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

NEW ISSUE

In the opinion of Bond Counsel for the Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, and subject to the conditions and limitations set forth herein under the caption "TAX TREATMENT," interest on the Series A 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 Series B Bonds is includable in gross income for Federal income tax purposes. Interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX TREATMENT" herein for a more complete discussion, and EXHIBIT C—"FORM OF BOND COUNSEL OPINION FOR THE BONDS."

$10,485,000
COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION
$6,085,000 Road Fund Revenue Bonds, Project No. 107 Series A
$4,400,000 Road Fund Revenue Bonds, Project No. 107 Taxable Series B

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

The Road Fund Revenue Bonds, Project No. 107 Series A (the "Series A Bonds") and the Road Fund Revenue Bonds, Project No. 107 Taxable Series B (the "Taxable Series B Bonds" and together with the Series A Bonds, 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 November 1, 2014. Principal of and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent.

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

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet"), pursuant to a Resolution adopted April 11, 2014, to (i) pay costs of acquiring, constructing, 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 HEREIN), THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM. See "SECURITY FOR THE BONDS" herein.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Peck, Shaffer & Williams, a division of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. It is expected that delivery of the Bonds will be made on or about May 21, 2014, in New York, New York, through the facilities of DTC, against payment therefor.

Dated: May 7, 2014.

$10,485,000
COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

$6,085,000 Road Fund Revenue Bonds, Project No. 107 Series A

Maturity (May 1)	Principal Amount	Interest Rate	Price/or Yield	CUSIP**
2022	$255,000	4.000%	2.330%	49151F FB1
2023	645,000	4.000	2.500	49151F FC9
2024	670,000	4.000	2.630	49151F FD7
2025	700,000	3.000	2.800	49151F FE5
2026	720,000	3.000	2.950	49151F FF2
2027	740,000	3.000	3.050	49151F FG0
2028	760,000	3.000	3.150	49151F FH8
2029	785,000	3.125	3.250	49151F FJ4
2030	810,000	3.250	3.350	49151F FK1

$4,400,000 Road Fund Revenue Bonds, Project No. 107 Taxable Series B

Maturity (May 1)	Principal Amount	Interest Rate	Price/or Yield	CUSIP**
2015	$565,000	1.000%	0.300%	49151F FL9
2016	555,000	1.000	0.600	49151F FM7
2017	565,000	1.250	1.100	49151F FN5
2018	570,000	1.500	100.00	49151F FP0
2019	580,000	2.125	2.050	49151F FQ8
2020	590,000	2.500	2.400	49151F FR6
2021	605,000	3.000	2.700	49151F FS4
2022	370,000	3.000	100.00	49151F FT2

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

Members

STEVEN L. BESHEAR
Governor
(Chairman of the Commission)

JERRY ABRAMSON
Lieutenant Governor

JACK CONWAY
Attorney General

LORI H. FLANERY
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

LARRY M. HAYES
Secretary
Cabinet for Economic Development

JANE DRISKELL
State Budget Director

EDGAR C. ROSS
State Controller

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

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

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

TABLE OF CONTENTS

SUMMARY

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

The Commission

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

The Offering

The Commission is offering its $6,085,000 Road Fund Revenue Bonds, Project No. 107 Series A (the "Series A Bonds") and its $4,400,000 Road Fund Revenue Bonds, Project No. 107 Taxable Series B (the "Taxable Series B Bonds" and together with the Series A Bonds, the "Bonds").

Authority

The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a Bond Resolution (the "Resolution") adopted by the Commission on April 11, 2014 (i) authorizing the issuance of the Bonds, and (ii) approving the Lease dated as of May 1, 2014 (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 acquiring, constructing, 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 "SECURITY FOR THE BONDS" and "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 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 inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of 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 November 1, 2014. Principal of and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee").

The Series A Bonds maturing on and after May 1, 2025 may be redeemed at the option of the Commission on any date on or after May 1, 2024, 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. The Taxable Series B Bonds are not subject to optional redemption. See "THE BONDS - Redemption Provisions".

It is expected that delivery of the Bonds will be made on or about May 21, 2014, in New York, New York, against payment therefor.

Tax Status

Subject to compliance by the Commission, the Transportation Cabinet and others with certain covenants, in the opinion of Peck, Shaffer & Williams, a division of Dinsmore & Shohl LLP, Bond Counsel, under present law, interest on the Series A Bonds (including original issue discount treated as interest) is excluded from gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof. INTEREST ON THE TAXABLE SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. See "TAX

TREATMENT" herein for a more complete discussion, and "EXHIBIT C – FORM OF BOND COUNSEL OPINION."

Continuing Disclosure	The Bonds are subject to Rule 15c2 12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). In general, Rule 15c2-12 prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in Rule 15c2-12. In order to enable the purchaser to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement with the Trustee. See "CONTINUING DISCLOSURE AGREEMENT" herein.
General	The Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in the Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available from the Office of Financial Management.
Information	Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924 and the Commission's Financial Advisor, Acacia Financial Group, Inc., 601 Route 73 North, Suite 206, Marlton, New Jersey 08053, Attention: Mr. Joshua C. Nyikita (856) 234-2266.

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OFFICIAL STATEMENT

Relating to

$10,485,000
COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

$6,085,000 Road Fund Revenue Bonds, Project No. 107 Series A
$4,400,000 Road Fund Revenue Bonds, Project No. 107 Taxable Series B

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 $6,085,000 Road Fund Revenue Bonds, Project No. 107 Series A (the "Series A Bonds") and $4,400,000 Road Fund Revenue Bonds, Project No. 107 Taxable Series B (the "Taxable Series B Bonds" and together with the Series A Bonds, 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 acquiring, constructing, 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 adopted a Bond Resolution (the "Resolution") on April 11, 2014 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 May 1, 2014 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, 2014, 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, 2014.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE TRANSPORTATION CABINET OR THE COMMISSION NOR IS THE TRANSPORTATION CABINET OR THE COMMISSION 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 76, Frankfort, Kentucky 40601, (502) 564-2924.

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of $5,000 or integral multiples thereof, will be dated their date of delivery, and will bear interest payable on each May 1 and November 1, commencing November 1, 2014, at the interest rates set forth on the inside cover page of this Official Statement. U.S. Bank National Association, Louisville, Kentucky is the trustee for the Bonds (the "Trustee"). The record dates for May 1 and November 1 interest payment dates on the Bonds shall be the preceding April 15 and October 15, respectively.

Book-Entry-Only System

The Bonds initially will be issued solely in book-entry form to be held in the book-entry-only ("Book-Entry-Only") system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such Book-Entry-Only system is used, only DTC will receive or have the right to receive physical delivery of Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution. For additional information about DTC and the Book-Entry-Only system see EXHIBIT B—"BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series A Bonds maturing on and after May 1, 2025 may be redeemed at the option of the Commission on any date on or after May 1, 2024, 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. The Taxable Series B Bonds are not subject to optional redemption.

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

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than 32 days before such redemption date, to The Depository Trust Company, New York, New York; provided, however, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds.

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

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

SECURITY FOR THE BONDS

General

The Bonds are not secured by a lien on any properties constituting the Project or any amounts derived therefrom. The principal and interest and premium, if any, on the Bonds are payable solely from the Bond Fund (hereinafter defined) and from the revenues derived or to be derived from the rental payments of the Transportation Cabinet under the Lease. 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, 2014.

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 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."

Based upon the amounts credited to the Road Fund for the 12-month period ended March 31, 2014, and assuming the issuance of the Bonds at the interest rates and with the principal maturities that are set forth on the inside cover page of this Official Statement (resulting in a Maximum Annual Debt Service of approximately $165.3 million, which includes payments by the Transportation Cabinet to the Turnpike Authority and the Commission), the ratio of Adjusted Revenues to Maximum Annual Debt Service is estimated to be 7.07 times. Based on Adjusted Revenues reflecting the $1.79 motor fuel average wholesale price statutory minimum, such ratio is approximately 6.26 times. See "THE TRANSPORTATION CABINET - Road Fund Revenue Estimate - Fiscal Year 2014" and " - Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

"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 owner 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.

Outstanding Commission Bonds

As of May 1, 2014, the Commission ("SPBC") had an aggregate principal amount of $3,851,700,000 of bonds outstanding. Of that amount, the principal amount of bonds payable from Road Fund appropriations includes: $4,445,000 outstanding principal amount of the Commission's Road Fund Revenue Refunding Bonds, Project No. 73 (Third Series), $42,595,000 outstanding principal amount of the Commission's Road Fund Revenue Refunding Bonds, Project No. 73 (Fourth Series), and $22,480,000 outstanding principal amount of the Commission's Road Fund Revenue Bonds, Project No. 94. All other outstanding bonds of the Commission are payable from General Fund appropriations or appropriations made from various state agency funds.

PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Transportation Cabinet to (i) pay costs of acquiring, constructing, 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.

SOURCES AND USES OF FUNDS FOR THE BONDS

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

	Series A	Taxable Series B	Total
SOURCES OF FUNDS:			
Par Amount of Bonds	$6,085,000.00	$4,400,000.00	$10,485,000.00
Net Original Issue Premium	$164,560.90	$27,145.75	$191,706.65
TOTAL SOURCES	$6,249,560.90	$4,427,145.75	$10,676,706.65
USES OF FUNDS:			
Construction Fund Deposit	$6,140,220.65	$4,359,779.35	$10,500,000.00
Costs of Issuance*	$109,340.25	$67,366.40	$176,706.65
TOTAL USES	$6,249,560.90	$4,427,145.75	$10,676,706.65

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

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 facilities and improvements supporting the development, rehabilitation, and maintenance of public use airports in the Commonwealth. Grants to finance the Project have been awarded for state only, as well as for Federal Aviation Administration matching funds provided by the state, for airport related projects. These projects may be for rehabilitating airport runways, aprons, hangars or for building new hangars or terminal buildings. In addition, the funds are to be used to install Automated Weather Observation Systems (AWOS) at several airports around 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 of the Cabinet for Economic Development, the State Budget Director and the State Controller. The State Budget Director and the State Controller were added to the Commission by Executive Order 2008-506 dated June 6, 2008 and effective June 16, 2008. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission, and the Executive Director of the OFM serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

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

Future Financings

The 2010 Extraordinary (Special) Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. Governor Beshear took final action on the bills on June 4, 2010. Together, the bills authorize bond financing for projects totaling $1,980.2 million to support various capital initiatives of the Commonwealth. Of the total authorization, $507.4 million is General Fund supported, $515.3 million is Agency Restricted Fund supported, $522.5 million is supported by Road Fund appropriations and $435 million is Federal Highway Trust Fund supported through GARVEE Bonds for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Bridges Ohio River Bridges Project. A portion of the General Fund, Agency Restricted Fund, Road Fund and Federal Fund authorizations have been permanently financed.

