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

NEW ISSUE

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

$33,750,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Road Fund Revenue Bonds, Project No. 94

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

The Road Fund Revenue Bonds, Project No. 94 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof and will bear interest payable on each May 1 and November 1, commencing on May 1, 2009. Principal of and interest on the Bonds will be paid directly to DTC by The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as Trustee and Paying Agent.

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

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

Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP*	Maturity (May 1)	Principal Amount	Interest Rate	Yield	CUSIP*
2010	$2,690,000	3.00%	1.80%	491511FH9	2016	$ 275,000	4.00%	3.28%	491511FP1
2011	2,775,000	3.00	2.24	491511FJ5	2016	3,070,000	5.00	3.28	491511FQ9
2012	2,860,000	3.00	2.42	491511FK2	2017	3,505,000	5.00	3.49	491511FR7
2013	2,945,000	3.00	2.62	491511FL0	2018	3,680,000	5.00	3.73	491511FS5
2014	3,035,000	5.00	2.91	491511FM8	2019	3,865,000	5.00	3.98	491511FT3
2015	3,180,000	5.00	3.10	491511FN6					

$1,870,000 4.25% Term Bonds due May 1, 2021 Yield 4.45% CUSIP No. 491511FU0

(no accrued interest)

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet"), pursuant to a Resolution adopted January 15, 2009, to (i) pay costs of acquiring, constructing, installing and equipping the Project (as described and defined herein), including the payment of certain capitalized interest, and (ii) pay costs of issuing the Bonds.

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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Kutak Rock LLP, Omaha, Nebraska. It is expected that delivery of the Bonds will be made on or about February 25, 2009, in New York, New York, through the facilities of DTC, against payment therefor.

Citi

Morgan Stanley

J.J.B. Hilliard, W.L. Lyons, LLC
JP Morgan
First Kentucky Securities Corp.

NatCity Investments, Inc.
Wachovia Bank, N.A.
Ross, Sinclaire & Associates, LLC

Morgan Keegan & Co., Inc.
Edward D. Jones & Co., L.P.
Merrill Lynch & Co.

Dated: February 19, 2009.

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

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

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

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

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

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TABLE OF CONTENTS

SUMMARY

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

The Commission

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

The Offering

The Commission is offering its $33,750,000 Road Fund Revenue Bonds, Project No. 94 (the "Bonds").

Authority

The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a Bond Resolution (the "Resolution") adopted by the Commission on January 15, 2009 (i) authorizing the issuance of the Bonds, and (ii) approving the Lease dated as of February 1, 2009 (the "Lease"), between the Commission, as lessor, and the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet"), as lessee.

Use of Proceeds

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

Security

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

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE AGREEMENT WITH THE TRANSPORTATION CABINET, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE

BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Features of Bonds

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

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

The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds maturing after May 1, 2019 are subject to optional redemption on or after May 1, 2019 at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium. The Bonds maturing on May 1, 2021 are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the date of redemption on May 1, 2020. See "THE BONDS—Redemption Provisions—*Mandatory Redemption*."

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

Tax Status

Subject to compliance by the Commission, the Transportation Cabinet and others with certain covenants, in the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, under present law, interest on the Bonds (including original issue discount treated as interest) is excluded from gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions thereof. See "TAX EXEMPTION" herein for a more complete discussion, and "EXHIBIT C – FORM OF BOND COUNSEL OPINION."

Continuing Disclosure

The Bonds are subject to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). In general, Rule 15c2-12 prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in Rule 15c2-

12, if material. In order to enable the purchaser to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement with the Trustee. See “CONTINUING DISCLOSURE AGREEMENT” herein.

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

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

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OFFICIAL STATEMENT
Relating to

$33,750,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Road Fund Revenue Bonds, Project No. 94

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 $33,750,000 Road Fund Revenue Bonds, Project No. 94 (the "Bonds") issued at the request of the Transportation Cabinet of the Commonwealth (the "Transportation Cabinet") to provide funds with which to (i) pay costs of acquiring, constructing, installing and equipping the Project (as hereinafter described and defined), including the payment of certain capitalized interest, and (ii) pay costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE."

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission adopted a Bond Resolution (the "Resolution") on January 15, 2009 authorizing the issuance of the Bonds and approving the Lease hereinafter described.

The Transportation Cabinet, as lessee, has entered into a Lease dated as of February 1, 2009 with the Commission, as lessor (the "Lease"), to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The initial term of the Lease ends June 30, 2010, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Transportation Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Transportation Cabinet, for each biennial period during which Bonds are outstanding, to seek legislative appropriations to the Transportation Cabinet in amounts which are sufficient to permit the Transportation Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Bonds. The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds, through June 30, 2010.

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

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

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of $5,000 or integral multiples thereof, will be dated their date of delivery, and will bear interest payable on each May 1 and November 1, commencing May 1, 2009, at the interest rates set forth on the cover page of this Official Statement. The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky is the trustee for the Bonds (the "Trustee").

Book-Entry-Only System

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

Redemption Provisions

Optional Redemption. The Bonds maturing on or before May 1, 2019 are not subject to optional redemption prior to maturity. The Bonds maturing after May 1, 2019 may be redeemed at the option of the Commission on any date on or after May 1, 2019, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium.

Mandatory Redemption. The Bonds maturing on May 1, 2021 (the "Term Bonds") are subject to mandatory sinking fund redemption in part prior to maturity. That redemption is to occur on May 1 in each of the years and in the amounts shown below at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the date of redemption, and according to the following schedule:

Year	Amount
2020	$915,000
2021 (maturity)	955,000

In lieu of mandatory sinking fund redemption, the Commission, or the Trustee on behalf of the Commission, may purchase Term Bonds at the most advantageous price obtainable, not to exceed the principal amount thereof plus accrued interest to the date of purchase. The purchase of such Term Bonds will be used to reduce the amount of Term Bonds of such maturity to be called by the Trustee on the next succeeding mandatory sinking fund redemption date. In the event that any of the Term Bonds are redeemed, the principal amount of the Term Bonds so redeemed shall be credited against the mandatory sinking fund installments in such order as the Commission shall determine.

