

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

\$227,815,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 115

Dated: Date of Delivery

Due: As shown on the inside cover

The Revenue Bonds, Project No.115 (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, premium, if any, and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 2017. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent.

The Bonds mature on the dates and in the principal amounts, bearing semiannual interest and have the prices and/or yields shown on the inside cover.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Redemption".

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Bond Resolution adopted on December 12, 2016 (the "Resolution"), to (i) pay the costs of the Project (as 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 THE BIENNIALLY RENEWABLE LEASE AND SUBLEASES (AS DESCRIBED AND DEFINED HEREIN), THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT (AS DEFINED HEREIN) OR ANY AMOUNTS DERIVED THEREFROM. See "SECURITY FOR THE BONDS" herein.

The cover page contains information for quick reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Stites & Harbison, PLLC, Louisville, Kentucky. It is expected that delivery of the Bonds will be made on or about February 8, 2017, in New York, New York, through the facilities of DTC, against payment therefor.

Citigroup
Morgan Stanley

Raymond James
First Kentucky Securities Corp.

J.J.B. Hilliard, W.L. Lyons, LLC
FTN Financial Capital Markets

PNC Capital Markets LLC
Ross Sinclair and Associates

\$227,815,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 115

<u>Maturity</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP No.**</u>
2018	\$ 5,090,000	3.000%	102.101	1.150%	49151F SS0
2019	5,865,000	5.000	107.234	1.560	49151F ST8
2019	990,000	3.000	103.027	1.560	49151F TP5
2020	6,995,000	5.000	109.746	1.800	49151F SU5
2020	185,000	3.000	103.654	1.800	49151F TQ3
2021	7,185,000	5.000	111.795	2.020	49151F SV3
2021	350,000	3.000	103.878	2.020	49151F TR1
2022	7,625,000	5.000	113.188	2.270	49151F SW1
2022	275,000	3.000	103.525	2.270	49151F TS9
2023	7,690,000	5.000	114.160	2.500	49151F SX9
2023	600,000	3.000	102.830	2.500	49151F TT7
2024	7,905,000	5.000	114.855	2.700	49151F SY7
2024	790,000	3.500	105.165	2.700	49151F TU4
2025	5,740,000	5.000	115.215	2.890	49151F SZ4
2025	3,375,000	3.500	104.397	2.890	49151F TV2
2026	5,570,000	5.000	115.631	3.030	49151F TA8
2026	3,950,000	3.500	103.727	3.030	49151F TW0
2027	9,430,000	5.000	115.487	3.200	49151F TB6
2027	510,000	3.500	102.579	3.200	49151F TX8
2028	10,430,000	5.000	114.183	3.340*	49151F TC4
2029	10,950,000	5.000	113.171	3.450*	49151F TD2
2030	11,500,000	5.000	112.441	3.530*	49151F TE0
2031	12,070,000	5.000	111.807	3.600*	49151F TF7
2032	12,675,000	5.000	111.268	3.660*	49151F TG5
2033	13,310,000	5.000	110.731	3.720*	49151F TH3
2034	13,975,000	5.000	110.375	3.760*	49151F TJ9
2035	14,675,000	4.000	99.357	4.050	49151F TK6
2036	15,260,000	5.000	109.579	3.850*	49151F TL4
2037	16,025,000	5.000	109.315	3.880*	49151F TM2
2038	16,825,000	5.000	109.228	3.890*	49151F TN0

* Priced to April 1, 2027 optional redemption date

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

MEMBERS

MATTHEW G. BEVIN
Governor
(Chairman of the Commission)

JENEAN M. HAMPTON
Lieutenant Governor

ANDREW G. BESHEAR
Attorney General

WILLIAM M. LANDRUM III
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

TERRY R. GILL, JR.
Secretary
Cabinet for Economic Development

JOHN E. CHILTON
State Budget Director

EDGAR C. ROSS
State Controller

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

REGARDING USE OF THIS OFFICIAL STATEMENT

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON CERTAIN EXEMPTIONS CONTAINED IN SUCH FEDERAL ACT. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE SECURITIES COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

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

Circular 230: THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT IS NOT INTENDED TO BE USED, AND CANNOT BE USED, BY A PURCHASER OF THE BONDS FOR THE PURPOSE OF AVOIDING FEDERAL TAX PENALTIES. EACH PURCHASER OF THE BONDS IS URGED TO CONTACT AN INDEPENDENT TAX ADVISOR CONCERNING AN INVESTMENT IN THE BONDS.

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SUMMARY

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

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

The Offering The Commission is offering its \$227,815,000 Revenue Bonds, Project No.115 (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 and a Bond Resolution adopted by the Commission on December 12, 2016 (the “Resolution”), (i) authorizing the issuance of the Bonds, (ii) approving the Lease Agreement dated as of February 1, 2017, by and between the Commission and the Cabinet (the “Lease”) and (iii) authorizing the Sublease Agreements, dated as of February 1, 2017 by and between the Cabinet and certain state agencies (the “Subleases”).

Use of Proceeds The Bonds are being issued to provide funds with which to (i) pay costs of the Project (as defined herein) 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 Cabinet to the Commission under the Lease and Subleases. See “SECURITY FOR THE BONDS” and “SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Lease and the Subleases”. The Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALY RENEWABLE LEASE AGREEMENT WITH THE CABINET, AND BIENNIALY RENEWABLE SUBLEASES BETWEEN THE CABINET AND THE CERTAIN STATE AGENCIES, 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 will be issued in 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 (“DTC”), New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest due on the Bonds will be made directly to DTC.

The Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 2017. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent (the “Trustee”).

The Bonds maturing on and after April 1, 2028, are subject to redemption at the option of the Commission on or after April 1, 2027, in whole or in part at any time, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See “THE BONDS - Redemption Provisions.”

It is expected that delivery of the Bonds will be made on or about February 8, 2017, in New York, New York, through the facilities of DTC, against payment therefor.

Tax Status

Subject to compliance by the Commission, the Cabinet and others with certain covenants, in the opinion of Dinsmore & Shohl LLP, Bond Counsel, under present law, interest on the Bonds (including original issue discount treated as interest) is excluded from gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, except that such interest must be included in the “adjusted current earnings” of certain corporations for purposes of calculating alternative minimum taxable income.

It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and political subdivisions thereof. See “TAX TREATMENT” herein and “EXHIBIT E – FORM OF BOND COUNSEL OPINION FOR THE BONDS” for a more complete description of the opinions of Bond Counsel and additional federal tax law consequences.

Continuing Disclosure

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the “Rule”) prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the “Disclosure Agreement”) with the Trustee, substantially in the form of “EXHIBIT F” attached hereto. See “CONTINUING DISCLOSURE” and “EXHIBIT F - FORM OF 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 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924; or, during the initial offering period, by contacting the representative of the Underwriters, Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, (212) 723-7093. This Official Statement will be posted with the Electronic Municipal Market Access (“EMMA”) system.

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OFFICIAL STATEMENT

Relating to

\$227,815,000

**COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 115**

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 \$227,815,000 Revenue Bonds, Project No.115 (the “Bonds”) issued at the request of the Finance and Administration Cabinet of the Commonwealth (the “Cabinet”) to provide funds with which to (i) pay the costs of the Project (as defined herein) and (ii) pay costs of issuing the Bonds.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes (“KRS”). The Commission adopted a Bond Resolution (the “Resolution”) on December 12, 2016, authorizing the issuance of the Bonds and approving the Lease and Subleases hereinafter described.

The Cabinet, as lessee, has entered into the Lease Agreement dated as of February 1, 2017, with the Commission, as lessor (the “Lease”). Payments made pursuant to the Lease will provide the Commission with amounts to pay the principal of, premium, if any, and interest on the Bonds as they become due. The current term of the Lease ends June 30, 2018, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Cabinet, for each biennial period during which Bonds are outstanding, to seek legislative appropriations to the Cabinet or the Sublessees (as defined below) in amounts which are sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of, premium, if any, and interest on the Bonds.

Portions of the Project will be used by various state agencies described under “THE STATE AGENCIES” (the “Sublessees”). In order to comply with the Commonwealth’s budget process, the Cabinet has subleased portions of the Project under Subleases previously entered into with the Sublessees (the “Subleases”). The current term of each Sublease ends June 30, 2018, and each Sublease renews automatically (unless terminated in writing by the last business day in the preceding April by the applicable Sublessee) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. Each Sublease requires the applicable Sublessee, for each biennial period of its Sublease, to seek to have legislative appropriations made to the Sublessee in amounts sufficient to permit the Sublessee to make rental payments to the Cabinet. However, under the Commonwealth’s current budget process, appropriations to make payments under the Sublease which are included in the current budget will be made directly to the Cabinet in future biennial periods. If this process is continued, amounts sufficient to pay principal of, premium, if any, and interest on the Bonds will be appropriated to the Cabinet and the Subleases will terminate.

The Kentucky General Assembly has appropriated to the Cabinet and the Sublessees amounts sufficient to meet the rental payments due under the Lease and the Subleases, and therefore to permit the Commission to meet the debt service requirements of the Bonds, through June 30, 2018.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET OR THE SUBLESSEES NOR IS THE CABINET UNDER ANY OBLIGATION TO RENEW THE LEASE NOR IS ANY SUBLESSEE UNDER ANY OBLIGATION TO RENEW ITS SUBLEASE. THE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND THE SUBLEASES AND ARE NOT

SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Subleases, the Project, the Cabinet and the Sublessees 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 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. This Official Statement will be posted with the Electronic Municipal Market Access (“EMMA”) system.

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will be dated the date of their delivery. The Bonds will bear interest payable on each April 1 and October 1, commencing October 1, 2017, at the interest rates set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360 day year of twelve 30-day months. The fifteenth day of the calendar month prior to each date established for the payment of the principal, interest or premium, if any, on the Bonds, whether by maturity, acceleration or redemption, is the record date established for the Bonds. U.S. Bank National Association, Louisville, Kentucky, is the trustee for the Bonds (the “Trustee”).

Redemption

Optional Redemption. The Bonds maturing on or after April 1, 2028, are subject to optional redemption at par on April 1, 2027, and on any Business Day thereafter, 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.

Selection of Bonds for Redemption. The Commission has directed the Trustee to notify The Depository Trust Company (“DTC”), New York, New York that in the event less than all of any Bonds are to be redeemed, any such redemption shall be on a pro rata basis in a principal amount equal to authorized denominations of \$5,000 or any integral multiple thereof. The Commission and the Trustee are not making any representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Bonds of a series on a pro rata basis in the event of a partial redemption as described above.

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

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

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

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

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 DTC. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution. For additional information about DTC and the book-entry-only system, see EXHIBIT D – BOOK-ENTRY-ONLY SYSTEM.

SECURITY FOR THE BONDS

The Bonds are not secured by a lien on any properties constituting the Project or any amounts derived therefrom. The principal of, premium, if any, and interest on the Bonds are payable solely from the Bond Fund (hereinafter defined) and from the rental payments of the Cabinet and the Sublessees under the Lease and the Subleases, respectively. See “SUMMARIES OF THE PRINCIPAL DOCUMENTS” herein.

The Kentucky General Assembly has appropriated to the Cabinet and the Sublessees amounts sufficient to meet the rental payments under the Lease (and the Subleases), and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2018.

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

The proceeds of the Bonds, except for amounts used for issuance costs, will be deposited in the Construction Fund (as defined herein) established by the Resolution and will be used to fund the Project. See “PLAN OF FINANCE”, “THE PROJECT” and EXHIBIT C – THE PROJECT.

PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Cabinet to pay (i) the costs of the Project, and (ii) the costs of issuing the Bonds.

The Project financed with the proceeds of the Bonds consists of some or all of the various projects described in “THE PROJECT” below and in EXHIBIT C – THE PROJECT. The Cabinet and the Sublessees will lease and sublease the Project from the Commission under the Lease and the Subleases and amounts initially

payable under the Subleases, will also be applied to the payment of the principal of, premium, if any, and interest on the Bonds. For further information on the Sublessees, see "THE STATE AGENCIES" herein.

SOURCES AND USES OF FUNDS FOR THE BONDS

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

SOURCES OF FUNDS:	
Par Amount	\$227,815,000.00
Net Original Issuance Premium	<u>23,456,640.15</u>
TOTAL SOURCES	<u>\$251,271,640.15</u>
USES OF FUNDS:	
Deposit to the Construction Fund	\$250,000,000.00
Costs of Issuance (including Underwriters' Discount) ⁺	<u>1,271,640.15</u>
TOTAL USES	<u>\$251,271,640.15</u>

⁺ Includes Underwriters' discount, legal fees, rating agency fees, printing, and miscellaneous costs.