The 2012 Regular Session of the General Assembly delivered House Bill 265 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 30, 2012 and House Bill 2

(Kentucky Transportation Cabinet Budget) to the Governor on April 20, 2012, establishing an Executive Branch Budget for the biennium ending June 30, 2014. Governor Beshear took final action on House Bill 265 on April 13, 2012 and took final action on House Bill 2 on May 2, 2012. Together, the bills authorize bond financing for projects totaling $238.86 million to support various capital initiatives of the Commonwealth. Of the total authorization, $182.86 million is General Fund supported, $12.5 million is supported by Road Fund appropriations, $43.5 million is Agency Restricted Fund supported. A portion of the General Fund and the Agency Restricted Fund authorization listed above has been permanently financed.

The balance of bond authorizations of the General Assembly prior to and including the 2012 Regular Session totals $529.67 million. Of these prior authorizations, $109.169 million is General Fund supported, $17.5 million is Agency Fund supported, $223 million is supported by Road Fund appropriations and $180 million is Federal Highway Trust Fund supported. $10.5 million of the Road Fund appropriation will be utilized through the issuance of the Bonds.

The 2013 Regular Session of the General Assembly delivered House Bill 7 to the Governor on February 20, 2013 authorizing a list of capital projects for the Kentucky state universities. Governor Beshear took final action on House Bill 7 on February 21, 2013. The bill authorizes bond financing for various university capital projects totaling $363.3 million to support various capital initiatives of the state universities, which are Agency Fund supported, of which $9.6 million is still authorized to be issued.

In addition, House Bill 238 was signed by the Governor on March 22, 2013 authorizing an Agency Fund bond supported capital project for the Judicial Branch in conjunction with the Administrative Office of the Courts for financing of Phase I E-Case and Docket Management system capital project totaling $28.1 million to be issued through Kentucky State Property and Buildings Commission or the Kentucky Asset/Liability Commission.

The 2014 Regular Session of the General Assembly delivered House Bill 235 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 31, 2014 and House Bill 236 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2014, establishing an Executive Branch Budget for the biennium ending June 30, 2016. Governor Beshear took final action on House Bill 235 on April 11, 2014 and took final action on House Bill 236 on April 25, 2014. Together, the bills authorize bond financing for projects totaling a net amount of $1,364.05 million to support various capital initiatives of the Commonwealth due to $105 million in previously authorized debt that was de-authorized in House Bill 235. Of the total authorization, $742.77 million is General Fund supported, $721.28 million is supported by Agency Restricted Fund appropriations, and $5.0 million is Road Fund supported.

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

THE 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 Aero-nautics. 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 85% of the Commonwealth's motor vehicle traffic. This represents nearly 40.8 billion vehicle miles of travel. The system consists of some 28,237 miles of parkways, interstate highways, the economic development road system, primary roads, secondary roads, rural secondary roads and supplemental roads, and includes nearly 9,000 bridges. Additionally, the Transportation Cabinet provides direction for licensed airports and heliports throughout the Commonwealth.

The Transportation Cabinet also regulates the operation of motor vehicles upon Kentucky's public highways and registers approximately 4.0 million vehicles and licenses 3.0 million drivers. The Transportation Cabinet is also responsible for administratively 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 four major operating departments: Highways, Rural and Municipal Aid, Vehicle Regulation, and Aviation. Eleven offices perform staff functions: Office of the Secretary, Budget and Fiscal Management, Legal Services, Inspector General, Information Technology, Support Services, Audits, Human Resources Management, Transportation Delivery, Civil Rights and Small Business Development and Public Affairs. The Transportation Cabinet employs approximately 4,750 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 a Commissioner of Highways, a State Highway Engineer and three 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 whom 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 traveling 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 that 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.

The Transportation Cabinet is committed to efficiency and cost containment. 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

General. 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 more participatory role.

Prior to 1982, the Transportation Cabinet had internally identified, planned, and designed potential projects. Those projects 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 preconstruction 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, the Safe, Accountable, Flexible, Efficient Transportation Equity Act, A Legacy for Users (SAFETEA-LU) in 2005 and the Moving Ahead for Progress in the 21st Century (MAP-21) in 2012, 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. The most current Six-Year Plan consists of approximately 1,390 roadway projects that 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.

Identification of Needs. 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 nine 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 perform 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 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 Turnpike 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, MAP-21 was enacted on July 6, 2012 and extends the Federal surface transportation programs for highways, highway safety, and transit until September 30, 2014.

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.). In general, all federal dollars must be spent within the appropriate funding category; however, MAP-21 does give the states some flexibility to transfer funds between program categories.

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.

The overall transportation planning process in Kentucky and throughout the nation is constantly undergoing refinement. The federal MAP-21 legislation built upon ISTEA, TEA-21 and SAFETEA-LU to strengthen 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

General. 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, including the Turnpike Authority, that participate in the construction and maintenance of highway projects. In the case of the Turnpike Authority, these funds are generated through the issuance of revenue bonds.

Chapter 48 of the Kentucky Revised Statutes 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 "THE TRANSPORTATION CABINET - Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein provides an accounting of the portion of these revenue sources over each of the past five Fiscal Years that were available to pay debt service. These amounts are shown exclusive of any taxes, fees and miscellaneous revenues that are dedicated for other uses.

Motor Vehicle Usage Tax. Motor vehicle usage taxes are 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. See "Recent Changes to Road Fund Receipts" for a description of a new usage tax allowance credit.

During the past five Fiscal Years the motor vehicle usage taxes have made up approximately 38 percent of the total monies deposited to the Road Fund and available to pay lease rentals. See "THE TRANSPORTATION CABINET - Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

Motor Fuel Taxes. Motor fuel taxes are levied on gasoline, liquefied petroleum gas and special fuels (predominantly diesel fuel) sold for use in motor vehicles operated on public highways and set by statute. The law provides for a variable tax rate equal to 9 percent of the average wholesale price (awp) of gasoline, which was, until July 1, 2005, subject to a statutory floor of $1.11 per gallon for both gasoline and special fuels (primarily diesel) and shall be rounded to the third decimal. The awp is calculated by the Department of Revenue for each calendar quarter using the awp from the first month of the previous quarter. The law further limits the awp increase to ten percent from one fiscal year to the next, effectively capping the annual growth. In addition to the variable tax, the law provides for a supplemental highway-user motor fuel tax that is a fixed rate of 5 cents per gallon for gasoline and 2 cents per gallon for special fuels. See "THE TRANSPORTATION CABINET - Recent Changes to Road Fund Receipts" herein.

In addition to the above, firms operating commercial trucks in Kentucky are assessed a surtax of two percent of the awp on gasoline and 4.7 percent of the awp on special fuels on the amount of fuel used in operation on the public highways of the Commonwealth. By statute, this rate cannot be less than 3.6 cents per gallon on gasoline and 8.4 cents per gallon on special fuels. The current surtax rate effective April 1, 2014 is 5.27 cents for gasoline and 12.38 cents for special fuels which shall remain in effect through June 30, 2014.

These taxes made up approximately 40 percent of deposits in Fiscal Years 2011 and 2012 and 41 percent of deposits in Fiscal Year 2013, that were available for lease rentals. See "THE TRANSPORTATION CABINET - Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

Further, a substantial portion of these motor fuels taxes is statutorily dedicated to a revenue sharing program and not available to pay lease rentals. See "THE TRANSPORTATION CABINET - Claims on Certain Transportation Cabinet Revenues" herein.

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.

Truck Licenses and Fees. This category consists primarily of truck proportional registration fees, regular truck license fees, and highway special permits. Commercial trucks are assessed a per vehicle registration fee from $24 to $1,410 annually, based on the gross weight of the vehicle. Proportional registration fees are imposed on motor carriers and collected in their home state, then distributed to states in which the carrier operates, based on mileage driven. Kentucky's share of these funds represents collections on Kentucky-based carriers in excess of what is distributed to other states for those carriers, as well as distributions from other states based on mileage driven in Kentucky by out-of-state carriers. Highway special permits are derived from the issuance of permits to operate a truck that exceeds state regulations for weight and/or dimensional limitations.

Passenger Vehicle Licenses and Fees. Regular passenger vehicle licenses and specialty passenger vehicle licenses are the two main components of this category. The 2006 General Assembly increased the annual registration fee for cars and light trucks from $15 to $21 effective January 2007. Of the $21 fee, $11.50 is deposited in the State Road Fund.

Motor Vehicle Operator Licenses. Until June of 2005, the cost for a motor vehicle operator's license was $8 for a four-year license. Effective July 1, 2005 the cost for a four-year license increased to $20, increasing Road Fund receipts available to pay lease rentals approximately $11,000,000 annually commencing in Fiscal Year 2006.

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 that affect Road Fund receipts. A brief outline of some of the most notable tax modifications follows.

Motor Vehicle Usage Tax. The 2006 General Assembly enacted legislation providing that the retail price established by a notarized affidavit shall not be less than fifty-percent of the difference between (i) the trade-in value, as established by a reference guide, of the purchased motor vehicle offered for registration and (ii) the trade-in value, as established by a reference guide, of the motor vehicle offered in trade as part of the total purchase consideration given. If a notarized affidavit is not available, the retail price of the purchased vehicle shall be the average trade-in value of the vehicle as prescribed by the reference guide established by the Department of Revenue. A similar assessment, known as the motor vehicle rental usage tax, is charged on the value of contracts for leased and rented vehicles.