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

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

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

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

SECURITY FOR THE BONDS

General

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

The Kentucky General Assembly has appropriated to the Transportation Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2010.

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

COMMISSION'S ABILITY TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS. SEE "THE TRANSPORTATION CABINET" HEREIN.

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

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

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

Additional Bonds

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

Based upon the amounts credited to the Road Fund for the 12-month period ended December 31, 2008, and assuming the issuance of the Bonds at the interest rates and with the principal maturities that are set forth on the cover page of this Official Statement (resulting in a Maximum Annual Debt Service of approximately $131,751,207, which includes payments by the Transportation Cabinet to the Turnpike Authority, the Commission and the Kentucky Asset/Liability Commission), the ratio of Adjusted Revenues to Maximum Annual Debt Service is estimated to be 7.27 times. Based on Adjusted Revenues reflecting the $1.34 motor fuel average wholesale price statutory minimum, such ratio is approximately 6.81 times. See "THE TRANSPORTATION CABINET—Road Fund Revenue Estimate—Fiscal Year 2009" and "—Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

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

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

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

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

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

Conditions to Additional Indebtedness

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

Outstanding Commission Bonds

As of February 1, 2009, the Commission had outstanding bonds in the aggregate principal amount of $2,805,115,000. Upon the issuance of the Bonds and the contemporaneous issuance of the Commission's $385,455,000 Revenue and Revenue Refunding Bonds, Project No. 93, the Commission will have a total of $3,224,320,000 aggregate principal amount of bonds outstanding. The Bonds, the $26,325,000 outstanding aggregate principal amount of the Commission's Road Fund Revenue Bonds, Project No. 73 and the $41,270,000 outstanding aggregate principal amount of the Commission's Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series) are the only outstanding bonds of the Commission payable from Road Fund appropriations. All other outstanding bonds of the Commission are payable from General Fund appropriations or appropriations made from various state agency funds.

PLAN OF FINANCE

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

SOURCES AND USES OF FUNDS FOR THE BONDS

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

SOURCES OF FUNDS:	
Par Amount of Bonds	$33,750,000.00
Net Original Issue Premium	2,191,334.70
TOTAL SOURCES	$35,941,334.70
USES OF FUNDS:	
Construction Fund Deposit	$34,000,000.00
Costs of Issuance*	231,033.45
Capitalized Interest	1,710,301.25
TOTAL USES	$35,941,334.70

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

THE PROJECT

The Transportation Cabinet will lease all of the facilities and improvements financed with the proceeds of the Bonds from the Commission under the Lease (collectively, the "Project"). The facilities and improvements constituting the Project are (i) the replacement of the Automated Vehicle Information System, or AVIS, employed by the Department of Vehicle Regulation, the Division of Motor Vehicle Licensing and the offices of the county clerks throughout Kentucky and (ii) the expansion and alignment of the general aviation runway at Blue Grass Airport, Lexington, Kentucky.

THE STATE PROPERTY AND BUILDINGS COMMISSION

General

The Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission), the Secretary of the Cabinet for Economic Development, the State Budget Director and the State Controller. The State Budget Director and the State Controller were added to the Commission by Executive Order 2008-506 dated June 6, 2008 and effective June 16, 2008. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission, and the Executive Director of the OFM serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

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

Future Financings

The 2005 General Assembly enacted a State Budget for the biennium ending June 30, 2006, which authorized $2.056 billion of bond funded capital projects. The General Fund authorization was $1,204 million; the Road Fund authorization was $450 million; Agency Funds were authorized at $251.7 million; and $150 million was authorized to be supported by the Federal Highway Trust Funds. The Road Fund and Federal Highway Trust Fund authorizations have been issued. A significant portion of the Agency Fund and General Fund projects have been permanently funded.

The 2006 General Assembly adopted a State Budget for the biennium ending June 30, 2008, which authorized an additional $2.3 billion of capital projects to be funded with debt. The General Fund authorization is $1,392.9 million; the Agency Fund authorizations total $267.5 million; while the Road Fund and Federal Highway Trust Fund authorizations are $350 million and $290 million, respectively. The Federal Highway Trust Fund authorization has been issued and a significant portion of the General Fund, Agency Fund and Road Fund projects have been permanently funded.

The 2008 General Assembly adopted a State Budget for the biennium ending June 30, 2010, which authorized debt financing for projects totaling $1.659 billion to support various capital initiatives of the Commonwealth. Of the total authorization, $650.3 million is General Fund supported, $643.2 million is Agency Restricted Fund supported, $135 million is Road Fund supported and $231 million is Federal Highway Trust Fund supported through Grant Anticipation Revenue Vehicle Bonds designated for the Louisville-Southern Indiana Ohio River Bridges Project. This authorization is in addition to the authority to issue refunding bonds to refund outstanding issues. The budget also included $50 million of debt restructuring for fiscal relief in each of Fiscal Years 2009 and 2010. A portion of the General Fund and Agency Fund projects has been permanently funded, and the Fiscal Year 2009 debt restructuring has been completed.

The 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 27,560 miles of parkways, interstate highways, resource recovery roads, the economic development road system, primary roads, secondary roads, rural secondary roads and supplemental roads, and includes more than 8,900 bridges.

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 and Small Business Development and Public Affairs. The Transportation Cabinet employs approximately 4,300 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.

