Book-Entry Only	**Ratings:**	**Moody's: Aa3**
NEW ISSUE		**S&P: AA-**
		Fitch: AA-

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.

$90,240,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Road Fund Revenue Bonds, Project No. 73

Dated: November 1, 2001 **Due: November 1, as shown below**

The Road Fund Revenue Bonds, Project No. 73 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof and will bear interest payable on each May 1 and November 1, commencing on May 1, 2002. Principal of and interest on the Bonds will be paid directly to DTC by National City Bank of Kentucky, Louisville, Kentucky, as Trustee and Paying Agent.

Certain of the Bonds are subject to redemption prior to maturity at the times and in the amounts described herein.

The Bonds mature on the dates, in the principal amounts, bear annual interest and have the price or yield as follows:

Maturity November 1	Principal Amount	Interest Rate	Yield	Maturity November 1	Principal Amount	Interest Rate	Yield
2002	$ 2,830,000	4.00%	2.00%	2009	$ 320,000	3.80%	3.86%
2003	2,275,000	2.30%	2.35%	2009	13,485,000	5.25%	3.86%
2003	820,000	3.00%	2.35%	2010	250,000	3.90%	3.96%
2004	1,705,000	2.70%	2.72%	2010	14,270,000	5.25%	3.96%
2004	1,470,000	5.00%	2.72%	2011	1,530,000	4.00%	4.06%
2005	3,295,000	3.00%	3.02%	2011	13,750,000	5.25%	4.06%
2006	1,010,000	3.25%	3.26%	2012	1,050,000	4.15%	4.20%
2006	2,380,000	5.00%	3.26%	2012	3,435,000	5.25%	4.20%*
2007	545,000	3.45%	3.51%	2013	100,000	4.30%	4.32%
2007	3,000,000	5.00%	3.51%	2013	4,605,000	5.50%	4.32%*
2008	2,480,000	3.70%	3.73%	2014	510,000	4.40%	4.43%
2008	10,670,000	5.25%	3.73%	2014	4,455,000	5.50%	4.43%*

(plus accrued interest)

*These Bonds have been priced to call.

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 Transportation Cabinet of the Commonwealth (the "Transportation Cabinet") pursuant to a Resolution adopted October 16, 2001, to (i) pay costs of constructing, acquiring, installing and equipping the Project (as described and defined herein) and (ii) pay costs of issuing the Bonds.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE WITH THE TRANSPORTATION CABINET (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.

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, Altheimer & Gray, Chicago, Illinois. It is expected that delivery of the Bonds will be made on or about November 20, 2001, in New York, New York, through the facilities of DTC, against payment therefor.

UBS PaineWebber Inc.

Morgan Stanley

J.J.B. Hilliard, W.L. Lyons, Inc.
A.G. Edwards & Sons, Inc.
Bear, Stearns & Co. Inc.
Raymond James & Associates, Inc.
Morgan Keegan & Company, Inc.
Ross, Sinclaire & Associates, Inc.
Edward D. Jones & Co., L.P.
Salomon Smith Barney
NatCity Investments, Inc.
First Kentucky Securities Corp.
Merrill Lynch & Co.

Dated: October 31, 2001.

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

MEMBERS

PAUL E. PATTON
Governor
(Chairman of the Commission)

STEPHEN L. HENRY
Lieutenant Governor

A. B. CHANDLER III
Attorney General

T. KEVIN FLANERY
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

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

DANA B. MAYTON
Secretary
Revenue Cabinet

GORDON L. MULLIS, JR.
Executive Director
Office of Financial Management
(Secretary to the Commission)

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 respective 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.

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. 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. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any Bonds shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. The Official Statement is submitted in connection with the issuance of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY

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

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

The Offering The Commission is offering its $90,240,000 Road Fund Revenue Bonds, Project No. 73 (the "Bonds").

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission (i) authorizing the issuance of the Bonds, and (ii) approving the Lease dated as of November 1, 2001 (the "Lease"), between the Commission, as lessor and the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet"), as lessee.

Use of Proceeds The Bonds are being issued to provide funds with which to (i) pay costs of constructing, acquiring, installing and equipping the hereinafter described and defined Project and (ii) pay costs of issuing the Bonds.

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

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

Features of Bonds The Bonds are being offered in the authorized denominations of $5,000 or any integral multiple thereof, at the interest rates, yields and purchase prices 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 and interest due on the Bonds will be made directly to DTC. The Bonds will bear interest payable on each May 1 and November 1, commencing on May 1, 2002. Principal of and interest on the Bonds will be paid directly to DTC by National City Bank of Kentucky, Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee").

The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds maturing on or after November 1, 2012 are subject to optional redemption on or after November 1, 2011 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium. See "THE BONDS –– Redemption Provisions" herein. It is expected that delivery of the Bonds will be made on or about November 20, 2001, in New York, New York, against payment therefor.

Tax Status

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

Continuing Disclosure

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

General

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

Information

Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924, or, during the initial offering period, by contacting the representative of the Underwriters, UBS PaineWebber Inc., 181 West Madison Street, 42nd Floor, Chicago, Illinois 60602 Telephone: (312) 683-6061.

OFFICIAL STATEMENT
Relating to

$90,240,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Road Fund Revenue Bonds, Project No. 73

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 $90,240,000 Road Fund Revenue Bonds, Project No. 73 (the "Bonds") issued at the request of the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet") to provide funds with which to (i) pay costs of constructing, acquiring, installing and equipping the Project (as hereinafter described and defined) and (ii) pay costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE".

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

The Transportation Cabinet, as lessee, has entered into a Lease dated as of November 1, 2001, with the Commission, as lessor (the "Lease"), to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The initial term of the Lease ends June 30, 2002, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Transportation Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Transportation Cabinet, for each biennial period during which Bonds are outstanding, to seek legislative appropriations to the Transportation Cabinet in amounts which are sufficient to permit the Transportation 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 Transportation Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds, through June 30, 2002.

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

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

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of $5,000 or integral multiples thereof, will be dated November 1, 2001, and will bear interest payable on each May 1 and November 1, commencing May 1, 2002, at the interest rates set forth on the cover page of this Official Statement. National City Bank of Kentucky, Louisville, Kentucky, is the trustee for the Bonds (the "Trustee").

Book Entry Only System

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

DTC 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 securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and 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 securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of the 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, but Beneficial Owners are 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee as DTC shall designate. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC 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.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds. 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered through its Participant, the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of the Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commission or the Trustee. The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

Neither the Commission nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person not shown on the registration books of the Trustee as being a holder with respect to: (1) the Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the purchase price of tendered Bonds or the principal or 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 Resolution to be given to holders; or (5) any consent given or other action taken by DTC as holder.

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 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 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.

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

Redemption Provisions

Optional Redemption. The Bonds maturing on and after November 1, 2012 may be redeemed at the option of the Commission on any date on or after November 1, 2011, 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 thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Bonds, the Trustee shall cause a notice of redemption to be mailed, by regular United States first class mail, postage prepaid, to all owners of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any Bond shall not affect the validity of the redemption of any other Bond. Such redemption notice shall set forth the details with respect to the redemption. Any owner owning at least $1,000,000 in aggregate principal amount of the Bonds may request that a second copy of the notice of redemption be sent to a second address provided to the Trustee in writing. The notice of redemption shall set forth the complete title of the Bonds, the CUSIP numbers, the date of the issue, the serial numbers, the interest rate, the maturity date, the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds of any one maturity then outstanding shall be called for redemption, the distinctive numbers and letters of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and the place or places of redemption, including the name, address and phone number of a contact person. The notice of redemption shall also state that on the date fixed for redemption the redemption price will become due and payable upon each Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

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

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

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

SECURITY FOR THE BONDS

General

The Bonds are not secured by a lien on any properties constituting the Project or any amounts derived therefrom. The Bonds and the interest thereon are payable solely from the rental payments of the Transportation Cabinet under the Lease (together with certain other payments and amounts described in the Resolution, the "Revenues"). See the caption “SUMMARIES OF THE PRINCIPAL DOCUMENTS” herein.

The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2002.

Under the provisions of the Constitution of the Commonwealth, the Transportation Cabinet is prohibited from entering into financing obligations extending beyond the biennial budget. Appropriations for the rental payments under the Lease are subject to the discretion and approval of each successive biennial or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) in the performance of his or her obligation to balance the Commonwealth’s annual budget, the Governor will not reduce or eliminate such appropriations. FAILURE OF THE TRANSPORTATION 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. SEE “THE TRANSPORTATION CABINET” HEREIN.

Appropriations to the Transportation Cabinet to make payments under the Lease, the source of funds for the payment of principal of and interest on the Bonds, are Road Fund appropriations and not General Fund appropriations. See "THE TRANSPORTATION CABINET " for a discussion of revenue sources, revenue receipts, revenue estimates and other claims against Road Fund revenues, including outstanding obligations of the Transportation Cabinet under leases with The Turnpike Authority of Kentucky (the "Turnpike Authority").

The Bonds are also secured by certain other funds and accounts pledged therefor and described in the Resolution.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS SPECIFICALLY PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS.

