In the opinion of Bond Counsel for the Fourth Series Bonds, interest on the Bonds is exempt from Kentucky income tax and the Fourth Series Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. HOWEVER, INTEREST ON THE FOURTH SERIES BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. See "TAX MATTERS" herein.

$43,700,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series)

Dated: Date of Delivery **Due**: November 1, as shown below

The Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series) (the "Fourth Series 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 Fourth Series Bonds. Purchasers will not receive certificates representing their ownership interest in the Fourth Series Bonds purchased. So long as DTC or its nominee is the registered owner of the Fourth Series Bonds, payments of the principal of and interest due on the Fourth Series Bonds will be made directly to DTC. The Fourth Series Bonds will be issued in denominations of $1,000 or any integral multiple thereof and will hear interest payable on each May 1 and November 1, commencing on May 1, 2012. Principal of and interest on the Fourth Series Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent.

The Fourth Series Bonds are subject to redemption as described herein.

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

Maturity (November 1)	Principal Amount	Interest Rate	Price/ Yield	CUSIP*
2012	$550,000	0.950%	100%	49151FBC3
2013	555,000	1.250%	100%	49151FBD1
2014	565,000	1.650%	100%	49151FBE9
2015	5,500,000	2.031%	100%	49151FAV2
2016	5,615,000	2.531%	100%	49151FAW0
2017	5,770,000	3.027%	100%	49151FAX8
2018	5,955,000	3.277%	100%	49151FAY6
2019	6,165,000	3.509%	100%	49151FAZ3
2020	6,390,000	3.709%	100%	49151FBA7
2021	6,635,000	3.909%	100%	49151FBB5

(no accrued interest)

The Fourth Series Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet"), pursuant to a Resolution adopted October 13, 2011, to (i) refund certain of the Commission's outstanding bonds, as more fully described and defined herein and (ii) pay costs of issuing the Fourth Series Bonds.

THE FOURTH SERIES BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE FOURTH SERIES 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, TOGETHER WITH THE THIRD SERIES BONDS (AS MORE FULLY DESCRIBED HEREIN), SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE WITH THE TRANSPORTATION CABINET (AS DESCRIBED AND DEFINED HEREIN) THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM. SEE "SECURITY FOR THE FOURTH SERIES BONDS" HEREIN.

The Fourth Series Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Frost Brown Todd LLC, Louisville, Kentucky. It is expected that delivery of the Fourth Series Bonds will be made on or about November 15, 2011, in New York, New York, through the facilities of DTC, against payment therefor.

MORGAN STANLEY
Citi

J.J.B. Hilliard, W.L. Lyons, LLC **PNC Capital Markets LLC** **Morgan Keegan & Co., Inc.**
Stifel, Nicolaus & Company, Incorporated **Edward D. Jones & Co., L.P.** **First Kentucky Securities Corp.**
Sterne, Agee, & Leach, Inc. **Ross, Sinclaire & Associates, LLC**

Dated: November 2, 2011

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

MEMBERS

STEVEN L. BESHEAR
Governor
(Chairman of the Commission)

DANIEL MONGIARDO
Lieutenant Governor

JACK CONWAY
Attorney General

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

LARRY M. HAYES
Secretary
Cabinet for Economic Development

MARY E. LASSITER
State Budget Director

EDGAR C. ROSS
State Controller

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

This Official Statement does not constitute an offer to sell the Fourth Series Bonds to any person, or the solicitation of an offer from any person to buy the Fourth Series 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 Fourth Series 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 Fourth Series Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

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

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.

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

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission, the Transportation Cabinet, and the Fourth Series 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 Fourth Series 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 Fourth Series Bonds unless the entire Official Statement is delivered in connection therewith.

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

The Offering The Commission is offering its $43,700,000 Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series) (the "Fourth Series Bonds").

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

Use of Proceeds The Fourth Series Bonds are being issued to provide funds to (i) refund certain of the Commission's outstanding Road Fund Revenue Bonds, Project No. 73 (Second Series) (the "Prior Bonds"), as more fully defined and described herein and (ii) pay costs of issuing the Fourth Series Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS".

Security The Fourth Series Bonds, together with the Third Series Bonds, hereinafter defined, are payable solely from amounts deposited in certain funds and accounts created by the Resolution and from the Revenues to be derived from the rental payments of the Transportation Cabinet to the Commission under the Lease. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Lease" herein. The Fourth Series Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom. See "SECURITY FOR THE FOURTH SERIES BONDS" herein.

THE FOURTH SERIES BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE FOURTH SERIES 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, TOGETHER WITH THE THIRD SERIES BONDS, SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE AGREEMENT WITH THE TRANSPORTATION CABINET, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Features of Bonds

The Fourth Series Bonds are being offered in the authorized denominations of $1,000 or any integral multiple thereof, at the interest rates, yields or purchase prices set forth on the cover hereof. The Fourth Series Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Fourth Series Bonds. Purchasers will not receive certificates representing their ownership interest in the Fourth Series Bonds purchased. So long as DTC or its nominee is the registered owner of the Fourth Series Bonds, payments of the principal of and interest due on the Fourth Series Bonds will be made directly to DTC.

The Fourth Series Bonds will bear interest payable on each May 1 and November 1, commencing on May 1, 2012. Principal of and interest on the Fourth Series Bonds will be paid directly to DTC by, U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee").

The Fourth Series Bonds are issuable only as fully registered bonds, without coupons. It is expected that delivery of the Fourth Series Bonds will be made on or about November 15, 2011, in New York, New York, against payment therefor.

The Fourth Series Bonds are subject to redemption at the option of the Commission, in whole or in part on any date, at a redemption price equal to the Make-Whole Redemption Price, plus accrued interest to the redemption date. See "THE FOURTH SERIES BONDS" herein.

Tax Status

Interest on the Fourth Series Bonds is not excludible from gross income for Federal income tax purposes. Bond Counsel is of the opinion that interest on the Fourth Series Bonds is exempt from Kentucky income taxes and the Fourth Series Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX MATTERS" herein for a more complete discussion, and EXHIBIT C.

Continuing Disclosure

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

General

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

Information

Information regarding the Fourth Series Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924, or, during the initial offering period, by contacting the representative of the Underwriters, Morgan Stanley, 1585 Broadway, New York, New York 10036, (212) 761-1284.

OFFICIAL STATEMENT
Relating to

$43,700,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series)

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 $43,700,000 Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series) (the "Fourth Series Bonds") issued at the request of the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet") to provide funds to (i) refund certain of the Commission's outstanding Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series) (the "Prior Bonds"), as more fully defined and described herein, which were issued to refinance costs of constructing, acquiring, installing and equipping the Project (as hereinafter described and defined) and (ii) pay costs of issuing the Fourth Series Bonds. See "PLAN OF FINANCE."

The Fourth Series Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Resolution (the "Resolution") authorizing the issuance of the Fourth Series Bonds on October 13, 2011 and affirming the Lease hereinafter described.

The Transportation Cabinet has, as lessee, entered into a Lease dated as of November 1, 2001, with the Commission, as lessor (as supplemented and amended the "Lease"), to provide the Commission with amounts to pay the principal of and interest on the Bonds and any Refunding Bonds, both as hereinafter defined and any refunding bonds, as they become due. The current term of the Lease ends June 30, 2012, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Transportation Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Transportation Cabinet, for each biennial period during which the Bonds are outstanding, to seek legislative appropriations to the Transportation Cabinet in amounts which are sufficient to permit the Transportation Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Bonds. The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2012.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE TRANSPORTATION CABINET OR THE COMMISSION NOR IS THE TRANSPORTATION CABINET OR THE COMMISSION UNDER ANY OBLIGATION TO RENEW THE LEASE. THE FOURTH SERIES BONDS, TOGETHER WITH THE THIRD SERIES BONDS, ARE PAYABLE SOLELY FROM AND SECURED BY CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND ARE NOT SECURED BY ANY LIEN ON OR INTEREST IN THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commonwealth, the Commission, the Transportation Cabinet, the Resolution, the Bonds, the Lease and the Project are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924.