The 2006 General Assembly also enacted changes to the Road Fund tax base dealing with the Motor Vehicle Usage Tax collection from non-resident purchasers of motor vehicles in Kentucky. Effective July 1, 2004, Indiana began imposing a sales tax on non-resident automobile purchases within the state. It has been Kentucky's practice to grant a motor vehicle usage tax credit to Kentucky residents for tax paid to any other state that imposed a tax on Kentucky residents at the time of purchase. In reaction to the loss of tax revenue due to the change in Indiana law, the 2006 General Assembly changed the Kentucky statutes to require that non-residents pay the Kentucky sales tax on vehicles if their state of residence does not permit Kentucky residents to purchase motor vehicles free of that state's sales tax. The sales tax paid to Kentucky is deposited to the Road Fund.

The Extraordinary Session of the 2009 General Assembly enacted legislation creating a trade-in allowance against the Motor Vehicle Usage Tax. The allowance permits buyers of new vehicles in the Commonwealth who trade-in a used vehicle towards that purchase to pay the Motor Vehicle Usage Tax based only upon the value of the new vehicle in excess of the value of the trade-in vehicle, as opposed to the entire value of the new vehicle. As originally enacted, the trade-in allowance was effective for vehicles purchased between September 1, 2009 and August 31, 2010, or until the total amount of allowance used reached $25 million. The Extraordinary Session of the 2010 General Assembly modified the period for the trade-in allowance by extending it through June 30, 2011; however, the total trade-in allowance of $25 million remained the funding cap. This $25 million funding cap was reached on August 16, 2010 and as of that time the trade-in allowance was discontinued.

The 2013 General Assembly enacted legislation to make permanent a trade-in allowance for new vehicles in the Commonwealth for buyers who trade a used vehicle towards the purchase of a new vehicle. The purchaser pays the Motor Vehicle Usage Tax based on the value of the new vehicle in excess of the value of the trade-in vehicle. The trade-in allowance is effective July 1, 2014 and it is estimated it will reduce Road Fund receipts available to pay lease rentals by $35,000,000 annually beginning in Fiscal Year 2015.

Motor Fuel Taxes. The motor fuel tax statutes provide for a variable tax rate equal to 9 percent of the average wholesale price (awp) of gasoline, which was, until July 1, 2005, subject to a statutory floor of $1.11 per gallon for both gasoline and special fuels (primarily diesel). The awp is calculated by the Department of Revenue for each calendar quarter using the awp from the first month of the previous quarter. The law further limits the awp increase to ten percent from one fiscal year to the next, effectively capping the annual growth. However, the law does not place an annual limit on the decline of the awp other than the awp shall not be assumed to be below the statutory floor. Thus, the awp may increase by no more than ten percent each fiscal year during times of increasing fuel prices but may decrease without restriction to the statutory floor during times of decreasing fuel prices.

Since 2004 there have been several changes to the awp, both from legislative actions and through the automatic adjustment provisions. A complete history of those changes is displayed in the table titled KENTUCKY GASOLINE MOTOR FUEL TAX RATE HISTORY that follows this section. The most recent legislative action affecting the awp occurred in the 2009 General Assembly during which H.B.374 was enacted to establish $1.786 cents per gallon as the new statutory floor for purposes of applying the statutory motor fuel tax provisions. This legislation became effective April 1, 2009, thus making permanent a minimum motor fuel tax of 21.1 cents per gallon of gasoline and 18.1 cents per gallon for special fuels.

Effective April 1, 2014 the awp of fuel for purposes of applying the statutory motor fuel tax provision is $2.634. This awp results in a motor fuel tax of 28.7 cents per gallon of gasoline and 25.7 cents per gallon for special fuels and will be effective through June 30, 2014. Because this level of motor fuel tax is based on an awp that exceeds the statutory minimum, it is possible that motor fuel tax rates could decrease beginning July 1, 2014 if the awp of fuel decreases during the next quarterly survey in April 2014.

The following table displays the history of changes to the gasoline motor fuel tax rate in Kentucky. This table does not reflect the motor fuel tax for special fuels, which is 3 cents per gallon less than the gasoline motor fuel tax.

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KENTUCKY GASOLINE MOTOR FUEL TAX RATE HISTORY

(rates below reflect cents per gallon)

Effective Begin	Effective End	Gasoline Tax Rate KRS 138.220(1)	Motor Fuel User Tax KRS 138.220(2)	Total Motor Fuel Tax	Comments
7/1/1986	6/30/2004	$1.11 X 9% = 10 Cents	5 Cents	15 Cents	$1.11 was the awp floor from 1986-2004
7/1/2004	6/30/2005	$1.22 X 9% = 11 Cents	5 Cents	16 Cents	Effective 7/1/2005 awp floor made permanent by HB267 2005 General Assembly
7/1/2005	6/30/2006	$1.34 X 9% = 12.1 Cents	5 Cents	17.1 Cents	Effective 7/1/2006 awp floor made permanent by HB280 2006 General Assembly
7/1/2006	6/30/2007	$1.47 X 9% = 13.3 Cents	5 Cents	18.3 Cents	
7/1/2007	6/30/2008	$1.62 X 9% = 14.6 Cents	5 Cents	19.6 Cents	
7/1/2008	9/30/2009	**STATUTORY FLOOR** $1.79 X 9% = 16.1 Cents	5 Cents	21.1 Cents	Effective April 1, 2009 the awp floor made permanent by HB374 2009 General Assembly
10/1/2009	12/31/2009	$1.86 X 9% = 16.8 Cents	5 Cents	21.8 Cents	
1/1/2010	6/30/2010	$1.97 X 9% = 17.7 Cents	5 Cents	22.7 Cents	
7/1/2010	9/30/2010	$2.17 X 9% = 19.5 Cents	5 Cents	24.5 Cents	
10/1/2010	12/31/2010	$2.13 X 9% = 19.2 Cents	5 Cents	24.2 Cents	
1/1/2011	6/30/2011	$2.162 X 9% = 19.5 Cents	5 Cents	24.5 Cents	
7/1/2011	6/30/2012	$2.378 X 9% = 21.4 Cents	5 Cents	26.4 Cents	
7/1/2012	6/30/2013	$2.616 X 9% = 23.5 Cents	5 Cents	28.5 Cents	
7/1/2013	12/31/2013	$2.878 X 9% = 25.9 Cents	5 Cents	30.9 Cents	
1/1/2014	3/31/2014	$2.708 X 9% = 24.4 Cents	5 Cents	29.4 Cents	
4/1/2014	6/30/2014	$2.634 X 9% = 23.7 Cents	5 Cents	27.7 Cents	

In addition to the above motor fuel tax rates, Kentucky imposes a 1.4 cents per gallon underground storage tank fee on the sale of motor fuels. These funds are dedicated to the environmental clean-up of leaking underground fuel storage tanks and are not deposited to the Road Fund.

Road Fund Revenue Estimate Fiscal Year 2014

The Fiscal Year 2014 Road Fund revenue estimate of $1,568.0 million was officially published by the Consensus Forecast Group (CFG) in December 2011. This Road Fund revenue estimate is the basis for expenditures found in H.B. 2, the Transportation Cabinet's budget bill enacted in April 2012 by the 2012 Extraordinary Session of the General Assembly. The December 2011 Fiscal Year 2014 official revenue estimate anticipates a 5.1% growth in receipts as compared to Fiscal Year 2013 actual receipts of

$1,491.6 million. Year to date Road Fund receipts through April 2014 were $1,294.3 million compared to $1,225.2 million for the same period in Fiscal Year 2013.

The CFG met again in December 2013 to consider revisions to the official revenue estimates for Fiscal Year 2014 and to develop official revenue estimates for Fiscal Years 2015 and 2016. During the December meeting, the CFG revised the Road Fund revenue estimate for Fiscal Year 2014 to $1,582.6 million. The revised official estimate anticipates a 6.1 percent growth in fiscal year revenues compared to Fiscal Year 2013. Based on year-to-date collections, revenues must increase 2.7 percent for the remainder of Fiscal Year 2014 to meet the revised official estimate.

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. Effective July 1, 2005, one cent of the motor fuels normal tax was excluded from the above restriction. Effective July 1, 2006, the General Assembly excluded an additional 1.1 cents of the motor fuels normal tax from the revenue sharing provision above. See "THE TRANSPORTATION CABINET - Recent Changes to Road Fund Receipts" herein. Chapter 177 of the Kentucky Revised Statutes 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 "THE TRANSPORTATION CABINET - Revenue Sources of the Transportation Cabinet -Motor Fuel Taxes" herein.

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.

A portion of the receipts to the Road Fund resulting from the issuance or renewal of operator's licenses are also statutorily restricted. See "THE TRANSPORTATION CABINET - Revenue Sources of the Transportation Cabinet - Motor Vehicle Operator Licenses" herein. Chapter 186 of the Kentucky Revised Statutes 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 Lease Rentals

The table below illustrates the Transportation Cabinet's historical total available Road Fund revenues, expenses and lease rental obligations for the past five Fiscal Years. The figures are derived from the Transportation Cabinet's Financial Report to Management. 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. Truck licenses and fees revenues are shown net of required allocations for the Energy Recovery Road Fund. Operating and maintenance expenses reflect only those related to Commonwealth highway and highway-related projects payable from the Road Fund.