Additional Bonds

Except for refunding bonds, before bonds of the Commission payable from lease payments of the Transportation Cabinet, other than the Bonds, may be authenticated and delivered by the Trustee, there must be filed with the Trustee a certificate of the chief accounting officer of the Transportation Cabinet stating, and setting forth the calculations supporting such statement, that at the date of authentication and delivery, "Adjusted Revenues" are at least 2.00 times "Maximum Annual Debt Service."

"Adjusted Revenues" shall mean the aggregate of all amounts credited to the Road Fund for any 12 consecutive of the preceding 18 months, excluding (a) proceeds of obligations for borrowed moneys and (b) amounts required by law (excluding appropriations law) to be used for purposes other than for debt service on obligations for borrowed moneys payable from the Road Fund or for rentals on leases entered into by the Transportation Cabinet pursuant to KRS Chapters 56 and 58 or KRS Chapter 175, all determined in accordance with generally accepted accounting principles.

In calculating Adjusted Revenues, if there is in effect at the date of such calculation any change in the rate or charge at which any tax or fee included in Adjusted Revenues is levied or any new tax or fee which is to be credited to the Road Fund, it shall be assumed that such new rate, charge, tax or fee was in effect at all times and the amounts credited to the Road Fund shall be adjusted to reflect the amounts which would have been credited had such rate, charge, tax or fee been in effect at all times.

"Maximum Annual Debt Service" shall mean the sum of all amounts required to be paid from the Road Fund, during any single fiscal year of the Commonwealth (a "Fiscal Year") commencing after the date of such calculation, or set aside during such Fiscal Year, for payment of debt service on all outstanding obligations for borrowed moneys, and the portion of rentals required to pay debt service under each lease in effect on such date entered into by the Transportation Cabinet pursuant to KRS Chapters 56 and 58 or KRS Chapter 175.

For the purpose of determining Maximum Annual Debt Service, variable rate bonds shall be deemed to bear interest at the maximum rate of interest applicable to such variable rate bonds; provided however that if such maximum rate of interest is less than the interest rate quoted in *The Bond Buyer* 25 Revenue Bond Index (the "Index Rate") as published in *The Bond Buyer* for the last week of the month preceding the date of issuance of such variable rate bonds, then the interest rate on such variable rate bonds shall be deemed to be the Index Rate. If the Index Rate is no longer published, an index that is deemed to be substantially equivalent by nationally recognized bond counsel may be substituted therefor. Also for the purpose of determining Maximum Annual Debt Service, any bond scheduled to be outstanding during such period that is subject to tender at the option of the holder shall be assumed to mature on the stated maturity date or mandatory sinking fund payment date thereof.

In calculating Maximum Annual Debt Service it shall be assumed that the new lease into which the Transportation Cabinet proposes to enter is in effect, that the obligations for borrowed moneys proposed to be issued at the time of execution of such lease are outstanding and that the proceeds of such obligations if issued to refund other obligations shall have been applied as provided in the proceedings in connection with the issuance of such proposed obligations.

Conditions to Additional Indebtedness

General obligation bonds of the Commonwealth payable from Road Fund revenues and receipts may be issued, pursuant to the Constitution of Kentucky, only upon approval by the electorate. The Transportation Cabinet may, pursuant to law, issue bonds or certain other obligations payable from Road Fund revenues and receipts. Unless such obligations are to be used to finance projects which will produce revenues which will fully meet required debt service, their issuance is conditioned, pursuant to existing law, upon approval by the Kentucky General Assembly. Issuance of such bonds or other obligations also requires the approval of the Office of Financial Management in the Finance and Administration Cabinet.

PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Transportation Cabinet to (i) pay costs of constructing, acquiring, installing and equipping the Project, which amounts will be deposited in various accounts in the Construction Fund established by the Commonwealth for the purpose of paying such costs and (ii) pay costs of issuing the Bonds. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

As of October 12, 2001, the Commission had outstanding bonds in the aggregate principal amount of $1,901,430,570. Upon the issuance of the Bonds, the Commission will have a total of $1,991,670,570 aggregate principal amount of bonds outstanding. The Commission has further committed to issue a series of bonds on a forward delivery basis as a part of the Commission's Project No. 69. The Project 69 Series D bonds in the aggregate principal amount of $39,320,000 will be delivered on June 5, 2002, which will refund prior Commission bonds in the amount of $39,405,000. The Bonds are the only outstanding bonds of the Commission payable from Road Fund appropriations. All other outstanding bonds of the Commission are payable from General Fund appropriations or appropriations made from various state agency funds.

SOURCES AND USES OF FUNDS FOR THE BONDS

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

SOURCES OF FUNDS:	
Par Amount of Bonds	$90,240,000
Plus: Net Original Issue Premium	6,619,693
Accrued Interest	231,808
TOTAL SOURCES	$97,091,501
USES OF FUNDS:	
Construction Fund Deposit	$96,300,000
Costs of Issuance	118,618
Bond Service Fund Deposit	231,808
Underwriters' Discount	441,075
TOTAL USES	$97,091,501

THE PROJECT

The Transportation Cabinet will lease all of the facilities and improvements financed with the proceeds of the Bonds from the Commission under the Lease (collectively, the "Project"). The facilities and improvements constituting the Project are the construction of an approximately 420,000 square foot office building and a 1,500 space parking structure which will serve as the primary office building for the Transportation Cabinet in the Commonwealth.

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 for Economic Development and the Secretary of the Revenue Cabinet. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission and the Executive Director of the Office 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 Transportation Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease-rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Transportation Cabinet has applied to the Commission to issue the Bonds secured by revenues from the Lease. The Resolution was adopted by the Commission on October 16, 2001, authorizing the issuance of the Bonds.

Future Financings

The 2000 Kentucky General Assembly authorized debt financing totaling $1,046,927,600 to support various capital initiatives of the Commonwealth. Of the total authorization, $901,202,600 is General Fund supported, $28,200,000 is Road Fund supported (in addition to a reauthorization of $68,100,000 of Road Fund supported debt financing) and $117,525,000 is Agency Restricted Fund supported. It is anticipated that all authorized debt will be issued by one of the various debt issuing entities of the Commonwealth by June 30, 2002, including the Commission.

THE TRANSPORTATION CABINET

General

The Department of Highways was established as an agency of the Commonwealth by the 1912 General Assembly. Pursuant to Executive Orders 72-288 and 73-543, confirmed by the Kentucky General Assembly by legislation enacted in 1974, the Department of Transportation (the "Department"), predecessor to the Transportation Cabinet, was created as the successor to, and represented a reorganization and consolidation of, the Departments of Highways, Motor Transportation and Aeronautics. The Department also succeeded to certain specific functions and responsibilities of the Department of Public Safety and the Department of Revenue as such functions and responsibilities related to transportation. Pursuant to legislation enacted in 1982, the Transportation Cabinet was created as a successor to and succeeded to all duties of the Department.

The Transportation Cabinet is responsible for the construction, reconstruction and maintenance of the Commonwealth's primary road system, which carries an estimated 83 percent of the Commonwealth's motor vehicle traffic. This represents nearly 39 billion vehicle miles of travel annually. The state-maintained highway system totals approximately 27,400 miles including interstate, parkway, primaries, secondaries, rural secondaries, unclassified resource recovery roads, and economic development roads. There are nearly 8,900 bridges on these state-maintained roads.

The Transportation Cabinet also regulates the operation of motor vehicles upon Kentucky's public highways and registers approximately 3.3 million vehicles and licenses 2.6 million drivers. The Transportation Cabinet is also responsible for enforcing Kentucky and federal laws and regulations pertaining to commercial vehicles in regard to weight and size limits, operating authority, safety, and tax compliance.

Organization and Management

The Transportation Cabinet is organized into six major operating departments: Highways, Administrative Services, Rural and Municipal Aid, Vehicle Regulation, Fiscal Management, and Human Resources Management. Eight offices perform staff functions: Office of the Secretary, Policy and Budget, General Counsel and Legislative Affairs, Minority Affairs, Transportation Delivery, Technology, Quality and Public Affairs. The Transportation Cabinet employs approximately 6,000 people on a full-time basis.

The Transportation Cabinet is headed by a Secretary of Transportation, who is appointed by the Governor. Each Department is organized under an appointed Commissioner and each Office is supervised by an Executive Director. The engineering functions of the organization are under the supervision of the State Highway Engineer and four Executive Directors, who also serve at the pleasure of the Governor. Middle management of the Transportation Cabinet is composed primarily of career employees, most of who are members of the classified service, which is the Commonwealth's merit system for employees. Virtually all-engineering personnel are protected under the classified service, assuring stability and continuity in the programs of the Transportation Cabinet.

Operations and Maintenance

The Transportation Cabinet provides transportation services to the travelling public through a network of highly developed programs and operating units. To assure prompt and efficient delivery of services across the Commonwealth, the Transportation Cabinet operates 12 regional district offices, and highway maintenance facilities in each of the 120 counties.