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

In addition to the evaluation of roadway inventory data, the Transportation Cabinet relies heavily upon input from the Commonwealth's 15 Area Development Districts, the seven Metropolitan Planning Organizations, members of the General Assembly, public involvement and community action committees and the leaders of city and county governments for project needs identification. This "partnership" involving participants from the local, regional, and state levels provides information to the Transportation Cabinet concerning growth trends, connectivity and access issues and economic development efforts to which the highway infrastructure must respond. Additionally, the Transportation Cabinet's engineering and technical staff 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. These federal-aid monies are generated by federal excise taxes and are made available in specific dollar amounts for specific types of improvements (i.e., national highway system, surface transportation program, bridge replacement projects, etc.). As an Appalachian state, the Commonwealth also receives an annual apportionment of Appalachian highway funds from the Federal Highway Trust Fund. Regardless of origin, all federal dollars must be spent within the appropriate funding category and cannot be transferred for use in other federal-aid categories except as specifically permitted by federal legislation.

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

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

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

> No money derived from the excise or license taxation relating to gasoline and other motor fuels, and no monies derived from fees, excise or license

taxation relating to registration, operation, or use of vehicles on public highways shall be expended for other than the cost of administration, statutory refunds and adjustments, payment of highway obligations, costs for construction, reconstruction, rights-of-way, maintenance and repair of public highways and bridges, and expense of enforcing state traffic and motor vehicle laws.

Following is a brief description of the various sources of revenue deposited in the Road Fund. The table under "THE TRANSPORTATION CABINET—Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein provides an accounting of the portion of these revenue sources over each of the past 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 make 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. See "THE TRANSPORTATION CABINET—Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein. A usage tax is currently imposed on the sale or transfer of new or used motor vehicles at the rate of 6 percent of the vehicle's value. The value on which the tax is assessed on new cars is a percentage of the manufacturer's suggested retail price, and for used cars and trucks is based on a notarized affidavit, prepared by both the buyer and seller, attesting to the actual cash consideration paid for the vehicle.

Motor Fuel Taxes. These taxes are levied on gasoline, liquefied petroleum gas and special fuels (predominantly diesel fuel) sold for use in motor vehicles operated on public highways. These taxes make up approximately 35 percent of the Road Fund receipts in Fiscal Year 2008 that are available to pay debt service and lease rentals. See "THE TRANSPORTATION CABINET—Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein.

Motor fuel tax rates are 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 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 2.2 cents per gallon on gasoline and 5.2 cents per gallon on special fuels. The current surtax rate for Fiscal Year 2009 through the nine month period ending March 31, 2009 is 3.6 cents for gasoline and 8.4 cents for special fuels; however, these rates may change effective April 1, 2009 depending on the variable fuel tax process described under "THE TRANSPORTATION CABINET—Recent Changes to Road Fund Receipts" herein.

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.

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

Licenses, Fees and Permits. Licenses, Fees and Permits consist of charges for (i) passenger car and truck registrations, (ii) operator's licenses and (iii) various certificates, cards and permits. Commercial trucks are assessed a per vehicle registration fee from $24 to $1,410 annually, based on the gross weight of the vehicle. 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. A vehicle operator's license cost was $8.00 for a four-year basic license until June 30, 2005. 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.

A portion of the licenses, fees and permits resulting from the issuance or renewal of operator licenses and those relating to the extended weight coal haul system and the coal haul cooperative agreements are restricted and not available to pay lease rentals. See "THE TRANSPORTATION CABINET—Claims on Certain Transportation Cabinet Revenues" herein.

Charges for Services. This category of revenues is composed of various sales, rentals, record fees, and toll facility charges. Effective November 2006, tolls were removed from the last remaining toll facilities in the Commonwealth, resulting in a reduction of Road Fund receipts of approximately $2,800,000 in Fiscal Year 2007, $6,500,000 in Fiscal Year 2008, and a reduction of approximately $6,500,000 in each future fiscal year.

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 2003 General Assembly enacted legislation that exempted trucks over 44,000 lbs from motor vehicle usage tax. This tax exemption was partially offset with an increase in registration fees for the same classes of large trucks. The net effect was an estimated reduction of Road Fund revenues of $1,000,000 in Fiscal Year 2004 and $2,700,000 in Fiscal Year 2005 once fully implemented.

The 2005 General Assembly modified the motor vehicle usage tax statutes to require payment of the tax when a vehicle is either titled or registered in the Commonwealth. The change in the point of taxation is intended to close a tax avoidance loophole increasing Road Fund receipts available to pay lease rentals by approximately $3,000,000 annually beginning in Fiscal Year 2006.

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 will be deposited to the Road Fund. This change resulted in an increase to Road Fund receipts of approximately $6,400,000 in Fiscal Year 2007.

Motor Fuel Taxes. The motor fuel tax statutes provide for a variable tax rate equal to 9 percent of the awp of gasoline, rounded to the third decimal, which was, until July 1, 2005, subject to a 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 that the awp shall not be assumed to be below the statutory floor. Thus the awp may increase only by up to 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. This provision first resulted in an automatic adjustment of the variable tax rate portion of the motor fuel tax on July 1, 2004 when the awp floor increased from $1.11 to $1.22.

The 2005 General Assembly authorized two changes to Road Fund motor fuel tax receipts both of which were effective July 1, 2005. First, the awp floor of $1.22 used to calculate the motor fuel variable tax rate was made permanent. This change permanently increased the minimum variable tax rate on motor fuels from 10 cents to 11 cents per gallon of both gasoline and special fuels. The minimum combined motor fuel tax per gallon, including both the variable tax and the supplemental highway-user tax, permanently became 16 cents for gasoline and 13 cents for special fuels as of July 1, 2005. The statutory provision that allows for an incremental tax increase based on the quarterly awp of fuel remained intact and due to the continued increase in the awp of fuel the awp for purposes of applying the statutory motor fuel tax provisions rose to $1.34 per gallon effective July 1, 2005. This resulted in a 1.1 cents increase in the motor fuel tax as of the date. The resulting motor fuel tax was 17.1 cents per gallon for gasoline and 14.1 cents per gallon for special fuels. Also, effective July 1, 2005, the General Assembly excluded the receipts related to the one cent increase from the statutory revenue sharing provision for motor fuel taxes. It was estimated that Road Fund motor fuel tax receipts available to pay lease rentals would increase by approximately $27,500,000 in Fiscal Year 2006 and approximately $31,000,000 each fiscal year thereafter. See "THE TRANSPORTATION CABINET—Claims on Certain Transportation Cabinet Revenues" herein.

