of Kentucky - Expand & Upgrade Livestock Disease Diag. Center | 8,500,000 |
| Western Kentucky University – Renovate Science Campus Phase II | 33,000,000 |
| Cabinet for Economic Development | |
| Innovation and Commercialization for a Knowledge-Based Economy Bond Pool – Kentucky Technology, Inc. (Coldstream Research Campus) | 2,750,000(2) |
| Innovation and Commercialization for a Knowledged-Based Economy Bond Pool | 1,750,000(3) |
| Economic Development Bond Pool | 7,188,000(3) |
| Finance and Administration Cabinet | |
| Revenue - Business Refund Off-Set System | 1,750,000 |
| Department for Local Government | |
| KIA Infrastructure for Economic Development Fund for Coal-Producing Counties | 13,000,000(3) |
| KIA Infrastructure for Economic Development Fund for Tobacco-Producing Counties | 7,500,000(3) |
| Cabinet for Health and Family Services | |
| General Administration and Program Support - Child Support Enforcement (KASES II) | 2,040,000 |
| Mental Health and Mental Retardation - Upgrade HVAC Pipes & Electric – Glasgow | 2,200,000 |
| Public Health - Upgrade KASPER System DPH | 5,000,000 |
| Justice and Public Safety Cabinet | |
| State Police - Replace Records and Secure Evidence Facility | 6,075,000 |
| Personnel Cabinet | |
| General Operations - Replace Commonwealth's Personnel Payroll System | 25,000,000 |

| Project Description – 2006 Projects | Authorized Project Amount[1] |
|---|---|
| Cabinet for Economic Development | |
| New Economy High-Tech Construction/Investment Pool – Kentucky Technology, Inc. (Coldstream Research Campus) | $2,750,000[2] |
| New Economy High-Tech Construction/Investment Pool | 17,250,000 |
| Economic Development Bond Pool | 17,500,000 |
| Tourism, Arts and Heritage Cabinet | |
| Kentucky Horse Park – Construct New Indoor Arena | 36,500,000 |
| Education and Workforce Development Cabinet | |
| Department of Education - Letcher County Central Vocational Center | 2,000,000 |
| Kentucky Educational Television - Replace Master Control & Production Infrastructure | 15,707,000 |
| Finance and Administration Cabinet | |
| Department of Facilities and Support Services - Capital Plaza Complex - Renovation and Design | 4,942,000 |
| Commonwealth Office for Technology - Public Safety Commission Infrastructure - KEWS - Additional | 13,000,000[3] |
| Department of Revenue - Implement a Comprehensive Tax System - Phase I | 23,250,000[3] |
| General Government | |
| Governor's Office for Local Development - Warren County Fiscal Court - Transpark - Rail Spur | 4,500,000 |
| Governor's Office for Local Development - Community Development Fund Projects | 28,958,000[3] |
| Kentucky Infrastructure Authority/Other - Infrastructure for Economic Development Fund for Non-Coal Producing Counties | 112,500,000[3] |
| Kentucky Infrastructure Authority/Other - Infrastructure for Economic Development Fund for Coal-Producing Counties | 75,000,000[3] |
| Department of Veterans Affairs - Western Kentucky Veterans' Center - Alzheimer's/General Care unit | 1,757,000 |
| Cabinet for Health and Family Services | |
| General Administration and Program Support - Safeguarding Children at Risk (TWIST Re-Write II) - Additional | 3,134,000[3] |
| Department of Mental Health Mental Retardation - Oakwood - Replace Chillers, Heating & Cooling Lines | 2,131,000 |
| Department of Community Based Services - Home of the Innocents - Phase II Children's Village | 8,250,000 |
| Council on Postsecondary Education | |
| Eastern Kentucky University - Construct Science Building | 54,108,000[3] |
| Eastern Kentucky University - Construct Manchester Postsecondary Education Center | 3,500,000[3] |
| Kentucky State University - Renovate Hathaway Hall, Phase II | 4,920,000[3] |
| Morehead State University - Construct Center for Health, Education and Research | 23,000,000[3] |
| Morehead State University - Space Science Center - Completion | 3,400,000[3] |
| Murray State University - Construct New Science Complex, Phase III | 15,000,000[3] |
| Northern Kentucky University - Construct Center for Informatics | 35,500,000 |
| University of Kentucky - Construct Biological/Pharmaceutical Complex - Phase II | 79,892,000[3] |
| University of Louisville - Construct HSC Research Facility Phase IV - Additional | 69,680,000[3] |
| Western Kentucky University - Replace College of Education Building - Tate Page Hall | 35,000,000 |
| Kentucky Community Technical College System - Advanced Manufacturing Technology Center-Gateway Community and Technical College - Design | 28,000,000 |
| Kentucky Community Technical College System - Construct Emerging Technology Center - West KY CTC | 16,518,000 |
| Kentucky Community Technical College System - Construct Allied Health/Technical Educational Building - Laurel Campus | 14,015,000 |