The Transportation Cabinet relies on automated systems for tracking and assessing the activities in virtually all-functional areas. The Transportation Cabinet uses a sophisticated automated maintenance management system, which provides managers with performance data on all aspects of roadway maintenance work. The Transportation Cabinet also maintains an extensive and detailed database of the Commonwealth's highway infrastructure, which the Transportation Cabinet has valued at more than $150 billion.

The Transportation Cabinet is committed to efficiency and cost containment. This commitment is demonstrated in the Transportation Cabinet's ability to keep operations and maintenance expenditures relatively constant over the last several years (even though the highway system has been expanding and vehicle miles traveled have increased). This efficient management of operating and maintenance expenditures may be attributed, in part, to several factors. First, the Commonwealth has made an effort over the past decade to restrain growth in government employment levels. The Kentucky Transportation Cabinet has been among the most successful state agencies in actually reducing personnel levels. Second, the Transportation Cabinet has sought to use private contractors to perform maintenance and other functions where economies can and have been realized. Finally, the Transportation Cabinet's enhanced program of resurfacing and major road construction and reconstruction has reduced the need for day-to-day maintenance on many routes.

Capital Planning For Highways

The Commonwealth's road planning process is structured to ensure the development of a continuous and credible highway improvement program that complements the Commonwealth's overall transportation system. The process and its products have evolved considerably over the past decade as the Transportation Cabinet has lengthened its planning horizon and the General Assembly has assumed a participatory role.

Prior to 1982, the Transportation Cabinet had internally identified, planned, and designed potential projects. Those which were approved by the Secretary were made a part of the Transportation Cabinet's five-year program and moved to construction, as funds became available. In the 1982 Regular Session of the Kentucky General Assembly, legislation was enacted calling upon the Transportation Cabinet to present each regular session of the General Assembly with a proposed highway construction program for the next three biennial periods. This proposed program for the three biennial periods is referred to as the "Six Year Plan."

The Six Year Plan consists of a biennial construction program and a four-year pre-construction planning document. It is through this plan that legislative involvement in the project development process has been assured. In recent years, the Six Year Plan has formed the foundation for development by the Transportation Cabinet of a more forward-looking transportation planning tool, which is formally known as the "Statewide Transportation Plan." This plan, required first by the 1991 federal authorization act, Intermodal Surface Transportation Efficiency Act (ISTEA) and continued in the Transportation Equity Act for the 21st Century (TEA-21) in 1998, integrates all modes of transportation and expands the horizon of project needs identification beyond the six year period prescribed by Kentucky statutes and allows a more far-sighted approach to transportation planning.

Highway Plan Development. Beginning with an unconstrained list of potential projects, the planning process, utilizing input from local citizens and officials, Area Development District Public Involvement Committees, Metropolitan Planning Organization Committees, and Transportation Cabinet staff, sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years and approved by the Kentucky Legislature every two years represent the highest priority projects and constitute the Six Year Plan. The remaining projects are prioritized and selected every four years for the Statewide Transportation Plan and for possible inclusion in later Six Year Plans. This plan consists of over 307 major roadway projects, which are eligible for state and federal funding. Each project has been evaluated, based on its relative contribution toward the satisfaction of four goal-oriented criteria. These goals focus on: (1) preservation and management of the existing transportation system, (2) providing system connectivity of the individual modes to promote economic development, (3) coordination and cooperation among a wide variety of interests in the transportation planning process, and (4) enhancement of transportation system safety and convenience for the benefit of its many users.

Needs Identification. To assist in the identification of highway needs across the Commonwealth, the Transportation Cabinet conducts an on-going roadway inventory program. The data gathered through the inventory process is wide-ranging and includes such criteria as traffic volumes, physical roadway features (pavement width, pavement condition, bridge conditions, etc.), accident statistics, and average travel speeds. This information is analyzed to arrive at a relative assessment of the service provided by each roadway section.

In addition to the evaluation of roadway inventory data, the Transportation Cabinet relies heavily upon input from the Commonwealth's 15 Area Development Districts, the seven Metropolitan Planning Organizations, members of the General Assembly, public involvement and community action committees and the leaders of city and county governments for project needs identification. This "partnership" involving participants from the local, regional and state levels provides information to the Transportation Cabinet concerning growth trends, connectivity and access issues and economic development efforts to which the highway infrastructure must respond. Additionally, the Transportation Cabinet's engineering and technical staff performs travel demand and traffic forecasting and systems analysis to allow application of those key elements in the identification of projects.

Implementation of the Six Year Plan. Kentucky's Six Year Highway Plan is funded through the use of Commonwealth and federal highway dollars. Commonwealth funds are generally derived from fuel and motor vehicle excise taxes and other revenues to the Road Fund, plus the proceeds from road bonds issued by the Authority. Commonwealth funds are allocated to the Transportation Cabinet on a biennial basis and are used to finance state-funded projects or to match federal aid funds at various participation ratios dictated by the federal government. The majority of Kentucky's federal-aid highway funds are appropriated annually from the Federal Highway Trust Fund operated by the U.S. Department of Transportation. The annual federal-aid highway fund appropriation is governed by a multi-year federal authorization act. The most recent authorization act, TEA-21, was enacted in 1998. These federal-aid monies are generated by federal excise taxes and are made available in specific dollar amounts for specific types of improvements (i.e., national highway system, surface transportation program, bridge replacement projects, etc.). As an Appalachian state, the Commonwealth also receives an annual apportionment of Appalachian highway funds from the Federal Highway Trust Fund. Regardless of origin, all federal dollars must be spent within the appropriate funding category and cannot be transferred for use in other federal-aid categories except as specifically permitted by federal legislation.

In preparing the Six Year Plan, the Transportation Cabinet projects anticipated future funding levels against which future projects can be established. An effort is made to identify annual funding ceilings within each funding category and to budget proposed highway activities against those dollars expected to be available during the period. Once anticipated funding levels are set, projects are included in each funding category as funding levels permit. No project is included in the Transportation Cabinet's Recommended Plan unless it can realistically be funded within the specified time frame.

The transportation planning process allows for the systematic consideration of projects in view of the impact on other projects, which rely on similar funding sources. When a previously unfunded project is added without the availability of additional funding, fiscal balance must be achieved by eliminating an equivalent project (or projects). New projects using previously unanticipated funding can be added to the Plan without adverse effect.

The overall transportation planning process in Kentucky and throughout the nation is constantly undergoing refinement. The federal TEA-21 legislation built upon ISTEA and strengthened requirements for both enhanced short-range and long-range transportation planning processes. Kentucky has adjusted its programs to meet those mandates. With these processes in place, program continuity is improved and Kentucky is positioned to provide a more credible and efficient future highway program.

Revenue Sources of the Transportation Cabinet

The Transportation Cabinet is funded through appropriations from a diversified revenue base, including the Road Fund, federal funds, restricted agency funds, and the Commonwealth's General Fund. In addition, the Transportation Cabinet expends funds on behalf of various government agencies and other organizations that participate in the construction and maintenance of highway projects.

Approximately two-thirds of the Transportation Cabinet's budget is drawn from the Road Fund. KRS Chapter 48 provides that "money derived from the excise or license taxation relating to gasoline and other motor fuels, and moneys derived from fees, excise or license taxation relating to registration, operation or use of vehicles for use on public highways" must be deposited in the Road Fund. The Kentucky Constitution mandates that such revenues be applied solely for highway-related uses. Section 230 of the Kentucky Constitution states in part as follows:

No money derived from the excise or license taxation relating to gasoline and other motor fuels, and no monies derived from fees, excise or license taxation relating to registration, operation, or use of vehicles on public highways shall be expended for other than the cost of administration, statutory refunds and adjustments, payment of highway obligations, costs for construction, reconstruction, rights-of-way, maintenance and repair of public highways and bridges, and expense of enforcing state traffic and motor vehicle laws.

Following is a brief description of the various sources of revenue deposited in the Road Fund. The table under "Historical Available Road Fund Revenues, Expenses and Debt Service" herein provides an accounting of the portion of these revenue sources over each of the past five fiscal years, which were available to pay debt service. These amounts are shown exclusive of any taxes, fees and miscellaneous revenues, which are dedicated for other uses.

Motor Vehicle Usage Tax. Motor vehicle usage taxes make up the largest portion of the Road Fund, representing more than 46 percent of the total of monies deposited and available to pay debt service, excluding those monies which are dedicated by statute to specific use. See "TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Debt Service" herein. A usage tax is currently imposed on the sale or transfer of new or used motor vehicles at the rate of 6 percent of the vehicle's value. The value on which the tax is assessed on new cars is a percentage of the manufacturer's suggested retail price, and for used cars and trucks is based on a notarized affidavit, prepared by both the buyer and seller, attesting to the actual cash consideration paid for the vehicle. If a notarized affidavit is not available, the retail price of the vehicle shall be the average trade-in value of the vehicle as prescribed by the reference guide established by the Revenue Cabinet. A similar assessment, known as the motor vehicle rental usage tax, is charged on the value of contracts for leased and rented vehicles.