THE PROJECT

The Project consists of a portion of the various public projects, funded by the Bonds and identified in EXHIBIT C (collectively, the "Project"). The Cabinet will lease the Project from the Commission under the Lease and the Cabinet will sublease certain portions of the Project to the Sublessees under the Subleases.

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 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 of, premium, if any, 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 of the Commonwealth

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.

The Governor took final action on the bills on June 4, 2010. Together, the bills authorized 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 Grant Anticipation Revenue Vehicle Bonds designated for the US-68/KY-80 Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. A portion of the General Fund, Agency Restricted Fund, Road Fund and Federal Highway Trust 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. The Governor 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 authorized 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, and \$43.5 million is Agency Restricted Fund supported. A portion of the General Fund authorization and the total Agency Restricted Fund authorizations listed above have been permanently financed.

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. The Governor 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. A portion of the General Fund and Agency Restricted Fund, and all of the Road Fund authorizations listed above have been permanently financed.

The 2016 Regular Session of the General Assembly delivered House Bill 303 (Executive Branch Budget other than the Transportation Cabinet) and House Bill 304 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2016, establishing an Executive Branch Budget for the biennium ending June 30, 2018. The Governor took final action on House Bill 303 and House Bill 304 on April 27, 2016. Together, the bills authorize bond financing for projects totaling a net amount of \$1,251.24 million to support various capital initiatives of the Commonwealth with \$9.0 million of previously authorized debt de-authorized in House Bill 303. Of the total authorization, \$582.99 million is General Fund supported and \$677.25 million is supported by Agency Restricted Fund appropriations. No additional Road Fund supported authorizations were appropriated. A portion of the Agency Restricted Fund authorizations listed have been permanently financed.

The balance of prior bond authorizations of the General Assembly dating from 2004 through 2016 totals \$2,154.02 million. Of these prior authorizations, \$1,155.93 million is General Fund supported, \$846.09 million is Agency Restricted Fund supported, \$92.50 million is supported by Road Fund appropriations and \$59.50 million is Federal Highway Trust Fund supported.

The following table summarizes, in aggregate, the information in connection with authorized but unissued debt of the Commission as described in this section.

State Property and Buildings Commission
Summary of Authorized but Unissued Debt by Fund Type
as of December 31, 2016

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	Federal Highway Trust Fund (millions)	TOTAL (millions)
2010 and prior	\$ 43.94	\$ 17.50	\$80.00	\$59.50	\$ 200.94
2012	11.90		12.50		24.40
2014	517.10	161.34			678.44
2016	582.99	667.25			1,250.24
TOTAL	\$1,155.93	\$846.09	\$92.50	\$59.50	\$2,154.02

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 or Kentucky Asset/Liability Commission (“ALCo”) bonds and notes.

THE FINANCE AND ADMINISTRATION CABINET

General. The Cabinet, created and governed by the provisions of KRS 12.020 and KRS Chapter 42, is a statutory administrative organization of the Commonwealth headed by the Secretary of the Cabinet, who is appointed by the Governor. The Secretary of the Cabinet is the chief financial officer of the Commonwealth. Cabinet functions include: (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) construction, maintenance and operation of public buildings, except those provided for the exclusive use of certain agencies; (5) providing administrative services of a financial nature to other agencies of state government; (6) investment and management of all Commonwealth funds other than pension funds; and (7) oversight of the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof. The following departments and offices, among others, are within the Cabinet:

Department of Facilities and Support Services. The Department of Facilities and Support Services is responsible for the Commonwealth’s capital construction program; real property acquisition, disposition and leasing services; the daily operation and maintenance of state-owned office properties and surplus property services.

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

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

Office of the Controller. The Office of the Controller is responsible for all state accounting policies and procedures, cash management and strategic financial planning. The Controller serves as the Commonwealth’s chief accounting officer. The office maintains internal accounting controls, operates the statewide accounting system and reports the results of financial operations to management and the public. The office works closely with other

agencies to coordinate the program, budget, and cost management components of the Commonwealth long-range business planning process.

THE STATE AGENCIES

Cabinet for Economic Development

The Cabinet for Economic Development (“CED”) is the primary state agency in Kentucky responsible for creating new jobs and investment in the state. Programs administered by the CED are designed to support and promote economic development within the state, primarily by attracting new industries, assisting in the development of existing industries, leading a statewide network of support for entrepreneurs, small business owners and knowledge-based start-up entities, and assisting communities in preparing for economic development opportunities. By statute, the CED is governed by the Kentucky Economic Development Partnership (or the Partnership Board). The Partnership Board is responsible for directing and overseeing the CED and adopting a Strategic Plan. The Kentucky Economic Development Finance Authority (“KEDFA”) is an agency, instrumentality and political subdivision of the Commonwealth under the authority of the Partnership Board. KEDFA is responsible for awarding most of the financial incentives offered by the CED.

Department for Local Government

The Department for Local Government (“DLG”) provides financial help in the way of grant and loan assistance, as well as advising local governments in matters of budget, personnel and other items relevant to those entities. The mission of DLG is to empower partners with effective advocacy, information and funding resources. DLG includes five divisions: Office of Financial Management and Administration, Office of Federal Grants, Office of State Grants, Office of Legal Services and Office of Field Services. The KIA is also administratively attached to DLG. DLG also partners with the state’s fifteen Area Development Districts in serving the local governments of the Commonwealth.

Kentucky Infrastructure Authority

The KIA was created to provide a mechanism for funding infrastructure projects for governmental agencies in the Commonwealth. Through the various programs currently offered, KIA has become a supplement for local financing needs. KIA administers the Infrastructure for Economic Development Funds Bond Pool projects. KIA also administers the Water and Sewer Resources Development Funds Bond Pool Projects, in addition to the following four programs:

The Clean Water State Revolving Fund Loan Program (“Fund A”) is used to finance local wastewater treatment facilities and nonpoint source projects that qualify under the U.S. Environmental Protection Agency (the “EPA”) requirements of the Clean Water Act. The state match for Fund A projects is funded through bonds supported by General Fund appropriations. Revolving Fund Revenue Bonds are secured by loan repayments on wastewater and drinking water loans and interest earnings on obligations that have been pledged under the related trust indenture. These bonds are special and limited obligations of KIA and are not secured by a moral obligation pledge of the Commonwealth.

The Infrastructure Revolving Loan Program (“Fund B”) provides funding for utilities and other public services projects. Fund B also includes the 2020 Water Service Account that is used to fund drinking water projects and improvements to drinking water systems. General Fund appropriations are the source of payment for Fund B bonds.

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

The Drinking Water State Revolving Fund Loan Program (“Fund F”) program is used to finance local drinking water treatment facilities that qualify under the EPA requirements of the Safe Drinking Water Act. The

state match for Fund F projects is funded through bonds by General Fund appropriations. Revolving Fund Revenue Bonds are secured by loan repayments on wastewater and drinking water loans and interest earnings on obligations that have been pledged under the related trust indenture. These bonds are special and limited obligations of KIA and are not secured by a moral obligation pledge of the Commonwealth.

Council on Postsecondary Education

The Council on Postsecondary Education (“CPE”), created and governed by the provisions of KRS 164.011, is an agency, instrumentality and political subdivision of the Commonwealth. It is composed of the Commissioner of Education, a faculty member, a student member and 13 citizen members appointed by the Governor. Its work involves coordinating the change and improvement of Kentucky postsecondary education. It is responsible for general planning and oversight of a system that includes the eight public universities of the Commonwealth and the *Kentucky Community and Technical College System* (“KCTCS”). CPE’s role includes developing a strategic plan, measures of efficiency, educational attainment, and effectiveness, approving all educational programs, monitoring tuition and admission rates, and housing a database of information. Information on each of the individual institutions can be found at <http://cpe.ky.gov/institutions>.

Cabinet for Health and Family Services

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

Department for Behavioral Health, Developmental and Intellectual Disabilities. The mission of the Department for Behavioral Health, Developmental and Intellectual Disabilities (“DBHDID”) is to provide leadership, in partnership with others, to prevent disability, build resilience in individuals and their communities, and facilitate recovery for people whose lives have been affected by mental illness, substance abuse or intellectual disability or other developmental disability. Organizationally, DBHDID has three divisions, which include the Division of Behavior Health, the Division of Developmental and Intellectual Disabilities and the Division of Program Integrity. Collectively, DBHDID responsibilities include administration of state and federally funded mental health and substance abuse treatment services throughout the Commonwealth. DBHDID provides a wide range of services, including but not limited to, community residential support, crisis intervention, peer support for youth and adults, supported employment and housing, therapeutic rehabilitation programs and more.

Department for Public Health. The mission of the Kentucky Department for Public Health (“KDPH”) is to improve the health and safety of people in Kentucky through prevention, promotion and protection. KDPH is the sole organizational unit of Kentucky’s state government responsible for developing and operating state public health programs and activities for the citizens of Kentucky. KDPH oversees programs designed to improve the lives of citizens and visitors through prevention of negative health outcomes, promotion of healthy lifestyles and protection from diseases, injury and environmental health impacts. KDPH has approximately 150 different programs to help Kentuckians become healthier in cooperation with its partners such as local health departments, universities and private providers.

Energy and Environment Cabinet

General. The Energy and Environment Cabinet is responsible for the oversight of addressing the energy needs of citizens, whether from seeking ways in which to mine coal and deliver that mineral more safely and cleanly, or developing stringent regulations to assure the protection of Kentucky’s natural beauty. There are three departments within the Cabinet: the Department for Environmental Protection, Department for Natural Resources, and Department for Energy Development and Independence.

The Department for Natural Resources provides technical assistance, education and funding to help landowners, institutions, industries, and communities in conserving and sustaining Kentucky’s natural resources. In

addition, the department inspects timber harvests and mining operations to ensure the protection of Kentucky citizenry, environment and workers.

Department for Environmental Protection. The Kentucky Department for Environmental Protection (“DEP”) leads the effort to protect and enhance Kentucky’s environment through its six divisions; the Divisions of Air Quality, Compliance Assistance, Enforcement, Environmental Program Support, Waste Management, and Water. The importance of DEP’s mission arises from the direct impact it has on Kentucky’s public health, the safety of Kentucky citizens and the quality of Kentucky’s valuable natural resources.

Department of Veterans’ Affairs

The Department of Veterans’ Affairs (“KDVA”) mission is to ensure Kentucky’s 339,000 veterans and their families receive all the benefits and services they have earned. KDVA provides benefits counseling, skilled nursing care at state veterans’ centers, dignified interment at state veterans’ cemeteries, and special programs for women veterans, homeless veterans and others.

Justice and Public Safety Cabinet

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

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

Department of Kentucky State Police. The Kentucky State Police (“KSP”) was established in 1948 and is vested with the responsibility of protecting Kentucky communities and roadways. KSP takes pride in promoting public safety through service, integrity, and professionalism while partnering with the citizens they have sworn to protect.

Tourism, Arts and Heritage Cabinet

General. This Cabinet promotes tourism, the arts and Kentucky heritage. Tourism development includes new attractions, new accommodations, expansion of existing tourism venues, convention/conference marketing, and sports venues. It encourages and provides support in market development for Kentucky artists, historic downtown redevelopment, film opportunities, expansion of equine headquarters, recreation opportunities, museums and special exhibits, and the attraction of international trade shows or sporting events.

Tourism is nearly an \$12.2 billion a year industry in Kentucky. The arts are an essential part of quality life in the Commonwealth and a major component in everything this Cabinet does including educating children. Heritage preserves traditions and tells life stories; it includes the history, heritage and humanities groups.

This Cabinet includes the following agencies: the Department of Travel, Department of Parks, the Office of Adventure Tourism, Department of Fish and Wildlife Resources, Kentucky Historical Society, Humanities Council, State Fair Board, Kentucky Sports Authority, Heritage Council, Kentucky Center for the Performing Arts, Frankfort Convention Complex, Governor’s School for the Arts, Kentucky Artisans Center in Berea, Kentucky Arts Council, Kentucky Horse Park, the Kentucky Film Office and the Office of Creative Services.

This Cabinet also has the Office of Research and Administration, whose primary mission is to provide up-to-date statistical analysis of tourism trends in order to facilitate a successful tourism marketing campaign.

Kentucky Center for the Arts. The mission of The Kentucky Center for the Performing Arts (the “Center”) is to lead and enrich the artistic, educational and economic vitality of the region by providing unparalleled programming and cultural events. The Center is home to many of Louisville’s major arts organizations, including The Louisville Orchestra, Kentucky Opera, Louisville Ballet, Stage One and PNC Bank Broadway Across America – Louisville.