PLAN OF FINANCE

General

The proceeds of the Fourth Series Bonds will be used by the Commission to (i) pay the principal and interest on the Prior Bonds to and including their date for redemption, and (ii) pay costs of issuing the Fourth Series Bonds. See "SOURCES AND USES OF FUNDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The maturity dates, interest rates, par amounts, redemption dates and redemption prices of the Commission's Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series) (the "Prior Bonds") are set forth below:

Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series)	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
	November 1, 2015	4.875%	$1,090,000	November 1, 2012	100.000
	November 1, 2015	5.625%	3,920,000	November 1, 2012	100.000
	November 1, 2016	4.950%	210,000	November 1, 2012	100.000
	November 1, 2016	5.500%	5,070,000	November 1, 2012	100.000
	November 1, 2017	5.000%	475,000	November 1, 2012	100.000
	November 1, 2017	5.500%	5,095,000	November 1, 2012	100.000
	November 1, 2018	5.100%	720,000	November 1, 2012	100.000
	November 1, 2018	5.500%	5,155,000	November 1, 2012	100.000
	November 1, 2019	5.150%	1,335,000	November 1, 2012	100.000
	November 1, 2019	5.000%	4,860,000	November 1, 2012	100.000
	November 1, 2020	5.200%	1,250,000	November 1, 2012	100.000
	November 1, 2020	5.000%	5,255,000	November 1, 2012	100.000
	November 1, 2021	5.200%	2,585,000	November 1, 2012	100.000
	November 1, 2021	5.000%	4,250,000	November 1, 2012	100.000
			$41,270,000		

To provide for the refunding of the Prior Bonds, on the date of issuance of the Fourth Series Bonds, certain proceeds of the Fourth Series Bonds will be deposited with the Trustee in an Escrow Fund created under the Bond Resolution and held in cash or used to purchase investments permitted by the Bond Resolution and the resolution authorizing the Prior Bonds (the "Escrow Obligations"), the principal of and interest on which will be sufficient to pay principal of and interest on the Prior Bonds, when due, at their respective maturity dates or dates for prior redemption (the "Prior Bond Payment Dates"). The principal of and interest on the Escrow Obligations will be sufficient to pay principal of and interest on the Prior Bonds on the Prior Bond Payment Dates. There are no redemption premiums applicable to the Prior Bonds to be redeemed in advance of their maturity. See "VERIFICATION" herein.

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

Outstanding Commission Bonds

As of November 1, 2011, the Commission had an aggregate principal amount of $4,163,605,000.00 of bonds outstanding. Of that amount, the principal amount of bonds payable from Road Fund appropriations includes the Prior Bonds; $12,880,000 outstanding principal amount of the Commission's Road Fund Revenue Refunding Bonds, Project No. 73 (Third Series) (the "Third Series Bonds") and $28,285,000 outstanding principal amount of the Commission's Road Fund Revenue Bonds, Project No. 94. All other outstanding bonds of the Commission are payable from General Fund appropriations or appropriations made from various state agency funds.

SOURCES AND USES OF FUNDS

The following table sets forth the application of the proceeds of the Fourth Series Bonds and the implementation of the Plan of Finance described above:

SOURCES OF FUNDS:	
Par Amount of Fourth Series Bonds	$43,700,000.00
TOTAL SOURCES	$43,700,000.00
USES OF FUNDS:	
Escrow Fund Deposit	$43,402,732.82
Costs of Issuance*	297,267.18
TOTAL USES	$43,700,000.00

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

THE FOURTH SERIES BONDS

General

The Fourth Series Bonds are issuable only as fully registered bonds. The Fourth Series Bonds will be issuable in the denominations of $1,000 or integral multiples thereof, will be dated the date of their delivery, and will bear interest payable on each May 1 and November 1, commencing May 1, 2012, at the interest rates set forth on the cover page of this Official Statement. U.S. Bank National Association, Louisville, Kentucky, is the trustee for the Fourth Series Bonds (the "Trustee").

Redemption Provisions

Optional Redemption. The Fourth Series Bonds are subject to redemption at the option of the Commission, in whole or in part on any date, at a redemption price equal to the Make-Whole Redemption Price (determined by an independent accounting, investment banking, or financial advisory firm retained by the Commission to calculate such redemption price), plus accrued interest to the redemption date.

"Make-Whole Redemption Price" means the greater of (i) 100% of the principal amount of the Fourth Series Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Fourth Series Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Fourth Series Bonds are to be redeemed, discounted to the date on which the Fourth Series Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus twenty-five (25) basis points.

"Treasury Rate" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Fourth Series serial bonds to be redeemed; provided, however, that if the period from the redemption date to such date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Selection of Bonds for Redemption; Notice of Redemption. The Commission has directed the Trustee to notify DTC that in the event less than all of any Fourth Series Bonds are to be redeemed, any such redemption shall be on a pro rata basis in a principal amount equal to authorized denominations of $1,000 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 Fourth Series Bonds of a series on a pro rata basis in the event of a partial redemption as described above.

At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Fourth Series 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 Fourth Series 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 Fourth Series Bond shall not affect the validity of the redemption of any other Fourth Series 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 Fourth Series 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 Fourth Series 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 Fourth Series Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Fourth Series Bonds to be redeemed and, in the case of Fourth Series 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 Fourth Series Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to DTC, and at least two (2) national information services that disseminate notices of redemption of obligations such as the Fourth Series Bonds; provided however, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Fourth Series 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 Fourth Series 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 Fourth Series Bonds receives the notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Fourth Series Bonds so called for redemption shall cease to accrue after the date fixed for redemption.

Book-Entry-Only System

The Fourth Series 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 Fourth Series Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Fourth Series Bonds under the Resolution. For additional information about DTC and the book-entry-only system, see EXHIBIT B – "BOOK-ENTRY-ONLY SYSTEM."

SECURITY FOR THE FOURTH SERIES BONDS

General

The Fourth Series Bonds are payable solely from, and are on a parity with the Third Series Bonds with respect to, the revenues to be derived from the rental payments of the Cabinet under the Lease. See the captions "SUMMARIES OF THE PRINCIPAL DOCUMENTS -- The Lease" and "PLAN OF FINANCE." The Fourth Series Bonds are not secured by a lien on any properties constituting the Project or any amounts derived therefrom.

The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds, including the Fourth Series Bonds, through June 30, 2012. Amounts deposited in the Escrow Fund are sufficient to meet the debt service requirements of the Prior Bonds to their redemption date. Rental payments under the Lease will be the sole source of payment for the Fourth Series Bonds. See "PLAN OF FINANCE" herein.

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

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

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

Additional Bonds

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

Based upon the amounts credited to the Road Fund for the 12-month period ended September 30, 2011, without assuming the issuance of the Fourth Series Bonds at the interest rates and with the principal maturities that are set forth on the cover page of this Official Statement which will ultimately lower the overall debt service payments, the Maximum Annual Debt Service is approximately $136,199,761, which includes payments by the Transportation Cabinet to the Turnpike Authority and the Commission, making the estimated ratio of Adjusted Revenues to Maximum Annual Debt Service to be 7.51 times. See "THE TRANSPORTATION CABINET—Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

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

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

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

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

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

Conditions to Additional Indebtedness

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

THE PROJECT

The facilities and improvements constituting the Project consist of an approximately 420,000 square foot office building and a 1,500 space parking structure which serves as the primary office building for the Transportation Cabinet in the Commonwealth. The Transportation Cabinet has leased the Project from the Commission under the Lease.

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 Office serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue and revenue refunding bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease-rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Transportation Cabinet has applied to the Commission to issue the Fourth Series Bonds secured by revenues from the Lease. The Resolution was adopted by the Commission on October 13, 2011.

Future Financings

The 2010 Extraordinary (Special) Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. Governor Beshear took final action on the bills on June 4, 2010. Together, the bills authorize bond financing for projects totaling $1,980.2 million to support various capital initiatives of the Commonwealth. Of the total authorization, $507.4 million is General Fund supported, $515.3 million is Agency Restricted Fund supported, $522.5 million is supported by Road Fund appropriations and $435 million is Federal Highway Trust Fund supported through Grant Anticipation Revenue Vehicle Bonds designated for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Bridges Ohio River Bridges Project. A portion of the General Fund, Agency Restricted Fund and Road Fund authorizations have been permanently financed. The Executive Branch Budget also calls for approximately $503 million of budgetary savings during the biennium to be achieved through a combination of contract reductions, non-merit personnel cost reductions, debt restructuring, and other efficiency measures.