The 2006 General Assembly again changed the statutory floor applicable to the variable tax rate effective July 1, 2006 by making permanent the awp floor of $1.34. Also effective on July 1, 2006 was an increase in the awp of fuel for purposes of applying the statutory motor fuel tax provisions to $1.47. The automatic increase was triggered by quarterly analysis of the awp of fuel and resulted in an increase of the variable motor fuel tax of 1.2 cents per gallon. With this increase the motor fuel tax rates became 18.3 cents per gallon of gasoline and 15.3 cents per gallon for special fuels for Fiscal Year 2007. Also effective July 1, 2006, the 2006 General Assembly excluded the receipts related to the 1.1 cent increase from the statutory revenue sharing provisions for motor fuels taxes. It is estimated that Road Fund motor fuel tax receipts available to pay lease rentals will increase by approximately $30,250,000 in Fiscal Year 2007 and approximately $33,000,000 each Fiscal Year thereafter. As of this date, a total of 2.1 cents is exempt from the revenue sharing provisions. See "THE TRANSPORTATION CABINET—Claims on Certain Transportation Cabinet Revenues" herein.

Effective July 1, 2007, the awp of fuel for purposes of applying the statutory motor fuel tax provisions again increased due to the results of the analysis of the awp of fuel described above. The 1.3 cents per gallon increase resulted in a motor fuel tax of 19.6 cents per gallon of gasoline and 16.6 cents per gallon for special fuels that was applicable for all of Fiscal Year 2008.

Effective July 1, 2008, the awp of fuel for purposes of applying the statutory motor fuel tax provisions increased due to the results of the analysis of the awp of fuel described above. A 1.5 cents per gallon increase resulted in a motor fuel tax of 21.1 cents per gallon of gasoline and 18.1 cents per gallon for special fuels that will be applicable through the third quarter of Fiscal Year 2009. However, late November 2008 projections of the awp of fuel by the Consensus Forecasting Group ("CFG") and the preliminary January 2009 awp of fuel figures available to the Department of Revenue reflect substantial declines in the awp of fuel, with resulting projected per gallon reductions of the motor fuel tax in accordance with the applicable statutes. See "THE TRANSPORTATION CABINET—Road Fund Revenue Estimate" herein.

The following table displays the recent history of changes to the gasoline motor fuel tax rate in Kentucky:

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

Effective	Gasoline Tax Rate KRS 138.220(1)	Motor Fuel User Tax KRS 138.220(2)	Total Motor Fuel Tax	Comments
1986-7/1/2004	\$1.11 X 9% = 10 cents	5 Cents	15 Cents	\$1.11 was the awp floor from 1986-2004
7/1/2004 (FY2005)	\$1.22 X 9% = 11 cents	5 Cents	16 Cents	Effective 7/1/2005 awp floor made permanent by the General Assembly
7/1/2005 (FY 2006)	\$1.34 X 9% = 12.1 cents	5 Cents	17.1 Cents	Effective 7/1/2006 awp floor made permanent by the General Assembly
7/1/2006 (FY2007)	\$1.47 X 9% = 13.3 cents	5 Cents	18.3 Cents	
7/1/2007 (FY2008)	\$1.62 X 9% = 14.6 cents	5 Cents	19.6 Cents	
7/1/2008 (FY2009)	\$1.79 X 9% = 16.1 cents	5 Cents	21.1 Cents	Tax rate remains in effect through March 31, 2009. It is anticipated that the variable tax rate will decrease effective April 1, 2009. See "Road Fund Revenue Estimate" herein.

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 2009

On November 21, 2008, the CFG officially decreased the Road Fund revenue estimate for Fiscal Year 2009 from the budgeted estimate of $1,324.8 million to $1,220.1 million, a decrease of $104.7 million. The anticipated decline is primarily in three receipt categories: motor vehicle usage taxes ($71.7 million), motor fuel taxes ($20.9 million) and motor vehicle licensing fees ($13.7 million). Minor increases and decreases in other receipt categories offset these declines resulting in the total net reduction. The overall decline in revenue collection is anticipated due to the national economic slowdown and the related impact on vehicle sales and the reduction in fuel consumption. The Transportation Cabinet has implemented a budget reduction plan to balance planned spending to the revised revenue amounts. The plan includes reductions in revenue sharing distributions and administrative costs as well as debt service savings and the slowing of transportation project spending.

Road Fund receipts for January 2009 totaled $90.9 million, a 12.5 percent decrease from January 2008 levels. Fiscal Year 2009 to-date receipts are down by 6.6 percent. The officially revised Road Fund estimates call for a decline in revenues of 3.4 percent for the Fiscal Year 2009. Based on Fiscal Year 2009 to-date tax collections, revenues must increase by 1.1 percent for the remainder of the Fiscal Year to meet the estimate.

The decrease in motor fuel tax revenues for Fiscal Year 2009 is in part due to an anticipated lowering of the motor fuel variable tax rate for the fiscal quarter ending June 30, 2009 that will result from decreasing fuel prices. The CFG projects that the awp for purposes of applying the statutory motor fuel tax provisions will decline from $1.79 per gallon to approximately $1.597 per gallon. The awp of fuel is the trigger for quarterly adjustments to the motor fuel variable tax rate and a decline in the awp will result in a reduction of the variable tax rate. See “THE TRANSPORTATION CABINET—Recent Changes to Road Fund Receipts—*Motor Fuel Taxes*” herein.

The Department of Revenue’s preliminary January 2009 data show that the awp of fuel has declined further to levels that are under the $1.34 per gallon statutory minimum. At the statutory minimum and for purposes of debt service coverage with respect to the Bonds, Adjusted Revenues, calculated on the basis of the statutory minimum, would be approximately 6.81 times Maximum Annual Debt Service. See “SECURITY FOR THE BONDS—Additional Bonds” herein.