Kentucky Historical Society. The Kentucky Historical Society (“KHS”) engages people in the exploration of the Commonwealth’s diverse heritage. Through comprehensive and innovative services, interpretive programs and stewardship, the Historical Society provides: connections to the past, perspective on the present, and inspiration for the future. KHS has more than 3,300 members to whom it provides support and educational services. Outreach programs collaborate with more than 430 local historical organizations. KHS is administered by an executive committee and supported by the KHS Foundation, a 501(c)(3) organization.

Kentucky Department of Parks. The Department of Parks was created in 1924 by the General Assembly and has grown to include 51 parks and historical sites and one interstate park. The parks have facilities for meetings and conferences with accommodations and camping, golf and education. The Department of Parks maintains 32 campgrounds, 265 miles of trails and offers seventeen state resort parks, more than any other state. The Department of Parks also operates three airfields at Rough River, Lake Barkley and Kentucky Dam Village and oversees three cafeterias in Frankfort, Kentucky. Nearly 8 million people visit Kentucky State Parks each year.

The Kentucky State Fair Board. The Kentucky State Fair Board (the “State Fair Board”) was established in 1938, at which time it undertook the responsibility for managing the annual Kentucky State Fair. In 1950, the State Fair Board began construction of the Kentucky Fair & Exposition Center, one of the largest exposition facilities of its kind at that time, located in Louisville, Kentucky, and managed by the State Fair Board. Since its initial construction, the State Fair Board has expanded the Kentucky Fair & Exposition Center many times. The State Fair Board also manages the Kentucky International Convention Center located in downtown Louisville, Kentucky.

The State Fair Board is charged with stimulating the public interest in the Commonwealth by providing the Kentucky Fair & Exposition Center and the Kentucky International Convention Center for exhibitions, conventions, trade shows, public gatherings, cultural activities and other functions, thereby promoting the tourism industry and economy of the Commonwealth while serving the entertainment, cultural and educational interests of the public. The Kentucky Fair & Exposition Center includes arenas and theaters, such as Freedom Hall, Cardinal Stadium, Broadbent Arena and New Market Hall, and exhibit halls and convention center space. Annual events at the Kentucky Fair & Exposition Center include the Kentucky State Fair, the National Farm Machinery Show, the North American International Livestock Convention and many other conventions and events.

The State Fair Board consists of fifteen (15) members, including the Governor, the Commissioner of Agriculture, the Dean of the College of Agriculture at the University of Kentucky and twelve (12) members appointed by the Governor from throughout the Commonwealth.

Department of Military Affairs

The Kentucky Department of Military Affairs (“KDMA”) is made up of both federal and state entities. The six state divisions of KDMA include Administrative Services Division, Bluegrass Station, Youth ChalleNGe, Emergency Management, Kentucky Logistics Operation Center, and Facilities. Functions of these programs include coordination of an emergency management system of mitigation, preparedness, response and recovery to protect the lives, environment and property of Kentucky citizens.

Education and Workforce Development Cabinet

General. The Kentucky Education and Workforce Development Cabinet (the “Education and Workforce Cabinet”) provides life-long educational and workforce services through seamless, efficient and accessible learning opportunities for all Kentucky’s citizens, from pre-school to senior citizens. The Education and Workforce Cabinet is made up of eight agencies: Commission on the Deaf and Hard of Hearing, Department of Workforce Investment, Department of Education, Education Professional Standards Board, Kentucky Educational Television, Department for Libraries and Archives, Environmental Education Council, and Kentucky Center for School Safety.

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

THE 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 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.

As indicated in the *Commonwealth of Kentucky Quarterly Economic & Revenue Report First Quarter Fiscal Year 2017*, Kentucky remains well-positioned in relation to the nation’s economy as income and sales taxes continue to be engines of growth. Additionally, strong growth in Kentucky personal income and wages and salaries continue to influence the positive rate of revenue collection for the General Fund, which as of the first quarter of Fiscal Year 2017, has entered its eleventh consecutive quarter of positive growth.

Kentucky’s economy was characterized by above average personal income growth of 4.9 percent, which was largely the result of growth in all five of the contributing components. Of these components, supplements to wages and salaries (i.e. non-wage benefits or fringe benefits) was the fastest growing personal income component, rising 6.2 percent compared to the national increase of 4.1 percent. Coupled with the wages and salaries component growing by 6.0 percent, Kentucky was able to outpace the national personal income total growth of 3.3 percent. As of the first quarter of the fiscal year, the Commonwealth has experienced fourteen consecutive quarters of growth in personal income.

Employment gains in the Commonwealth only slightly lag the national average, with sectors such as non-farm employment growing 1.6 percent for the first quarter of Fiscal Year 2017, similar to the nation’s 1.7 percent rise. Within the non-farm employment sector, Kentucky’s rate of change within the goods-producing components were generally parallel to the nation’s rate of change over the same quarter of the previous year. Mining employment declined most in absolute and percentage terms, losing 11.0 percent, compared to the nation’s 15.0 percent drop. In service-providing components, business services employment grew by the most in absolute and percentage terms, growing 3.7 percent for an increase of 7,900 jobs.

Of particular interest to the Kentucky economy was robust increase in US light vehicle sales over the last six years. After reaching a low in 2009 during the recession, the market for new cars and trucks reached record highs in 2015. For calendar year 2016, sales have continued to remain strong, although there is concern that the

light vehicle market may reach a plateau. While recent months continue to demonstrate strong sales growth, the growth has come at the expense of vehicle profit margins, as manufacturers have begun having to offer more incentives to spur sales. Contributing trends are expected to continue as manufacturers attempt to move their 2016 model-year vehicles to make way for 2017 models.

Financial Information Regarding the Commonwealth

Information regarding debt issuing authorities of the Commonwealth is included in EXHIBIT A. Information regarding projects for the benefit of the Commonwealth financed under public private partnerships is included in EXHIBIT B.

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* (the “CAFR”) 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 CAFR for the Fiscal Year ended June 30, 2016 is incorporated herein by reference. The Commonwealth has filed the CAFR for the Fiscal Year ended June 30, 2016 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 CAFR for the Fiscal Year ended June 30, 2016 may be obtained from EMMA or from the Office of Financial Management, 702 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, the CAFR for the Fiscal Year ended June 30, 2016 and certain other fiscal years may be found on the Internet:

<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 Underwriters to comply with the provisions of Rule 15c2-12. See “CONTINUING DISCLOSURE” and “EXHIBIT F – FORM OF 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

General. 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, premium, if any, and interest, when due, on obligations that are subject to appropriation. The Bonds are obligations that are subject to appropriation.

Fiscal Year 2014

The Commonwealth's combined net position (governmental and business-type activities) totaled \$10.058 billion at the end of 2014, as compared to \$10.5 billion at the end of the previous year.

The largest portion of the Commonwealth's net position, \$21.3 billion, is net investment 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 position, 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 position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is \$(12.4) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net position 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 position.

The Commonwealth received program revenues of \$13.1 billion and general revenues (including transfers) of \$12 billion for total revenues of \$25.1 billion during Fiscal Year 2014. Expenses for the Commonwealth during Fiscal Year 2014 were \$25.6 billion, which resulted in a total decrease of the Commonwealth's net position in the amount of \$442.6 million, net of contributions, transfers and special items.

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was \$774.4 million or 7.0 percent. Approximately 49.7 percent of the governmental activities' total revenue came from taxes, while 41.2 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, 2014 the Commonwealth's governmental funds reported combined ending fund balances of \$2.2 billion, a net decrease of \$42.1 million in comparison with the prior year. \$74 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The \$2.1 billion is restricted for certain purposes and is not available to fund current operations. The \$61.9 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2014 was \$(130.8) million. The balance reported reflects a decrease of \$333 million from the previously reported amount, which represents a decrease of 164.6 percent. The major factor for the decrease in fund balance is an increase in expenditures of \$458.5 million or 5.2 percent.

The General Fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of \$6.5 million represents the nonspendable amount. The unrestricted had a negative balance of \$137.3, therefore is not 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 intergovernmental revenues of \$1.9 billion. Expenditures decreased across a majority of all functions, except for Health and Family Services (CHFS) which experienced an increase in expenditures of \$2 billion (a 28.4 percent increase in expenditures for total federal expenditures).

The Commonwealth's bonded debt decreased by \$135.9 million to \$6.3 billion, a 2.1 percent decrease during Fiscal Year 2014. The major factor in this decrease is a result of the refunding of old issues by the fiscal Year 2014 new issues. Therefore, the remaining liability on the retired bonds plus the Fiscal Year 2014 principal payments on the remaining outstanding bonds were greater than the Fiscal Year 2014 issues for new projects. No general obligation bonds were authorized or outstanding at June 30, 2014.

Fiscal Year 2015

The Commonwealth's combined net position (governmental and business-type activities) totaled \$(14.029) billion at the end of Fiscal Year 2015, as compared to \$10.058 billion at the end of the previous year. This significant decrease in the net position of the governmental activities occurred when the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statement No. 68 and No. 71 (GASB 68 and 71), *Accounting and Financial Reporting for Pensions*, the provisions of which require the Commonwealth, as a participating employer in the Kentucky Employees Retirement System, the State Police Retirement System, the Teachers' Retirement System, the Judicial Retirement Plan and the Legislators' Retirement Plan, to reflect in the Statement of Net Position its proportionate share of the net pension liability of such retirement plans. The adoption of this pronouncement resulted in a decrease of \$24.6 billion in the Commonwealth's beginning net position.

The largest portion of the Commonwealth's net position, \$21.6 billion, is net investment 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 position, 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 position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is \$(36.818) 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 position 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 position.

The Commonwealth received program revenues of \$14.1 billion and general revenues (including transfers) of \$11.8 billion for total revenues of \$25.9 billion during Fiscal Year 2015. Expenses for the Commonwealth during Fiscal Year 2015 were \$25.4 billion, which resulted in a total increase of the Commonwealth's net position in the amount of \$540.4 million, net of contributions, transfers and special items.

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was \$(5.1) million or 1.0 percent. Approximately 48.8 percent of the governmental activities' total revenue came from taxes, while 49.3 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, 2014 the Commonwealth's governmental funds reported combined ending fund balances of \$2.0 billion, a net decrease of \$184.1 million in comparison with the prior year. \$99.3 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The \$1.7 billion is restricted for certain purposes and is not available to fund current operations. \$214 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2015, was \$104.4 million. The balance reported reflects an increase of \$235.1 million from the previously reported amount, which represents an increase of 179.8 percent. The major factor for the increase in fund balance is an increase in revenues of \$580.1 million or 6.2 percent.

The General Fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of \$6.2 million represents the nonspendable amount. The unrestricted had a balance of \$98.1 million, therefore 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 intergovernmental revenues of \$1.3 billion. Expenditures decreased across a majority of all functions, except for the Cabinet for Health and Family Services (CHFS) which experienced an increase in expenditures of \$1.2 billion (a 13.6 percent increase in expenditures for total federal expenditures).

The Commonwealth's bonded debt decreased by \$136.7 million to \$6.2 billion, a 2.2 percent decrease during Fiscal Year 2015. The major factor in this decrease is a result of the refunding of old issues by the Fiscal Year 2015 new issues. Therefore, the remaining liability on the retired bonds plus the Fiscal Year 2015 principal payments on the remaining outstanding bonds were greater than the Fiscal Year 2015 issues for new projects. No general obligation bonds were authorized or outstanding at June 30, 2015.

Fiscal Year 2016

The Commonwealth's combined net position (governmental and business-type activities) totaled \$(14.6) billion at the end of Fiscal Year 2016, as compared to \$(14) billion at the end of the previous year.

The largest portion of the Commonwealth's net position, \$22.2 billion, is net investment 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 position, 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 position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is \$(38) 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 position 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 position.

The Commonwealth received program revenues of \$15 billion and general revenues (including transfers) of \$12.1 billion for total revenues of \$27.1 billion during Fiscal Year 2016. Expenses for the Commonwealth during Fiscal Year 2016 were \$27.6 billion, which resulted in a total decrease of the Commonwealth's net position in the amount of \$553.6 million, net of contributions, transfers and special items.

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was \$(922.2) million or 6.52 percent. Approximately 47.5 percent of the governmental activities' total revenue came from taxes, while 44.2 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the close of Fiscal Year 2016, the Commonwealth's governmental funds reported combined ending fund balances of \$2.3 billion, a net decrease of \$301.6 million in comparison with the prior year. \$96.9 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. \$1.8 billion is restricted for certain purposes and is not available to fund current operations. \$402.6 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2016, was \$355 million. The balance reported reflects an increase of \$250.6 million from the previously reported amount, which represents an increase of 240 percent. The major factor for the increase in fund balance is an increase in revenues of \$346 million or 3.4 percent.