The 2010 Regular Session of the General Assembly authorized House Bill 531 which amended certain sections of KRS 56.860 and authorized ALCo to issue up to $875 million of Funding Notes for the purpose of financing or refinancing obligations owed under KRS 161.550 or 161.553 to the Teachers' Retirement System of the State of Kentucky (see "State Retirement Systems" herein). To date $737.37 million has been issued. ALCo may issue additional Funding Notes based on this authorization in the future.

The balance of prior bond authorizations of the General Assembly dating back to 2005 totals $546.6 million. Of these prior authorizations, $175.4 million is General Fund supported, $40.2 million is Agency Restricted Fund supported, $200 million is supported by Road Fund appropriations and $131 million is Federal Highway Trust Fund supported.

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

THE TRANSPORTATION CABINET

General

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

The Transportation Cabinet is responsible for the construction, reconstruction and maintenance of the Commonwealth's primary road system, which carries an estimated 87% of the Commonwealth's motor vehicle traffic. This represents nearly 41.7 billion vehicle miles of travel. The system consists of some 27,582 miles of parkways, interstate highways, the economic development road system, primary roads, secondary roads, rural secondary roads and supplemental roads, and includes nearly 9,000 bridges. Additionally, the Transportation Cabinet provides direction for licensed airports and heliports throughout the Commonwealth.

The Transportation Cabinet also regulates the operation of motor vehicles upon Kentucky's public highways and registers approximately 4.0 million vehicles and licenses 3.0 million drivers. The Transportation Cabinet is also responsible for enforcing Kentucky and federal laws and regulations pertaining to commercial vehicles in regard to weight and size limits, operating authority, safety, and tax compliance.

Organization and Management

The Transportation Cabinet is organized into four major operating departments: Highways, Rural and Municipal Aid, Vehicle Regulation, and Aviation. Eleven offices perform staff functions: Office of the Secretary, Budget and Fiscal Management, Legal Services, Inspector General, Information Technology, Support Services, Audits, Human Resources Management, Transportation Delivery, Civil Rights, Small Business Development and Public Affairs. The Transportation Cabinet employs approximately 4,750 people on a full-time basis.

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

Operations and Maintenance

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

The Transportation Cabinet relies on automated systems for tracking and assessing the activities in virtually all functional areas. The Transportation Cabinet uses a sophisticated automated maintenance management system that provides managers with performance data on all aspects of roadway maintenance work. The Transportation Cabinet also maintains an extensive and detailed database of the Commonwealth's highway infrastructure.

The Transportation Cabinet is committed to efficiency and cost containment. First, the Commonwealth has made an effort over the past decade to restrain growth in government employment levels. The Kentucky Transportation Cabinet has been among the most successful state agencies in actually reducing personnel levels. Second, the Transportation Cabinet has sought to use private contractors to perform maintenance and other functions where economies can and have been realized. Finally, the Transportation Cabinet's enhanced program of resurfacing and major road construction and reconstruction has reduced the need for day-to-day maintenance on many routes.

Capital Planning for Highways

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

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

The Six-Year Plan consists of a biennial construction program and a four-year preconstruction planning document. It is through this plan that legislative involvement in the project development process has been assured. In recent years, the Six-Year Plan has formed the foundation for development by the Transportation Cabinet of a more forward-looking transportation planning tool, which is formally known as the “Statewide Transportation Plan.” This plan, required first by the 1991 Federal Authorization Act, Intermodal Surface Transportation Efficiency Act (ISTEA) and continued in the Transportation Equity Act for the 21st Century (TEA-21) in 1998 and the Safe, Accountable, Flexible, Efficient Transportation Equity Act, A Legacy for Users (SAFETEA-LU) in 2005, integrates all modes of transportation and expands the horizon of project needs identification beyond the six-year period prescribed by Kentucky statutes and allows a more far-sighted approach to transportation planning.

Highway Plan Development. Beginning with an unconstrained list of potential projects, the planning process, utilizing input from local citizens and officials, Area Development District Public Involvement Committees, Metropolitan Planning Organization Committees, and Transportation Cabinet staff, sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years and approved by the Kentucky Legislature every two years, represent the highest priority projects and constitute the Six-Year Plan. The remaining projects are prioritized and selected every four years for the Statewide Transportation Plan and for possible inclusion in later Six-Year Plans. The most current Six-Year Plan consists of approximately 1,325 roadway projects that are eligible for state and federal funding. Each project has been evaluated, based on its relative contribution toward the satisfaction of four goal-oriented criteria. These goals focus on: (1) preservation and management of the existing transportation system, (2) providing system connectivity of the individual modes to promote economic development, (3) coordination and cooperation among a wide variety of interests in the transportation planning process, and (4) enhancement of transportation system safety and convenience for the benefit of its many users.

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

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

Implementation of the Six-Year Plan. Kentucky’s Six-Year Highway Plan is funded through the use of Commonwealth and federal highway dollars. Commonwealth funds are generally derived from fuel and motor vehicle excise taxes and other revenues to the Road Fund, plus the proceeds from road bonds issued by the Turnpike Authority. Commonwealth funds are allocated to the Transportation Cabinet on a biennial basis and are used to finance state-funded projects or to match federal aid funds at various participation ratios dictated by the federal government. The majority of Kentucky’s federal-aid highway funds are appropriated annually from the Federal Highway Trust Fund operated by the U.S. Department of Transportation. The annual federal-aid highway fund appropriation is governed by a multi-year federal authorization act. The most recent authorization act, SAFETEA-LU, was enacted in 2005 and extends the Federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009. Congress did not enact a replacement for, or significant extension to SAFETEA-LU before the law’s October 1, 2009 expiration. In lieu of a new authorization act, Congress has enacted a series of eight Continuing Resolutions to extend the provision of SAFETEA-LU. The current Continuing Resolution extends the program through March 31, 2012.

These federal-aid monies are generated by federal excise taxes and are made available in specific dollar amounts for specific types of improvements (i.e., interstate maintenance, national highway system, surface transportation program, bridge replacement projects, etc.). As an Appalachian state, the Commonwealth also receives an annual apportionment of Appalachian highway funds from the Federal Highway Trust Fund. Regardless of origin, all federal dollars must be spent within the appropriate funding category and cannot be transferred for use in other federal-aid categories except as specifically permitted by federal legislation.

In preparing the Six-Year Plan, the Transportation Cabinet projects anticipated future funding levels against which future projects can be established. An effort is made to identify annual funding ceilings within each funding category and to budget proposed highway activities against those dollars expected to be available during the period. Once anticipated funding levels are set, projects are included in each funding category.

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

Revenue Sources of the Transportation Cabinet

General. The Transportation Cabinet is funded through appropriations from a diversified revenue base, including the Road Fund, federal funds, restricted agency funds, and the Commonwealth's General Fund. In addition, the Transportation Cabinet expends funds on behalf of various government agencies and other organizations, including the Turnpike Authority, that participates in the construction and maintenance of highway projects and the Commission. In the case of both the Turnpike Authority and the Commission, these funds are generated through the issuance of revenue bonds.

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

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

Following is a brief description of the various sources of revenue deposited in the Road Fund. The table under "THE TRANSPORTATION CABINET - Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein provides an accounting of the portion of these revenue sources over each of the past six Fiscal Years that were available to pay debt service. These amounts are shown exclusive of any taxes, fees and miscellaneous revenues that are dedicated for other uses.

Motor Vehicle Usage Tax. Motor vehicle usage taxes are currently imposed on the sale or transfer of new or used motor vehicles at the rate of 6 percent of the vehicle's value. The value on which the tax is assessed on new cars is a percentage of the manufacturer's suggested retail price and for used cars and trucks is based on a notarized affidavit, prepared by both the buyer and seller, attesting to the actual cash consideration paid for the vehicle. See "Recent Changes to Road Fund Receipts" for a description of a new usage tax allowance credit.

Motor vehicle usage taxes have historically made up the largest portion of the Road Fund available to pay debt service, representing approximately 41 percent of the total monies deposited during Fiscal Year 2008. This trend was interrupted in recent years, as declining usage tax collections represented only 37 percent of total monies deposited in Fiscal Year 2009, 36 percent of deposits in Fiscal Year 2010, and 38 percent of deposits in Fiscal Year 2011 that were available for lease rentals. See "THE TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

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

In addition to the above, firms operating commercial trucks in Kentucky are assessed a surtax of two percent of the awp on gasoline and 4.7 percent of the awp on special fuels on the amount of fuel used in operation on the public highways of the Commonwealth. By statute, this rate cannot be less than 3.6 cents per gallon on gasoline and 8.4 cents per gallon on special fuels. The current surtax rate effective January 1, 2011 was 4.3 cents for gasoline and 10.2 cents for special fuels which shall remain in effect through March 31, 2011.