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

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

	2009	2010	2011	2012	2013
TOTAL AVAILABLE ROAD FUND REVENUES:					
TAXES:					
Vehicle Usage[2]	$336,365	$332,738	$408,849	$438,035	$461,659
Motor Fuels[3]	351,545	368,898	381,540	417,188	427,086
Weight Distance	76,877	72,306	75,610	76,584	75,689
TRUCK LICENSES AND FEES	64,437	61,050	64,957	72,349	69,159
PASSENGER VEHICLE LICENSES AND FEES	43,715	44,058	44,299	44,950	45,436
OTHER RECEIPTS[4]	19,175	17,702	19,548	1,543	18,403
VEHICLE OPERATORS LICENSES	15,848	16,046	15,710	15,683	15,883
INTEREST INCOME	10,662	3,634	1,995	3,081	-399
TOTAL AVAILABLE ROAD FUND REVENUES:	**$918,624**	**$916,432**	**$1,012,508**	**$1,089,413**	**$1,112,916**
OPERATING & MAINTENANCE EXPENSES:					
Personnel Cost	$175,072	$186,520	$188,976	$186,596	$196,979
Personal Service	12,221	11,438	9,704	9,769	11,704
Operating Expense	157,479	169,231	167,998	177,817	163,350
Grants	6	3	2	759	76
Capital Outlay	1,226	2,296	4,851	4,096	4,375
Capital Construction	1,797	2,125	1,259	2,211	1,831
Highway Materials	41,797	61,069	67,070	54,162	45,200
Other Agency Cost [5]	77,756	77,751	83,674	86,233	93,746
TOTAL OPERATING & MAINTENANCE:	**$467,354**	**$510,433**	**$523,534**	**$521,643**	**$517,261**
NET AVAILABLE ROAD FUND REVENUES:	**$451,270**	**$405,999**	**$488,974**	**$567,770**	**$595,655**
LEASE RENTALS: [6][7]					
The Turnpike Authority					
Economic Development Road Projects	116,114	30,989	97,069	99,772	135,379
Resource Recovery Road Projects[8]	2,686	-	-	-	-
SPBC	7,303	9,884	10,919	10,837	9,985
ALCo Project Notes	63	16	-	-	-
TOTAL LEASE RENTALS:	**$126,166**	**$ 40,889**	**$107,988**	**$110,609**	**$145,364**
GROSS COVERAGE [7][9]	7.28x	22.41x	9.38x	9.85x	7.66x
NET COVERAGE [7][9]	3.58x	9.93x	4.53x	5.13x	4.10x

NOTES:

1. This 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 lease rental payments. For this table display, the Transportation Cabinet has revised and updated the categories into which revenues are subdivided to better reflect the significant sources of revenue available to make lease rental payments. These revisions and updates do not affect the total revenue available, only the way in which the revenue is categorized. Total Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees, and miscellaneous revenues that are dedicated for other uses and not available to make lease rental payments to the Turnpike Authority or the SPBC. 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. The Kentucky motor vehicle usage tax is imposed on the sale or transfer of new or used motor vehicles at the rate of 6 percent of the vehicle's value. See "THE TRANSPORTATION CABINET - Revenue Sources of the Transportation Cabinet and Recent Changes to Road Fund Receipts" for more details.

3. The Kentucky motor fuel tax rates are set by statute and are subject to quarterly adjustments based on changes in the awp of fuel. See "THE TRANSPORTATION CABINET - Revenue Sources of the Transportation Cabinet and Recent Changes to Road Fund Receipts" herein.

4. Other Receipts consists primarily of general fees to the public, which includes the sale of maps, road plans, driver history records, and various other miscellaneous sales to the general public. Motor vehicle titling fees and proceeds from one-time sales of Cabinet assets also significantly contribute to this category.

5. The Kentucky General Assembly routinely appropriates Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of traffic law enforcement, the collection of Road Fund tax revenues, and other administrative support functions related to the Cabinet.

6. Lease Rentals paid by the Transportation Cabinet to the Turnpike Authority of Kentucky 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 to be transferred into the Redemption Account from the Debt Service Reserve Fund. Amounts paid to the SPBC include principal and interest requirements on bonds issued to finance the construction of a new office building for the Transportation Cabinet, bonds issued to finance the development of a new vehicle registration system and bonds issued to finance the expansion of a runway at Blue Grass Field Airport in Lexington, KY. The Lease Rentals for the ALCo Project Notes include actual interest payments and estimated payments made to the trustee.

7. Lease Rental payments applicable to Economic Development Bonds made during FY2010 were reduced by refinancing outstanding principal and interest of approximately $81.0 million, the impact of which was an increase in gross and net coverage.

8. Pursuant to a 1976 amendment to the Act, the Transportation Cabinet and the Authority became authorized to enter into agreements and leases to provide for the construction and financing of resource recovery road projects. The 1976 amendment described these projects as "express highways or super highways designed to serve as a modern, heavy-duty motorway capable of carrying vehicles transporting coal, and also servicing the

general public." The Authority financed various projects through issuance of bonds in 1977, 1978 and 1979, the remaining maturities of which were paid in full on July 1, 2009.

9. Gross Coverage equals Total Available Road Fund Revenues divided by Total Lease Rentals. Net Coverage equals Net Available Road Fund Revenues divided by Total Lease Rentals.

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 are prepared on an accrual basis of accounting in compliance with Generally Accepted Accounting Principles 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."

The interim financial statements reconcile directly with the audited financial statements. Under the interim financial statements, the Transportation Cabinet maintains six operating funds: the Road Fund, the Federal Fund, the General Fund, the Agency Fund, Capital Projects Fund and the Other Expendable Trust 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. 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. The Other Expendable Trust Fund includes expenditures for the Human Service Transportation Delivery system. This pays the contract service providers for transportation of claimants to and from medical and rehabilitation appointments.

Cash Management

Beginning with the enactment of the 2000-2002 Biennial Budget, the General Assembly established the Prefinancing Road Projects Program (the "Program") authorizing the Transportation Cabinet to develop and implement a program to accelerate projects contained in the Biennial Highway Construction Plan. The Program permitted the Transportation Cabinet to initiate work on highway projects in excess of available budget authority by employing a cash flow financing program. In accordance with the General Assembly's on-going authorization for the Program, the Transportation Cabinet has used the Road Fund cash balance to accelerate highway projects.

Prior to Fiscal Year 2000, the Transportation Cabinet managed the highway program on an obligation basis by setting aside the entire cost of a highway project phase at the time work was approved to begin. Typically highway projects take a number of years to complete; therefore, a considerable cash balance had accumulated in the Road Fund as project dollars waited to be spent. The Road Fund cash balance did not represent free, uncommitted funds but rather funds on deposit until expenses became due over time.

Using the cash flow financing approach, the Transportation Cabinet has used the Road Fund cash balance to expedite the start and completion of highway projects. Before the start of the Program in July 2000, the Road Fund cash balance was approximately $690,000,000. The Road Fund cash balance as of April 30, 2014 was approximately $726,600,000.

The Transportation Cabinet has developed a number of cash management practices and tools to forecast and monitor cash activity on an on-going basis. The goal is to maximize available resources for the delivery of services while ensuring that funds are sufficient to meet current obligations. The authorizing legislation requires that the Transportation Cabinet continuously ensure that funds are available to meet expenditures and the Transportation Cabinet provides periodic updates regarding Program status to the Office of the State Budget Director, the Finance and Administration Cabinet and the General Assembly.

Budget Process of the Transportation Cabinet

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

The Transportation Cabinet budget for the biennium is prepared in accordance with Chapter 48 of the Kentucky Revised Statutes 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 the consensus forecasting process as prescribed by Chapter 48.115 of the Kentucky Revised Statutes.

The 2009 General Assembly enacted legislation, H.B. 423, which significantly amended Chapter 48 of the Kentucky Revised Statutes regarding the way in which the Governor and the General Assembly must develop and enact the biennial budget for the Transportation Cabinet. Beginning with the Fiscal Year 2011-2012 biennial budget period, the Governor is now required to submit to the General Assembly a branch budget recommendation for the Cabinet, apart from the recommendation of other executive agencies. The Cabinet's branch budget recommendation must include a branch budget bill and a separate bill that lists projects for the biennial highway construction plan. The General Assembly is required to enact the biennial budget in the fashion described.

Transportation Cabinet budget development is initially dependent upon determining (1) available funds both dedicated and undedicated, (2) 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 Budget Office 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 Office of the State Budget Director.

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

Other Road Fund Obligations of the Transportation Cabinet

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, pursuant to law, may request that bonds or certain other obligations payable from Road Fund revenues and receipts be issued on its behalf by the Turnpike Authority or the Commission. 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. See also "SECURITY FOR THE BONDS – Conditions to Additional Indebtedness."

In addition to the Lease, The Transportation Cabinet and the Commission have entered into (i) a Lease dated as of November 1, 2001 (as supplemented and amended the "2001 Commission Lease") relating to the issuance by the Commission of its Road Fund Revenue Refunding Bonds, Project No. 73 (Third Series) (the "Third Series Bonds") and Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series) (the "Fourth Series Bonds") and (ii) a Lease dated as of February 1, 2009 (the "2009 Commission Lease", together with the 2001 Commission Lease and the Lease, the "Commission Leases") relating to the issuance by the Commission of its Road Fund Revenue Bonds, Project No. 94 (the "Project No. 94 Bonds", together with the Third Series Bonds, the Fourth Series Bonds and the Bonds, the "Commission Bonds"). The proceeds of the Fourth Series Bonds were used to (i) refund certain of the Commission's outstanding Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series). The proceeds of the Third Series Bonds were used to (i) refund certain of the Commission's outstanding Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series) and Road Fund Revenue Bonds, Project No. 73. The proceeds of the Project No. 94 Commission Bonds were used in part to (i) replace the automated vehicle information system used by the Department of Vehicle Regulation, the Division of Motor Vehicle Licensing and County Clerks throughout Kentucky and (ii) expand and align the general aviation runway at Blue Grass Airport in Lexington, Kentucky. The Commission Leases require that the Transportation Cabinet pay the debt service on the Commission Bonds with amounts appropriated from the Road Fund. The Commission Leases restrict future financings for the Transportation Cabinet by the Commission in the manner as described under "SECURITY FOR THE BONDS - Additional Bonds.