Motor Fuel Taxes. These taxes are levied on gasoline, liquefied petroleum gas and special fuels (predominantly diesel fuel) sold for use in motor vehicles operated on public highways. These taxes make up approximately 26 percent of the Road Fund that is available to pay debt service. See "TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses, and Debt Service."

The currently effective rate for the basic motor fuels normal tax is 15 cents per gallon for gasoline and liquefied petroleum gas and 12 cents per gallon for special fuels. In addition, firms operating commercial trucks in Kentucky are assessed a motor fuels normal use tax for any fuel purchased outside the Commonwealth but consumed on Kentucky highways. Motor carriers are also charged a basic motor fuels surtax, which equates to approximately 2.2 cents per gallon of gasoline and 5.2 cents per gallon of special fuels. A substantial portion of these motor fuels taxes is statutorily dedicated to a revenue sharing program. See "Claims on Certain Transportation Cabinet Revenues " below.

Licenses, Fees and Permits. Licenses, Fees and Permits consist of charges for (i) passenger car and truck registrations, (ii) operator's licenses and (iii) various certificates, cards and permits. Registration fees for cars and light trucks are levied at the rate of $12.00 annually for each vehicle registered and commercial trucks are assessed a per vehicle registration fee from $24 to $1,260 annually, based on the gross weight of the vehicle. A vehicle operator's license currently costs $8.00 for a four-year basic license.

Other Taxes. The major component in this category is the weight distance tax. The weight distance tax is assessed on trucks operating on Kentucky roads at declared weights of 60,000 pounds or more at a rate of 2.85 cents per mile.

A portion of the licenses, fees and permits resulting from the issuance or renewal of operator licenses and those relating to the extended weight coal haul system and the coal haul cooperative agreements are restricted. See "Claims on Certain Transportation Cabinet Revenues" below.

Charges for Services. This category of revenues is composed of various sales, rentals, record fees, and toll facility charges. The Commonwealth currently operates four parkways on which tolls are collected.

Recent Changes to Road Fund Receipts. In recent years, the statutory changes enacted by the Kentucky General Assembly and various court cases have resulted in a number of changes, which affect Road Fund receipts. A brief outline of some of the most notable tax modifications follows.

As part of a 1988 package of truck taxes and fees, a heavy vehicle fuel surtax was imposed which was not subject to being statutorily distributed to a revenue sharing program. This tax was levied at the rate of 2.0 cents per gallon on fuels consumed on Kentucky highways by vehicles with a declared gross operating weight of 60,000 pounds or more. This tax was repealed by the General Assembly effective during Fiscal Year 1997 in order to comply with a federal mandate. ISTEA required that all states become participants in the International Fuel Tax Agreement (IFTA) by September 30, 1996. The conditions for membership in IFTA prevented Kentucky from continuing to impose the heavy vehicle fuel surtax. The revenues from the heavy vehicle fuel surtax were $7,851,762 in Fiscal Year 1996, which was the last full fiscal year in which it was collected. The General Assembly partially replaced the revenues from this tax by changing the definition of vehicles subject to the motor fuels surtax to include two-axle trucks.

The 1990 General Assembly increased the rate for the motor vehicle usage tax from 5 percent to 6 percent of taxable value, effective July 1, 1990. See "Motor Vehicle Usage Tax" above. The 1998 General Assembly enacted legislation, which changed the method for assessing motor vehicle usage tax on used vehicles. Beginning in Fiscal Year 1999, the tax was assessed based on the actual selling price of the vehicle, as attested to in an affidavit signed by both the buyer and the seller. Prior to this change, the taxable value was determined by an automotive reference manual. This change was estimated to result in a loss to the Road Fund of $6,800,000 per year.

Pursuant to legislation enacted by the 2000 General Assembly, purchasers of special fuels used for non-highway purposes are exempt from paying the motor fuels tax. Before this statutory change, the tax was paid "up front" and taxpayers were required to file for a refund. This change is therefore estimated to result in a one time loss to the Road Fund of approximately $5 million to $7 million in motor fuel tax receipts during Fiscal Year 2001 as previously collected taxes are refunded. This legislation should have no affect on motor fuel tax revenues in future years.

On January 3, 2001, Jefferson County Circuit Court ruled, as unconstitutional under the Commerce Clause of the United States Constitution, the Kentucky statute that allows a trade-in credit against the motor vehicle usage tax imposed on used motor vehicles purchased in Kentucky, but denies the trade-in credit for used motor vehicles purchased out of state. The court further ordered the Commonwealth to grant the trade-in credit on all purchases of used motor vehicles when another used motor vehicle is traded as part of the same transaction. The change in calculating the tax for out of state vehicle purchases became effective January 5, 2001. The estimated loss in motor vehicle usage tax revenue is estimated to be approximately $3.5 million in Fiscal Year 2001 and approximately $7.0 million in future fiscal years. For additional information, see "LITIGATION."

Road Fund Revenue Estimate

On October 12, 2001 the Consensus Forecasting Group ("CFG") met and revised the official estimate of Road Fund Revenues for Fiscal Year 2002 and approved the preliminary estimate for Fiscal Years 2003 and 2004, the biennium beginning July 1, 2002 and ending June 30, 2004. CFG revised the Official Road Fund revenues estimate for Fiscal Year 2002 down to $1,039.8 million, which represents a 2.3 percent decrease from Fiscal Year 2001 (unaudited) revenues of $1,064.1 million. The original CFG estimate for Fiscal Year 2002 Road Fund revenues was $1,162.8 million, which was revised downward by $85.1 million in June and an additional $37.9 million in October. The Secretary of the Transportation Cabinet, the State Budget Director, the Secretary of the Finance and Administration Cabinet and the Governor issued Road Fund Budget Reduction Order 02-01 (the "Reduction Order") in September to address the expected $85.1 million shortfall. Major components of this action centered on reducing appropriations in Revenue Sharing, Highways and General Administration and Support. In making such reductions, no reductions were made to amounts necessary to pay lease rental obligations securing debt service relating to outstanding bonds. The preliminary estimates for Fiscal Year 2003 and 2004 are $1,062.0 million and $1,098.3 million. The preliminary estimates represent growth of 2.1 percent and 3.4 percent, respectively.

Claims on Certain Transportation Cabinet Revenues

There are a number of statutory requirements affecting certain Road Fund revenues. A total of 48.2 percent of the collections of motor fuels, normal, normal use and surtaxes are restricted and reserved for use on county, municipal, and state rural secondary roads. KRS Chapter 177 requires that 22.2 percent of these motor fuels tax receipts be expended by the Transportation Cabinet on the rural secondary road system. Chapter 177 also directs that 7.7 percent and 18.3 percent of the motor fuels tax be distributed, based on statutory formula, to municipal and county governments, respectively, for use on urban roads and streets and county roads and bridges. Finally, the statutes require that 0.1 percent of the motor fuels tax collections, up to a maximum of $190,000, be set aside for the Kentucky Transportation Center. See "*Motor Fuels Taxes*" above.

Kentucky law establishes an account within the Road Fund, the Energy Recovery Road Fund, into which all fees relating to the extended weight coal haul system are to be credited. Sixty percent of these funds are to be used by the Transportation Cabinet in maintaining the Commonwealth's portion of this road system, and 40 percent of which are to be distributed to the counties for the purpose of maintaining county roads on this system. In addition, Kentucky law provides for cooperative agreements between the Transportation Cabinet and transporters of coal, through which coal transporters may share in the maintenance of roads over which extended weights are hauled. Road Funds collected through these agreements are restricted to expenditures on roads covered by the agreements.

A portion of the receipts to the Road Fund resulting from the issuance or renewal of operator's licenses are also statutorily restricted (see "Revenue Sources of the Transportation Cabinet - *Licenses, Fees and Permits*" above). KRS Chapter 186 requires that 50 cents for each four-year original or renewal operator's license be dedicated to expansion of the Kentucky driver education program. For each original or renewal motorcycle operator's license and each instruction permit, $4 must be dedicated for the purpose of a motorcycle safety education program. Additionally, Chapter 186 provides that $1 from each operator's license fee is to be set aside exclusively to cover the cost of issuing a photo license.

Historical Available Road Fund Revenues, Expenses and Debt Service

The table below illustrates the Transportation Cabinet's historical total available Road Fund revenues, expenses, and lease rental obligations for the past six fiscal years. The figures for Fiscal Years 1996 through 2000 are derived from the Transportation Cabinet's Financial Report to Management for each fiscal year, and the figures for Fiscal Year 2001 are derived from the Transportation Cabinet's unaudited financial statements. Motor fuel revenues are shown net of the required allocations for urban roads and streets, for rural and secondary roads, for county roads and bridges, and for the Kentucky Transportation Center. Operating and maintenance expenses reflect only those related to Commonwealth highway and highway-related projects payable from the Road Fund.