These taxes made up approximately 40 percent of the Road Fund receipts in Fiscal Year 2010, and approximately 40 percent of receipts in Fiscal Year 2011 that were available for lease rentals. See "THE TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

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

Weight Distance Tax. The weight distance tax is assessed on trucks operating on Kentucky roads at declared weights of 60,000 pounds or more at a rate of 2.85 cents per mile.

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

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

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

Recent Changes to Road Fund Receipts

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

Motor Vehicle Usage Tax. The 2006 General Assembly enacted legislation providing that the retail price established by a notarized affidavit shall not be less than fifty-percent of the difference between (i) the trade-in value, as established by a reference guide, of the purchased motor vehicle offered for registration and (ii) the trade-in value, as established by a reference guide, of the motor vehicle offered in trade as part of the total purchase consideration given. If a notarized affidavit is not available, the retail price of the purchased vehicle shall be the average trade-in value of the vehicle as prescribed by the reference guide established by the Department of Revenue. A similar assessment, known as the motor vehicle rental usage tax, is charged on the value of contracts for leased and rented vehicles. It is estimated that this change resulted in an increase in Road Fund receipts available to pay lease rentals of $10,000,000 to $15,000,000 annually beginning in Fiscal Year 2007.

The 2006 General Assembly also enacted changes to the Road Fund tax base dealing with the Motor Vehicle Usage Tax collection from non-resident purchasers of motor vehicles in Kentucky. Effective July 1, 2004, Indiana began imposing a sales tax on non-resident automobile purchases within the state. It has been Kentucky's practice to grant a motor vehicle usage tax credit to Kentucky residents for tax paid to any other state that imposed a tax on Kentucky residents at the time of purchase. In reaction to the loss of tax revenue due to the change in Indiana law, the 2006 General Assembly changed the Kentucky statutes to require that non-residents pay the Kentucky sales tax on vehicles if their state of residence does not permit Kentucky residents to purchase motor vehicles free of that state's sales tax. The sales tax paid to Kentucky is deposited to the Road Fund. This change resulted in an increase to Road Fund receipts available to pay lease rentals of $6,377,000 beginning in Fiscal Year 2007. Receipts collected during Fiscal Year 2011 were $10,388,000.

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

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

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

Effective October 1, 2011 the awp of fuel for purposes of applying the statutory motor fuel tax provision was $2.378. This awp resulted in a motor fuel tax of 26.4 cents per gallon of gasoline and 23.4 cents per gallon for special fuels and will be effective through December 31, 2011. Because this level of motor fuel tax is based on an awp that exceeds the statutory minimum, it is possible that motor fuel tax rates could decrease beginning January 1, 2012 if the awp of fuel decreases during the next quarterly survey in October 2011.

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

KENTUCKY GASOLINE MOTOR FUEL TAX RATE HISTORY
(rates below reflect cents per gallon)

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

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

Road Fund Revenue Estimate Fiscal Year 2012

The Fiscal Year 2012 Road Fund revenue estimate of $1,340.9 million was officially published by the Consensus Forecast Group (CFG) in December 2009. This Road Fund revenue estimate is the basis for expenditures found in H.B. 3, the Commonwealth's budget bill enacted in June 2010 by the 2010 Extraordinary Session of the General Assembly.

Year-to-date Road Fund gross receipts through September 2011 totaled $354.4 million, a 4.6 percent increase over the same year-to-date period in 2011. Those receipts are on a gross basis before netting out any revenue sharing component. September marks the fifteenth consecutive month in which Road Fund receipts have increased. The December 2009 CFG estimate for Fiscal Year 2012 revenues called for an increase of 0.2 percent from Fiscal Year 2011 collections. Based on Fiscal Year 2012 year-to-date collections through September, revenues for remainder of Fiscal Year 2012 may decrease by 1.4 percent and still meet the December 2009 CFG estimate of $1,340.9 million.

Claims on Certain Transportation Cabinet Revenues

There are a number of statutory requirements affecting certain Road Fund revenues. A total of 48.2 percent of the collections of motor fuels, normal, normal use and surtaxes are restricted and reserved for use on county, municipal, and state rural secondary roads. Effective July 1, 2005, one cent of the motor fuels normal tax was excluded from the above restriction. Effective July 1, 2006, the General Assembly excluded an additional 1.1 cents of the motor fuels normal tax from the revenue sharing provision above. See "THE TRANSPORTATION CABINET – Recent Changes to Road Fund Receipts" herein. Chapter 177 of the Kentucky Revised Statutes requires that 22.2 percent of these motor fuels tax receipts be expended by the Transportation Cabinet on the rural secondary road system. Chapter 177 also directs that 7.7 percent and 18.3 percent of the motor fuels tax be distributed, based on statutory formula, to municipal and county governments, respectively, for use on urban roads and streets and county roads and bridges. Finally, the statutes require that 0.1 percent of the motor fuels tax collections, up to a maximum of $190,000, be set aside for the Kentucky Transportation Center. See "THE TRANSPORTATION CABINET – Revenue Sources of the Transportation Cabinet -Motor Fuel Taxes" herein.

Kentucky law establishes an account within the Road Fund, the Energy Recovery Road Fund, into which all fees relating to the extended weight coal haul system are to be credited. Sixty percent of these funds are to be used by the Transportation Cabinet in maintaining the Commonwealth's portion of this road system, and 40 percent of which are to be distributed to the counties for the purpose of maintaining county roads on this system.

A portion of the receipts to the Road Fund resulting from the issuance or renewal of operator's licenses are also statutorily restricted. See "THE TRANSPORTATION CABINET – Revenue Sources of the Transportation Cabinet – Motor Vehicle Operator Licenses" herein. Chapter 186 of the Kentucky Revised Statutes requires that 50 cents for each four-year original or renewal operator's license be dedicated to expansion of the Kentucky driver education program. For each original or renewal motorcycle operator's license and each instruction permit, $4 must be dedicated for the purpose of a motorcycle safety education program. Additionally, Chapter 186 provides that $1 from each operator's license fee is to be set aside exclusively to cover the cost of issuing a photo license.

Historical Available Road Fund Revenues, Expenses and Lease Rentals

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

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

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

	2007	2008	2009	2010	(Unaudited) 2011
TOTAL AVAILABLE ROAD FUND REVENUES:					
TAXES:					
Vehicle Usage[2]	$411,185	$405,846	$336,365	$332,738	$381,540
Motor Fuels[3]	323,206	344,276	351,545	368,898	408,849
Weight Distance	86,978	86,206	76,877	72,306	75,610
TRUCK LICENSES AND FEES	72,006	57,300	64,437	61,050	64,957
PASSENGER VEHICLE LICENSES AND FEES	36,735	46,038	43,715	44,058	44,299
OTHER RECEIPTS[4]	20,797	20,942	19,175	17,702	19,548
VEHICLE OPERATORS LICENSES	16,233	15,843	15,848	16,046	15,710
INTEREST INCOME	16,055	19,461	10,662	3,634	1,995
TOTAL AVAILABLE ROAD FUND REVENUES:	**$983,195**	**$995,912**	**$918,624**	**$916,432**	**$1,012,508**
OPERATING & MAINTENANCE EXPENSES:					
Personnel Cost	$166,636	$176,301	$175,072	$186,520	$188,976
Personal Service	11,027	12,959	12,221	11,438	9,704
Operating Expense	131,708	153,388	157,479	169,231	167,998
Grants	111	317	6	3	2
Capital Outlay	209	935	1,226	2,296	4,851
Capital Construction	2,988	2,237	1,797	2,125	1,259
Highway Materials	31,222	38,239	41,797	61,069	67,070
Other Agency Cost [5]	66,709	67,101	77,756	77,751	83,674
TOTAL OPERATING & MAINTENANCE:	**$410,610**	**$451,477**	**$467,354**	**$510,433**	**$523,534**
NET AVAILABLE ROAD FUND REVENUES:	**$572,585**	**$544,435**	**$451,270**	**$405,999**	**$488,974**
LEASE RENTALS: [6][7]					
The Turnpike Authority					
Toll Road Projects	$227	$65	$ -	$ -	$ -
Economic Development Road Projects	145,805	148,108	116,114	30,989	97,069
Resource Recovery Road Projects	66	90	2,686	-	-
Commission Leases	7,298	7,292	7,303	9,884	10,919
ALCo Project Notes	-	5,340	63	16	-
TOTAL LEASE RENTALS:	**$153,396**	**$160,895**	**$126,166**	**$40,889**	**$107,988**
GROSS COVERAGE [7][8]	**6.41x**	**6.19x**	**7.28x**	**22.41x**	**9.38x**
NET COVERAGE [7][8]	**3.73x**	**3.38x**	**3.58x**	**9.93x**	**4.53x**