American Recovery and Reinvestment Act Transportation Appropriations

The American Recovery and Reinvestment Act (ARRA) appropriated $48 billion to states for transportation related activities. Kentucky's share of the economic stimulus bill was $421.1 million for highways and bridges and $50.3 million for transit. A significant portion of the transit funding was allocated directly to mass transit organizations throughout the state with $21.4 million available to the Transportation Cabinet to disburse. Of the Commonwealth's $421.1 million in highway funds, $282.1 million was available for use in any area of the state; $12.6 million was designated for Transportation Enhancement projects; $40.6 million is allocated for large urbanized areas with populations greater than 200,000: $72.6 million is allocated for areas with populations of 200,000 or less, and $13.2 million is allocated for areas with populations under 5,000. Specific allocations for the large metro areas are: Northern Kentucky (as part of the Cincinnati area), $8.762 million; Lexington, $7.845 million; Louisville, $23.149 million; and Henderson (as part of the Evansville area), $831 thousand. The Commonwealth was later awarded Tiger Grant funding of $23.0 million for rail corridor improvements.

The Transportation Cabinet has met the March 1, 2010 obligation requirements for ARRA funds and as of April 30, 2014, had expended approximately $435.6 million in ARRA and Tiger Grant funds on highway and rail improvement projects. As of the same date, ARRA expenditures related to public transportation were approximately $21.4 million.

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 Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified, modern, international economy - illustrated by the fact that Kentucky's manufacturing employment concentration as a percentage of non-farm employment is now higher than the national average, and recessionary employment declines in these sectors were more muted in Kentucky than the national equivalent. 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.

By most accounts, the losses endured by Kentucky from the national recession that ended in June 2009 were less severe than most states. The loss of household wealth was muted in Kentucky since the Commonwealth did not experience a pronounced run-up in home values. Additionally, Kentucky's abundance of coal provided stable employment and wealth in the mining sector throughout the recession. Finally, Kentucky has a broad mix of manufacturing employment rather than an overreliance in a single industry. The automobile industry was one of the first sectors to rebound from the recession, and Kentucky is overrepresented in the automotive industries.

Like most states, Kentucky non-farm employment was particularly hard hit by the 2007 recession. After peaking almost simultaneously with the start of the recession, the trough occurred in the third quarter of Fiscal Year 2010, nine quarters later. The weakness in employment has been stubborn across nearly every sector of Kentucky employment, with mining being the primary exception.

For the first half of Fiscal Year 2014, as expected, Kentucky posted growth in most every measure of economic activity, such as state consumption or wages and salary income. However, Kentucky is repeating the recovery path seen in the previous two recessions, whereby the economic and revenue rebound fail to keep pace with comparable national data. A large part of the perceived underperformance in state measures comes from the fact that Kentucky experienced a more modest peak-to-trough drop when compared to states that were hit the hardest during the recession. Post-recession growth rates tend to be more robust in states that suffered the most during the downturn. In aggregate, Kentucky has surpassed nominal levels that prevailed prior to the recession and is now posed to produce economic and revenue growth over the next biennium.

Financial Information Regarding the Commonwealth, the Transportation Cabinet and the Commission

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

The Commonwealth annually publishes The Kentucky Comprehensive Annual Financial Report with respect to the Fiscal Year of the Commonwealth most recently ended. The CAFR includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to Financial

Statements as set forth in the CAFR contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of the CAFR 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

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2013 is incorporated herein by reference. The Commonwealth has filed The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2013 with the following Nationally Recognized Municipal Securities Information Repository ("NRMSIR") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"):

Municipal Securities Rulemaking Board
Electronic Municipal Market Access System ("EMMA")
Internet: http://emma.msrb.org

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2013 may be obtained from EMMA or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502)564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2013 and certain other fiscal years may be found on the Internet at:

http://finance.ky.gov/services/statewideacct/Pages/ReportsandPublications.aspx

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

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

Budgetary Process in the Commonwealth

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

In the absence of a legislatively enacted budget, the Supreme Court has ruled that the Governor has no authority to spend money from the state treasury except where there is a statutory, constitutional or federal mandate and the Commonwealth may be prevented from expending funds for certain state governmental functions, including the ability to pay principal of and interest, when due, on obligations that are subject to appropriation. The Bonds are obligations that are subject to appropriation. See "THE

TRANSPORTATION CABINET - Budget Process of the Transportation Cabinet" for information regarding the Road Fund budget.

Fiscal Year 2011

The Commonwealth's combined net assets (governmental and business-type activities) totaled $11.5 billion at the end of 2011, as compared to $12.04 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $19.5 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.3 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is $(9.3) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $13.3 billion and general revenues (including transfers) of $10.6 billion for total revenues of $23.9 billion during Fiscal Year 2011. Expenses for the Commonwealth during Fiscal Year 2011 were $24.4 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $520 million, net of contributions, transfers and special items.

During the fiscal year, the change in net assets resulted in a decrease from the previous year. The decrease in net assets of governmental activities was $461 million or 3.6 percent. Approximately 51 percent of the governmental activities' total revenue came from taxes, while 39 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

At June 30, 2011, the Commonwealth's governmental funds reported combined ending fund balances of $2.65 billion, an increase of $498 million in comparison with the prior year. $122.6 million is nonspendable and is comprised of inventories and cash with fiscal agents that must remain intact. The $2.17 billion is restricted for certain purposes and is not available to fund current operations. The $362 million is considered unrestricted (committed, assigned, or unassigned) and is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2011, was $313 million. The balance reported reflects an increase of $225.8 million from the previously reported amount, which represents an increase of 262 percent. The major factor for the increase is enhanced federal participation in Medicaid; thus, reducing the state's share of these expenditures.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $6 million represents the nonspendable amount, $57 million is assigned and represents continuing appropriations and the remaining $249 million is unassigned and is available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced a significant decrease in grant revenue as a result of the decrease in American Reinvestment and Recovery Act (ARRA), resulting in a significant decrease in federal fund expenditures. The Transportation Fund experienced an increase in revenues due to increased tax receipts and a slight increase in expenditures, resulting in an increase in fund balance of $122 million.

The Commonwealth of Kentucky's bonded debt increased by $281.8 million to $6.2 billion, at 4.7% increase during Fiscal Year 2011. The major factors in this increase were the issuance of bonds to fund new capital projects and to advance refund debt outstanding to reduce future interest costs. No general obligation bonds were authorized or outstanding at June 30, 2011.

Fiscal Year 2012

The Commonwealth's combined net assets (governmental and business-type activities) totaled $10.69 billion at the end of 2012, as compared to $11.5 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $19.95 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.5 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is $(11) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $11.5 billion and general revenues (including transfers) of $10.9 billion for total revenues of $22.4 billion during Fiscal Year 2012. Expenses for the Commonwealth during Fiscal Year 2012 were $23.2 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $794 million, net of contributions, transfers and special items.

During the fiscal year, the change in net assets resulted in a decrease from the previous year. The decrease in net assets of governmental activities was $987 million or 8 percent. Approximately 53.6 percent of the governmental activities' total revenue came from taxes, while 37.6 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

At June 30, 2012, the Commonwealth's governmental funds reported combined ending fund balances of $2.4 billion, an increase of $205 million in comparison with the prior year. $120.8 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The $2.45 billion is restricted for certain purposes and is not available to fund current operations. The $(134) million is considered unrestricted (committed, assigned, or unassigned) and is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2012, was $95.1 million. The balance reported reflects a decrease of $201 million from the previously reported amount, which represents a decrease of 67.7 percent. The major factor for the decrease is enhanced federal participation in Medicaid; thus, increasing the state's share of these expenditures. Another major factor is the state's increased contributions to the various pension plans.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $5.5 million represents the nonspendable amount, $35.6 million is assigned and represents continuing appropriations and the remaining $54 million is unassigned and is available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced a significant decrease in grant revenue as a result of the decrease in American Reinvestment and Recovery Act (ARRA), resulting in a significant decrease in federal fund expenditures. The Transportation Fund experienced an increase in revenues due to increased tax receipts and a slight increase in expenditures, resulting in an increase in fund balance of $166.7 million.

The Commonwealth of Kentucky's bonded debt increased by $314 million to $6.5 billion, a 5 percent increase during Fiscal Year 2012. The major factors in this increase were the issuance of bonds to fund new capital projects and to refund debt outstanding to reduce future interest costs. No general obligation bonds were authorized or outstanding at June 30, 2012.

Fiscal Year 2013

The Commonwealth's combined net position (governmental and business-type activities) totaled $10.5 billion at the end of 2013, as compared to $10.6 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $20.5 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is $(11.2) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $11.4 billion and general revenues (including transfers) of $11.8 billion for total revenues of $23.2 billion during Fiscal Year 2013. Expenses for the Commonwealth during Fiscal Year 2013 were $23.3 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $108 million, net of contributions, transfers and special items.

During the fiscal year, the change in net assets resulted in a decrease from the previous year. The decrease in net assets of governmental activities was $240 million or 2.1 percent. Approximately 54 percent of the governmental activities' total revenue came from taxes, while 35.7 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

At June 30, 2013, the Commonwealth's governmental funds reported combined ending fund balances of $2.3 billion, a decrease of $174 million in comparison with the prior year. $106.5 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The $2.4 billion is restricted for certain purposes and is not available to fund current operations. The $(220.2) million is considered unrestricted (committed, assigned, or unassigned), and when positive, it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2013, was $201.2 million. The balance reported reflects an increase of $104.3 million from the previously reported amount, which represents an increase of 109.7 percent. The major factor for the increase in fund balance is an increase in tax revenue of $405.3 million or 4.71 percent.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $7.3 million represents the nonspendable amount, $34.7 million is assigned and represents continuing appropriations and the remaining $159.2 million is unassigned and is available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced an increase in other revenues of $68.8 million while expenditures decreased across a majority of all functions. The Transportation Fund experienced a slight increase in revenues due to increased tax receipts and a slight increase in expenditures, resulting in an increase in fund balance of $38.7 million.

The Commonwealth of Kentucky's bonded debt decreased by $128 million to $6.4 billion, a 2 percent decrease during Fiscal Year 2013. The major factor in this decrease is a result of the refunding of old issues by the Fiscal Year 2013 new issues. Therefore, the remaining liability on the retired bonds plus the Fiscal Year 2013 principal payments on the remaining outstanding bonds were greater than the Fiscal Year 2013 issues for new projects. No general obligation bonds were authorized or outstanding at June 30, 2013.