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Transportation Cabinet's
Historical Available Road Fund Revenues,
Expenses, Debt Service on Lease Rentals[1]

($ AMOUNTS IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30

	1996	1997	1998	1999	2000	2001
AVAILABLE ROAD FUND REVENUES					audited	unaudited
TAXES:						
Motor Fuels (2)	211,346	211,279	214,278	222,688	227,626	219,771
Vehicle Usage (3)	327,674	341,517	366,792	375,672	409,396	396,740
Other	60,893	64,309	68,017	71,473	78,548	78,815
LICENSE, FEES, AND PERMITS	91,784	92,095	96,319	103,642	109,447	99,667
CHARGE FOR SERVICES	18,296	19,321	20,257	20,771	20,904	21,211
FINES AND FORFEITURES	8	17	15	2	21	2
INTEREST INCOME	33,941	31,876	41,951	35,589	29,436	40,187
TOTAL AVAILABLE ROAD FUND REVENUES:	743,942	760,414	807,629	829,837	875,378	856,393
OPERATING & MAINTENANCE EXPENSES						
Personnel Costs	129,790	130,714	132,136	137,302	148,512	155,285
Personal Service	4,012	3,409	3,272	3,406	3,634	4,267
Operating Expenses	77,449	84,740	90,756	98,567	86,675	116,028
Grants	15	22	-467	67	4	42
Debt Service	0	0	0	0	0	0
Capital Outlay	5,955	3,536	518	1,060	837	322
Capital Construction	5,032	1,708	2,869	1,825	2,140	1,717
Highway Materials	21,534	22,475	15,765	26,596	32,932	26,419
Other Agency Cost (4)	41,997	42,119	42,043	36,723	31,622	35,418
TOTAL OPERATING & MAINTENANCE EXPENSES	285,784	288,723	286,892	305,546	306,356	339,498
NET AVAILABLE ROAD FUND REVENUES	458,158	471,691	520,737	524,291	569,022	516,895
DEBT SERVICE AND LEASE RENTALS:						
LEASE RENTALS (5)						
Toll Road Project	68,939	24,426	15,283	14,474	3,494	586
Economic Development Road Project	41,766	60,471	65,301	93,874	111,492	117,703
Resource Recovery Road Project	44,946	76,066	71,611	43,441	53,512	36,025
TOTAL DEBT SERVICE AND LEASE RENTALS	155,651	160,963	152,195	151,789	168,498	154,314
GROSS COVERAGE (6)	4.7796	4.7242	5.3065	5.4670	5.1952	5.5497
NET COVERAGE (6)	2.9435	2.9304	3.4215	3.4541	3.3770	3.3496

The accompanying notes are an integral part of this schedule

NOTES:

(1) The following schedule displays detailed information relating to the Commonwealth of Kentucky's Road Fund that can be used to calculate the coverage of available revenues compared to debt and lease rental payments. Total Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees, and miscellaneous revenues which are dedicated for other uses and not available to pay debt or to make lease rental payments to the Authority. Operating and Maintenance Expenses include certain non-construction maintenance, operating, regulatory and administrative expenses related to the public highways. Net Available Road Fund Revenues represent Total Available Revenues less Operating and Maintenance Expenses.

(2) One type of Motor Fuels Tax, the Heavy Vehicle Fuel Surtax, was discontinued in Fiscal Year 1997. During Fiscal Year 1996, which was the last full year this tax was collected, revenues from the tax were $7,851,762. The Motor Fuels Tax Revenues for Fiscal Year 1999 have been adjusted downward to reflect a potential refund of motor fuel tax in the amount of $7,690,870. This amount was removed from the Road Fund balance and escrowed during Fiscal Year 2000 after a taxpayer reported overpayment of the tax due to an accounting error. Partial refunds were paid to the taxpayer during Fiscal Year 2001 and it is anticipated that the amount escrowed will be sufficient to pay all refunds due. Beginning with Fiscal Year 2001, purchasers of special fuels used for non-highway purposes are exempt from paying the motor fuels tax. Prior to this change the tax was paid "up front" and taxpayers were required to file for a refund. It is estimated that this change will result in a one time loss of approximately $3 million to $4 million during Fiscal Year 2001 in motor fuels tax revenues available to pay debt service as previously collected taxes are refunded. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet — *Recent Changes to Road Fund Receipts*."

(3) The manner in which the taxable value for the Motor Vehicle Usage Tax rate is determined for used vehicles was changed effective during Fiscal Year 1999. Beginning in Fiscal Year 1999, the tax was assessed based on the actual selling price of a vehicle, as attested to in an affidavit signed by both the buyer and the seller. Prior to this change, the taxable value was determined by an automotive reference manual. This change was estimated to result in a loss to the Road Fund of $6,800,000 per year. Beginning January 5, 2001, the calculation of the motor vehicle usage tax on out of state motor vehicle purchases was changed to allow a trade-in credit on all purchases of used motor vehicles when another used motor vehicle is traded as part of the same transaction. The estimated loss in motor vehicle usage tax revenue is estimated to be $3.5 million in Fiscal Year 2001 and $7.0 million in future fiscal years. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet — *Recent Changes to Road Fund Receipts*" and "LITIGATION."

(4) In certain fiscal years, the Kentucky General Assembly appropriated Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of enforcement of traffic laws, the collection of Road Fund tax revenues and other administrative support functions related to the Cabinet.

(5) Lease Rentals paid by the Transportation Cabinet to the Turnpike Authority include amounts representing the following: principal and interest requirements on Turnpike Authority bonds, net of Debt Service Reserve Fund investment earnings and amounts required by the Turnpike Authority for administrative and other expenses; and any amounts for deposit into the Redemption Account. The amounts set forth under "Lease Rentals" include all debt service payable from Road Fund revenues.

(6) Gross Coverage equals Total Available Road Fund Revenues divided by Total Debt Service and Lease Rental. Net Coverage equals Net Available Road Fund Revenues divided by Total Debt Service and Lease Rentals. On a pro forma basis, assuming the issuance of the Bonds and treating the maximum annual debt service on the Bonds as Lease Rentals payable in Fiscal Year 2001, Net Coverage for Fiscal Year 2001 would have been 3.0263.

Basis of Accounting

The Transportation Cabinet's financial statements are maintained and reported on two bases of accounting. The interim financial statements are prepared on a modified cash basis of accounting and are prepared primarily for budgetary and cash management purposes. Under this basis of accounting, revenue is recorded when received in cash and expenditures are recorded when disbursements are made. Expenditures for liabilities incurred before year-end may be processed for a period of 30 days after the close of the Fiscal Year.

The (annual, as of June 30) audited financial statements and the unaudited financial statements are prepared on a modified accrual basis of accounting in compliance with Generally Accepted Accounting Principles and Legal Compliance's as outlined by the Governmental Accounting Standards Board. A copy of the Transportation Cabinet's audited financial statements is included as a supplement to *The Kentucky Comprehensive Annual Financial Report*, published annually by the Commonwealth. See "THE COMMONWEALTH — Financial Information Regarding the Commonwealth, the Transportation Cabinet and the Commission" and "— Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the Commonwealth."

The interim financial statements reconcile directly with the audited financial statements. Under the interim financial statements, the Transportation Cabinet maintains six operating accounts: the Road Fund, the Federal Fund, the General Fund, the Agency Fund, the Fleet Management Fund and the Capital Projects Fund. General operating revenues such as motor fuel receipts, license and privilege taxes, departmental fees, and toll revenues are recorded in the Road Fund. Federal grants are recorded in the Federal Fund, and transfers from the Commonwealth's General Fund are recorded in the General Fund. Revenues and operating expenditures of the statewide motor pool fleet are recorded in the Fleet Management Fund. Receipts dedicated to specific programs or purposes and related expenditures are recorded in the Agency Fund. Transactions relating to the acquisition, construction or renovation of the Transportation Cabinet's major capital facilities and the acquisition of major equipment are accounted for in the Capital Projects Fund.

Budget Process

The Transportation Cabinet budget for the biennium is prepared in accordance with KRS Chapter 48 and based on two-year projections made in light of long-range program requirements and revenue estimates. The biennial budget request is prepared by the Transportation Cabinet and presented to the Governor for submission to the Kentucky General Assembly at its biennial session. The estimates of revenues are made by CFG, whose members are jointly selected by the state budget director and the Legislative Research Commission, as prescribed by KRS 48.115.

CFG in March of this year revised the official Road Fund estimated revenues for Fiscal Year 2001 and Fiscal Year 2002. The estimate for Fiscal Year 2001 was reduced by $54.9 million and Fiscal Year 2002 was reduced by $85.4 million, the budget was reduced accordingly each year. Actual Road Fund receipts for Fiscal Year 2001 were down 2.4 percent over Fiscal Year 2000. The majority of the decline is attributable to our two major revenue sources, motor fuels tax and motor vehicle usage tax.

Transportation Cabinet budget development is initially dependent upon determining (1) available funds both dedicated and undedicated, (2) debt service requirements and lease rental obligations, (3) operating requirements and (4) construction program requirements. The budget is developed from the analysis of the above factors, prior year expenditures and new demands on the transportation program for the fiscal period in question.

The construction program requirements consist of the estimated cost of new construction by project within each system of highways, by phase and by quarter. Cost estimates are based upon the estimated contractual and non-contractual costs of preliminary engineering, acquiring rights-of-way, construction, relocating utilities, design and other factors.