The General 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. The unrestricted had a balance of \$349.6 million, therefore 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 intergovernmental revenues of \$684.2 million. Expenditures increased by very small amounts across a majority of all functions, except for the Cabinet for Health and Family Services (CHFS) which experienced an increase in expenditures of \$587.8 million. The federal receipts and expenditures for CHFS were approximately \$9 billion resulting in a 5.8 percent increase in expenditures for total federal expenditures which is within a normal change for an agency of this size. The Transportation Fund experienced a slight decrease in revenues due to decreased tax receipts and an increase in expenditures, resulting in a decrease in fund balance of \$114.3 million.

The Commonwealth's bonded debt increased by \$340.2 million to \$6.5 billion, a 5.5 percent increase during Fiscal Year 2016. The major factors in this increase are the issuance of new debt to advance refund debt outstanding to reduce future interest cost and the issuance of new debt to fund new projects authorized during Fiscal Year 2016. No general obligation bonds were authorized or outstanding at June 30, 2016.

Fiscal Year 2017 (Unaudited)

As reported by the Office of the State Budget Director on January 10, 2017, the December 2016 General Fund receipts grew by 2.9 percent compared to the same month of the previous fiscal year. Total revenues for the month were \$1,025.2 million, compared to \$996.8 million during December 2015, an increase of \$28.4 million. The General Fund has grown 3.3 percent for the first six months of the fiscal year. Based on December's results, General Fund revenues need growth of 2.1 percent over the remaining six months of the fiscal year to meet the current official estimate of \$10,616.4 million. Year-to-date Road Fund receipts are relatively unchanged through the first six months of the year when compared to the first six months of the prior fiscal year. Road Fund receipts for December 2016 totaled \$111.5 million, a 13.4 percent decrease from December 2015 levels. Based on collections through the first six months of the fiscal year, Road Fund receipts can decline 3.5 percent for the remainder of Fiscal Year 2017 to meet the estimate of \$1,456.9 million.

Consensus Forecasting Group; Official Revenue Forecasts

The Consensus Forecasting Group ("CFG"), in conjunction with the Office of the State Budget Director ("OSBD"), is statutorily charged with the responsibility of developing budget planning reports, preliminary revenue estimates, and official revenue estimates for each branch of government and the General and Road funds, pursuant

to KRS 48.120 and KRS 48.115. The CFG receives support from the Governor’s Office for Economic Analysis, an organizational unit of the OSBD, and is staffed by the Legislative Research Commission (“LRC”). Members of the CFG are jointly selected by the State Budget Director and the LRC.

Subject to modification by the General Assembly, appropriations made in the branch budget bills enacted for each branch of government shall be based upon the official revenue estimates presented to the General Assembly by the OSBD. The enacted estimates shall become the official revenue estimates of the Commonwealth upon the branch budget bills becoming law, and shall remain the official revenue estimates of the Commonwealth until revised by the CFG, as provided in KRS 48.115(2).

The Office of the State Budget director makes available on its website the CFG official, enacted and revised revenue estimates for the General and Road Funds.

The official revenue estimates, as adopted by the CFG, legislatively enacted by the General Assembly, revised by the CFG and compared to actual General and Road Fund totals for Fiscal Years 2013 through 2018 are represented below:

<u>General Fund</u>				
Fiscal Year	<u>Adopted</u>	<u>Enacted</u>	<u>Revised</u>	<u>Actual</u>
2013	\$ 9,220,600,000	\$ 9,307,839,200	N/A	\$ 9,348,400,000
2014	9,548,400,000	9,523,900,000	\$ 9,578,900,000	9,462,000,000
2015	9,794,300,000	9,973,800,000	N/A	9,966,600,000
2016	10,046,600,000	10,067,200,000	10,289,900,000	10,338,900,000
2017	10,617,200,000	10,616,375,000	N/A	N/A
2018	10,875,500,000	10,874,400,000	N/A	N/A

<u>Road Fund</u>				
Fiscal Year	<u>Adopted</u>	<u>Enacted</u>	<u>Revised</u>	<u>Actual</u>
2013	\$ 1,498,900,000	\$ 1,539,269,400	\$ 1,499,600,000	\$ 1,491,600,000
2014	1,568,000,000	1,569,156,100	1,582,600,000	1,560,400,000
2015	1,546,700,000	1,584,870,600	N/A	1,526,700,000
2016	1,558,400,000	1,559,396,800	1,445,900,000	1,482,500,000
2017	1,456,900,000	1,456,900,000	N/A	N/A
2018	1,478,200,000	1,478,200,000	N/A	N/A

The CFG official revenue estimate as legislatively enacted for the Phase 1 Tobacco Master Settlement Agreement payments is \$88.1 million in Fiscal Year 2016 and \$87.0 million in Fiscal Year 2017.

The Office of the State Budget Director makes available on its website monthly updates to the General Fund receipts and the Road Fund receipts.

Investment Policy

The Commonwealth’s investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission (“SIC”), comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and two gubernatorial appointees from the Kentucky Banker’s Association and Bluegrass

Community Bankers 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 SIC, and most recommendations have been 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>

On December 31, 2016, the Commonwealth's operating portfolio was approximately \$3.904 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (35%); securities issued by agencies and instrumentalities of the United States Government (5%); mortgage-backed securities and collateralized mortgage obligations (10%); repurchase agreements collateralized by the aforementioned (11%); municipal securities (1%); and corporate and asset-backed securities, including money market securities (38%). The portfolio had a current yield of 0.98% and an effective duration of 0.79 years.

The Commonwealth's investments are currently categorized into three investment pools; the Short Term, Limited Term, and the Intermediate Term 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, which closed December 31, 2016, consisted bond proceeds for the now completed 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 SIC 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 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 percent 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.

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 percent of the investment pools. Asset-Backed Securities ("ABS") are limited to 20 percent of the investment pools. Mortgage-Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25 percent 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 in certain of those security types.

Interest Rate Swaps

From time to time, the Commonwealth utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. ALCo is the agency with specific

statutory authority to enter into and manage interest rate swaps and other similar vehicles. As of December 31, 2016, ALCo had one interest rate swap outstanding with a total notional amount outstanding of \$184,970,000. 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 ALCo’s 2007 \$243.08 million General Fund Floating Rate Project Notes.

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.

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 Teacher’s Retirement System (“TRS”). The Kentucky Retirement Systems is comprised of five retirement plans, KERS Non-Hazardous, KERS Hazardous, County Employees Retirement System (“CERS”) Non-Hazardous, CERS Hazardous, and the State Police Retirement System (“SPRS”). Each retirement plan is state supported, except for the CERS plans, which have been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and TRS (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. KERS eligible employees hired January 1, 2014 and after are no longer party to the inviolable contract and the General Assembly can amend, suspend or reduce benefits with future legislation. 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 2016* Note 8 beginning on page 92. Additional information regarding the Kentucky Retirement Systems and TRS can be found in their respective web sites at <https://kyret.ky.gov> and <https://trs.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.

The following schedules are descriptions of plan benefits by hire date for employees who participate in the KERS non-hazardous and TRS benefit tiers.

**Kentucky Employees' Retirement System
Governance KRS 61.510 through KRS 61.705
Cost Sharing Multiple Employer Defined Benefit
Non-Hazardous**

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 9/1/2008 through 12/31/2013	Tier 3 Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

Teachers' Retirement System
Governance KRS 161.220 through KRS 161.990
Cost Sharing Multiple Employer Defined Benefit with Special Funding

	Tier 1 Participation prior to 7/1/2008	Tier 2 Participation on or after 7/1/2008
Covered Employees:	Provides pension plan coverage for local school districts and other educational agencies in the state.	
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2016 actuarial valuation reports used in preparing the associated Pension Plans' 2016 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of \$12,030 million. TRS, assuming a 7.5 percent investment return, had a UAAL of \$14,531 million. Under the GASB 67 Accounting Method and assuming a 4.2 percent blended investment rate of return, the pension UAAL would be \$30,924 million

or 35.22 percent. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2016 had funding percentages of 19.46 percent for the Kentucky Retirement Systems and 54.63 percent for TRS. These funding percentages compared to 22.56 percent and 55.28 percent respectively for the Fiscal Year ended June 30, 2015. The funding ratios have declined due to a variety of factors including, changes to the discount rate, lower than projected investment returns and other variances from actuarial assumptions. The Kentucky Retirement Systems state supported Actuarially Determined Employer Contribution (“ADEC”) for Fiscal Year ended June 30, 2016 pension benefits was \$562.1 million; \$562.7 million was contributed. The TRS state supported ADEC for Fiscal Year ended June 30, 2016 was \$999.3 million; \$565.5 million was contributed.

The Commonwealth’s enacted budget for Fiscal Years 2017 and 2018 provided funding for payment of the full ADEC of the Kentucky Retirement Systems as well as an additional \$185.767 million above the ADEC over the biennium. Similarly, the TRS was appropriated an estimated 94 percent of the ADEC over the biennium. In addition to increased pension appropriations, the Kentucky Permanent Pension Fund was established in House Bill 238 (2016 Regular Session), the proceeds of which shall only be used for contributions to the Commonwealth’s pension funds. The appropriated deposits to this fund include a \$125 million transfer from surplus monies in the Public Employees Health Insurance Trust Fund and 50 percent of any General Fund surplus in Fiscal Year 2017. Any Fiscal Year 2018 General Fund surplus is appropriated at a rate of 25 percent to the TRS unfunded liability and 25 percent to the KERS Non-Hazardous liability. The August 1, 2016 Financial Outlook Report presented by the State Budget Director showed a \$26,354,485 appropriation to the Kentucky Permanent Pension Fund as a result of the House Bill 303 (2016 Regular Session) General Fund Surplus Expenditure Plan.

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SCHEDULE OF FUNDING PROGRESS - RETIREMENT FUNDS⁺

Kentucky Retirement Systems (KRS)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll
<i>Kentucky Employees Retirement System (KERS)</i>					
<u>Non-Hazardous</u>					
6/30/2012	\$3,101,316,738	\$11,361,048,136	\$8,259,731,398	27.3	\$1,644,896,681
6/30/2013	2,636,122,852	11,386,602,159	8,750,479,307	23.2	1,644,408,698
6/30/2014	2,423,956,716	11,550,110,224	9,126,153,508	21.0	1,577,496,447
6/30/2015 ⁺⁺	2,350,989,940	12,359,672,849	10,008,682,909	19.0	1,544,234,409
6/30/2016 ⁺⁺⁺	2,112,286,498	13,224,698,427	11,112,411,929	16.0	1,529,248,873
<u>Hazardous</u>					
6/30/2012	\$497,226,296	\$752,699,457	\$255,473,161	66.1	\$131,976,754
6/30/2013	505,656,808	783,980,594	278,323,786	64.5	132,015,368
6/30/2014	527,897,261	816,850,063	288,952,802	64.6	129,076,038
6/30/2015 ⁺⁺	556,687,757	895,433,387	338,745,630	62.2	128,680,130
6/30/2016 ⁺⁺⁺	559,487,184	936,706,126	377,218,942	56.0	147,563,457
<i>State Police Retirement System (SPRS)</i>					
6/30/2012	\$259,791,575	\$647,688,665	\$387,897,090	40.1	\$48,372,506
6/30/2013	241,800,328	651,580,654	409,780,326	37.1	45,256,202
6/30/2014	242,741,735	681,118,402	438,376,667	35.6	44,615,885
6/30/2015 ⁺⁺	248,387,946	734,156,446	485,768,500	33.8	45,764,515
6/30/2016 ⁺⁺⁺	234,567,536	775,160,294	540,592,758	28.1	45,551,469
<i>Kentucky Retirement Systems Summary (Includes KERS Non-Hazardous, KERS Hazardous and SPRS)</i>					
6/30/2012	\$3,858,334,609	\$12,761,436,258	\$8,903,101,649	30.2	\$1,825,245,941
6/30/2013	3,383,579,988	12,822,163,407	9,438,583,419	26.4	1,821,680,268
6/30/2014	3,194,595,712	13,048,078,689	9,853,482,977	24.5	1,751,188,370
6/30/2015	3,156,065,643	13,989,262,682	10,833,197,039	22.6	1,718,679,054
6/30/2016	2,906,341,218	14,936,564,847	12,030,223,629	19.5	1,722,363,799
<i>Judicial Retirement Plan (JRP) & Legislator's Retirement Plan (LRP)</i>					
6/30/2012	\$215,859,591	\$385,722,067	\$169,862,476	56.0	\$38,367,834
6/30/2013	226,397,872	404,726,709	178,328,837	55.9	37,917,899
6/30/2014	255,517,906	413,310,123	157,792,217	61.8	37,917,899
6/30/2015	383,464,411	513,844,487	130,198,076	74.6	34,476,745
6/30/2016	---	---	---	---	---

⁺This schedule does not include data pertaining to the County Employees Retirement System (CERS); the data for 6/30/12-6/30/16 in this schedule is as presented in the CAFR of the pension plan for the Fiscal Years Ended June 30, 2012 through June 30, 2016.