NOTES:

1. This schedule displays detailed information relating to the Commonwealth of Kentucky's Road Fund that can be used to calculate the coverage of available revenues compared to lease rental payments. For this table display, the Transportation Cabinet has revised and updated the categories into which revenues are subdivided to better reflect the significant sources of revenue available to make lease rental payments. These revisions and updates do not affect the total revenue available, only the way in which the revenue is categorized. Total Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees, and miscellaneous revenues that are dedicated for other uses and not available to make lease rental payments to the Turnpike Authority of Kentucky or the Commission. Operating and Maintenance Expenses include certain non-construction maintenance, operating, regulatory and administrative expenses related to the public highways. Net Available Road Fund Revenues represent Total Available Revenues less Operating and Maintenance Expenses.
2. The Kentucky motor vehicle usage tax is imposed on the sale or transfer of new or used motor vehicles at the rate of 6 percent of the vehicle's value. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet and Recent Changes to Road Fund Receipts" for more details.
3. The Kentucky motor fuel tax rates are set by statute and are subject to quarterly adjustments based on changes in the awp of fuel. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet and Recent Changes to Road Fund Receipts" herein.
4. Effective November 2006, the tolls were removed from the William H. Natcher and Audubon Parkways. Road Fund receipts were reduced by approximately $2,800,000 in Fiscal Year 2007 and approximately $6,500,000 in each future Fiscal Year. These were the last remaining toll facilities active in Kentucky. This category now consists primarily of general fees to the public, which includes the sale of maps, road plans, driver history records, and various other miscellaneous sales to the general public. Motor vehicle titling fees and proceeds from one-time sales of Cabinet assets also significantly contribute to this category.
5. The Kentucky General Assembly routinely appropriates Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of traffic law enforcement, the collection of Road Fund tax revenues and other administrative support functions related to the Cabinet.
6. Lease Rentals paid by the Transportation Cabinet to the Turnpike Authority of Kentucky include amounts representing the following: principal and interest requirements on Turnpike Authority Bonds, net of Debt Service Reserve Fund investment earnings and amounts required by the Turnpike Authority for administrative and other expenses; and any amounts to be transferred into the Redemption Account from the Debt Service Reserve Fund. Amounts paid to the Commission include principal and interest requirements on bonds issued to finance the construction of a new office building for the Transportation Cabinet, bonds issued to finance the development of a new vehicle registration system and bonds issued to finance the expansion of a runway at Blue Grass Field Airport in Lexington, KY. The Lease Rentals for the ALCo Project Notes include actual interest payments and estimated payments made to the trustee.
7. Lease Rental payments applicable to Economic Development Bonds made during FY2010 were reduced by refinancing outstanding principal and interest of approximately $81.0 million, the impact of which is an increase in gross and net coverage.
8. Gross Coverage equals Total Available Road Fund Revenues divided by Total Lease Rentals. Net Coverage equals Net Available Road Fund Revenues divided by Total Lease Rentals.

Basis of Accounting

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

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

The interim financial statements reconcile directly with the audited financial statements. Under the interim financial statements, the Transportation Cabinet maintains six operating funds: the Road Fund, the Federal Fund, the General Fund, the Agency Fund, Capital Projects Fund and the Other Expendable Trust Fund. General operating revenues such as motor fuel receipts, license and privilege taxes, departmental fees, and toll revenues are recorded in the Road Fund. Federal grants are recorded in the Federal Fund, and transfers from the Commonwealth's General Fund are recorded in the General Fund. Receipts dedicated to specific programs or purposes and related expenditures are recorded in the Agency Fund. Transactions relating to the acquisition, construction or renovation of the Transportation Cabinet's major capital facilities and the acquisition of major equipment are accounted for in the Capital Projects Fund. The Other Expendable Trust Fund includes expenditures for the Human Service Transportation Delivery system. This pays the contract service providers for transportation of claimants to and from medical and rehabilitation appointments.

Cash Management

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

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

Using the cash flow financing approach, the Transportation Cabinet has used the Road Fund cash balance to expedite the start and completion of highway projects. Before the start of the Program in July 2000, the Road Fund cash balance was approximately $690,000,000. The Road Fund cash balance as of September 30, 2011 was approximately $453,500,000.

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

Budget Process of the Transportation Cabinet

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

The Transportation Cabinet budget for the biennium is prepared in accordance with Chapter 48 of the Kentucky Revised Statutes and based on two-year projections made in light of long-range program requirements and revenue estimates. The biennial budget request is prepared by the Transportation Cabinet and presented to the Governor for submission to the Kentucky General Assembly at its biennial session. The estimates of revenues are made by the consensus forecasting process as prescribed by Chapter 48.115 of the Kentucky Revised Statutes.

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

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

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

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

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

Other Road Fund Obligations of the Transportation Cabinet

General obligation bonds of the Commonwealth payable from Road Fund revenues and receipts may be issued, pursuant to the Constitution of Kentucky, only upon approval by the electorate. The Transportation Cabinet, pursuant to law, may request that bonds or certain other obligations payable from Road Fund revenues and receipts be issued on its behalf by the Turnpike Authority or the Commission. Unless such obligations are to be used to finance projects which will produce revenues which will fully meet required debt service, their issuance is conditioned, pursuant to existing law, upon approval by the Kentucky General Assembly. Issuance of such bonds or other obligations also requires the approval of the Office of Financial Management in the Finance and Administration Cabinet. See also "SECURITY FOR THE FOURTH SERIES BONDS – Conditions to Additional Indebtedness."

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

American Recovery and Reinvestment Act Transportation Appropriations

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

The Transportation Cabinet has met the March 1, 2010 obligation requirements for ARRA funds and as of September 30, 2011, had expended approximately $379.9 million in ARRA funds on highway-related projects. As of the same date, ARRA expenditures related to public transportation were approximately $24.4 million.

THE COMMONWEALTH

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

The Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified, modern, international economy -- illustrated by the fact that Kentucky's manufacturing employment concentration as a percentage of non-farm employment is higher than the national average, and recessionary employment declines in these sectors were more muted in Kentucky than the national equivalent. The Commonwealth's parks, horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in expanding the tourism industry in the Commonwealth.

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

Personal income growth in Kentucky is expected to be 5.9% for the remainder of FY12, compared to the 4.0 percent national average. The rebound in employment is also expected to exceed the national average of 1.8 percent in the manufacturing sector. Kentucky expects manufacturing employment growth to be 3.0 percent in FY12. The better-than-national trends in income and employment are attributable to Kentucky’s diverse economy. In particular, the mining and farm sectors have thrived in recent years due to the spike in commodity prices.