The operating requirements for the Transportation Cabinet are formulated by the Transportation Cabinet Office of Policy and Budget from requests from each budget unit, with subsequent analysis, discussions and adjustments. Final approval of the agency biennial budget request is given by the Secretary of the Transportation Cabinet prior to submission to the Governor's Office for Policy and Management.

In order to provide efficient budget control during the budget execution process, close liaison is maintained between the budget units, the Transportation Cabinet Office of Policy and Budget and the Governor's Office for Policy and Management. Proposed changes in policy and programs are studied with a view to their effect on the budget. Routine financial reconciliation's are conducted monthly between the Office of Policy and Budget and various units of the Transportation Cabinet as well as with the Finance and Administration Cabinet.

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 modem 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, the Transportation Cabinet and the Commission

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

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the fiscal year of the Commonwealth most recently ended. *The Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth, the Transportation Cabinet and the Commission as well as general financial information pertaining to the Accounting System and Budgetary Controls, General Fund Condition-Budgetary Basis, General Governmental Functions-GAAP Basis, Debt Administration, Cash Management, Risk Management and Funds. In addition, the Notes to Combined 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 2000 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12;

(i) Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558-3629
Internet: http://www.munis@bloomberg.com
Tel: (609) 279-3225
Fax: (609) 279-5962

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

(iii) Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Intemet: http://www.nrmsir_repository@sandp.com
Tel: (212) 438-4595
Fax: (212) 438-3975

(iv) FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Email: nrmsir@ftid.com
Tel: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Internet: http://www.InteractiveData.com

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 may be found on the Internet at:

http://www.state.ky.us/agencies/finance/manuals/tax/cafr.htm

Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

The Commission will enter into a Continuing Disclosure Agreement in order to enable the purchaser of the Bonds to comply with the provisions of Rule 15c2-12. See "CONTINUING DISCLOSURE AGREEMENT" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplemental Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

Fiscal Year 1998

General Fund revenue on a budgetary basis for 1998 was $6.15 billion, an increase of 8.2% over 1997. This amount includes $6.01 billion in tax and non-tax receipts, and $138.42 million of Operating Transfers In. Taxes represented 92.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1998 totaled $5.96 billion, including Operating Transfers Out of $341.04 million. During 1998, expenditures increased by 8.0% and transfers decreased by 23.8% compared to 1997. The general government function includes $767.68 million of expenditures and $7.15 million of transfers for the eight state supported universities, which together amount to 13.0% of the General Fund total.

The General Fund had a 1998 budgetary undesignated fund balance of $356,015,465. This is an increase of $71,898,839 over the 1997 year-end budgetary undesignated fund balance of $284,116,626.

Revenue for general governmental functions totaled $11.60 billion for 1998, an increase of 6.1% over the amount recognized during 1997.

1998 Governmental Funds Revenue was $662.7 million over 1997. Higher Tax and Intergovernmental receipts account for 85.9% of the increase. Seven of eight tax sources, primarily in the General Fund, went up $420.1 million but were offset by a $35.4 million decline in Property Tax receipts. Intergovernmental revenue rose $184.4 million on the strength of $198.2 million more in Federal Fund receipts from the United States government. Interest and Investment income improved 23.2% almost entirely due to a $33.4 million increase in earnings deposited in the General Fund. Revenue from Fines and Forfeits fell by 2.6% because collections dropped $1.6 million in the Agency Revenue Fund and $1.0 million in the Other Special Revenue Fund while raising $1.4 million in the General Fund.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled $10.64 billion for 1998, an increase of 4.9% compared to 1997.

1998 Governmental Funds Expenditures were $496.7 million over 1997. Education and Humanities function costs rose $110.9 million, due primarily to $70.7 million more in General Fund grants and subsidies awarded by the Department of Education. Capital Outlay was up 35.5%, based primarily on $30.6 million more in Capital Projects Fund expenditures in the Commerce Function. Debt Service rose by $105.9 million due almost totally to $50.1 million in additional scheduled principal retirement and $60.0 million more in interest offset by a $4.1 million drop in other expenditures, all in the Debt Service Fund.

Ending fund balances for all governmental fund types increased 21.2% from $2.25 billion as restated for 1997, to $2.73 billion in 1998. Of these totals, unreserved fund balances increased 29.9%, from $1.17 billion as restated at June 30, 1997, to $1.52 billion at June 30, 1998.

During 1998, Kentucky issued revenue bonds totaling $211,335,121 for general governmental functions which are supported by governmental fund appropriations. $184,720,414 defeased existing debt and funded related reserve accounts. The remaining $26,614,707 funded new projects. All issues sold during 1998 received a rating of "A" or higher by the major rating services. At June 30, 1998, total principal outstanding for revenue bonds paid from governmental fund appropriations was $2,833,433,371.

Fiscal Year 1999

General Fund revenue on a budgetary basis for 1999 was $6.23 billion, an increase of 1.3% over 1998. This amount includes $6.20 billion in tax and non-tax receipts, and $31.75 million of Operating Transfers In. Taxes represented 94.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1999 totaled $6.54 billion, including Operating Transfers Out of $727.99 million. During 1999, expenditures increased by 3.5% and transfers decreased by 113.5% compared to 1998. The general government function includes $857.47 million of expenditures and $2.62 million of transfers for the eight state supported universities, which together amount to 13.2% of the General Fund total expenditures.

The General Fund had a 1999 budgetary undesignated fund balance of $64,193,087. This is a decrease of $291,822,378 from the 1998 year-end budgetary undesignated fund balance of $356,015,465.

Revenue for general governmental functions totaled $11.77 billion for 1999, an increase of 1.5% over the amount recognized during 1998.

1999 Governmental Funds Revenue was up $168.3 million over 1998. Tax income rose $203.6 million, based largely on $148.1 million in improved General Fund Individual Income Tax collections. Earnings from Interest and Investments fell 26.9 % as adjusted to Fair Market Value in accordance with GASB 31. These offsetting amounts account for all except $14.6 million of the net increase. Other revenues also dropped, primarily in the General Fund, by 15.1%, but were countered by moderate growth in other sources, especially License, Fee, and Permits income, which rose $17.9 million, mainly in the Transportation and Agency Revenue Funds.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled $11.10 billion for 1999, an increase of 4.2% compared to 1998.

1999 Governmental Funds Expenditures were $450.9 million over 1998. Transportation costs went up $221.2 million. About half this amount, or $124.1 million, is for higher Transportation Fund expenditures by the Department of Highways. Related Federal government match accounts for the $49.5 million rise in Federal Fund expenditures of the Transportation Function. General Government costs went down $96.1 million, due mostly to a $154.1 million drop in Agency Revenue Fund expenditures, offset by $48.1 million more spending in the General Fund. Capital Outlay increased $131.1 million based primarily on $82.7 million more in the General Government Function. Debt Service Fund payments fell $80.3 million due to a $16.1 million drop in the principal amount of bonds maturing during the year and $64.8 million less in interest payments on principal outstanding. And, Human Resources expenditures rose by $243.0 million in the General Fund and $46.3 million in the Federal Fund, but were offset by a $173.7 million drop in the Agency Revenue Fund.

Ending fund balances for all governmental fund types decreased 3.8%, from $2.75 billion as restated for 1998, to $2.64 billion in 1999. Of these totals, unreserved fund balances decreased 21.3%, from $1.52 billion at June 30, 1998, to $1.19 billion at June 30, 1999.

During 1999, Kentucky issued revenue notes and bonds totaling $106,185,000 for general governmental functions which are supported by governmental fund appropriations. $31,550,000 of those bonds defeased existing debt and funded related reserve accounts. The remaining $74,635,000 of bonds funded new projects. All issues sold during 1999 received a rating of "A" or higher by the major rating services. At June 30, 1999, total principal outstanding for revenue bonds paid from governmental fund appropriations was $2,178,683,319.

Fiscal Year 2000

General Fund revenue on a budgetary basis for 2000 was $6.72 billion, an increase of 7.8% over 1999. This amount includes $6.48 billion in tax and non-tax receipts, and $239.85 million of Operating Transfers In. Taxes represented 92.2% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 2000 totaled $6.55 billion, including Operating Transfers Out of $596.17 million. During 2000, expenditures increased by 2.4% and transfers decreased by 18.1% compared to 1999. The general government function includes $880.57 million of expenditures and transfers for the state supported universities, which together amount to 13.4% of the General Fund total.

The General Fund had a 2000 budgetary undesignated fund balance of $176,353,716. This is an increase of $112,160,629 over the 1999 year-end budgetary undesignated fund balance of $64,193,087.

Revenue for general governmental functions totaled $12.99 billion for 2000, an increase of 10.4% over the amount recognized during 1999.