⁺⁺Discount rate changed from 7.75 percent to 7.50 percent as of 7/1/2014.

⁺⁺⁺Discount rate changed from 7.50 percent to 6.75 percent as of 7/1/2015.

*JRP and LRP only perform actuarial valuations every 2 years for pension benefits.

SCHEDULE OF FUNDING PROGRESS - TEACHERS' RETIREMENT SYSTEM - KENTUCKY*

Teachers' Retirement System - Kentucky

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll
<i>Retirement Funds</i>					
6/30/2012	\$14,691,371,000	\$26,973,854,000	\$12,282,483,000	54.5	\$3,479,567,000
6/30/2013	14,962,758,000	28,817,232,000	13,854,474,000	51.9	3,480,066,000
6/30/2014 ⁺⁺	16,174,199,000	30,184,404,000	14,010,205,000	53.6	3,486,327,000
6/30/2015	17,219,520,000	31,149,962,000	13,930,442,000	55.3	3,515,113,000
6/30/2016	17,496,894,000	32,028,227,000	14,531,333,000	54.6	3,537,226,000
<i>Other Post Employment Benefits (OPEB)</i>					
6/30/2012	\$430,987,000	\$3,685,938,000	\$3,254,951,000	11.7	\$3,479,567,000
6/30/2013	507,048,000	3,615,398,000	3,108,350,000	14.0	3,480,066,000
6/30/2014	605,043,000	3,292,043,000	2,687,000,000	18.4	3,486,327,000
6/30/2015	735,025,000	3,624,323,000	2,889,298,000	20.3	3,515,113,000
6/30/2016	895,324,000	3,740,132,000	2,844,808,000	23.9	3,537,226,000

*The data for 6/30/12-6/30/16 in this schedule is as presented in the CAFR of the Teachers' Retirement System for the Fiscal Years Ended June 30, 2012 through June 30, 2016.

**Reflects change in assumptions and/or methods.

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. TRS became self-insured for post-retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, TRS offered non-Medicare Eligible Retirees insurance through the state health insurance program, which has since become self-insured. Beginning January 1, 2007, TRS offered its Medicare Eligible Retirees an insured Medicare Advantage Plan and, beginning July 1, 2010, offered this group an insured Employer Group Waiver Drug Plan. The TRS Board requires retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage.

The Pension Plans commissioned actuarial studies which provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was completed for the period ending June 30, 2013 for the Kentucky Retirement Systems which was dated April of 2014. TRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the TRS board in September 2011. In addition to the experience studies, annual actuarial reports are performed on both retirement systems. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2016 was estimated to not exceed \$1,702.5 million for the Kentucky Retirement Systems and \$2,844.8 million for TRS. 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, 2016. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities decreased from the \$1,729.1 million reported in the Kentucky Retirement Systems' 2015 CAFR. The actuarial estimates for TRS decreased from the \$2,889.4 million reported in their 2015 CAFR.

The Kentucky Retirement Systems' state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2016 was \$139.6 million; \$162.8 million was contributed. The TRS state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2016 was \$99.0 million; \$223.0 million was contributed. The state supported portion of the OPEB for Fiscal Year ended June 30, 2016 had funding percentages of 44.9 percent for the Kentucky Retirement Systems and 23.9 percent for TRS.

SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS (OPEB)⁺

Kentucky Retirement Systems (KRS)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll
<i>Kentucky Employees Retirement System (KERS)</i>					
<u>Non-Hazardous</u>					
6/30/2012	\$446,080,511	\$3,125,330,157	\$2,679,249,646	14.3	\$1,644,896,681
6/30/2013	497,584,327	2,128,754,134	1,631,169,807	23.4	1,644,408,698
6/30/2014	621,236,646	2,226,759,925	1,605,523,279	27.9	1,577,496,447
6/30/2015	695,018,262	2,413,705,252	1,718,686,990	28.8	1,544,234,409
6/30/2016	743,270,060	2,456,677,964	1,713,407,904	30.3	1,529,248,873
<u>Hazardous</u>					
6/30/2012	\$345,573,948	\$384,592,406	\$39,018,458	89.9	\$131,976,754
6/30/2013	370,774,403	385,517,675	14,743,272	96.2	132,015,368
6/30/2014	419,395,867	396,986,820	(22,409,047)	105.6	129,076,038
6/30/2015	451,514,191	374,904,234	(76,609,957)	120.4	128,680,130
6/30/2016	473,160,173	377,745,230	(95,414,943)	125.3	147,563,457
<i>State Police Retirement System (SPRS)</i>					
6/30/2012	\$124,372,072	\$333,903,782	\$209,531,710	37.2	\$48,372,506
6/30/2013	136,321,060	222,326,743	86,005,683	61.3	45,256,202
6/30/2014	155,594,760	234,271,127	78,676,367	66.4	44,615,885
6/30/2015	167,774,940	254,838,710	87,063,770	65.8	45,764,515
6/30/2016	172,703,691	257,197,259	84,493,568	67.2	45,551,469

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Kentucky Retirement Systems Summary (Includes KERS Non-Hazardous, KERS Hazardous, SPRS)

6/30/2012	\$ 916,026,531	\$3,843,826,345	\$2,927,799,814	23.8	\$1,825,245,941
6/30/2013	1,004,679,790	2,736,598,552	1,731,918,762	36.7	1,821,680,268
6/30/2014	1,196,230,273	2,858,017,872	1,661,787,599	41.9	1,751,188,370
6/30/2015	1,314,307,393	3,043,448,196	1,729,140,803	43.2	1,718,679,054
6/30/2016	1,389,133,924	3,091,620,453	1,702,486,529	44.9	1,722,363,799

Judicial Retirement Plan (JRP) & Legislators' Retirement Plan (LRP)

6/30/2012	\$67,704,583	\$67,056,933	\$ (647,650)	101.0	\$38,367,834
6/30/2013	72,459,795	77,095,915	4,636,120	94.0	37,917,899
6/30/2014	82,779,429	80,687,607	(2,091,822)	102.6	37,917,899
6/30/2015	94,241,652	88,150,481	(6,091,171)	106.9	34,476,745
6/30/2016	104,138,383	93,292,111	(10,846,272)	111.6	34,476,745

⁺ This schedule does not include data pertaining to the County Employees Retirement System (CERS); the data for 6/30/12-6/30/16 in this schedule is as presented in the CAFR of the pension plan for the Fiscal Years Ended June 30, 2012 through June 30, 2016.

Recent Changes to State Retirement Systems. The Cabinet, through a competitive process, selected a team led by PFM Group Consulting LLC to develop a range of analyses that illustrate the current and projected financial condition of the retirement systems, and draw on best practices nationally to provide options and recommendations for improvement and reform. The first report, which focused on transparency and governance for each of the Commonwealth's three major systems (KRS, TRS and CERS), was dated December 30, 2016 and may be viewed at www.osbd.ky.gov. Additional reports expected in calendar year 2017 will address investment performance, structural governance, administrative structure and efficiency, actuarial and funding approaches, plan design, and other aspects of each of the three retirement systems. These reports will provide information to the Kentucky Legislature and the Executive Branch for consideration in pension changes.

In December 2016 the Kentucky Retirement Systems and TRS publicly presented the annual actuarial valuation reports of the systems as prepared by Cavanaugh Macdonald as of June 30, 2016. The assumed investment rate of return for KERS non-hazardous and SPRS was 6.75 percent based on the annual valuation conducted as of June 30, 2016. The TRS, CERS and KERS Hazardous plans continue to use a 7.5 percent discount rate. There was a reduction in the assumed rate of return from 7.75 percent to 7.5 percent for the valuation as of June 30, 2015. The Kentucky Retirement Systems board has publicly stated that it continues to evaluate the assumed investment rate of return for KERS Non-Hazardous and SPRS, but has not provided specific guidance for future recommended actions to the Kentucky General Assembly. The 6.75 percent rate was adopted in determining the ADEC for Fiscal Year 2017 and 2018 budgetary formulas in House Bill 303 (2016 Regular Session). Since KRS 61.565(3)(c) provides in effect that the Kentucky Retirement Systems board has no authority to amend recommended contribution rates as of July 1 of an odd numbered year, the authority to adjust the current biennial contribution rate would require legislative action.

House Bill 62 from the 2015 Regular Session of the General Assembly, which was signed by the Governor on March 20, 2015, provides that certain employers participating in KERS and CERS may elect to voluntarily cease participation in the system. The law further details and establishes requirements for voluntary cessation of participation by the employer including requirements to (i) adopt a resolution ceasing participation, which shall apply to all employees of the employer, and submission of the resolution to the Kentucky Retirement Systems' board; (ii) pay for an actuarial cost study to determine the cost to the employer for discontinuing participation; (iii) offer an alternative retirement plan to impacted employees; and (iv) pay the Kentucky Retirement Systems for the full actuarial cost of discontinuing participation either in a lump-sum payment or in installments under the terms established by the board. Any employees hired after the employer ceases participation will not participate in KERS

or CERS, and existing employees participating in the Kentucky Retirement Systems will not earn benefits after the employer has ceased participation, but will be vested for those benefits accrued prior to the employer's cessation date. The same rules apply to any agency required to involuntarily cease participation in KERS or CERS in the event the board has determined the employer is no longer eligible to participate in a governmental plan or has failed to comply with the provisions of KRS 61.510 to 61.705 or 78.510 to 78.852. This legislation does not have a retroactive effect on any pending litigation.

Senate Bill 2 from the 2013 Regular Session of the General Assembly, which was signed into law by the Governor on April 4, 2013. 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 ADEC beginning in Fiscal Year 2015, and resets to a 30 year amortization beginning in 2015.

Financing and Refinancing of Certain TRS 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 ALCo for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to TRS (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 TRS or refinance loans previously made from the TRS Pension Fund to the TRS 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 TRS Pension Fund to the TRS 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 TRS for Fiscal Years 2011 and 2012. Pursuant to authorization granted in the State Budget for Fiscal Years 2013-2014, ALCo issued its \$153.290 million Funding Notes General Fund First Series (Taxable) in February, 2013 to provide the state-supported portion of healthcare benefit contributions to TRS 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.

Litigation Potentially Impacting KERS. Since 2012, TRS, Kentucky Retirement Systems and hundreds of other shareholders of Lyondell Chemical have been parties in litigation that arose out of the Lyondell Chemical bankruptcy. The litigation arose from allegations that a former Lyondell Chemical principal had engaged in fraudulent conveyance that inflated the value of all shareholder stock. Creditors of Lyondell are seeking to force former Lyondell shareholders (including TRS and Kentucky Retirement Systems) to disgorge those amounts received as shareholders in connection with Lyondell's leveraged buyout. On July 27, 2016 this litigation was remanded to the Bankruptcy Court for further proceedings by the United States District Court, Southern District of New York.

In April 2013, Seven Counties Services, Inc. ("Seven Counties"), filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Western District of Kentucky (the "Bankruptcy Court"). Seven Counties provides mental health services for the Cabinet for Health and Family Services for the greater Louisville, Kentucky area and surrounding counties. For approximately the past twenty-five years, Seven Counties has been a participating employer in KERS. Seven Counties identified KERS as a creditor with a primary objective of discharging its continuing obligation to remit retirement contributions for approximately 1,300 employees and terminate its membership in KERS. The estimated impact of Seven Counties' objective on KERS would result in an unfunded liability of approximately \$90 million at that time.

KERS opposed Seven Counties' attempt to discharge its obligations and terminate its membership. KERS asserted that Seven Counties is a Governmental Unit properly participating in KERS by Executive Order issued in 1978 and thus ineligible for Chapter 11 relief. Consequently, Seven Counties would remain statutorily obligated to continue participation and remit contributions.

On May 30, 2014, the Bankruptcy Court held that Seven Counties was not a Governmental Unit and could move forward with its Chapter 11 bankruptcy case. Moreover, the Court held that Seven Counties' statutory obligation to continue to participate and remit contributions to KERS was a "contract" eligible for rejection. Seven Counties rejected its participation in KERS.