Fiscal Year 2014 (Unaudited)

Fiscal Year 2014 General Fund actual revenues total $7,705.6 million through April, 2014. Receipts have now grown 1.1 percent compared to April of 2013, a nominal increase of $8.8 million. The official enacted budget calls for 2.2 percent revenue growth for the entire fiscal year. Based on April's results, General Fund revenues must increase 5.5 percent over the last two months of the fiscal year to meet the official revenue estimate.

General Fund revenues for April, 2014 were $830.2 million, compared to $821.4 million during April, 2013. Receipts have now grown 1.4 percent for the first 10 months of Fiscal Year 2014. During April, 2014, sales and use tax receipts increased 7.0 percent when compared to April, 2013 and have grown 3.5 percent for the fiscal year. Individual income tax collections fell 8.7 percent compared to April, 2013. Total individual income tax receipts are up 0.8 percent for Fiscal Year 2014. Corporation income tax receipts grew $33.3 million for April, 2014 and have increased 30.9 percent for the fiscal year. Property taxes for April, 2014 increased 91.7 percent compared to April, 2013, but are down 2.5 percent for the fiscal year. Cigarette tax receipts fell 14.0 percent in April, 2014 when compared to April, 2013 and are down 4.8 percent year-to-date. Coal severance tax receipts fell 18.0 percent in April, 2014 and are down 15.2 percent for the fiscal year. The Kentucky Lottery Corporation dividend payment for April, 2014 remained unchanged at $19.0 million compared to April, 2013's payment, and collections are up 0.8 percent for the fiscal year.

Official Consensus Forecasting Group Revenue Forecast for Fiscal Year 2015-16 Biennium

On December 19, 2013, pursuant to KRS 48.120 and KRS 48.115, the CFG revised the enacted revenue estimates for the General Fund and the Road Fund for Fiscal Year 2014. The Fiscal Year 2014 General Fund estimate was revised upward $24.2 million from $9,523.9 million to $9,548.1 million, and the Fiscal Year 2014 Road Fund estimate was revised upward $14.4 million from $1,568.2 million to $1,582.6 million. They also provided their official revenue estimates for the General Fund, Road Fund, and Phase I Tobacco MSA payments for Fiscal Years 2015 and 2016 in preparation for the 2015-16 biennial budget of the Commonwealth. The official revenue estimate as legislatively enacted for the General Fund for Fiscal Year 2015 is $9,801.3 million, which represents a growth rate of 2.7% over the revised estimate for Fiscal Year 2014. For Fiscal Year 2016, the official revenue estimate is $10,067.2 million, which is a growth rate of 2.7% over Fiscal Year 2015. Official revenue estimates for the Road Fund forecast 2.3% decline at $1,546.7 million for Fiscal Year 2015 and 0.8% growth at $1,558.4 million for Fiscal Year 2016. The official estimates for Phase I Tobacco MSA payments are $99.7 million in Fiscal Year 2015 and $72.4 million in Fiscal Year 2016.

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. OFM engaged PFM Asset Management LLC ("PFM") to conduct an evaluation of existing statutes and regulations, general investment functions, and portfolio performance benchmarks reporting and suggested best practices. PFM has made its recommendations to OFM and the State Investment Commission, and some recommendations are being implemented. The Kentucky State Investment Commission Investment Program Review dated March 22, 2012 prepared by PFM may be found on the Internet at:

http://finance.ky.gov/services/ofm/Documents/SIC%20Invest%20Prog%20Rev.pdf

At April 30, 2014, the Commonwealth's operating portfolio was approximately $4.153 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (41%); securities issued by agencies and instrumentalities of the United States Government (8%); mortgage-backed securities and collateralized mortgage obligations (11%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (1%); and corporate and asset-backed securities, including money market securities (26%). The portfolio had a current yield of 0.40% and an effective duration of 0.99 years.

The Commonwealth's investments are currently categorized into four investment pools; the Short Term, Limited Term, Intermediate Term, and the Bridges 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 the General Fund and related accounts. The Limited Term Pool is a money market like pool which focuses on principal protection for certain agency funds. The Intermediate Term Pool represents a combination of Agency Fund investments, state held component unit funds, fiduciary funds held for the benefit of others, and also bond proceeds for capital construction projects, held until spent for their intended purpose. Bond proceeds were previously invested separately until July 2010 when they were added into the Intermediate Term Pool to provide additional economies of scale. The Bridges Pool consists of bond proceeds for the Louisville-Southern Indiana Ohio River Bridges capital construction project.

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

The Commonwealth has used over the counter treasury options since the mid 1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than 20% of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio. The Commonwealth has had no options positions outstanding since April 2004.

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of "Eligible Collateral," marked to market daily. "Eligible Collateral" is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent, Deutsche Bank, lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in Eligible Collateral authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth.

On June 30, 2003, the State Investment Commission adopted Resolution No. 03-03, which amended the Commonwealth's investment policy concerning asset based interest rate swaps. The change modifies the exposure limits from a $200 million notional amount to a net market value approach, the absolute value of which cannot exceed $50 million for all counterparties. The Commonwealth engages in asset based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. The Commonwealth has not had any asset-based interest rate swaps outstanding since June 2006.

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to $25 million per issuer and a stated final maturity of five years or less. Money market securities rated A1 P1 or higher are limited to 20% of the investment pools. Asset-Backed Securities ("ABS") are limited to 20% of the investment pools. Mortgage–Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25% of the investment pools. ABS, MBS and CMO must have a weighted average life of four years or less at time of purchase. Changes have been proposed for these regulations which generally would tighten the securities eligible for purchase while allowing a larger position certain of those security types.

Interest Rate Swaps

From time to time, the Commonwealth of Kentucky utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. The Kentucky Asset/Liability Commission ("ALCo") is the agency with specific statutory authority to enter into and manage interest rate swaps and other similar vehicles. As of May 1, 2014, ALCo will have one interest rate swap transaction outstanding with a total notional amount outstanding of $204,620,000. This swap transaction consists of a series of four amortizing "cost of funds" interest rate swaps that totaled $243.08 million at the time of execution and having maturity dates beginning November 1, 2017 through November 1, 2027. This transaction is integrated as part of the issuance of the ALCo's 2007 $243.08 million General Fund Floating Rate Project Notes.

State Retirement Systems

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

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Teachers' Retirement System of the State of Kentucky ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. Most retirement benefits are subject to a statutory inviolable contract under which the benefits shall not, with limited exceptions, be reduced or impaired by alteration, amendment or repeal. The Pension Plans are component units of the Commonwealth for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2013* Note 8 beginning on page 86. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at http://kyret.ky.gov and http://www.ktrs.ky.gov, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2013 actuarial valuation reports used in preparing the associated Pension Plans' 2013 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $9,439 million, while KTRS had a UAAL of $13,854 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2013 had funding percentages of 26.4 percent for the Kentucky Retirement Systems and 51.9 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2013 pension benefits was $530.0 million; $326.7 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2013 was $803.0 million; $568.2 million was contributed. To the extent the numbers presented in the "Percentage Contributed" column in the table on Page 93 of CAFR differ from those presented herein, the numbers herein shall prevail.

Other Post Employment Benefits ("OPEB"). The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"), which the Commonwealth has adopted.

The Commonwealth is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the Commonwealth pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the Commonwealth commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self-funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Retirees insurance through the state health insurance program, which has since become self-insured. Beginning January 1, 2007, KTRS offered its Medicare Eligible Retirees an insured Medicare Advantage Plan and, beginning July 1, 2010, offer this group an insured Employer Group Waiver Drug Plan.

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A three year experience study was completed for the period ending June 30, 2008 for the Kentucky Retirement Systems and the next planned experience study period will be a five year experience study for the period ending June 30, 2013 to be published around April 2014. KTRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the KTRS board in September 2011. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2013 has been estimated to not exceed $1,731.9 million for the Kentucky Retirement Systems and $3,108 million for KTRS. These estimates represent the present value of the amount of healthcare benefits under the respective Health Plans, payable over future periods and allocated by the actuarial cost method, as of June 30, 2013. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities decreased significantly from the $2,928.0 million previously reported in the Kentucky Retirement Systems' 2012 CAFR. The actuarial estimates for KTRS decreased slightly from the $3,255 million previously reported in their 2012 CAFR.

The Kentucky Retirement Systems' state supported Annual Required Contribution for Fiscal Year ended June 30, 2013 healthcare benefits was $339.6 million; $207.9 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2013 was $188.5 million; $168.3 million was contributed. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2013 had funding percentages of 36.7 percent for the Kentucky Retirement Systems and 14.0 percent for KTRS.

The Commonwealth's 2012-2014 biennial budget increased employer contribution rates by 39 percent in Fiscal Year 2013 and 35 percent in Fiscal Year 2014 for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 40 percent in Fiscal Year 2013 and 36 percent in Fiscal Year 2014. The Commonwealth's 2014-2016 biennial budget increased employer contribution rates by 64 percent in Fiscal Year 2015 and 45 percent in Fiscal Year 2016 for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 19 percent in Fiscal Year 2015 and 6 percent in Fiscal Year 2016.

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

As a result of the passage of House Bill 1, and viewed without regard to other intervening factors, the growth in the Commonwealth's unfunded liability is expected to be slowed. These results are expected to be augmented by proposed changes in the Commonwealth's investment strategies and allocations to bring the retirement systems closer to their peer group performance levels over time. By using the dual combination of the best practices and findings of the Kentucky Public Pension Working Group established in 2008 and by following the schedule of payments included in House Bill 1, the Commonwealth expects to see reductions in the liability that have accrued over time.

On April 12, 2010, House Bill 146 was signed by the Governor, amending KRS 61.650, KRS 16.642, and KRS 78.790 to establish a five-member investment committee for the Kentucky Retirement System, the State Police Retirement System, and the County Employees Retirement System, comprised of two gubernatorial appointees with investment experience and three trustees appointed by the board chair.