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

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

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the Fiscal Year of the Commonwealth most recently ended. *The Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth, the Transportation Cabinet and the Commission, as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to Financial Statements as set forth in *The Kentucky Comprehensive Annual Financial Report* contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The “Statistical Section” of *The Kentucky Comprehensive Annual Financial Report* includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

Certain Financial Information Incorporated by Reference; Availability from NRMSIR and the Commonwealth

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2010 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2010 with the following Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”):

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

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2010 may be obtained from EMMA or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2010 and certain other fiscal years may be found on the Internet at:

http://finance.ky.gov/ourcabinet/caboff/OOC/ofm/debt/cafr.htm

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

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

Budgetary Process in the Commonwealth

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

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

Preliminary Consensus Forecasting Group Revenue Forecast for Fiscal Year 2013-14 Biennium

On October 14, 2011, pursuant to KRS 48.120, the Consensus Forecasting Group ("CFG") provided their preliminary revenue forecast for the General Fund, Road Fund, and Phase I Tobacco MSA payments for Fiscal Years 2013 and 2014 in preparation for the upcoming biennial budget process. The preliminary revenue estimate for the General Fund for Fiscal Year 2013 is $9,172.8 million, which represents a growth rate of 1.8% over Fiscal Year 2012. For Fiscal Year 2014, the preliminary revenue estimate is $9,397.2 million, which is a growth rate of 2.4%. Preliminary revenue estimates for the Road Fund yielded 5.9% growth at $1,496.6 million for Fiscal Year 2013 and 5.7% growth at $1,582.4 million for Fiscal Year 2014. The estimates for Phase I Tobacco MSA payments are $92.6 million in Fiscal Year 2013 and $91.2 million for Fiscal Year 2014. The CFG will meet again in December 2011 to make any necessary revisions for use in preparing the 2013-14 biennial budget of the Commonwealth.

Fiscal Year 2009

The Commonwealth's combined net assets (governmental and business-type activities) totaled $14.3 billion at the end of 2009, as compared to $16.1 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $19.9 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.1 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $(6.7) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $11.24 billion and general revenues (including transfers) of $9.86 billion for total revenues of $21.1 billion during Fiscal Year 2009. Expenses for the Commonwealth during Fiscal Year 2009 were $23 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $(1.9) billion, net of contributions, transfers and special items.

The slowing economy, during the fiscal year caused revenues to decline, resulting in the decrease in net assets of governmental activities by $(1.3) billion or 8.12 percent. Approximately 53 percent of the governmental activities' total revenue came from taxes, while 40 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2009, the Commonwealth's governmental funds reported combined ending fund balances of $1.99 billion, a decrease of $444 million in comparison with the prior year. $962.8 million of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is $1.02 billion.

The General Fund is the primary operating fund of the Commonwealth. The fund balance at the end of Fiscal Year 2009 was $30.4 million. The balance reported reflects a decrease of $257.7 million from the previously reported amount, which represents a decline of 89.44 percent. The major factor for the decline is attributable to the slow national and state economy which has reduced individual and corporate income taxes.

The fund balance is segregated into reserved and unreserved amounts. The reservations of fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at the end of Fiscal Year 2009 had $80.13 million as a reserved fund balance and a negative ($49.7) million unreserved. The unreserved represents the amount available for current expenditures.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Transportation Fund which was affected by the nation’s current economic conditions. The Transportation Fund taxes motor fuel consumption and levies a use tax on motor vehicles transfers. Both of these activities experience a downturn resulting in a $(69) million decrease in tax receipts.

The Commonwealth of Kentucky's bonded debt increased by $812.4 million to $4.4 billion, a 22.46 percent increase during Fiscal Year 2009. The major factors in this increase were the issuance of bonds to replace notes which had been issued as an interim financing source and additional bonds to fund new projects. No general obligation bonds were authorized or outstanding at June 30, 2009.

Fiscal Year 2010

The Commonwealth’s combined net assets (governmental and business type activities) totaled $12 billion at the end of 2010, as compared to $13.5 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $18.8 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $7.9 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $13.4 billion and general revenues (including transfers) of $9.8 billion for total revenues of $23.2 billion during Fiscal Year 2010. Expenses for the Commonwealth during Fiscal Year 2010 were $24.7 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of ($1.46) billion, net of contributions, transfers and special items.

The slowing economy, during the fiscal year, caused revenues to decline resulting in the decrease in net assets of governmental activities by $1.2 billion or 8.46 percent. Approximately 49 percent of the governmental activities' total revenue came from taxes, while 44 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2010, the Commonwealth's governmental funds reported combined ending fund balances of $2.15 billion, an increase of $139 million in comparison with the prior year. $972.8 million of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is $1.18 billion.

The General Fund is the primary operating fund of the Commonwealth. The fund balance at the end of Fiscal Year 2010 was $79.6 million. The balance reported reflects an increase of $50.9 million from the previously reported amount, which represents an increase of 167 percent. The major factor for the increase is the enhanced federal participation for Medicaid; thus, reducing the Commonwealth's share of these expenditures.

The fund balance is segregated into reserved and unreserved amounts. The reservations of fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at the end of Fiscal Year 2010 had $77 million as a reserved fund balance and $2.5 million unreserved. The unreserved represents the amount available for current expenditures.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund which experienced a significant increase in grant revenue as a result of the American Recovery and Reinvestment Act ("ARRA"), resulting in a significant increase in federal fund expenditures. The Transportation Fund experienced a slight increase in revenues due to increased tax receipts and a reduction in expenditures, again due to increased federal funds under ARRA, resulting in an increase in fund balance of $89 million.

The Commonwealth of Kentucky's bonded debt increased by $707.8 million to $6.0 billion, a 13.5 percent increase during Fiscal Year 2010. The major factors in this increase were the issuance of bonds to fund new capital projects and to advance refund debt outstanding. No general obligation bonds were authorized or outstanding at June 30, 2010.

Fiscal Year 2011 (Unaudited)

On December 21, 2009, the Consensus Forecasting Group ("CFG") released their official revenue forecast for the General Fund for Fiscal Years 2011 and 2012. The estimate for Fiscal Year 2011, as modified by the 2010 Extraordinary Session and the 2011 Regular Session of the General Assembly, was $8,593.34 million. The official estimate reflected a 4.5 percent increase in General Fund receipts for Fiscal Year 2011 when compared to Fiscal Year 2010 actual receipts. The estimate excluded Phase I Tobacco MSA payments, which were estimated by CFG to be $111.3 million in Fiscal Year 2011. Actual MSA collections were only $99.8 million in FY11 due in large part to Phillip Morris' deposit to a disputed payment account.

Fiscal Year 2011 General Fund actual revenues totaled $8,759.4 million, an increase of 6.5 percent over Fiscal Year 2010. General Fund receipts rose for the first time in three years and posted the highest growth rate since Fiscal Year 2006. Revenue collections showed solid growth in each of the four quarters throughout the fiscal year with especially strong growth in the final quarter. Growth rates in the four quarters were 4.4 percent, 6.3 percent, 5.2 percent, and 9.6 percent. As a result, Fiscal Year 2011 actual revenues exceeded the revised official CFG revenue estimate by $156.8 million. Of the Fiscal Year 2011 surplus, $35 million was to be used for Fiscal Year 2012 Necessary Government Expenses, and the remaining $121.8 million was deposited into the Budget Reserve Trust Fund, constituting the largest one-time deposit ever made to the Budget Reserve Trust Fund.

Fiscal Year 2012 (Unaudited)

The official revenue estimate for Fiscal Year 2012 was also released by the CFG on December 21, 2009. The estimate for Fiscal Year 2012, as modified by the 2010 Extraordinary Session and the 2011 Regular Session of the General Assembly, is $8,871.2 million. The revised official estimate reflects a 1.3 percent increase in General Fund receipts for Fiscal Year 2012 when compared to Fiscal Year 2011 actual receipts. The estimate excluded Phase I Tobacco MSA payments, which were estimated by CFG to be $102.72 million in Fiscal Year 2012.

Fiscal Year 2012 General Fund actual revenues total $2,156.5 million through September 2011, an increase of 4.9 percent over the same period in Fiscal Year 2011. Based on year-to-date receipts, General Fund revenues must increase 0.2 percent for the remainder of the fiscal year to meet the revised official revenue estimate.

General Fund revenues for September 2011 were $840.0 million, an increase of 10.0 percent compared to September 2010. During September 2011, sales and use tax revenues grew 13.5 percent when compared to September 2010 and have increased 7.1 percent for the fiscal year. Individual income tax receipts increased 5.3 percent due primarily to strength in withholding receipts, and collections are up 4.8 percent for the year. Corporation income tax receipts for September 2011 increased 27.0 percent compared to September 2010 and have grown 31.8 percent for the year. September is a declaration month for calendar year filers, so the steady growth signals that Kentucky businesses are remaining profitable. Property taxes for September 2011 grew 28.1 percent compared to September 2010 but are down 26.3 percent for the fiscal year. Volatility in the fall months is customary. Cigarette tax receipts rose 8.4 percent in September 2011 compared to September 2010 but have declined 3.6 percent for the year. Coal severance tax receipts grew by 12.3 percent in September 2011 compared to September 2010 and are up 10.1 percent for the year. The Kentucky Lottery Corporation dividend payment for September 2011 was unchanged at $16.0 million from last September, but collections are up 2.2 percent for the fiscal year.