Road Fund Revenue Estimate
Fiscal Year 2010

The Fiscal Year 2010 Road Fund revenue estimate of $1,405.1 million was officially published by the CFG in January 2008. The Road Fund revenue estimate is the basis for expenditures found in H.B. 406, the Commonwealth’s budget bill enacted in April 2008. The CFG reconvened on November 21, 2008 and officially revised the Fiscal Year 2009 Road Fund revenue estimate down 7.9% to $1,220.1 million, while taking no action with regard to the original Fiscal Year 2010 estimate. Although, the CFG has not revised the Road Fund revenue estimate for Fiscal Year 2010, it is likely that revenue collections will be less than originally forecast in light of current economic conditions (as evidenced by the recent drop in the awp of fuel that is anticipated to reduce the motor fuels tax described in “THE TRANSPORTATION CABINET—Recent Changes to Road Fund Receipts—*Motor Fuel Taxes*” herein).

Claims on Certain Transportation Cabinet Revenues

There are a number of statutory requirements affecting certain Road Fund revenues. A total of 48.2% of the collections of motor fuels, 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% 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% and 18.3% 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 .1% 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—Licenses, Fees and Permits" 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. License, fees and permits revenues are shown net of required allocations for the Energy Recovery Road Fund and the restricted portions of regular and motorcycle operator's license fees. Operating and maintenance expenses reflect only those related to Commonwealth highway and highway-related projects payable from the Road Fund.

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

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

	2004	2005	2006	2007	2008
TOTAL AVAILABLE ROAD FUND REVENUES:					
TAXES:					
Motor Fuels [2]	$238,048	$254,008	$286,655	$323,206	$344,276
Vehicle Usage [3]	429,201	407,471	395,507	411,185	405,846
Other	84,594	85,543	89,756	89,879	91,909
LICENSE, FEES AND PERMITS	116,917	110,872	126,910	129,564	124,762
CHARGES FOR SERVICES [4]	15,670	15,410	14,414	13,306	9,610
FINES AND FORFEITS	2	3	(1)		48
INTEREST INCOME	7,546	6,233	7,671	16,055	19,461
TOTAL AVAILABLE ROAD FUND REVENUES:	$891,978	$879,540	$920,912	$983,195	$995,912
OPERATING & MAINTENANCE EXPENSES:					
Personnel Cost	$178,928	$166,178	$170,394	$166,636	$176,301
Personal Service	5,914	10,423	9,957	11,027	12,959
Operating Expense	116,812	105,972	120,604	131,708	153,388
Grants	34	21	61	111	317
Capital Outlay	226	295	68	209	935
Capital Construction	1,592	1,769	2,285	2,988	2,237
Highway Materials	34,370	30,595	32,179	31,222	38,239
Other Agency Cost [5]	36,680	54,603	44,850	66,709	67,101
TOTAL OPERATING & MAINTENANCE:	$374,556	$369,856	$380,398	$410,610	$451,477
NET AVAILABLE ROAD FUND REVENUES:	$517,422	$509,684	$540,514	$572,585	$544,435
LEASE RENTALS: [6]					
The Turnpike Authority					
Toll Road Projects	$112	$7,882	$7,807	$227	$40
Economic Development Road Projects	120,875	59,118	93,388	145,805	148,183
Resource Recovery Road Projects	35,972	38,822	38,796	66	40
Commission	2,734	6,932	6,958	7,298	7,292
ALCO Project Notes	0	0	0	0	5,340
TOTAL LEASE RENTALS:	$159,693	$112,754	$146,949	$153,396	$160,895
GROSS COVERAGE [7]	5.59x	7.80x	6.27x	6.41x	6.19x
NET COVERAGE [7]	3.24x	4.52x	3.68x	3.73x	3.38x

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. Total Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees and miscellaneous revenues that are dedicated for other uses and not available to make lease rental payments to the Turnpike Authority or the 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 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.
3. 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.
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.
5. The Kentucky General Assembly routinely appropriates Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of enforcement of traffic laws, the collection of Road Fund tax revenues and other administrative support functions related to the Cabinet.
6. Lease Rentals paid by the Transportation Cabinet to the Turnpike Authority include amounts representing the following: principal and interest requirements on Turnpike Authority Bonds, net of Debt Service Reserve Fund investment earnings and amounts required by the Turnpike Authority for administrative and other expenses; and any amounts 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 or a new office building for the Transportation Cabinet. The ALCo Project Notes bear interest at a variable (commercial paper) rate and Lease Rentals are calculated at the maximum rate (10% per annum).
7. Gross Coverage equals Total Available Road Fund Revenues divided by Total Lease Rentals. Net Coverage equals Net Available Road Fund Revenues divided by Total Lease Rentals.

Basis of Accounting

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

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

The interim financial statements reconcile directly with the audited financial statements. Under the interim financial statements, the Transportation Cabinet maintains six operating funds: the Road Fund, the Federal Fund, the General Fund, the Agency Fund, Fleet Management 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 December 31, 2008 was $256,477,000.

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.

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

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

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

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

Other Road Fund Obligations of the Transportation Cabinet

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

The Transportation Cabinet and the Commission entered into a Lease dated as of November 1, 2001 (the "2001 Lease") relating to the issuance by the Commission of its Road Fund Revenue Bonds, Project No. 73 and Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series) (collectively, the "Project 73 Bonds"). The proceeds of the Project 73 Bonds were used to finance and refinance the construction of a building to house the main administrative offices of the Transportation Cabinet in Frankfort. The 2001 Lease requires that the Transportation Cabinet pay the debt service on the Project 73 Bonds with amounts appropriated from the Road Fund. The 2001 Lease restricts future financings for the Transportation Cabinet by the Commission in the same manner as described under "SECURITY FOR THE BONDS—Conditions to Additional Indebtedness" herein. The Bonds are issued on a parity with the Project 73 Bonds. Revenues of the System are not pledged to the payment of amounts due under the 2001 Lease or the Lease.

