

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.

\$66,815,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue and Revenue Refunding Bonds, Project No. 76

Dated: February 1, 2002

Due: August 1, as shown below

The Revenue and Revenue Refunding Bonds, Project No. 76 (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 February 1 and August 1, commencing on August 1, 2002. Principal of and interest on the Bonds will be paid directly to DTC by The Provident Bank, Cincinnati, Ohio, as Trustee and Paying Agent.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

- - -Insert Ambac logo - - -

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

<u>Maturity</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2002	\$ 75,000	3.000%	1.500%	2014	\$ 275,000	4.500%	4.580%
2003	185,000	3.000	1.750	2015	280,000	4.625	4.630
2004	190,000	3.000	2.450	2016	210,000	4.625	4.640
2005	195,000	3.000	2.970	2016	9,050,000	5.500	4.640
2006	200,000	3.250	3.280	2017	9,770,000	5.500	4.700
2007	205,000	3.600	3.610	2018	150,000	4.750	4.770
2008	215,000	3.800	3.810	2018	10,150,000	5.500	4.770
2009	225,000	4.000	4.000	2019	10,870,000	5.500	4.800
2010	230,000	4.125	4.150	2020	150,000	4.800	4.830
2011	240,000	4.250	4.250	2020	11,320,000	5.500	4.830
2012	250,000	4.300	4.350	2021	415,000	4.800	4.850
2013	260,000	4.500	4.500	2021	11,705,000	5.500	4.850

(plus accrued interest)

The Bonds are not subject to redemption prior to maturity.

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to a Resolution adopted January 24, 2002, to (i) refund certain of the Commission's outstanding bonds, as more fully defined and described herein, (ii) pay costs of constructing, acquiring, installing and equipping the Project (as described and defined herein) and (iii) pay costs of issuing the Bonds.

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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Krieg DeVault LLP, Indianapolis, Indiana. It is expected that delivery of the Bonds will be made on or about February 28, 2002, in New York, New York, through the facilities of DTC, against payment therefor.

UBS PaineWebber Inc.

J.J.B. Hilliard, W.L. Lyons, Inc.
A. G. Edwards & Sons, Inc.

Morgan Keegan & Company, Inc.
Ross, Sinclair & Associates, Inc.
Banc One Capital Markets, Inc.

NatCity Investments, Inc.
First Kentucky Securities Corp.

Dated: February 6, 2002.

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

MEMBERS

PAUL E. PATTON
Governor
(Chairman of the Commission)

STEPHEN L. HENRY
Lieutenant Governor

A. B. CHANDLER III
Attorney General

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

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

DANA B. MAYTON
Secretary
Revenue Cabinet

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

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 COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

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SUMMARY

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

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

The Offering The Commission is offering its \$66,815,000 Revenue and Revenue Refunding Bonds, Project No. 76 (the “Bonds”).

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes (“KRS”) and a resolution (the “Resolution”) adopted by the Commission (i) authorizing the issuance of the Bonds, and (ii) approving the Lease Agreement dated as of February 1, 2002, between the Commission, as lessor and the Finance and Administration Cabinet of the Commonwealth (the “Cabinet”), as lessee.

Use of Proceeds The Bonds are being issued to provide funds with which to (i) refund certain of the Commission’s outstanding bonds, as more fully defined and described herein, (ii) pay costs of constructing, acquiring, installing and equipping the hereinafter described and defined Project, and (iii) pay costs of issuing the Bonds.

Security The Bonds and the interest thereon are payable solely from the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Lease. See “SUMMARIES OF THE PRINCIPAL DOCUMENTS” 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 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.

Bond Insurance The scheduled payment of principal and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance

Corporation simultaneously with the delivery of the Bonds. See “FINANCIAL GUARANTY INSURANCE POLICY” herein.

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 February 1 and August 1, commencing on August 1, 2002. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by The Provident Bank, Cincinnati, Ohio, as Trustee and Paying Agent (the “Trustee”).

The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds are not subject to redemption prior to maturity. See “THE BONDS—Redemption Provisions” herein. It is expected that delivery of the Bonds will be made on or about February 28, 2002, in New York, New York, against payment therefor.

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

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

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

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

OFFICIAL STATEMENT
Relating to
\$66,815,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Revenue and Revenue Refunding Bonds, Project No. 76

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 \$66,815,000 Revenue and Revenue Refunding Bonds, Project No. 76 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refund certain of the Commission's outstanding bonds, as more fully defined and described herein (collectively, the "Prior Bonds"), which Prior Bonds were issued pursuant to resolutions previously adopted by the Commission, to pay costs of constructing, acquiring, installing and equipping a portion of Project No. 71 (as hereinafter described and delivered), (ii) pay costs of constructing, acquiring, installing and equipping the Project (as hereinafter described and defined), and (iii) pay costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE."

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

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

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

The scheduled payment of principal and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "FINANCIAL GUARANTY INSURANCE POLICY" herein.

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

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will be dated February 1, 2002, and will bear interest payable on each February 1 and August 1, commencing August 1, 2002, at the interest rates set forth on the cover page of this Official Statement. The Provident Bank, Cincinnati, Ohio, is the trustee for the Bonds (the "Trustee").

Book Entry Only System

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of § 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

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

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

Neither the Commission nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person not shown on the registration books of the Trustee as being a holder with respect to: (1) the Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the purchase price of tendered Bonds or the principal or interest on the Bonds; (4) the delivery by any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to holders; or (5) any consent given or other action taken by DTC as holder.