In June 2014, KERS appealed the Bankruptcy Court's ruling. As a result of the issues pending on appeal, KERS did not file a proof of claim. On October 6, 2014, Seven Counties filed a formal reorganization plan with the Bankruptcy Court. On October 10, 2014, KERS filed a direct appeal of the May 30, 2014 ruling with the United States Sixth Circuit Court of Appeals. On December 30, 2014, the Sixth Circuit determined that a direct appeal was not warranted and remanded the matter to the U.S. District Court for the Western District of Kentucky (the "District Court") for consideration. On January 6, 2015, the Bankruptcy Court confirmed Seven Counties' plan of reorganization (the "Confirmation Order"). On January 19, 2015, KERS appealed the Confirmation Order. At a hearing on January 20, 2015, the Bankruptcy Court denied a motion by KERS seeking a stay of the Confirmation Order, which would have delayed implementation of the reorganization plan pending the determination of the issues on appeal. After the Bankruptcy Court denial of the stay, KERS filed an emergency motion for a stay with the District Court, which the District Court denied on February 4, 2015. On May 12, 2015, KERS filed a motion with the District Court to certify a question to the Kentucky Supreme Court in connection with whether the relationship between KERS and Seven Counties (i) constituted a "contract" subject to rejection in bankruptcy by Seven Counties or (ii) was a statutory obligation of Seven Counties not constituting a contract. On March 31, 2016 the United States District Court issued a Memorandum of Opinion and Order that (i) denied KERS' motion to certify a question of law to the Kentucky Supreme Court, (ii) reversed the Bankruptcy Court's determination regarding classifying KERS as a multi-employer plan and determined KERS was a multiple employer plan, (iii) affirmed the Bankruptcy Court's decision in all other aspects; and (iv) denied Seven Counties cross-appeal. On April 21, 2016 the Kentucky Retirement Systems Board voted to appeal the decision to the United States Court of Appeals for the Sixth Circuit and the Kentucky Retirement System filed a Notice of Appeal on April 29, 2016. In July 2016, KERS filed a Motion to Supplement the Record with the District Court. On October 18, 2016, Seven Counties filed a response to this motion indicating it had no objection. The Sixth Circuit Court of Appeals granted the Motion to Supplement the Record, and set a briefing schedule. KERS filed its brief with the Sixth Circuit Court of Appeals on January 3, 2017. Seven Counties has 30 days to respond.

Other entities within the Commonwealth, including some entities with pending litigation, are attempting to terminate their participation in KERS. For example, Kentucky Retirement Systems filed an action against Kentucky River Community Care ("KRCC") to compel it to comply with its statutory duties and require retirement plan participation. Similarly, Bluegrass Oakwood, Inc., a subsidiary of Bluegrass MHMR, attempted to terminate its participation in KERS through an action before the Kentucky Court of Appeals that was dismissed on February 24, 2015, resulting in Bluegrass Oakwood remaining as a participant in KERS. No assurance can be provided with respect to the impact of such actions, if any, on the future contribution rates.

In June 2014, the City of Fort Wright, a participating employer in CERS, filed a lawsuit against the Kentucky Retirement Systems' Board of Trustees alleging that the Board invested CERS funds in investments that were prohibited by both statutory and the common law. In addition, the City alleged that the Board of Trustees paid substantial asset management fees, which the suit alleges were improper. Although the exact nature and source of the relief sought is unclear, it appears that the City is seeking a declaration of rights, an injunction barring the placement of CERS assets in certain types of investments, an accounting of CERS assets, restitution of management fees to CERS, and attorney fees. Kentucky Retirement Systems filed a motion to dismiss this action based on a number of legal issues, including the argument that the action was barred by the doctrine of sovereign immunity. Franklin Circuit Court denied the motion to dismiss. An interlocutory appeal of the sovereign immunity issue was filed at the Kentucky Court of Appeals. On September 23, 2016, the Court of Appeals upheld the Franklin Circuit Court's ruling that sovereign immunity did not prohibit this action from proceeding. A motion for discretionary review of this decision was filed with the Kentucky Supreme Court on October 21, 2016.

Damian Stanton filed a Complaint on September 4, 2015, alleging that he is a member of CERS and that the Board invested CERS funds in investments that were prohibited by both statutory and common law, as well as alleging that substantial management fees were paid as a result of the investments. This case contains essentially the same allegations as in the City of Fort Wright case. As in the City of Fort Wright litigation, the exact nature and source of the relief sought is unclear; however, it appears that Mr. Stanton is seeking a declaration of rights, an injunction barring the placement of CERS assets in certain types of investments, an accounting of CERS assets, restitution of management fees to CERS, and attorney fees. This case is being held in abeyance pending the outcome of the Kentucky Retirement Systems' motion for discretionary review in the Fort Wright matter.

Beginning in April 2016, the Governor issued a series of three Executive Orders removing Thomas K. Elliott as a member of the Board of Trustees of the Kentucky Retirement Systems and appointing a replacement. In June 2016, the Governor issued an Executive Order that abolished and recreated the Kentucky Retirement Systems' Board and changed the nature and form of the board in several ways including the addition of four positions for individuals with investment experience. In June 2016, Thomas K. Elliott and others, including the intervening plaintiff Kentucky Attorney General, sought injunctive relief in the Franklin Circuit Court blocking the Executive Orders. In an Opinion and Order on August 22, 2016, the Franklin Circuit Court granted relief from the provisions of the Executive Order removing Mr. Elliott from office, and denied the request to block the re-organization of the Board of Trustees pending a final decision on the merits of the case. On September 8, 2016, the Franklin Circuit Court modified the August 22, 2016 temporary injunction, permitting the removal and replacement of Mr. Elliott as a voting member but allowing Mr. Elliott to continue as a non-voting member of the Kentucky Retirement Systems' Board and the Investment Committee. In all other respects, the August 22, 2016 temporary injunction remains in effect. Oral arguments were held on November 17, 2016. The case is now under submission for a final decision by Franklin Circuit Court on the merits of the case.

On November 17, 2016, Western Kentucky University ("WKU") filed a motion in Franklin Circuit Court seeking a judgement against the Kentucky Retirement Systems after the Kentucky Retirement Systems asserted WKU should continue to make retirement contributions for employees who were purportedly fired as WKU employees and then rehired as contract labor. An Agreed Order was issued in this case extending the Kentucky Retirement Systems' deadline for filing an answer to January 31, 2017.

On November 29, 2016, a number of current and retired teachers from and in the public schools of the Commonwealth initiated an action in Franklin, Kentucky Circuit Court, individually and as representatives of the class of all similarly situated teachers covered by TRS. To date, the Court has not certified the plaintiffs to act as representatives of a class. The action against the Governor, the President of the Kentucky Senate, and the Speaker of the Kentucky House of Representatives seeks declaratory relief requiring the defendants as representatives of the Executive and Legislative branches of the Commonwealth to cure the financial deficiency of TRS for the benefit of the plaintiffs, among other related relief. On January 3, 2017, the defendants filed a Notice of Removal with the United States District Court for the Eastern District of Kentucky for the removal of this case from the Franklin, Kentucky Circuit Court to the United States District Court for the Eastern District of Kentucky due to claims asserted by the plaintiffs arising under the Constitution, laws, or treaties of the United States.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution, the Lease and the Subleases. The statements regarding the Resolution, the Lease and Subleases do not purport to be complete and reference is made to the Resolution, the Lease and the Subleases, copies of which are available for examination at the Office of Financial Management, 702 Capital 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. 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 April 1 and October 1 with respect to the Bonds, and any date set for redemption of Bonds prior to maturity (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

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

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

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund (the "Costs 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 (the "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 Holders. The Construction Fund will be used for the purposes of funding that portion of the Project financed with proceeds of the Bonds consisting of the acquisition, construction or undertaking of new property in connection with buildings, real estate, economic development projects, or community development projects, including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings, appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Fund.

Federal Tax Covenants of the Commission. The Commission has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that the interest paid on the Bonds by the Commission shall be excludible from the gross income of the Holders of such Bonds for the purposes of federal income taxation and not permit the Bonds to be or become "arbitrage bonds," as defined in the Code. The Resolution creates a Rebate Fund (the "Rebate Fund") for the Bonds to be held and maintained by the Trustee, for the deposit of any amounts which are required to be deposited therein pursuant to the Tax Exemption Certificate and Agreement between the Commission and the Trustee.

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

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

- (a) Default in the due and punctual payment of the interest on any Bond;
- (b) Default in the due and punctual payment of the principal of or premium, if any, on any Bond at maturity or upon redemption prior to maturity; or
- (c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Commission in the Resolution or in the Bonds contained, and the continuance thereof for a period of 30 days after written notice given by the Trustee to the Commission or by the Holders of not less than 25 percent in aggregate principal amount of Bonds Outstanding, to the Commission and the Trustee; provided, however, that if such event of default can, in the opinion of the Trustee, be corrected but not within such period, it shall not

constitute an event of default hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

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

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

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

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

Individual Holder Action Restricted. No Holder of Bonds has any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Resolution or for the execution of any trust thereof or for the appointment of a receiver or the enforcement of any other right under the Kentucky Revised Statutes, unless such Holder has given to the Trustee written notice of the event of default or breach of trust or duty on account of which such suit, action, or proceeding is to be taken and unless the Holders of not less than 25 percent in aggregate principal amount of Bonds Outstanding have made written request accompanied by indemnity and security satisfactory to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers

granted by the Resolution or to institute such action, suit, or proceeding in its own name, and the Trustee thereafter fails or refuses to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its, his or their own name or names. It is understood and intended that no one or more Holders of Bonds have any right in any manner whatsoever to affect, disturb or prejudice the security of the Resolution by its, his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity will be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all of such Bonds then Outstanding. Nothing contained in the Resolution or in the Bonds affects or impairs the right of any Holder of any Bond to payment of the principal of, premium, if any, or interest on such Bond at and after the maturity thereof or the obligation of the Commission to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders thereof at the time and place, from the source, and in the manner therein provided and in the Bonds expressed.

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of at least 66 2/3 percent of the principal amount of Bonds Outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

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

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

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

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

Whenever there shall be held by the Trustee in the Bond 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, premium, if any, 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, as set forth in a verification report from a firm of independent certified public accountants, 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 Holders of the Bonds.

As used herein, “Defeasance Obligations” means:

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

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

(c) certificates rated “AAA” by S&P at the time of purchase, “Aaa” by Moody’s at the time of purchase and “AAA” by Fitch (as hereinafter defined) at the time of purchase (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 in a segregated trust account in the trust department separate from the general assets of such custodian; and

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

The Lease and the Subleases

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

The Lease has a current term ending June 30, 2018 and each Sublease has a current term ending June 30, 2018. The Commission has granted the Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even numbered year and each Sublease has corresponding renewal provisions. The last renewal term for the Lease and the Subleases relating to the Bonds ends June 30, 2038, the final maturity date for the Bonds to be issued by the Commission for the Project being April 1, 2038. Under the

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

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

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

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

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof to any party it deems appropriate, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Cabinet's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Cabinet under the Lease upon delivery of an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in gross income for federal income tax purposes. The Cabinet has similar remedies in the event of a default by any Sublessee under its applicable Sublease. The Holders 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 assigned the ratings of "Aa3" (Outlook: Stable), "A" (Outlook: Negative) and "A+" (Outlook: Stable) to the Bonds, respectively. The ratings of each respective rating agency only reflect the views of such rating agency. 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. A rating is not a recommendation to buy, sell or hold the Bonds and 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 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 E. Certain legal matters will be passed upon for the Commission by its counsel. Certain legal matters will be passed upon for the Underwriters by Stites & Harbison, PLLC, Louisville, Kentucky.

LITIGATION

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

TAX TREATMENT

General

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

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

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

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

Although Bond Counsel has rendered an opinion that interest on the 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 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 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 Bonds as “qualified tax-exempt obligations” under Section 265 of the Code.

Tax Treatment of Original Issue Discount

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

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

Tax Treatment of 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 Bonds that have an interest rate that is greater than the yield, as shown on the inside cover page hereto (the “Premium Bonds”) are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each Bond the interest on which is 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 Bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining Bondholder’s taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the “constant yield” method, using the original Bondholder’s basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

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

UNDERWRITING

Citigroup Global Markets Inc., as representative of the Underwriters, has agreed to purchase the Bonds for an aggregate purchase price of \$250,330,468.46 (which is equal to the principal amount of such Bonds plus a net original issue premium of \$23,456,640.15 and less underwriting discount of \$941,171.69). The Underwriters intend

to make an initial public offering of all of the Bonds at not in excess of the public offering price or prices set forth on the inside cover page hereof. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering price or prices stated on the inside cover page hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Commission for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Commission.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Bonds.