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and Title 200 Chapter 14 of the The Commonwealth's investments are governed by KRS 42.500 et seq. and Title 200 Chapter 14 of the Kentucky Administrative Regulations ("KAR"). The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management. The Office of Financial Management has recently engaged the services of an independent consultant to assist the State Investment Commission in a general review of the Commonwealth's investment activities. The review contemplates an evaluation of existing statutes and regulations, general investment functions, portfolio performance benchmarks and reporting, and suggested best practices.

At September 30, 2011, the Commonwealth's operating portfolio was approximately $3.62 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (14%); securities issued by agencies and instrumentalities of the United States Government (29%); mortgage-backed securities and collateralized mortgage obligations (11%); repurchase agreements collateralized by the aforementioned (15%); municipal securities (2%); and corporate and asset-backed securities, including money market securities (29%). The portfolio had a current yield of 0.49% and an effective duration of 0.82 years.

The Commonwealth's investments are currently categorized into two investment pools; the Short Term and 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 and provides liquidity to the Intermediate Term Pool as necessary. 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 Commonwealth engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over-the-counter treasury options, interest rate swaps, mortgage–backed securities, collateralized mortgage obligations and asset–backed securities.

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than 20% of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio. The Commonwealth has not had any options positions outstanding since April 2004.

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

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a $200 million notional amount to a net market value approach, the absolute value of which cannot exceed $50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. The Commonwealth has not had any asset-based interest rate swaps outstanding since June 2006.

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

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

Interest Rate Swaps

From time to time, the Commonwealth of Kentucky utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. ALCo is the agency with specific statutory authority to enter into and manage interest rate swaps and other similar vehicles. As of October 1, 2011, ALCo will have one interest rate swap transaction outstanding with a total notional amount outstanding of $222,055,000. This swap transaction consists of a series of four amortizing "cost of funds" interest rate swaps that totaled $243.08 million at the time of execution and having maturity dates beginning November 1, 2017 through November 1, 2027. This transaction is integrated as part of the issuance of the ALCo's 2007 $243.08 million General Fund Floating Rate Project Notes.

State Retirement Systems

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

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Teachers' Retirement System of the State of Kentucky. The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2010*, Note 8 beginning on page 80. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at http://kyret.ky.gov and http://www.ktrs.ky.gov, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2010 actuarial valuation reports used in preparing the associated Pension Plans' 2010 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $7,288 million, while KTRS had a UAAL of $9,493 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2010 had funding percentages of 40.8 percent for the Kentucky Retirement Systems and 61.0 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 pension benefits was $385.1 million versus the Actual Contribution of $171.2 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 was $633.9 million; $418.6 million was contributed.

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

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 state pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the State commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self-funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Employees insurance through the state health insurance program, which has since become self insured.

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A three year experience study was completed for the period ending June 30, 2008 for the Kentucky Retirement Systems and the next planned experience study period will be a five year experience study for the period ending June 30, 2013. KTRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the KTRS board in September 2011. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2010 has been estimated to not exceed \$4,487 million for the Kentucky Retirement Systems and \$2,970 million for KTRS. These estimates represent 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, 2010. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities increased slightly from the \$4,403 million previously reported in the Kentucky Retirement Systems' 2009 CAFR. The actuarial estimates for KTRS decreased substantially from the \$6,231 million previously reported in their 2009 CAFR due to the changes adopted in House Bill 540 (see "Changes to State Retirement Systems" below).

The Kentucky Retirement Systems' state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 healthcare benefits was \$441.9 million versus the Actual Contribution of \$133.7 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 was \$459.0 million; \$175.3 million was contributed. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2010 had funding percentages of 16.8 percent for the Kentucky Retirement Systems and 10.0 percent for KTRS.

The Commonwealth's 2010-2012 biennial budget increased employer contribution rates by 71 percent for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 58 percent.

Changes to State Retirement Systems. During the 2008 Regular Session, there was significant discussion and debate between both the House and the Senate regarding pension reform. However both sides of the General Assembly failed to reach an agreement. On May 29, 2008, the Governor issued an executive order creating the Kentucky Public Pension Working Group and urged both the House and Senate to work together toward an agreement for a special session. In June 2008, the Governor called a special session of the General Assembly after both the House and Senate reached an agreement on pension reform, which ultimately became House Bill 1. The final agreement accomplished several things, including: a schedule to improve state funding by reaching the full actuarially required contribution ("ARC") by 2025; proposed a new benefit tier for future hires that would require workers to stay longer and place more money into their own retirement over time in order to reach their full retirement benefit; established a floor for annual cost of living adjustments ("COLA") equal to 1.5% of the Consumer Price Index with the potential for future increases if the COLA is pre-funded; closed several loopholes; and created increased legislative oversight of the pension funds in future years.

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

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

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

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

Financing and Refinancing of Certain KTRS Obligations. On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Act by modifying the definition of "funding notes" and authorizing funding notes to be issued by the Commission for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (which obligation has been defined herein as the Funding Obligation). This authorization, together with certain authorizations in the Budget Act, permits the Commission to issue funding notes in an amount not to exceed $875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, the Commission issued its $467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. In February 2011, the Commonwealth issued its $269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution and the Lease. Such statements do not purport to be complete and reference is made to the Resolution and the Lease, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601.

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. Deposits of the proceeds of the Fourth Series 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 or transfers from the Escrow Fund (as described below) as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds Outstanding under the Resolution at or before their maturity. Accrued interest on the Bonds will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any May 1 or November 1 (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

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

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds and other available moneys, if any, deposited by the Issuer at the time of delivery of the Bonds, there will be deposited therein an amount sufficient to pay certain

expenses in connection with the issuance of the Bonds. On payment of all duly authorized expenses incident to the issuance of such Bonds, any remaining balance in the Cost of Issuance Fund will be transferred to the Bond Fund.

3. Escrow Fund. The Resolution creates an Escrow Fund, to be maintained by the Trustee as a separate trust fund, separate and apart from other funds and accounts, and to be used, by transfer to the Bond Fund, solely for the payment of the interest on the Prior Bonds, when due, and for the payment of the principal amount of the Prior Bonds on their redemption date. Any moneys remaining in the Escrow Fund after disbursement of all amounts described in the preceding sentence will be transferred by the Trustee to the Bond Fund.

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

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

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

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

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

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

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

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky'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, interest or otherwise under any of the provisions of the Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Bonds then Outstanding, to the extent permitted by law together with any and all costs and expenses of collection and of all proceedings under the Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce judgment or decree against the Commission, but solely as provided in the Resolution and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect (but solely from the moneys in the funds and accounts established by the Resolution other than the Rebate Fund) in any manner provided by law, the moneys adjudged or decreed to be payable.

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

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

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

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

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any Outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of Bondholders 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 and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Fund or such escrow fund, shall be sufficient, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed in accordance with the Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the 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 Standard & Poor's Rating Service, a division of The McGraw Hill Companies, Inc., a New York corporation ("S&P") and Moody's Investors Service, a Delaware corporation ("Moody's") (as each term is hereinafter defined) with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book entry form, and shall exclude investments in mutual funds and unit investment trusts;

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

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

The Lease

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

The Lease has a current term ending June 30, 2012. The Commission has granted the Transportation Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. The last renewal term for the Lease relating to the Bonds ends June 30, 2022, the final maturity date permissible for any Bonds to be issued by the Commission for the Project. Under the provisions of the Constitution of the Commonwealth, the Commission and the Transportation Cabinet are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Transportation Cabinet to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Transportation Cabinet is bound for the entire amount of the rent becoming due during such term as a general obligation of the Transportation Cabinet, limited to amounts appropriated for such purpose payable from any and all funds of the Transportation Cabinet, including, but not limited to, appropriations, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law.