2000 Governmental Funds Revenue rose $1.23 billion over 1999. Intergovernmental Income was up almost $777 million, due primarily to almost $754 million more in Federal Fund receipts from the United States Government. Tax Revenue improved by nearly $310 million, including over $263 million more in the General Fund where Individual Income Tax collections climbed over $162 million and Sales and Gross Receipts Taxes jumped an additional $84 million. Sales and Gross Receipts Taxes also rose more than $144 million in the Transportation Fund. These four specifically described gains account for 93.2% of revenue growth since last year.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled $12.07 billion for 2000, an increase of 8.8% compared to 1999.

2000 Governmental Funds Expenditures grew $971.5 million over 1999. The cost of Human Resources services rose nearly $741 million, both in the Federal Fund, where spending went up almost $496 million, and in the Agency Revenue Fund where payments climbed close to $240 million. Transportation costs jumped about $146 million, based on $143 million more spent in the Federal Fund, offset by $10 million less spent in the Agency Revenue Fund. And, nearly $87 million more in General Fund grants and subsidies was the major contributor to the $101 million growth in Education and Humanities expenditures. These increases were partially offset by nearly $41 million less spending for Capital Outlay and Debt Service Fund payments of almost $55 million less than last year. The combined effect of these differences account for 88.6% of the net growth in expenditures this year.

Ending fund balances for all governmental fund types increased 8.0%, from $2.68 billion as restated for 1999, to $2.90 billion in 2000. Of these totals, unreserved fund balances increased 17.7%, from $1.23 billion as restated at July 1, 1999, to $1.45 billion at June 30, 2000.

During 2000, Kentucky issued revenue bonds totaling $308,490,000 for general governmental functions which are supported by governmental fund appropriations. No bonds were defeased during the period and this entire amount funded new projects. At June 30, 2000, total principal outstanding for revenue bonds paid from governmental fund appropriations was $2,315,533,850.

Fiscal Year 2001 (unaudited)

General Fund receipts for Fiscal Year 2001 totaled $6,653.9 million, an increase of 2.7 percent over Fiscal Year 2000. The major sources of General Fund revenue are personal income and sales and use taxes, which represent approximately 42 percent and 34 percent of the total receipts, respectively. Individual income tax receipts increased 2.8 percent, or $76.9 million over Fiscal Year 2000. Sales and use tax receipts grew 3.5 percent or $77.1 million versus the prior fiscal year. The sales and use tax grew at the slowest rate in 10 years due to expanded exemptions, remote commerce and general economic conditions. General Fund revenue projections were revised downward in March and June of this year to reflect the slowdown in economic growth nationally and in Kentucky. Fiscal Year 2001 revenues were $159.2 million below or 2.3 percent of the original CFG revenue estimate.

The Governor, in order to balance the Fiscal Year 2001 budget, made two transfers from the Budget Reserve Trust Fund (the "Trust Fund"). The first transfer in the amount of $21.46 million occurred on April 4, 2001. The second transfer in the amount of $17.3 million occurred on June 22, 2001 for a total reduction in the Trust Fund balance of $38.79 million. The Trust Fund balance after the withdrawals was $240,014,383. The transfers from the Trust Fund are the first withdrawals from the fund since it became a statutory fund in November 1995.

Fiscal Year 2002 (unaudited)

CFG revised the official estimate of General Fund receipts for Fiscal Year 2002 on October 15, 2001 from $6,887.0 million (the June 14, 2001 Consensus Estimate) to $6,715.5 million, a decrease of $171.5 million. The General Fund will also collect an estimated $118.9 million in Master Settlement Agreement Payments during Fiscal Year 2002, bringing the total projected General Fund receipts to $6,834.4 million. The CFG will meet again to make necessary adjustments to the October 15, 2001 official estimate prior to the submission of the Governor's 2002-2004 Executive Budget.

Pursuant to KRS 48.130 and 48.600, a General Fund Budget Reduction Plan is enacted for state government in the event of an actual or projected deficit in estimated revenues as modified by related Acts and actions of the General Assembly in an extraordinary or regular session. The Governor must take action to balance the budget to eliminate any deficit prior to the fiscal year ending June 30, 2002. On September 7, 2001 the Governor, State Budget Director, and Secretary of the Finance and Administration Cabinet issued the Reduction Order. The Reduction Order made reductions based upon the June 2001 revision to the official estimate totaling approximately $290 million. Budget reductions were made for most governmental agencies with the exception of scheduled Support Education Excellence in Kentucky ("SEEK") payments for education, Medicaid, postsecondary education institutions and capital construction. The majority of the reductions were generated from three sources, $120 million from the Budget Reserve Trust Fund, $50 million of excess SEEK funds above the amount needed to meet Fiscal Year 2002 targeted spending levels, and $26 million in unutilized Agency Funds will be transferred to the General Fund. The $120 million withdrawal from the Budget Reserve Trust Fund represents 50 percent of the available balance and is the maximum amount permitted by House Bill 502. Amounts above the 50 percent statutory threshold may be accessed only with the approval of the General Assembly. The remaining amounts identified in the Reduction Order represent unexpended appropriations carried forward from Fiscal Year 2001 and amounts deemed available from current year budgets. It is anticipated that additional reductions will be announced in the near future to address the additional shortfall arising from the October 15, 2001 revision to the Fiscal Year 2002 revenue estimate.

The Commonwealth reported General Fund revenue for the first quarter of Fiscal Year 2002 that ended September 30, 2001 of $1,561.2 million versus $1,548.2 million for the same period last year. Revenue growth versus the prior year is marginal at 0.8 percent, but is the same level of projected annual growth over Fiscal Year 2001 receipts of $6,653.9 million. Sales tax receipts grew at 2.9 percent for the month and 3.6 percent for the quarter versus last fiscal year. Individual income tax receipts were up 2.6 percent for September, but up only marginally for the quarter at 0.3 percent.

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 September 30, 2001 the Commonwealth's operating portfolio was approximately $3.7 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (16%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (39%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (4%); and corporate and asset backed securities, including money market securities (28%). The portfolio had a current yield of 3.31% and a modified duration of 1.15 years.

The Commonwealth's investments are categorized into four investment pools: Short-term, Intermediate-term, Long-term and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short-term Pool consists primarily of General Fund cash balances and provides liquidity to the remaining pools. The Intermediate-term Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the state. The Long-term Pool invests the Budget Reserve Trust Fund and other funds deemed appropriate for the pool where liquidity is not a serious concern. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

The Commonwealth engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over-the-counter treasury options, interest rate swaps and more recently the purchase of mortgage backed securities and collateralized mortgage obligations.

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than twenty percent of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth 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. Currently, the Commonwealth receives a guaranteed rate of 10 basis points of the average market value of securities in the program.

On September 28, 1995 the State Investment Commission adopted Resolution 95-03, which re-authorized interest rate swap transactions in a notional amount not to exceed $200 million outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. Currently, the Commonwealth has no asset-based swap transactions outstanding.

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five (5) 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 must not exceed 25% of any investment pool. Asset backed securities must have a weighted-average-life of not more than four (4) years at the time of purchase. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of twenty-five percent (25%) of any investment portfolio. MBS must have a stated final maturity of ten (10) years or less and a weighted-average-life of not more than four (4) years at time of purchase. CMO must have a weighted-average-life of four (4) years or less at time of purchase.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution and the Lease. Such statements do not purport to be complete and reference is made to the Resolution and the Lease, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601.

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. Deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. Bond Service Fund. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into such Bond Service Fund all or such portion of the Revenues as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds outstanding under the Resolution at or before their maturity.

Accrued interest on the Bonds will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any May 1 or November 1 (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.

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds and other available moneys, if any, deposited by the Issuer at the time of delivery of the Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Bonds. On payment of all duly authorized expenses incident to the issuance of such Bonds, any remaining balance in the Cost of Issuance 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 shall constitute a trust fund for the benefit of the Bondholders. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings or real estate, 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.

Refunding Bonds. The Commission and the Cabinet acknowledge that the Bonds may have a final maturity that is earlier than the end of the last "Renewal Term" established by the Lease, being June 30, 2022 (the "Termination Date"), in which case certain Bonds will have a principal amount maturing that is equal to (i) all principal due on such date plus (ii) all principal that would have been due after the final maturity date of the Bonds through the Termination Date, had the Bonds been amortized on a level payment basis over a twenty-year period (the "Balloon Maturity"). To the extent such amounts are not otherwise paid, the Commission reserves the right and authority and covenants that it shall authorize, issue, sell and deliver a sufficient amount, but only a sufficient amount, of Bonds, the proceeds of which will be used solely and only to refund the Balloon Maturity of the Bonds under the Bond Resolution and to pay the costs of issuing such Bonds (the "Refunding Bonds"). The Refunding Bonds will be fully on a parity with and have the same security as all outstanding Bonds and will have a final maturity that is no later than the Termination Date.

The Commission further reserves the right to issue additional Refunding Bonds which may be on a parity as to security with the Bonds in order to refund any other Bonds then outstanding.