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

CONTINUING DISCLOSURE

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 (the “Continuing Disclosure Agreement”), a form of which is attached as EXHIBIT F, 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”), and the appropriate state information depository, if any, of any of the types of events with respect to the Bonds set forth in the form attached hereto. 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 nine (9) months of the end of the fiscal year, commencing with the fiscal year ending June 30, 2017, 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 and in accordance with the Continuing Disclosure Agreement. 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

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 Commission, ALCo, the Turnpike Authority of Kentucky, the Kentucky Local Correctional Facilities Construction Authority, and the State Investment Commission.

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 Commonwealth, 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 funds to fulfill the financial obligations represented by these types of indebtedness. Some issuers covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds, Kentucky Infrastructure Authority Governmental Agencies Program bonds, and Kentucky Infrastructure Authority Wastewater and Drinking Water Revolving Fund Revenue bonds 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**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATINGS*</u>
State Property and Buildings Commission (“SPBC”)	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 (“ALCo”)	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 (“TAK”)	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 (“KHC”)	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 (“KIA”)	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 (“KHESLC”)	KRS 164A Finances, makes and administers loans to fund and refinance costs to attend education institutions as permitted by the state.	Limited to \$5.0 billion of debt outstanding.	Varies
School Facilities Construction Commission (“SFCC”)	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance Authority (“KEDFA”)	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 Public Transportation Infrastructure Authority (“KPTIA”)	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.	Baa3/NR/BBB-

* 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. Certain Turnpike Authority of Kentucky Economic Development Road Revenue Bonds (Revitalization Projects) do not carry ratings from all rating agencies.

Notes

- 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 are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.
- On September 3, 2015, Standard & Poor's downgraded the Commonwealth's issuer credit rating to "A+" from "AA-" and its rating on the Commonwealth's appropriation debt to "A" from "A+". At the same time, Standard & Poor's lowered its rating on debt backed by the Commonwealth state intercept programs for schools and universities to "A" from "A+" and on lease debt issued by various Kentucky county public properties corporations backed by appropriations from Administrative Office of the Courts to "A-" from "A". On January 11, 2017, Standard & Poor's changed the outlook for all from stable to negative.
- On March 4, 2016, Standard & Poor's downgraded the Turnpike Authority of Kentucky's Road Fund appropriation-supported obligations to "AA-" from "AA" and changed the outlook from negative to stable.

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EXHIBIT B

PROJECTS FOR THE BENEFIT OF THE COMMONWEALTH OF KENTUCKY FINANCED UNDER PUBLIC PRIVATE PARTNERSHIPS

Overview

Due to varying factors, including but not limited to, political hurdles, fiscal environment challenges, project complexities, and the sheer size of need between varying sectors, the nation has been faced with the challenge to update fundamental, yet aging, infrastructure nationwide. For these reasons, state and local governments, including the Commonwealth, are driven to explore alternative means for procurement and delivery of such projects. This exploration has resulted in the Public-Private Partnership (“P3”) structures being utilized on specific projects, as a viable method versus traditional public sector financing to design, build and operate required infrastructure projects in aspects of risk sharing, innovation and value to the taxpayer.

The Commonwealth of Kentucky has financed two capital construction projects through the P3 structure. The Commonwealth of Kentucky State Office Building project was financed through the issuance of \$68,757,000 tax-exempt Certificates of Participation (“COPs”). The Next Generation-Kentucky Information Highway project was funded from proceeds of a conduit issue of \$231,950,000 of tax-exempt senior bonds, \$57,996,000 of taxable senior bonds and \$15,229,000 of subordinate bonds via the Kentucky Economic Development Finance Authority.

For a brief summary of P3 projects undertaken by the Commonwealth, please see “Table I, Active Public Private Partnerships,” or read each project’s description below.

Commonwealth P3 Projects

Commonwealth of Kentucky State Office Building project. The Certificates of Participation, Series 2015 (Commonwealth of Kentucky State Office Building project) closed on April 29, 2015. The proceeds of the Series 2015 Certificates provide funds to construct, install, and equip an office building consisting of approximately 371,160 square feet in Frankfort, Kentucky. The office building is designed to accommodate 1,400 workers which will be displaced due to the termination of a lease on privately owned office space used by Commonwealth agencies. Construction commenced in March 2015 and the project achieved substantial completion and final completion on April 1 and May 15, 2016, respectively.

Under a “Design/Build/Finance/Operate/Maintain” structure, the Commonwealth’s Department of Facilities Management issued a request for proposals for construction of the office building. The Commonwealth transferred state-owned property at Sower Boulevard, Frankfort, Kentucky to the winning proposer, CRM/D.W. Wilburn, a single-purpose Kentucky limited liability company comprised of a contract developer and contractor, and executed both a management contract and facilities lease (i.e. ease to purchase) agreement. Under the management contract, the building will be managed by the developer upon completion of the project. Additionally, the lease allows the Commonwealth to use and occupy the building subject to proper management and the payment of periodic lease payments, which consists of base rent and additional rent. The Commonwealth maintains an option to purchase.

The Series 2015 COPs are payable solely from the revenues to be derived from the rental payments of the Finance and Administration Cabinet under the lease and are additionally secured by a letter of credit provided by KeyBank National Association, which will be effective through and including the earlier of occupancy or June 15, 2017.

The complete Official Statement for the Commonwealth State Office Building project may be obtained from the NRMSIR and can be found on the Internet at:

<http://emma.msrb.org/ER1080545.pdf>

Next Generation Kentucky Information Highway project. The Kentucky Economic Development Finance Authority Senior Revenue Bonds (Next Generation Kentucky Information Highway project) closed on September 3,

2015. The proceeds of the bonds provide a loan to a non-profit project borrower for the purpose of paying a portion of the costs of the design, development and construction of the Next Generation Kentucky Information Highway (“NG-KIH”) System. The statewide network, consisting of electronic equipment, fiber cable, outside plant installations, building facilities, interface equipment, network services and customer service is designed to upgrade the services available to its core users, as well as develop a state-wide middle-mile network with excess capacity that could deliver reliable, high-speed internet connectivity throughout Kentucky to stimulate economic activity.

Under a “Design/Build/Finance/Operate/Maintain” structure, the Commonwealth and the project borrower entered into a project implementation agreement, pursuant to which the Commonwealth granted the project borrower an exclusive right to design, construct, operate and maintain the system in return for payments by the Commonwealth in the form of a milestone payment, a designated equipment payment and availability payments.

The borrower’s primary source of revenue is the receipt of availability payments, and in certain circumstances a termination payment, made by the Commonwealth to the borrower under the project agreement. All payments to be made by the Commonwealth are subject to appropriation by the General Assembly.

NG-KIH Design-Build LLC included a detailed Project Schedule and Schedule Update in its *Next Generation Kentucky Information Highway Project EMMA Report* dated October 31, 2016. The target system completion date is currently under negotiation with the Commonwealth and the Design-Build contractors each aiming to minimize absorption of delays. The subsequent long stop date is expected to be approximately 12 months following the negotiated target system completion date.

The complete Official Statement for the Next Generation Kentucky Information Highway project may be obtained from the NRMSIR and can be found on the Internet at:

<http://emma.msrb.org/ES965582.pdf>

Default Record

The Commonwealth has never defaulted on any payments relative to a P3 obligation.

TABLE I
ACTIVE PUBLIC PRIVATE PARTNERSHIPS

<u>PROJECT</u>	<u>Structure</u>	<u>Status</u>	<u>Principal Outstanding</u>
Commonwealth of Kentucky State Office Building	Capital lease payments, consisting of base rent and additional rent, made pursuant to a facilities lease agreement under a 30-year, tax-exempt structure.	Project commenced in March 2015 and achieved substantial completion on April 1, 2016 and final completion on May 15, 2016. Full occupancy was achieved by August 23, 2016.	\$68,575,000
Next Generation - Kentucky Information Highway	Availability payments under a taxable, tax-exempt and subordinate structure for a 30-year term.	Project commenced in 2015 and as of August 2016, target system completion date is currently under negotiation, with the subsequent long stop date expected to follow approximately 12 months later.	\$305,175,000

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EXHIBIT C

THE PROJECT

Agency	Project Title	Revolving Amount
2004-06		
Economic Development	Economic Development Bond Pool 2004-06	470,535.68
2006-08		
Economic Development	Economic Development Bond Pool 2006-08	3,000,000.00
2010-12		
Local Government	Flood Control - State Match 2010-12	3,000,000.00
Economic Development	BRAC Water/Sewer Projects	11,495,000.00
Economic Development	Ky Economic Development Authority Loan Pool 2010-12	22,050,000.00
Economic Development	Economic Development Bonds 2010-12	7,500,000.00
Natural Resources	State Owned Dam Repair	555,803.00
Energy & Environment	Ky Heritage Land Conservation Fund Projects	1,686,486.08
2012-14		
Local Government	Flood Control Matching 2012-14	2,000,000.00
Natural Resources	Maxey Flats Cap	8,000,000.00
Natural Resources	State Owned Dam Repair 2012-14	2,500,000.00
Finance and Administration-Facilities & Support Services	Statewide Microwave Network (KEWS) Maintenance	971,146.66
Finance and Administration-Facilities & Support Services	Council of State Government's Building Complex	135,433.52
Finance and Administration-Facilities & Support Services	Maintenance Pool 2012-14	60,594.21
Health & Family Services	Electrical System Upgrade at Western State Hospital- Design	557,318.99
2014-16		
Veterans Affairs	Construct Fourth State Veterans' Nursing Home - Additional	2,000,000.00
Ky Infrastructure Authority	KIA Fund A-Federally Assisted Wastewater Program 2014-16	3,100,000.00
Ky Infrastructure Authority	KIA Fund F-Drinking Water Revolving Loan Fund 2014-16	1,992,338.34
Military Affairs	Maintenance Pool - 2014-16	105,513.48
Economic Development	Ky Economic Develop Finance Auth Loan Pool - 2014-2016	7,000,000.00
Economic Development	High Tech Construction/Investment Pool - 2014-2016	7,000,000.00

Economic Development	Economic Development Bond Pool - 2014-2016	7,000,000.00
Dept. of Education	Maintenance Pool - 2014-2016	525,000.00
Natural Resources	State-Owned Dam Repair - 2014-2016	600,000.00
Finance & Administration	Business One Stop Portal - Phase II	2,480,736.01
Finance & Administration	Next Generation Kentucky Information Highway	28,467,427.57
Finance and Administration-Facilities & Support Services	Maintenance Pool - 2014-16	623,498.81
Finance and Administration-Facilities & Support Services	Upgrade State Data Center Readiness	1,850,845.41
Health & Family Services	Maintenance Pool - 2014-16	260,296.03
Health & Family Services	Radiation Monitoring Equipment	1,497,325.66
Corrections	Maintenance Pool - 2014-16	379,871.04
Eastern Kentucky University	Construct Science Building - Phase II & III	36,378,303.64
Kentucky State University	Replace Boilers and Repair Aging Distribution Lines	9,794,160.13
Morehead State University	Renovate/Expand Student Services Facility	44,735,075.65
Ky Community & Technical College System	Construct Advanced Manufacturing Facility - Georgetown	12,122,930.31
Fair Board	Ky International Convention Center Renovation and Expansion	48,067,169.24
Fair Board	Freedom Hall Sewer Line Replacement	2,875,837.23
Kentucky Historical Society	Digital Initiatives	1,000,000.00
Kentucky Center for the Arts	Roof Replacement	2,111,500.00
Parks	Upgrade Guest Accommodations	2,608,697.67
Parks	Maintenance Pool - 2014-16	340,530.70
Murray State University	Construct New Breathitt Veterinary Center	8,533,709.09
Murray State University	Construct/Complete New Science Complex, Final Phase	19,426,203.13
Northern Kentucky University	Renovate Old Science/Construct Health Innovation	80,879,807.34
University of Kentucky	Expand/Renovate/Upgrade Law School	35,000,000.00
University of Louisville	Construct Belknap Classroom/Academic Building	78,638,080.98
Western Kentucky University	Renovate Science Campus - Phase IV	42,156,956.01
2016-18		
Ky Infrastructure Authority	KIA Fund A-Federally Assisted Wastewater Program-2016-2018	7,500,000.00
Ky Infrastructure Authority	KIA Fund F-Federally Assisted Drinking Water Revolving Loan Program-2016-2018	6,100,000.00
Economic Development	Economic Development Bond Program - 2016-2018	7,000,000.00
Economic Development	High-Tech Construction/Investment Pool - 2016-2018	7,000,000.00
Economic Development	Kentucky Economic Development Finance Authority Loan Pool - 2016-2018	7,000,000.00