In addition, House Bill 540 was signed by the Governor on April 13, 2010, creating the Teachers' Retirement System of the State of Kentucky insurance trust fund to supplement the current medical insurance fund, specifically dedicated to health benefits. The purpose of this bill is to increase over a six-year period the active employee and employer contributions to the KTRS for retiree health benefits and to authorize the KTRS Board to require retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage. Once the medical insurance fund achieves sufficient funding status, the KTRS Board may recommend to the General Assembly that the member contributions be decreased, suspended, or terminated.

Also, House Bill 545 was signed by the Governor on April 26, 2010, amending certain sections of KRS 161 regarding the administration of KTRS including federal tax compliance relating to establishing a medical insurance trust fund under Section 115 of the Internal Revenue Code to supplement the current Section 401(h) medical insurance trust fund as well as other technical amendments. The legislation will not increase or decrease benefits or the participation in benefits or change actuarial liability of KTRS.

Financing and Refinancing of Certain KTRS Obligations. On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Kentucky Revised Statutes by modifying the definition of "funding notes" and authorizing funding notes to be issued by the Kentucky Asset/Liability Commission ("ALCo") for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (the "Funding Obligation"). This authorization, together with certain authorizations in the Budget Act, permits ALCo to issue funding notes in an amount not to exceed $875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, ALCo issued its $467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. In February 2011, ALCo issued its $269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012. Pursuant to authorization granted in the State Budget for Fiscal Years 2013-2014, ALCo issued its $153.290 Funding Notes General Fund First Series (Taxable) in February, 2013 to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2013 and 2014. Under the provisions of House Bill 540, discussed earlier, the elimination of future borrowings is expected once the plan is fully phased in over a period of six years.

HCR 162. House Concurrent Resolution (HCR) 162 from the 2012 Regular Session of the General Assembly, which was signed by Governor Beshear on April 23, 2012, established the Kentucky Public Pensions Task Force (the "PP Task Force"). The purpose of the PP Task Force was to study issues regarding Kentucky's state-administered pension funds and to develop consensus recommendations concerning the benefits, investments, and funding of those funds. The PP Task Force was required to submit its findings, recommendations, and any proposed legislation to the Legislative Research Commission by December 7, 2012. Recommendations for proposed changes for Kentucky Retirement Systems (KRS) include: Phase-in for the full payment of the Annual Required Contribution beginning in Fiscal Year 2014-2015 for the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS), reset amortization period for KERS, County Employees Retirement System (CERS), and SPRS for the payment of the unfunded liability to a 30-year period, repeal COLA provisions for all employees/retirees, extend required break in reemployment after retirement to two years, require employer to pay costs of "spiking" pensions, increase KRS Board composition from nine to eleven members, increase transparency by establishing a web page with information for the public regarding its financial and actuarial condition, and change the retirement plan for new hires from a Defined Benefit Plan to a Hybrid Cash Balance Plan.

Senate Bill 2 from the 2013 Regular Session of the General Assembly, which was signed into law by the Governor on April 4, 2013, incorporated most of the above mentioned PP Task Force's recommendations. The bill created a new section in KRS Chapter 7A establishing a 13 member Public Pension Oversight Board to oversee the Kentucky Retirement Systems and report to the General Assembly on benefits, administration, investments, funding, laws, administration regulations and legislation pertaining to Kentucky Retirement Systems. The bill also states that new employees hired after January 1, 2014 will be placed in a Hybrid Cash Balance Plan. This plan has a guaranteed rate of return of 4.0 percent for both hazardous and non-hazardous employees, plus 75 percent of the investment return in the plan in excess of 4.0 percent to the employee. Hazardous employees' employer contribution is set at 7.5 percent of salary and non-hazardous employees have an employer contribution of 4.0 percent. The bill further provides for a 1.5 percent COLA only if it is prefunded and appropriated by the General Assembly or if the pension plan is 100 percent funded. New employees as of January 1, 2014 are no longer party to the inviolable contract, and the General Assembly has the right to amend, suspend or reduce benefits with future legislation. The bill additionally makes provisions for a Health Savings Account as an insurance option for retirees, requires the General Assembly to start fully funding the ARC beginning in Fiscal Year 2015, and resets to a 30 year amortization beginning in 2015. House Bill 235 (the Executive Branch Budget) which was signed by the Governor on April 11, 2014 provides full funding of the ARC payments in Fiscal Year 2015 and Fiscal Year 2016 for KRS pensions and OPEB. Additionally, House Bill 235 provides for full funding of the ARC payments in Fiscal Year 2015 and Fiscal Year 2016 for KTRS OPEB as well as for the currently legislatively required funding for KTRS pensions, which is below the ARC for the biennium.

House Bill 440 was signed by the Governor on April 4, 2013, and while it is not dedicated to pensions, it is considered to be a companion bill to Senate Bill 2 to address the funding issue. It amends KRS 141.020 to reduce the personal tax credit from $20 to $10 for tax years beginning on or after January 1, 2014. It also creates a new section in KRS Chapter 61 to create a Kentucky Retirement Systems unfunded liability trust fund to collect monies from donations, gifts, contributions and grants, and is to be used to eliminate the unfunded liability and supplement the investable assets of the Kentucky Retirement System. The bill further amends KRS 138.4602 to allow for a trade-in allowance on new cars that is currently available with used cars.

Litigation Potentially Impacting KERS. In April 2013, Seven Counties Services, Inc., a KERS member providing mental health services for the Cabinet for Health and Family Services (CHFS) for the greater Louisville area and surrounding counties filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Western District of Kentucky. Seven Counties Services identified Kentucky Retirement Systems as a creditor with a primary objective of discharging its continuing obligation to remit retirement contributions for approximately 1,000 employees and terminate its membership in Kentucky Retirement Systems. Kentucky Retirement Systems has opposed Seven Counties Services attempt to discharge its obligations and terminate its membership. Kentucky Retirement Systems asserted that Seven Counties Services is a Governmental Unit properly participating in KERS by Executive Order issued in 1978. KERS has additionally asserted that because Seven Counties Services is a governmental unit, it is ineligible for relief under Chapter 11 of the United States Bankruptcy Code, and thus remains statutorily obligated to continue participation and remit contributions. As of April 8th, the case stands submitted and KERS is currently awaiting a final decision on the merits.

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 76, 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 the Bond Fund all or such portion of the Revenues as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds Outstanding under the Resolution at or before their maturity. Capitalized interest and accrued interest on the Bonds, if any, will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any May 1 or November 1 and any date set for the redemption of Bonds prior to maturity (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

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

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

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds and other available moneys, if any, deposited by the Commission at the time of delivery of the Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Bonds. On payment of all duly authorized expenses incident to the issuance of the Bonds, any remaining balance in the Cost of Issuance Fund will be transferred to the Bond Fund.

3. Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund constitutes a trust fund for the benefit of the owners of the Bonds. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings 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.

Additional Bonds. The Commission and the Cabinet represent that it is their reasonable expectation that there will be sufficient funds from the proceeds of the Bonds, plus other funds which have been and will be made available for use. If the proceeds of the Bonds, plus other available funds, are not sufficient to complete the Project, the Commission reserves the right and authority, and covenants that, to the extent authorized by law, it shall authorize, issue, sell and deliver a sufficient amount, but only a sufficient amount, of Additional Bonds which will be fully on a parity with and have the same security as the Bonds, in order to complete the Project for its intended uses and purposes.

The Commission further reserves the right and covenants that, if at any time insurance proceeds are insufficient to make repairs or reconstruct portions of the Project which have been damaged, then the Commission may authorize, issue, sell and deliver a sufficient amount, but only a sufficient amount, of Additional Bonds which may be on a parity as to security with the Bonds in order to make such necessary repairs and reconstruction, subject to any limitations on the issuance of such Bonds as may then exist under the Kentucky Revised Statutes.

No Additional Bonds on a parity as to security with the Bonds for such specific purposes hereinbefore provided may be issued unless at such time the Commission is and has been in continuous compliance with all of the provisions with reference to the payment of the principal and interest with respect to the Bonds and is and has been in continuous compliance with all of the covenants which were theretofore made in connection with the issuance of the Bonds. See "SECURITY FOR THE BONDS–Additional Bonds" herein. If any Additional Bonds for such purposes are issued on a basis of parity as to security with the Bonds, the Lease shall be amended to provide for rentals sufficient to pay the principal and interest with respect to all Bonds Outstanding after issuance of the Additional Bonds.

No other Additional Bonds may be issued at any time secured by a pledge of the Revenues except and unless such pledge is made subject and subordinate to the priority of the pledges herein made to secure the Bonds.

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

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

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

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

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

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

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

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

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

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

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

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the owners of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the owners of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the owners of at least 66⅔% of the aggregate principal amount of Bonds Outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the owner thereof, or which would reduce the percentage of owners of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

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

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

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any Outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of owners of the Bonds.

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

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

As used herein, "Defeasance Obligations" means:

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

(b) non-callable obligations, timely maturing and bearing interest, to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof;

(c) certificates assigned a rating equivalent to the rating assigned to obligations pledging the full faith and credit of the United States at the time of purchase by S&P, "Moody's and Fitch Ratings Inc., a New York corporation ("Fitch") (if rated by Fitch) evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee, including the Trustee or any of its affiliates, in a segregated trust account in the trust department separate from the general assets of such custodian;

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

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, 2014. 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, 2030, the final maturity date permissible for any Bonds to be issued by the Commission for the Project. Under the provisions of the Constitution of the Commonwealth, the Commission 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 owners of the Bonds for federal income tax purposes. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have given the Bonds the ratings of "Aa2", "A+" and "A+", respectively.

Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the ratings given by Moody's may be obtained from Moody's Investors Service, Inc. at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 553-0300; an explanation of the ratings given by S&P may be obtained from Standard & Poor's Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams, a division of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel to, the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT C. Certain legal matters will be passed upon for the Commission and for the Transportation Cabinet by their respective counsel.