| | |
|---|---|
| Kentucky Community Technical College System - Construct Administration Building, Phase I - Maysville CC | 5,008,000 |
| Kentucky Community Technical College System - Construct Science/Allied Health Building - Jefferson CTC | 25,557,000 |
| Kentucky Community Technical College System - Construct Central Regional Postsecondary Education Center Phase II - Elizabethtown CTC | 20,000,000 |
| Kentucky Community Technical College System - Advanced Manufacturing Center - Design - Bluegrass CTC | 1,500,000 |
| Kentucky Community Technical College System - Construct Tech Drive Campus, Phase III - Ashland CTC | 17,600,000[3] |
| Kentucky Community Technical College System - Springfield Community and Technical College | 14,500,000 |
| Kentucky Community Technical College System - McCreary Center - Somerset CC | 6,500,000 |

| **Project Description – 2008 Projects** | Authorized Project Amount[1] |
|---|---|
| Kentucky River Authority | |
| Kentucky River Locks and Dams Maintenance & Renovation Pool | $17,500,000 |
| Council on Postsecondary Education | |
| Morehead State University - Replace Power Plant Pollution Control System | 5,700,000 |
| Capital Renewal and Maintenance Pool | 13,927,000 |
| Department for Local Government | |
| KIA Infrastructure for Economic Development Fund for Coal-Producing Counties | 50,000,000[3] |
| Tourism, Arts and Heritage Cabinet | |
| Parks Department - Maintenance Pool 2008-2010 | 4,000,000 |
| State Fair Board - Upgrade HVAC Systems | 2,000,000 |
| Kentucky Center for the Arts - Major Maintenance Renovation Pool | 8,954,000 |
| Education and Workforce Development Cabinet | |
| Department of Education – Operations and Support Services- Student Data Management System - Phase 2 | 4,000,000 |
| Finance and Administration Cabinet | |
| Facilities and Support Services - Maintenance Pool 2008-2010 | 6,000,000 |
| Cabinet for Health and Family Services | |
| General Administration and Program Support - Maintenance Pool 2008-2010 | 3,000,000 |
| Justice and Public Safety Cabinet | |
| Adult Correctional Institutions - Maintenance Pool 2008-2010 | 4,000,000 |
| | $1,141,752,000 |

[1] Excludes allocable costs of issuance.
[2] Project fully funded with proceeds of the Bonds.
[3] Less than full authorization

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## EXHIBIT C

## SUMMARY OF REFUNDED BONDS AND NOTES

**Commonwealth of Kentucky Asset/Liability Commission Project Notes**

| Series | Par | Coupon | Maturity Date | CUSIP |
|---|---|---|---|---|
| 2003 Series A | $ 955,000 | 2.300% | 7/15/09 | 491189CE4 |
| 2003 Series A | 5,190,000 | 5.000% | 7/15/09 | 491189CF1 |