THE COMMONWEALTH

The Commonwealth of Kentucky, nicknamed the Bluegrass State, was the first state west of the Alleghenies to be settled by pioneers. Kentucky is bounded by the Ohio River to the north and the

Mississippi River to the west, and is bordered by the States of Illinois, Indiana, Ohio, West Virginia, Tennessee, Missouri and the Commonwealth of Virginia.

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

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

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

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

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

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2008 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2008 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12):

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

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

(iii) Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Internet: nrmsir@interactivedata.com
Tel: (212) 771-6999; 800-689-8466
Fax: (212) 771-7390

(iv) Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Internet: nrmsir_repository@sandp.com
Tel: (212) 438-4595
Fax: (212) 438-3975

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2008 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2008 and certain other fiscal years may be found on the Internet at:

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

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

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

Budgetary Process in the Commonwealth

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

In the two even numbered years prior to 2006, the regular legislative session of the General Assembly adjourned without adoption of a State Budget. On both occasions, the Governor signed Executive Orders authorizing the Secretary of the Finance and Administration Cabinet to issue warrants for the payment of all claims made by the Executive Branch of government in accordance with a Public Services Continuation Plan providing for the continued operation of state government in the absence of a legislatively adopted State Budget (the "Continuation Plan"). The Continuation Plans provided full spending authority for the total debt service payments. In both cases, the Kentucky General Assembly enacted a State Budget in November of the following odd numbered year, which incorporated the Continuation Plans and appropriated funds for the remainder of the biennium. See "THE TRANSPORTATION CABINET-Budget Process of the Transportation Cabinet" for information regarding the Road Fund budget.

Fiscal Year 2007

The Commonwealth's combined net assets (governmental and business-type activities) totaled $17.4 billion at the end of 2007, as compared to $17.9 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $18.2 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), and minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.6 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $2.4 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $9.5 billion and general revenues (including transfers) of $10.2 billion for total revenues of $19.7 billion during Fiscal Year 2007. Expenses for the Commonwealth during Fiscal Year 2007 were $20.2 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $(507) million, net of contributions, transfers and special items.

The slowing economy, during Fiscal Year 2007, caused revenues to decline resulting in the decrease in net assets of governmental activities by $(466) million or 2.6 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 34 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2007, the Commonwealth's governmental funds reported combined ending fund balances of $2.86 billion, a decrease of $(280) million in comparison with the prior year. The unreserved portion of fund balance ($1.86 billion), which is the portion of fund balance available for spending in the coming year, has increased to 65 percent of the total fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of Fiscal Year 2007, total fund balance reached $813 million, with an unreserved balance of $517 million. This compares to a General Fund unreserved Fund Balance of $713 million as of June 30, 2006. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The Commonwealth's General Fund balance, after several years of growth, has decreased by $81 million during Fiscal Year 2007, which represents a decline of 9 percent, of the prior year balance. The slow economy which reduced tax revenues is the major factor for this decline.

The major special revenue funds had no significant changes in fund balances, however, some changes in a fund's revenues and/or expenditures, might be considered significant. These changes include an increase in motor fuels tax receipts, in the Transportation Fund; increased benefit payments in the Federal Fund, and increased spending in the Transportation function of the Agency Revenue Fund.

The Commonwealth of Kentucky's bonded debt decreased by $104 million to $3.4 billion, a 2.93 percent decrease during Fiscal Year 2007. The major factor in this decrease was the maturity of bonds outstanding and the issuance of notes for interim financing, rather than bonds. No general obligation bonds were authorized or outstanding at June 30, 2007.

Fiscal Year 2008

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

The largest portion of the Commonwealth's net assets, $20.2 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), and minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.45 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $(5.4) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

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

The slowing economy, during Fiscal Year 2008, caused revenues to decline resulting in the decrease in net assets of governmental activities by $1.29 billion or 7.4 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 36 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2008, the Commonwealth's governmental funds reported combined ending fund balances of $2.44 billion, a decrease of $434 million in comparison with the prior year. $1.21 billion of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is $1.23 billion.

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

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

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

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

Fiscal Year 2009 (Unaudited)

On November 21, 2008, CFG revised the official General Fund revenue estimate for Fiscal Year 2009 to $8,429.9 million, which is $393.7 million less than the original CFG estimate and is $456.1 million less than the level upon which the Fiscal Year 2009 budget was enacted. The official forecast reflects a 2.7 percent decrease in General Fund receipts for Fiscal Year 2009 when compared to Fiscal Year 2008 actual receipts. The estimate excludes Phase I Tobacco Master Settlement Agreement ("MSA") payments, which are estimated to be $118.49 million in Fiscal Year 2009 under the revised CFG estimate, a decrease of $1.2 million from the original estimate.

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

General Fund revenues for January 2009 were $722.5 million, a decrease of 4.0 percent compared to January 2008. During January 2009, sales and use tax revenues were down 4.2 percent for the month and are up only 0.5 percent for the year. Individual income tax receipts fell by 13.5 percent over the same period in Fiscal Year 2008 as the principal components (withholding, declaration payments, and net returns) posted January declines. Corporation income tax receipts for January 2009 grew by 425.6 percent when compared to January 2008, but are down 36.2 percent for the year. Property taxes for

January 2009 increased 12.1 percent compared to January 2008 on the strength of real and tangible property receipts. Coal severance tax receipts grew by 17.6 percent in January 2009 compared to January 2008 and are up 31.4 percent for Fiscal Year 2009. The Kentucky Lottery Corporation dividend payment for January 2009 was $16 million, up from $15.5 million last January.

Fiscal Year 2010 (Unaudited)

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

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management.