LITIGATION

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

TAX TREATMENT

General

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series A Bonds is excludible from gross income for federal income tax purposes and interest on the Series A 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. HOWEVER, INTEREST ON THE TAXABLE SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. Bond Counsel for the Bonds is also of the opinion that interest on the Bonds (Series A Bonds and Series B 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 C.

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 Series A Bonds. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Series A Bonds will not be or become includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series A Bonds being includable in gross income for Federal income tax purposes and such inclusion could be retroactive to the date of issuance of the Series A 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 Series A Bonds may adversely affect the Federal tax status of the interest on the Series A 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 Series A 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, a division of Dinsmore & Shohl LLP.

Although Bond Counsel has rendered an opinion that interest on the Series A Bonds is excludible from gross income for Federal income tax purposes and that interest on the Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series A 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. For example, such effects may include, 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, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Series A 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 the 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. 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.

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

Tax Treatment of Series A Bonds Original Issue Discount

The Series A Bonds that have an interest rate that is lower than the yield, as shown on the inside cover page hereto (the "Discount Series A 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 Series A Bond sold as a Discount Series A Bond will accrue over the term of the bond, and for the Discount Series A 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 Series A Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Series A 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 Series A Bond and thus, in practical effect, is treated as stated interest, which is excludible from gross income for federal income tax purposes.

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

Tax Treatment of Series A Bonds Original Issue Premium

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series A Bonds that have an interest rate that is greater than the yield, as shown on the inside cover page hereto (the "Premium Series A 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 Series A Bond the interest on which is excludible from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that Series A 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 Series A Bonds, or on any of the Series A 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 Series A Bonds, including any Premium Series A 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.

Tax Treatment of Series B Bonds Original Issue Premium

The Series B Bonds that have an interest rate that is greater than the yield, as shown on the inside cover page hereto (the "Premium Series B Bonds") are initially being offered and sold to the public with Acquisition Premium. The holder of a Premium Series B Bond may elect to amortize such premium (as an offset to interest income includible in gross income), using a constant yield method, over the remaining term of such Premium Series B Bonds. Special Rules apply to determine the amount of premium on a "variable rate debt instrument" and certain other debt instruments.

In the event that the Premium Series B Bonds are considered to be purchased by a subsequent holder at a price greater than their remaining stated redemption price at maturity, they will be considered to have been purchased at a premium. Rules similar to those above will apply to such bonds.

Please note that for any Premium Series B Bonds that are callable prior to their stated maturity, the required amortization period for the Acquisition Premium will depend on which call date produces the greatest diminution in yield to the holder. For any Premium Series B Bonds not callable prior to its stated maturity date, the amortization period will end on the stated maturity date.

Holders of any Premium Series B Bonds, both original purchasers and any subsequent purchasers, or Holders of Series B Bonds purchased at a price greater than their remaining stated redemption price at maturity, should consult their own tax advisors as to the actual effect of any Acquisition Premium with respect to their own federal income tax situation and as to the treatment of any Acquisition Premium for state tax purposes.

SALE BY COMPETITIVE BIDDING

The Series A Bonds were awarded by competitive sale on May 7, 2014 to Morgan Stanley & Co. LLC (the "Series A Underwriter") at an aggregate purchase price of $6,196,557.98 (which is equal to the principal amount of the Series A Bonds plus net original issue premium of $164,560.90 and less underwriting discount of $53,002.92). The Series A Underwriter has advised the Commission that it intends to make a public offering of the Series A Bonds at the initial public offering yields set forth on the inside cover page hereof, provided, however, that the Series A Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Series A Underwriter shall deem necessary in connection with the marketing of the Series A Bonds.

Morgan Stanley, parent company of the Series A Underwriter, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, the Series A Underwriter may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Series A Underwriter may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series A Bonds.

The Series B Bonds were awarded by competitive sale on May 7, 2014 to PNC Capital Markets LLC (the "Series B Underwriter") at an aggregate purchase price of $4,401,845.75 (which is equal to the principal amount of the Series B Bonds plus net original issue premium of $27,145.75 and less underwriting discount of $25,300.00). The Series B Underwriter has advised the Commission that it intends to make a public offering of the Series B Bonds at the initial public offering yields set forth on the inside cover page hereof, provided, however, that the Series B Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Series B Underwriter shall deem necessary in connection with the marketing of the Series B Bonds.

FINANCIAL ADVISOR

Acacia Financial Group, Inc. is employed as Financial Advisor to the Commission in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Acacia Financial Group, Inc. has agreed, in its financial advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. Acacia Financial Group, Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

CONTINUING DISCLOSURE AGREEMENT

The Commission will comply with the requirements of the Securities and Exchange Commission regarding secondary market disclosure as set forth in Rule 15c2-12 (the "Rule"), as amended, under the Securities Exchange Act of 1934. Specifically, the Commission will enter into a Continuing Disclosure Agreement in which it will covenant to provide notice in a timely manner, not later than ten business days after the event, to the Municipal Securities Rulemaking Board (the "MSRB"), of any of the following types of events with respect to the Bonds (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security; (vii) modifications to rights of security holders, if material; (viii) bond calls (except in the case of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the Bondholders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the securities, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person); (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material. Effective on July 1, 2009, the MSRB became the sole nationally recognized municipal securities information repository and the Commission's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access (EMMA) system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is providing, and for the five (5) years preceding the date of issuance of the Bonds has provided, ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities, including timely notices of changes in the Commission's underlying ratings affecting its outstanding securities. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing, within none (9) months of the end of the fiscal year, commencing with the fiscal year ending June 30, 2014, by the Commonwealth of two documents entitled The Kentucky Comprehensive Annual Financial Report and Supplementary Information to the Kentucky Comprehensive Annual Financial Report (or successor reports) with EMMA as required under Rule 15c2-12. The Commonwealth and the Commission have learned that in some instances prior rating changes on certain securities issued by the Commonwealth and its agencies, including the Commission, resulting from rating downgrades on certain bond insurers, were not the subject of material event notices, due, in part, to the lack of any direct notification to the Commonwealth of the specific rating impact on such particular securities of the Commonwealth and its agencies. The Commonwealth and the Commission have taken necessary actions to assure compliance with Rule 15c2-12 with respect to such events. Additionally, the Commonwealth and the Commission have put procedures in place to assure that future material event notices will be timely filed with respect to such events.

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/ Ryan Barrow
Executive Director
Office of Financial Management
(Secretary to the Commission)

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt.

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

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

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

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

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any general funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall, the issuer will request from the Secretary of the Finance Cabinet or the Governor and the General Assembly in the next regular session sufficient amounts to pay debt service or to replenish the debt service reserve funds, as applicable. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation bonds, Kentucky Infrastructure Authority's Governmental Agencies Program and Leveraged Wastewater and Drinking Water Revolving Fund Revenue bonds and Kentucky Public Transportation Infrastructure Authority Toll Revenue bonds and bond anticipation notes are not moral obligation debt.

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/PURPOSE	DEBT LIMITATIONS	RATINGS*
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/A+
Kentucky Asset/Liability Commission	KRS 56.860 Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies***
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly	Aa2/AA+/A+
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low to moderate income residents of the State.	Limited to $5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of $500 million.	Aa3/A+/A+** (Appropriation) Aaa/AAA/AAA (Leverage Loan)
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to $5.0 billion of debt outstanding.	Varies
School Facilities Construction Commission	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance	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.	Baa1/AA-/NR (National Insured)
Kentucky Public Transportation Infrastructure Authority	KRS 175B.005-175B.115 Facilitate construction, financing, operation, and oversight of significant transportation projects within the Commonwealth by entering into bi-state agreements and by creating bi-state authorities and project authorities.	Cannot incur debt without prior approval of projects by General Assembly.	Investment Grade

* Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch. Certain State Property and Buildings Commission Agency and Road Fund Revenue Bonds may have ratings different from those identified above.

** The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers. The Kentucky Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A and Series 2012A are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.

*** On September 12, 2012, Fitch downgraded certain stand-alone GARVEE Bonds, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "AA-" to "A+" and changed the outlook from Negative to Stable. On February 18, 2014, Moody's downgraded certain stand-alone GARVEE Bonds, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "Aa3" to "A1" with a negative outlook.

NOTE: On November 8, 2012, Fitch downgraded the Commonwealth of Kentucky's General Fund and Road Fund appropriation supported obligations from "AA-" to "A+" and changed the outlook from Negative to Stable. Fitch also downgraded certain agency fund obligations from "A+" to "A" and changed the outlook from Negative to Stable.

EXHIBIT B

BOOK-ENTRY-ONLY SYSTEM

The Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution.

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

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

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

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

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EXHIBIT C

FORM OF BOND COUNSEL OPINION FOR THE BONDS

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: $6,085,000 Commonwealth of Kentucky State Property and Buildings Commission Road Fund Revenue Bonds, Project No. 107 Series A and $4,400,000 Commonwealth of Kentucky State Property and Buildings Commission Road Fund Revenue Bonds, Project No. 107 Taxable Series B

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. 107 Series A in the aggregate principal amount of $6,085,000 (the "Series A Bonds") and Road Fund Revenue Bonds, Project No. 107 Taxable Series B in the aggregate principal amount of $4,400,000 (the "Series B Bonds," and together with the Series A Bonds, the "Bonds"), dated the date of their delivery. 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 Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on April 11, 2014 (the "Resolution") for the purpose of (i) paying costs of a project (the "Project") and (ii) paying costs of issuing the Bonds. The Project has been leased to the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") pursuant to a Lease Agreement dated as of May 1, 2014 by and between the Commission and the Cabinet.

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

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

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

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

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

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

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

4. The Lease has been duly authorized, executed and delivered by the Cabinet. The Lease is a legal, valid and binding obligation of the Cabinet, enforceable in accordance with its terms.

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

6. The Bonds are not secured by a pledge of, or lien on, any properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by a pledge of the revenues to be derived from the Lease. The ability of the Cabinet to make payments under the Lease is dependent on legislative appropriations to the Cabinet. The Lease has a current term ending June 30, 2014, with the right to renew the Lease for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

7. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Series A Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series A 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. INTEREST ON THE TAXABLE SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds.

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

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.

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

Very truly yours,

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