Education and Workforce-Gen Admin & Program Support	Workforce Development Construction Pool	100,000,000.00
Dept of Education-Operations & Support Services	Maintenance Pool 2016-2018	3,000,000.00
Dept of Education-Operations & Support Services	Kentucky School for the Blind Howser Hall Renovation	5,000,000.00
Dept of Education-Operations & Support Services	Kentucky School for the Deaf New Elementary Building	6,000,000.00
Dept of Education-Operations & Support Services	Kentucky School for the Deaf McDaniel/Scoggin Education Building	1,000,000.00
Environmental Protection	State-Owned Dam Repair - 2016-2018	4,000,000.00
Finance-General Administration	Business One-Stop Portal-Phase III	12,000,000.00
Finance-General Administration	Lexington Convention Center Replacement	60,000,000.00
Facilities and Support Services	Maintenance Pool 2016-2018	5,700,000.00
Facilities and Support Services	Upgrade L&N Building	4,375,000.00
Facilities and Support Services	HVAC Replacement-CHR Building	4,500,000.00
Health & Family Services-Gen Admin & Program Support	Maintenance Pool 2016-2018	4,750,000.00
Behavioral Health, Developmental and Intellectual Disabilities	Western State Hospital-Electrical Upgrade-Phase I	4,867,500.00
Corrections-Adult Institutions	Maintenance Pool 2016-2018	5,225,000.00
Corrections-Adult Institutions	Kentucky State Reformatory-Stabilization of Dorm 8	4,155,000.00
Corrections-Adult Institutions	Kentucky State Reformatory-Repair and Stabilize Tower	3,797,000.00
Corrections-Adult Institutions	Kentucky Correctional Institution for Women-Sewer Plant/Lines	2,560,000.00
Parks	Maintenance Pool 2016-2018	7,600,000.00
Parks	Life Safety Maintenance Pool	5,000,000.00
State Fair Board	Kentucky Exposition Center Roof Repair	8,000,000.00
	Grand Total	839,663,631.61

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EXHIBIT D

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

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

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

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EXHIBIT E

FORM OF BOND COUNSEL OPINION FOR THE BONDS

February 8, 2017

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

Re: \$227,815,000 Revenue Bonds, Project No. 115

Ladies and Gentlemen:

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its \$227,815,000 Revenue Bonds, Project No. 115 (the "Bonds"), dated the date hereof.

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 December 12, 2016 (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 February 1, 2017 by and between the Commission, as lessor, and the Cabinet, as lessee (the "Lease"). In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project under Subleases (the "Subleases") to various state agencies (the "State Agencies").

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

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

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

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

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

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

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

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

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

6. The Bonds are not secured by a pledge of, or lien on, any properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal of, premium, if any, and interest solely and only from and are secured by a pledge of the revenues to be derived from the Lease and the Subleases. The ability of the Cabinet to make payments under the Lease, and of the State Agencies to make payments under the Subleases, is dependent on legislative appropriations to the Cabinet and the State Agencies. The Lease currently has a term ending June 30, 2018, and the Subleases currently have terms ending June 30, 2018, with the right to renew the Lease and the Subleases for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

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

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

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

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

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

Very truly yours,

EXHIBIT F

FORM OF CONTINUING DISCLOSURE AGREEMENT

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\$227,815,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue Bonds, Project No. 115

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of February 1, 2017, by the Kentucky State Property and Buildings Commission (the “Issuer”) and acknowledged by U.S. Bank National Association, as trustee (the “Trustee”) under a Bond Resolution adopted by the Issuer on December 12, 2016 (the “Resolution”), is executed and delivered in connection with the issuance of the Issuer’s \$227,815,000 principal amount of Revenue Bonds, Project No. 115 (the “Bonds”). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof. The parties agree as follows:

ARTICLE I

THE UNDERTAKING

SECTION 1.1. Purpose. This Agreement constitutes a written undertaking of the Issuer, providing for the disclosure of certain information concerning the Bonds on an on-going basis as set forth herein for the benefit of Holders and beneficial owners of the Bonds in accordance with the provisions of the Rule.

SECTION 1.2. Annual Financial Information. (a) The Issuer shall provide, or shall cause to be provided, Annual Financial Information with respect to each fiscal year of the Commonwealth of Kentucky (the “Commonwealth”), commencing with the fiscal year ending June 30, 2017, by no later than 9 months after the end of the respective fiscal year, but in any event shall provide Audited Financial Statements no later than 15 business days after the final publication date of such Audited Financial Statements, to the MSRB.

(b) The Issuer shall provide, or shall cause to be provided, in a timely manner, but in any event on a date not in excess of 10 business days after the occurrence of such failure, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsections (a) and (b) above to the MSRB.

SECTION 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Issuer shall provide Audited Financial Statements, when and if available, to the MSRB.

SECTION 1.4. Notices of Material Events. If a Material Event occurs, the Issuer shall provide, or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the Material Event, a Material Event Notice to the MSRB.

SECTION 1.5. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

ARTICLE II

OPERATING RULES

SECTION 2.1. References to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents previously either (i) provided

to the MSRB or (ii) filed with the SEC. If such a document is the Official Statement, it also must be available from the MSRB.

SECTION 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

SECTION 2.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

SECTION 2.4. Manner of Transmission of Information and Notices. (a) Information required to be provided to the MSRB shall be transmitted to the MSRB, in an electronic format as prescribed by the MSRB, and accompanied by identifying information as prescribed by the MSRB. A description of such format and information as presently prescribed by the MSRB is included in Attachment A hereto.

(b) Except as required by subsection (a) above or unless otherwise required by law, the Issuer shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Issuer's information and notices, subject to technical and economic feasibility in the Issuer's sole determination.

SECTION 2.5. Fiscal Year. Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The current fiscal year of the Commonwealth is July 1 - June 30, and the Issuer shall promptly notify in writing the MSRB of each change in the fiscal year of the Commonwealth and the State Agency.

SECTION 2.6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to the terms of this Agreement.

ARTICLE III

TERMINATION, AMENDMENT AND ENFORCEMENT

SECTION 3.1. Termination. (a) The Issuer's obligations under this Agreement shall terminate upon a legal defeasance pursuant to Section 10.03 of the Resolution, prior redemption or payment in full of all of the Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (i) delivers to the Trustee and the MSRB an opinion of Stites & Harbison, PLLC or nationally recognized bond counsel or other counsel expert in federal securities laws selected by the Issuer, addressed to the Issuer and Trustee, to the effect that those portions of the Rule which require the provisions of this Agreement, or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion.

SECTION 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the Holders of the Bonds, (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied; (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Stites & Harbison, PLLC or nationally recognized bond counsel or other counsel expert in federal securities laws selected by the Issuer, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (2) above and, (4) either (i) the Issuer shall have delivered to the Trustee an opinion of Dinsmore & Shohl LLP or other nationally recognized

bond counsel or counsel expert in federal securities laws selected by the Issuer, addressed to the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the beneficial owners of the Bonds, or (ii) the Holders of 100 percent of the principal amount of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of Holders of Bonds pursuant to Section 10.02 of the Resolution as in effect on the date of this Agreement, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB. The Trustee shall not be required to sign any amendment to this Agreement which adversely affects its rights or duties hereunder.

(b) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall inure solely to the benefit of the Holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement.

(b) Except as provided in this subsection (b), the provisions of this Agreement shall create no rights in any person or entity. The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Holder of Outstanding Bonds, or by the Trustee on behalf of the Holders of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Holders of Outstanding Bonds, provided, however, that the Trustee shall not be required to take any enforcement action under this subsection (b) except at the written direction of the Holders of not less than twenty-five percent in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity reasonably satisfactory to it. The Holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Holders of Bonds for purposes of this subsection (b) unless and until the respective Holder exercises any rights pursuant to this subsection (b).

(c) Any failure by the Issuer to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the Commonwealth.

ARTICLE IV

DEFINITIONS

SECTION 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

“Annual Financial Information” means the financial information or operating data with respect to the Commonwealth, for each fiscal year of the Commonwealth, as set forth in the documents entitled Comprehensive

Annual Financial Report and Supplementary Information to the Comprehensive Annual Financial Report (or successor reports).

“*Audited Financial Statements*” means the annual financial statements, if any, of the Commonwealth, audited by such auditor as shall then be required or permitted by state law. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that the Commonwealth may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to the MSRB, and shall include a reference to the specific federal or state law or regulation describing such accounting basis.

“*Dissemination Agent*” means any entity designated by the Issuer to act as the Dissemination Agent hereunder.

“*GAAP*” means generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board.

“*Material Event*” means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise:

- (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 securities, or other material events affecting the tax-exempt status of the securities;
- (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 an 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 Holders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986) and tender offers;
- (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.

“Material Event Notice” means written or electronic notice of a Material Event.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended. The MSRB as of the date of this Agreement is the sole nationally recognized municipal securities information repository.

“Official Statement” means the “final official statement”, as defined in paragraph (f)(3) of the Rule, relating to the Bonds.

“Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CRF Part 240, § 240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof.

“SEC” means the United States Securities and Exchange Commission.

“Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE V

MISCELLANEOUS

SECTION 5.1. Duties, Immunities and Liabilities of Trustee. Article IX of the Resolution is hereby made applicable to this Agreement as if this Agreement were (solely for this purpose) contained in the Resolution.

SECTION 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

KENTUCKY STATE PROPERTY AND BUILDINGS
COMMISSION

By _____

Title: _____

Acknowledged by:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____

Title: _____

ATTACHMENT A

MSRB PROCEDURES FOR SUBMISSION OF CONTINUING DISCLOSURE DOCUMENTS AND RELATED INFORMATION

Securities and Exchange Commission Release No. 34-59061 (the "Release") approves an MSRB rule change establishing a continuing disclosure service of the MSRB's Electronic Municipal Market Access system ("EMMA"). The rule change establishes, as a component of EMMA, the continuing disclosure service for the receipt of, and for making available to the public, continuing disclosure documents and related information to be submitted by issuers, obligated persons and their agents pursuant to continuing disclosure undertakings entered into consistent with Rule 15c2-12 ("Rule 15c2-12") under the Securities Exchange Act of 1934. The following discussion summarizes procedures for filing continuing disclosure documents and related information with the MSRB as described in the Release.

All continuing disclosure documents and related information are to be submitted to the MSRB, free of charge, through an Internet-based electronic submitter interface or electronic computer-to-computer data connection, at the election of the submitter. The submitter is to provide, at the time of submission, information necessary to accurately identify: (i) the category of information being provided; (ii) the period covered by any annual financial information, financial statements or other financial information or operating data; (iii) the issues or specific securities to which such document is related or otherwise material (including CUSIP number, issuer name, state, issue description/securities name, dated date, maturity date, and/or coupon rate); (iv) the name of any obligated person other than the issuer; (v) the name and date of the document; and (vi) contact information for the submitter.

Submissions to the MSRB are to be made as portable document format (PDF) files configured to permit documents to be saved, viewed, printed and retransmitted by electronic means. If the submitted file is a reproduction of the original document, the submitted file must maintain the graphical and textual integrity of the original document. In addition, such PDF files must be word-searchable (that is, allowing the user to search for specific terms used within the document through a search or find function), provided that diagrams, images and other non-textual elements will not be required to be word-searchable.

All submissions to the MSRB's continuing disclosure service are to be made through password protected accounts on EMMA by (i) issuers, which may submit any documents with respect to their municipal securities; (ii) obligated persons, which may submit any documents with respect to any municipal securities for which they are obligated; and (iii) agents, designated by issuers and obligated persons to submit documents and information on their behalf. Such designated agents are required to register to obtain password-protected accounts on EMMA in order to make submissions on behalf of the designating issuers or obligating persons. Any party identified in a continuing disclosure undertaking as a dissemination agent or other party responsible for disseminating continuing disclosure documents on behalf of an issuer or obligated person will be permitted to act as a designated agent for such issuer or obligated person, without a designation being made by the issuer or obligated person as described above, if such party certifies through the EMMA on-line account management utility that it is authorized to disseminate continuing disclosure documents on behalf of the issuer or obligated person under the continuing disclosure undertaking. The issuer or obligated person, through the EMMA on-line account management utility, is able to revoke the authority of such party to act as a designated agent.

The MSRB's Internet-based electronic submitter interface (EMMA Dataport) is at www.emma.msrb.org.

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