At January 31, 2009, the Commonwealth's operating portfolio was approximately $3.1 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (14%); securities issued by agencies and instrumentalities of the United States Government (23%); mortgage–backed securities and collateralized mortgage obligations (15%); repurchase agreements collateralized by the aforementioned (11%); municipal securities (10%); and corporate and asset–backed securities, including money market securities (27%). The portfolio had a current yield of 4.08% and an effective duration of 1.08 years.

The Commonwealth's investments are currently categorized into three investment pools: Short-term, Intermediate-term and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short-term Pool consists primarily of General Fund and related accounts and provides liquidity to the remaining pools. The Intermediate-term Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the Commonwealth. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

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

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

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of "Eligible Collateral," marked to market daily. "Eligible Collateral" is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent, Credit Suisse, lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in Eligible Collateral authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split among Credit Suisse and the Commonwealth. Through the re-investment of loan proceeds, the Commonwealth owns a $25 million par medium term note issued by Lehman Brothers Holdings, Inc. This bond is currently in default. Additionally, the Commonwealth owns a $25 million Senior Bank Note issued by Washington Mutual which is also in default.

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a $200 million notional amount to a net market value approach, the absolute value of which cannot exceed $50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. The Commonwealth currently has no asset-based interest rate swaps outstanding.

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to $25 million per issuer and a stated final maturity of five years or less. Money market securities rated A1-P1 or higher are limited to 20% of any investment pool and when combined with corporate and asset–backed securities ("ABS") must not exceed 25% of any investment pool. United States Agency Mortgage–Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25% of any investment portfolio. ABS, MBS and CMO must have a weighted-average-life of four years or less at time of purchase.

Interest Rate Swaps

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

One interest rate swap transaction with a notional amount of $400 million is related to the ALCo General Fund Tax and Revenue Anticipation Notes and matures June 25, 2009. This swap is used to hedge the sensitivity between short term General Fund cash investments and the fixed interest rate liability on the notes. The purpose of the other maturing 2009 swap transaction is to hedge the issuance of approximately $150 million of the Commonwealth's authorized, but unissued tax-exempt debt. This cash settled swap has a mandatory termination date of November 1, 2009 and will be terminated in conjunction with the issuance of the State Property and Buildings Commission Project No. 93 Revenue and Revenue Refunding Bonds in advance of the mandatory termination date. The remaining swap transaction consists of a series of four amortizing "cost of funds" interest rate swaps that totaled $243.08 million at the time of execution and having maturity dates beginning November 1, 2017 through November 1, 2027. This transaction is integrated as part of the issuance of the ALCo's 2007 $243.08 million General Fund Floating Rate Project Notes.

State Retirement Systems

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

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Kentucky Teacher's Retirement System ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits ("OPEB") to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2008, Note 8 beginning on page 76. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at http://www.kyret.com and http://www.ktrs.ky.gov, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under "Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

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

Other Post Employment Benefits ("*OPEB*"). The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment

Benefits other than Pensions"). The State is required to adopt the standards after the Fiscal Year ending June 30, 2008.

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

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was completed for the period ending June 30, 2006 for the Kentucky Retirement Systems and the next scheduled experience study period will be prepared in January 2011. KTRS' last five-year experience study was for the period ending June 30, 2005, the next five year experience study will be for the period ending June 30, 2010. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2008 has been estimated to not exceed $5,403 million for the Kentucky Retirement Systems and $6,255 million for KTRS. These estimates represent the amount of healthcare benefits under the respective Health Plans, payable for the ensuing 30-year period and allocated by the actuarial cost method, as of June 30, 2008. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities slightly increased from the $5,151 million previously reported in the Kentucky Retirement Systems' 2007 CAFR. The actuarial estimates for KTRS increased from $5,788 million due to health care costs escalating at a much faster rate than revenue growth in the Medical Insurance Plan.

The Kentucky Retirement Systems' state supported Annual Required Contribution for Fiscal Year ended June 30, 2008 healthcare benefits was $653.4 million versus the Actual Contribution of $93 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2008 was $397.2 million; $166.3 million was contributed. Previously, the General Assembly directed transfers of $125.0 million in Fiscal Year 2008, $73.0 million in Fiscal Year 2007, $62.3 million in Fiscal Year 2006 and $29.1 million in Fiscal Year 2005. These amounts are to be repaid from the State General Fund over a 10-year period corresponding with each transfer. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2008 had funding percentages of 15.8 percent for the Kentucky Retirement Systems and 4.0 percent for KTRS.

The Commonwealth's 2008-2010 biennial budget increased employer contribution rates by 37 percent for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 18 percent.

Changes to State Retirement Systems. During the 2008 Regular Session, Governor Steve Beshear presented the Kentucky Public Pension Protection and Modernization Act to address the long-term financial stability of the Commonwealth's pension systems. While there was significant discussion and debate between both the House and the Senate resulting in different versions of the pension legislation being considered, ultimately both sides of the General Assembly failed to reach an agreement.

On May 29, 2008, Governor Beshear issued an executive order creating the Kentucky Public Pension Working Group and urged both the House and Senate to work together toward an agreement for a special session. Governor Beshear's May 29th executive order created a working group composed of senior executive branch officials, pension fund directors, employee representatives and private sector investment experts. The working group conducted an operational and governance review of the state retirement systems and studied the issues in dispute during the 2008 Regular Session that had not been recommended by the prior administration's Blue Ribbon Commission, to determine their viability and cost. To accomplish these tasks, the working group was divided into six subcommittees, including: best practices in investments; future funding strategies; a County Employees Retirement System and Local Government Employees Retirement System committee that was tasked to study the transfer of classified school employees to a new retirement system and the potential for a new local government employees retirements system; a committee that considered defined contribution options; a group that evaluated healthcare costs and strategies; and a committee that evaluated and ensured best practices in securities litigation. The working group provided its final report to the Governor in November 2008 and will also offer to provide testimony to the Interim State Government Committee, allowing the General Assembly to address these issues in the 2009 regular legislative session.