**Commonwealth of Kentucky State Property and Buildings Commission Revenue Bonds**

| Series | Par | Coupon | Maturity Date | CUSIP |
|---|---|---|---|---|
| Project No. 60 | $1,275,000 | 4.875% | 10/1/09 | 49151ELP6 |
| Project No. 60 | 6,500,000 | 5.500% | 10/1/09 | 491513L47 |
| Project No. 67 | 1,665,000 | 4.700% | 09/1/09 | 4915133N5 |
| Project No. 67 | 4,450,000 | 5.500% | 09/1/09 | 4915134C8 |
| Project No. 68 | 6,590,000 | 5.750% | 10/1/09 | 4915135B9 |
| Project No. 68 | 825,000 | 4.800% | 10/1/09 | 4915135A1 |
| Series A Project No. 69 | 3,320,000 | 4.100% | 08/1/09 | 49151EAH6 |
| Series A Project No. 69 | 6,955,000 | 5.250% | 08/1/09 | 49151ECZ4 |
| Project No. 71 | 3,955,000 | 5.500% | 08/1/09 | 49151EMZ3 |
| Project No. 71 | 2,500,000 | 4.100% | 08/1/09 | 49151EEN9 |
| Project No. 85 | 7,870,000 | 3.200% | 08/1/09 | 49151EYS6 |

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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-only system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution.

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

DTC will act as securities depository for the Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of the Bonds and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com 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-only 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

NEITHER THE COMMISSION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

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

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

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

*The information in this EXHIBIT D concerning DTC and DTC's book-entry-only system has been obtained from sources that the Commission believes to be reliable, but neither the Commission nor the Underwriters take any responsibility for the accuracy thereof.*

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## EXHIBIT E

## FORM OF BOND COUNSEL OPINION FOR THE BONDS

[Date of Delivery]

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

Re: $385,455,000 Commonwealth of Kentucky State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 93

Ladies and Gentlemen:

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its $385,455,000 Revenue and Revenue Refunding Bonds, Project No. 93 (the "Bonds"), dated on original issuance as of the date of their delivery.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on January 15, 2009 (the "Resolution") for the purpose of (i) refunding certain outstanding bonds of the Commission and certain outstanding notes of the Kentucky Asset/Liability Commission; (ii) paying costs of a project (the "Project"); and (iii) paying costs of issuing the Bonds. The Project has been leased to the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") pursuant to a Lease Agreement dated as of February 1, 2009 by and between the Commission and the Cabinet and an Amended and Restated Financing/Lease Agreement dated as of January 1, 2006, as supplemented by a First Supplemental Financing/Lease Agreement dated as of July 1, 2006, a Second Supplemental Financing/Lease Agreement dated as of October 1, 2006, a Third Supplemental Financing/Lease Agreement dated as of November 1, 2007, a Fourth Supplemental Financing/Lease Agreement dated as of November 15, 2007, and a Fifth Supplemental Financing/Lease Agreement dated as of May 1, 2008, with the Commission and the Kentucky Asset/Liability Commission, each as lessor (the "Lease"). In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project under Subleases dated as of May 1, 2008 and February 1, 2009, each as amended to date (collectively, the "Subleases"), to various state agencies (the "State Agencies").

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

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

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

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

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

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

3. The Bonds have been duly authorized and issued by the Commission and are the valid and binding limited and special obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal and interest from and are secured by a pledge of the revenues to be derived by the Commission from the Lease and the Subleases. A sufficient portion of the revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

4. The Lease and the Subleases have been duly authorized, executed and delivered by the Cabinet. The Lease and the Subleases are the legal, valid and binding obligations of the Cabinet and the State Agencies. The Lease and the Subleases are enforceable in accordance with their respective terms.

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

6. The Bonds are not secured by a pledge of, or lien on, any properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by a pledge of the revenues to be derived from the Lease and the Subleases. The ability of the Cabinet to make payments under the Lease, and of the State Agencies to make payments under the Subleases, is dependent on legislative appropriations to the Cabinet and the State Agencies. The Lease and the Subleases currently have terms ending June 30, 2010, with the right to renew the Lease and the Subleases for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

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

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

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

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

Very truly yours,

**EXHIBIT F**

**FORM OF FINANCIAL GUARANTY INSURANCE POLICY**

ASSURED GUARANTY®
ENDURING FINANCIAL STRENGTH

## FINANCIAL GUARANTY INSURANCE POLICY



| | |
|---|---|
| **Issuer:** | **Policy No.:** |
| **Obligations:** | **Premium:** |
| | **Effective Date:** |

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "**Term**" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.



ASSURED GUARANTY CORP.

(SEAL)

By:__________________________________
[Insert Authorized Signatory Name]
[Insert Authorized Signatory Title]

Signature attested to by:

________________________________

Counsel