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

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

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

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

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

RATINGS

Moody's Investors Service. Inc. ("Moody's") has given the Fourth Series Bonds the rating of "Aa2", Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies. Inc. ("S&P") has given the Fourth Series Bonds the rating of "A+" and Fitch Ratings ("Fitch") has given the Fourth Series Bonds the rating of "AA-." Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 7 World Trade Center at 250 Greenwich Street, New York. New York 10007, (212) 553-0300; an explanation of the rating given by S&P may be obtained from Standard & Poor's Rating Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza. New York, New York 10004, (212) 908-0500. The ratings do not constitute a recommendation to buy, sell or hold the Fourth Series Bonds. 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 Fourth Series Bonds.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Fourth Series Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The proposed form of approving opinion for the Fourth Series Bonds is attached hereto as EXHIBIT C. Such approving legal opinion will be delivered as of the date of issuance of the Fourth Series Bonds.

Certain legal matters will be passed upon for the Commission and for the Transportation Cabinet by their respective counsel. Certain legal matters will be passed upon for the Underwriters by Frost Brown Todd LLC, Louisville, Kentucky.

Under Kentucky law, issuance of the Fourth Series Bonds by the Commission requires the approval of the Office of Financial Management in the Finance and Administration Cabinet, which approval will be obtained prior to issuance of the Fourth Series Bonds.

LITIGATION

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

TAX MATTERS

General

In the opinion of Bond Counsel for the Fourth Series Bonds, interest on the Fourth Series Bonds is exempt from Kentucky income tax and the Fourth Series Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. HOWEVER, INTEREST ON THE FOURTH SERIES BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME OF THE HOLDERS OF THE FOURTH SERIES BONDS FOR FEDERAL INCOME TAX PURPOSES. OWNERS OF THE FOURTH SERIES BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE FOURTH SERIES BONDS.

Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on a Fourth Series Bond and the proceeds of the sale of a Fourth Series Bond to non-corporate holders of the Fourth Series Bonds, and "backup withholding" at a rate of 28% will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Fourth Series Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Nonresident Owners

Under the Code, interest and OID on any Fourth Series Bond whose beneficial owner is a nonresident alien, foreign corporation or other non-United States person (Nonresident) are generally not subject to United States income tax or withholding tax (including backup withholding) if the Nonresident provides the payor of interest on the Fourth Series Bonds with an appropriate statement as to its status as a Nonresident. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the Nonresident conducts a trade or business in the United States and the interest or OID on the Fourth Series Bonds held by the Nonresident is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding).

Circular 230

THE FOREGOING DISCUSSION OF TAX MATTERS WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE BONDS. THE FOREGOING DISCUSSION OF TAX MATTERS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE BONDS. EACH PROSPECTIVE OWNER OF THE BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE OWNER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company, Certified Public Accountants (the “Verifier”), has verified, from the information provided to them, the mathematical accuracy as of the date of delivery of the Fourth Series Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the amounts described above under the caption “PLAN OF FINANCE” and (ii) the computations of yield on both the securities and the Fourth Series Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Fourth Series Bonds is excludable from gross income of the owners thereof for federal income tax purposes. The Verifier will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Fourth Series Bonds.

UNDERWRITING

The Fourth Series Bonds are to be purchased by a syndicate managed by Morgan Stanley & Co. LLC, as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Fourth Series Bonds at an aggregate purchase price of $43,483,456.91 (which is equal to the principal amount of such Bonds less underwriting discount of $216,543.09). The Underwriters will be obligated to purchase all of the Fourth Series Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Fourth Series Bonds at the initial public offering prices or yields set forth on the cover page hereof, provided, however, the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Fourth Series Bonds.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Bonds

CONTINUING DISCLOSURE AGREEMENT

The Commission will comply with the requirements of the Securities and Exchange Commission regarding secondary market disclosure as set forth in Rule 15c2-12 (the "Rule"), as amended, under the Securities Exchange Act of 1934. Specifically, the Commission will enter into a Continuing Disclosure Agreement in which it will covenant to provide notice in a timely manner, not later than ten business days after the event, to each nationally recognized municipal securities information repository ("NRMSIR") or the Municipal Securities Rulemaking Board (the "MSRB"), and the appropriate state information depository, if any, of any of the following types of events with respect to the Fourth Series Bonds (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security; (vii) modifications to rights of security holders, if material; (viii) bond calls (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the securities, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person); (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material. Effective on July 1, 2009, the MSRB became the sole NRMSIR and the Commission's filings with the MSRB will be in accordance with the MSRB's EMMA system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is providing ongoing market disclosure as required by the Rule pursuant to agreements entered into in connection with other outstanding securities.

OTHER MATTERS

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

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

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

THE COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

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

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

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

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

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

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

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

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds and Kentucky Infrastructure Authority Governmental Agencies Program 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

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING [1]
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3[2]/A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa2/AA+/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to $5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of $500 million.	Aa3[2]/A+/AA-[3]
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to $5.0 billion of debt outstanding.	NR/AAA/AAA (Senior Series) NR/A/A (Subordinate Series)[4]
School Facilities Construction Commission	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3[2]
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing and service entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baa1/BBB/NR (National Insured)

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

[2] On March 30, 2011 Moody's downgraded the Commonwealth's General Obligation Issuer Rating to "Aa2" from "Aa1", General Fund and related lease obligation debt to "Aa3" from "Aa2", and moral obligation debt to "A1" from "Aa3".

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

[4] The Kentucky Higher Education Student Loan Corporation, Series 2008A-1, A-2 and A-3 Bonds are rated "A+" by Standard & Poor's due to the downgrade of the letter of credit provider for the transaction. The Kentucky Higher Education Student Loan Corporation, Series 2010 A-1 and A-2 are rated "AA+" by Standard & Poor's due to Standard & Poor's decision to downgrade the U.S. long-term sovereign credit rating to "AA+" from "AAA."

EXHIBIT B

BOOK-ENTRY-ONLY SYSTEM

The Fourth Series 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 Fourth Series 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 Fourth Series Bonds under the Resolution.

The following information about the book-entry-only system applicable to the Fourth Series 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 Fourth Series 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 Fourth Series Bonds, in the aggregate principal amount of the Fourth Series 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 Fourth Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Fourth Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Fourth Series 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 Fourth Series 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 Fourth Series Bonds, except in the event that use of the book-entry-only system for the Fourth Series Bonds is discontinued.

To facilitate subsequent transfers, all Fourth Series 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 Fourth Series Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Fourth Series Bonds; DTC's records reflect only the identity of the Direct

Participants to whose accounts such Fourth Series 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 Fourth Series Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Fourth Series Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Fourth Series Bonds may wish to ascertain that the nominee holding the Fourth Series 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 Fourth Series 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 Fourth Series 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 Fourth Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Fourth Series 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 Fourth Series 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 FOURTH SERIES 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 FOURTH SERIES 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 FOURTH SERIES BONDS; OR (6) ANY CONSENT GIVEN OR OTHER

ACTION TAKEN BY DTC AS HOLDER.

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 Fourth Series Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

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

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EXHIBIT C

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: $43,700,000 Commonwealth of Kentucky State Property and Buildings Commission Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series)

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series), in the aggregate principal amount of $43,700,000 (the "Bonds"), dated the date hereof. The Bonds are being issued on behalf of the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"), a state agency of the Commonwealth of Kentucky (the "Commonwealth"). The project funded with the proceeds of the Prior Bonds (the "Project") has been leased to the Cabinet pursuant to a Lease Agreement dated as of November 1, 2001 by and between the Commission, as lessor, and the Cabinet, as lessee (the "Lease").

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 a resolution of the Commission adopted on October 13, 2011 (the "Resolution") for the purpose of (i) refunding certain of the Commission's outstanding Bonds (the "Refunded Bonds") and (ii) paying the costs of issuing the Bonds.

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

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

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

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

1. The Commission is an independent agency and public body corporate of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth. The Commission has the legal right and authority to issue the Bonds for the purpose of refunding the Refunded 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, special and limited obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal and interest from and are secured by a pledge of the revenues to be derived by the Commission from the Lease. A sufficient portion of the revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

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

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

6. The Bonds are not secured by a pledge of, or lien on, any properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by a pledge of the revenues to be derived from the Lease. The ability of the Cabinet to make payments under the Lease is dependent on legislative appropriations to the Cabinet. The Lease has a current term ending June 30, 2012, with the right to renew the Lease for additional successive terms of two years each until the Bonds and the interest thereon have been paid and discharged.

7. Interest on the Bonds is <u>not</u> excludible from gross income for federal income tax purposes. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds.

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

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

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

Very truly yours,

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