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

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

SUMMARIES OF THE PRINCIPAL DOCUMENTS

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

The Resolution

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

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

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

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

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

3. Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund constitutes a trust fund for the benefit of the owners of the Bonds. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings or real estate, including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings, appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Fund.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As used herein, "Defeasance Obligations" means:

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

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

(c) certificates rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch (if rated by Fitch), each (as hereinafter defined) evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian;

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

(e) non-callable senior debt obligations of U.S. government-sponsored agencies that are not backed by the full faith and credit of the U.S. government, including, but not limited to, Federal Home Loan Mortgage Corp. debt obligations, Farm Credit System consolidated systemwide bonds and notes, Federal Home Loan Banks consolidated debt obligations, Federal National Mortgage Association debt obligations, Resolution Funding Corp. debt obligations and U.S. Agency for International Development guaranteed notes (which must mature at least four business days before the appropriate payment date); provided that, in each case, the obligations are rated "AAA" by S&P, "Aaa" by Moody's and "AAA" by Fitch (if rated at the time of purchase).

The Lease

The Commission and the Transportation Cabinet have entered into the Lease whereby the Transportation Cabinet will lease the Project from the Commission and will pay rentals to the

Commission during biennial renewal terms which will provide funds sufficient to pay the amounts due on the Bonds.

The Lease has an initial term ending June 30, 2010. 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 owners of the Bonds for federal income tax purposes. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has given the Bonds the rating of "Aa3", Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), has given the Bonds the rating of "A+" and Fitch Ratings ("Fitch") has given the Bonds the rating of "AA-". Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 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 Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel to, the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT C. 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 Kutak Rock LLP, Omaha, Nebraska.

LITIGATION

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

TAX EXEMPTION

General

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excludible from gross income for Federal income tax purposes and interest on the Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes.[1] Furthermore, Bond Counsel is of the opinion that interest on the Bonds is exempt from income taxation by the Commonwealth and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. A copy of the opinion of Bond Counsel for the Bonds is set forth in EXHIBIT C.

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[1] Note, pursuant to the American Recovery and Reinvestment Act of 2009, interest on the Bonds is *not* includable in the calculation of "adjusted current earnings" for purposes of the alternative minimum tax for Bondholders otherwise subject to the corporate alternative minimum tax.

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

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

Although Bond Counsel has rendered an opinion that interest on the Bonds is excludible from gross income for Federal income tax purposes and that interest on the Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. For example, such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Bonds. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

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

Tax Treatment of Original Issue Discount

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

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

Tax Treatment of Bond Premium

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

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

UNDERWRITING

The Bonds are to be purchased by a syndicate managed by Citigroup Global Markets Inc., as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of $35,761,594.07 (which is equal to the principal amount of the Bonds plus net original issue premium of $2,191,334.70 and less underwriting discount of $179,740.63). The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering yields set forth on the cover page hereof; provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

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

Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

CONTINUING DISCLOSURE AGREEMENT

The Bonds are subject to Rule 15c2-12. In general, Rule 15c2-12 prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in Rule 15c2-12, if material. In order to enable the Underwriters to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee. Specifically, the Commission will covenant (1) annually to file the Commonwealth's annual financial information, including its audited financial statements, with each NRMSIR or the Municipal Securities Rulemaking Board (the "MSRB"), and the appropriate state information depository, if any, and (2) to provide notice in a timely manner of any of the following types of events with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale or property securing repayment of the securities; and (xi) rating changes. Effective on July 1, 2009 (or such other date as the Securities and Exchange Commission may announce), the MSRB will be the sole NRMSIR and the Commission's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access (EMMA) system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities and has complied with requirements of Rule 15c2-12.

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.

COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

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

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EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

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

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

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

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

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

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Kentucky Infrastructure Authority Governmental Agencies Program and certain Kentucky Higher Education Student Loan Corporation bond issues are no longer moral obligation debt.

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATINGS*
State Property and Buildings Commission	**KRS 56.450** Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	**KRS 56.860** Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	**KRS 175.410-175.990** Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA+/AA-
The State Universities (consisting of nine)	**KRS 56.495** Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	**KRS 198A** Make low interest mortgage loans and construction loans to increase the supply of housing for low to moderate income residents of the State.	Limited to $ 5 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	**KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of $500 million.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	**KRS 164A** Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to $5.0 billion of debt outstanding.	NR/AAA/AAA (Sr. Series) NR/A/A (Subord. Series)
School Facilities Construction Commission	**KRS 157.611-157.665** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance Authority	**KRS 154** Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	**KRS 441.605-441.695** Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baal/AA/NR (MBIA Insured)

* Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch.
Certain State Property and Buildings Commission Agency Fund Revenue bonds may have ratings different from those identified above. The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA-" by Standard & Poor's and are backed by the loans of the borrowers.

EXHIBIT B

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry-Only system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

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

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

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

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

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EXHIBIT C

FORM OF BOND COUNSEL OPINION FOR THE BONDS

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: $33,750,000 Commonwealth of Kentucky State Property and Buildings Commission Road Fund Revenue Bonds, Project No. 94

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its Road Fund Revenue Bonds, Project No. 94, in the aggregate principal amount of $33,750,000 (the "Bonds"), dated the date of their delivery. The Bonds are being issued on behalf of the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"), a state agency of the Commonwealth of Kentucky (the "Commonwealth").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on January 15, 2009 (the "Resolution") for the purpose of (i) paying costs of a project (the "Project") and (ii) paying costs of issuing the Bonds. The Project has been leased to the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") pursuant to a Lease Agreement dated as of February 1, 2009 by and between the Commission and the Cabinet.

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

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

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

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

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

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

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

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

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

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

7. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Bonds is excludable from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations, nor be includable in adjusted current earnings, under Section 56(c) of the Code, in computing the alternative minimum tax for corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds.

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

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

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

Very truly yours,

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