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

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

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

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

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

(c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Commission in the Resolution or in the Bonds contained, and the continuance thereof for a period of 30 days after written notice given by the Trustee to the Commission or by the Holders of not less than 25% in aggregate principal amount of Bonds outstanding, to the Commission and the Trustee; provided, however, that if such event of default can, in the opinion of the Trustee, be corrected but not within such period, it shall not constitute an event of default hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

Upon the happening and continuance of any event of default described in clause (a) or (b) above, unless the principal of all the Bonds has already become due and payable, either the Trustee (by notice in writing to the Commission) or the Holders of not less than 25% of the principal amount of Bonds outstanding (by notice in writing to the Commission and the Trustee) may declare the principal of all the Bonds then outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% of the principal amount of Bonds then outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all overdue installments of interest on such Bonds and the principal of all Bonds which will have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, are either paid by or for the account of the Commission or provision satisfactory to the Trustee is made for such payment, then and in every such case any such default and its consequences will *ipso facto* be deemed to be annulled, but no such annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky Revised Statutes and under the Resolution forthwith by such suits, actions, or by special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Resolution or in aid of the execution of any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

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

Regardless of the happening of an event of default, the Trustee, if requested in writing to take any action under the Resolution or the Bonds by the Holders of not less than 25% of the principal amount of Bonds outstanding, has no duty to act until it is furnished with indemnification satisfactory to it. The Trustee may institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Resolution or the Bonds and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interest of the Holders of the Bonds, provided that such request will not be otherwise than in accordance with the provisions of law and of the Resolution and will not be unduly prejudicial to the interest of the Holders of the Bonds not making such request.

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

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of at least 66 2/3% of the principal amount of Bonds outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, 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 Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

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

Change, Substitution or Other Modification of Project. Anything in the Resolution or the Lease notwithstanding, the Cabinet may, in its sole discretion, change, substitute or otherwise modify components of the Project 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 Bondholders.

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

Whenever there shall be held by the Trustee in the Bond Service Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Service Fund or such escrow fund, shall be sufficient, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed in accordance with this Bond Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Bond Resolution, and the Trustee will and is irrevocably instructed by the Resolution to publish notice thereof.

As used herein, "Defeasance Obligations" means:

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

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

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

The Lease

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

The Lease has an initial term ending June 30, 2002. The Commission has granted the Transportation Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. The last renewal term for the Lease relating to the Bonds ends June 30, 2022, 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 and the Transportation Cabinet are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Transportation Cabinet to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Transportation Cabinet is bound for the entire amount of the rent becoming due during such term as a general obligation of the Transportation Cabinet, limited to amounts appropriated for such purpose payable from any and all funds of the Transportation Cabinet, including, but not limited to, appropriations, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law.

The Transportation Cabinet has covenanted and agreed in the Lease that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth, it will cause to be included in the appropriations proposed for that biennial period to be made for the Transportation Cabinet sufficient amounts (over and above all other requirements of the Transportation Cabinet) to enable the Transportation Cabinet to make rental payments under the Lease and thereby produce income and revenues to the Commission to permit timely payment of the Bonds as the same become due during such period.

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

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

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

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Transportation 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 Transportation 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 Transportation Cabinet under the Lease upon delivery of an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in the gross income of the holders of the Bonds for federal income tax purposes. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has given the Bonds the rating of "Aa3", Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has given the Bonds the rating of "AA-" and Fitch, Inc. ("Fitch") has given the Bonds the rating of "AA-". Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300; an explanation of the rating given by S&P may be obtained from Standard & Poor's Rating 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, Inc. 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. The form of the approving legal opinion of Bond Counsel is attached hereto as Exhibit B.

LITIGATION

There is no litigation pending or, to the knowledge of the Commission or the Transportation Cabinet, threatened to restrain or enjoin the authorization, sale or delivery of the Bonds or which would adversely affect the application of the revenues of the Transportation Cabinet to the payment of the Bonds. Except as described herein, there is no litigation pending or, to the knowledge of the Commission, threatened against the Commission or any of its assets or revenues that would materially adversely affect the Commission or its operations.

In McGaren v. Comm., Revenue Cabinet, et.al., (Jefferson County Circuit Court, Case No. 00-CI-01392), the Court held that KRS 138.450(12)(e) is unconstitutional because it did not allow for a motor vehicle usage tax trade-in credit for used vehicles purchased out of state but did allow for such a trade-in credit for vehicles purchased in Kentucky. The Court enjoined the Kentucky Revenue Cabinet from enforcing this statute and the tax collection policy was changed in January 2001 to allow the trade-in credit for used vehicles purchased out of state. As a result, motor vehicle usage taxes previously paid in connection with used vehicles purchased out of state may have to be refunded out of the Road Fund. The amount of these refunds has not been finally determined. However, in the opinion of the Office of General Counsel of the Transportation Cabinet, the probable liability for refunds is estimated to be between approximately $9 million and $12 million. For additional information, see "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet — *Recent Changes to Road Fund Receipts*."

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 for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation by the Commonwealth and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

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

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

Certain requirements and procedures contained or referred to 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 for the Bonds has rendered an opinion that interest on the Bonds is excludable from gross income for Federal income tax purposes and that interest on the Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each

Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

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

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

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. Certain of the Bonds, 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 Bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining Bondholder'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 Bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

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

Original Issue Discount

Certain of the Bonds, as shown on the cover page hereto (the "Discount Bonds") are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount

Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OlD 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.

UNDERWRITING

The Bonds are to be purchased by a syndicate managed by UBS PaineWebber Inc., as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of $96,418,617.45 (which is equal to the principal amount of the Bonds plus net original issue premium of $6,619,692.85 and less underwriting discount of $441,075.40) plus accrued interest from the dated date of the Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering prices or yields set forth on the cover page hereof, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the Underwriters to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

OTHER MATTERS

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

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

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

COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

By: s/ Gordon L. Mullis, Jr.
Gordon L. Mullis, Jr.
Executive Director
Office of Financial Management
(Secretary to the Commission)

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I attached hereto lists state agencies which currently have debt outstanding. OFM is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. The Office serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, and the Kentucky Local Correctional Facilities Construction Authority.

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt as displayed in Table II in the *Supplemental Information to the Kentucky Comprehensive Annual Financial Report*.

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

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

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

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and do not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by this type of indebtedness. Although, in the event of a shortfall the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING*
State Property and Buildings Commission	**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/AA-/AA-
Kentucky Asset/Liability Commission	**KRS 56** Provide for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	**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 project and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	**KRS 198A** Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the state.	Limited to $2.5 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	**KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs limited to $60 and $125 million of debt outstanding, for maturities under and over 3 years, respectively.	Aa3/AA-/AA-
Kentucky Higher Education Student Loan Corporation	**KRS 164A** Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to $950 million of debt outstanding.	Aaa/AA-
School Facilities Construction Commission	**KRS 157.800-157.895** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+/A
Kentucky Economic Development Finance Authority	**KRS 154** Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	**KRS 441.605-441.695** Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	AAA
Kentucky Agricultural Finance Corporation	**KRS 247.940** Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures.	Limited to $500 million of debt outstanding.	NA

*Ratings, where applicable, include Moody's, Standard & Poor's and Fitch. Fitch on August 17, 2000, upgraded ratings to AA- from A+ for the State Property and Buildings Commission and certain General Fund lease obligations of the Kentucky Asset/Liability Commission and the Kentucky Infrastructure Authority. As of November 16, 2000, Moody's, Standard & Poor's and Fitch upgraded the ratings of the Turnpike Authority of Kentucky Revenue Bonds to Aa3, AA- and AA-, respectively, from A1, A+ and A+, respectively. The bonds of the Kentucky Local Correctional Facilities Construction Authority are insured.

EXHIBIT B

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: $90,240,000 Commonwealth of Kentucky
State Property and Buildings Commission Road Fund Revenue Bonds, Project No. 73

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 Road Fund Revenue Bonds, Project No. 73, in the aggregate principal amount of $90,240,000 (the "Bonds"), dated November 1, 2001. The Bonds are being issued on behalf of the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"), a state agency of the Commonwealth of Kentucky (the "Commonwealth").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly (i) Chapter 56 of the Kentucky Revised Statutes, (ii) Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, and (iii) H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session and in accordance with a resolution of the Commission adopted on October 16, 2001 (the "Resolution") for the purpose of (A) paying the costs of constructing, acquiring, installing and equipping the Project, as defined in the Resolution and (B) paying the costs of issuing the Bonds.

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

Based upon the foregoing, it is our opinion, under the law existing on the date of this opinion, that:

1. The Commission is a public body corporate and an independent agency 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 and a first lien on the revenues derived or to be derived by the Commission from a Lease Agreement dated as of November 1, 2001 between the Commission and the Transportation Cabinet (the "Lease"), a sufficient portion of which revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

4. 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 Transportation Cabinet, or any other agency or political subdivision of the Commonwealth.

5. The Bonds are not secured by a pledge of or lien on the 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 and first lien on the revenues to be derived from the Lease. The ability of the Transportation Cabinet to make payments under the Lease is dependent upon legislative appropriations to the Transportation Cabinet. The Lease has a current term ending June 30, 2002, with the right to renew the Lease for additional successive terms of two years each until the Bonds and interest thereon have been paid and discharged.

6. 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.

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

8. The 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 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.

Very truly yours,