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

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

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

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

Redemption Provisions

The Bonds are not subject to redemption prior to maturity.

SECURITY FOR THE BONDS

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

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

Under the provisions of the Constitution of the Commonwealth, the 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 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.**

The scheduled payment of principal and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See “FINANCIAL GUARANTY INSURANCE POLICY” herein.

FINANCIAL GUARANTY INSURANCE POLICY

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (“Ambac Assurance”) has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant

to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Bonds and will be fully subrogated to the surrendering Holder's rights to payment.

AMBAC ASSURANCE CORPORATION

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately **\$4,988,000,000** (unaudited) and statutory capital of approximately **\$2,963,000,000** (unaudited) as of **September 30, 2001**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds. **No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the Lessee.**

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE POLICY" and "AMBAC ASSURANCE CORPORATION."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;
- 2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
- 3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;
- 5) The Company's Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001;
- 6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001;
- 7) The Company's Current Report on Form 8-K dated and filed on September 17, 2001;
- 8) The Company's Current Report on Form 8-K dated and filed on September 19, 2001;
- 9) The Company's Current Report on Form 8-K dated and filed on October 22, 2001; and
- 10) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2001 and filed on November 14, 2001.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information."**

PLAN OF FINANCE

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

The proceeds of the Bonds required to refund the Prior Bonds will be deposited in a separate and distinct escrow fund to be held by The Provident Bank as Escrow Trustee (the "Escrow Trustee") under an Escrow Trust Agreement (the "Escrow Agreement") dated as of February 1, 2002, by and between the Commission and the Escrow Trustee. The Escrow Trustee is required in the Escrow Agreement to apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the "United States Treasury Obligations"), which will earn interest at such rates and mature on such dates so as to provide sufficient

funds, together with any cash held invested in the escrow fund, to pay the principal and interest on the Prior Bonds as same become due. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein. Upon the making of the foregoing deposit with the Escrow Trustee on behalf of the prior trustee, in the opinion of Bond Counsel, the Prior Bonds will no longer be deemed to be outstanding for the purposes of the resolution under which the Prior Bonds were issued.

The Commission had outstanding bonds in the aggregate principal amount of \$2,185,406,415.70 as of February 1, 2002. Upon the issuance of the Bonds, the Commission will have a total of \$2,252,221,415.70 aggregate principal amount of bonds outstanding. In addition, the Commission has further committed to issue a series of bonds on a forward delivery basis as a part of the Commission’s Project No. 69. The Project 69 Series D bonds in the aggregate principal amount of \$39,320,000 will be delivered on June 5, 2002 which will refund prior Commission bonds in the amount of \$39,405,000.

SOURCES AND USES OF FUNDS FOR THE BONDS

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

SOURCES OF FUNDS:

Par Amount of Bonds	\$66,815,000.00
Plus: Net Original Issue Premium	5,255,614.75
Accrued Interest	<u>271,454.63</u>
TOTAL SOURCES	<u>\$72,342,069.38</u>

USES OF FUNDS:

Escrow Fund Deposit	\$65,509,976.00
Construction Fund Deposit	5,160,000.00
Bond Service Fund Deposit	271,454.63
Costs of Issuance*	<u>1,400,638.75</u>
TOTAL USES	<u>\$72,342,069.38</u>

* Includes bond insurance premium, underwriter’s discount and swap termination payment.

THE PROJECT

The Cabinet will lease all of the facilities, renovations and improvements financed with the proceeds of the Bonds from the Commission under the Lease (collectively, the “Project”). A description of the new projects being financed with a portion of the proceeds of the Bonds is included in Exhibit B.

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 and the Secretary of the Revenue Cabinet. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission and the Executive Director of the Office serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease-rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Cabinet has applied to the Commission to issue the Bonds secured by revenues from the Lease. The Resolution was adopted by the Commission on January 24, 2002, authorizing the issuance of the Bonds.

Future Financings

Except for refunding bonds which may become financially feasible, the Commission does not anticipate issuing any additional bonds during the current budget biennium, ending June 30, 2002. The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in the budget for the next biennium or in future budgets.

THE FINANCE AND ADMINISTRATION CABINET

The Cabinet, created and governed by the provisions of KRS 12.020 and KRS 42.011, is a statutory administrative organization of the Commonwealth headed by the Secretary of the Cabinet, who is appointed by the Governor. The Secretary of the Cabinet is the chief financial officer of the Commonwealth.

The functions of the Cabinet include, among other things, (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) the construction, maintenance and operation of public buildings, except those provided for the exclusive use of one agency; (5) provision of administrative services of a financial nature to other agencies of Commonwealth government; (6) the investment and management of all Commonwealth funds other than pension funds; and (7) issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

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

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

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

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

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2001 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2001 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12;

- (i) Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
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) Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Internet: nrmsir_repository@sandp.com
Tel: (212) 438-4595
Fax: (212) 438-3975

- (iv) FT Interactive Data
Attn: Repository
100 Williams Street
New York, NY 10038
Internet: nrmsir@ftid.com
Tel: (212) 771-6899
Fax: (212) 771-7390 (Secondary Market Information)
Fax: (212) 771-7391 (Primary Market Information)

Website: <http://www.InteractiveData.com>

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2001 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2001 may be found on the Internet at:

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

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

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

Fiscal Year 1999

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

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

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

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

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

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

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

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

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

Fiscal Year 2000

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

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

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

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

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

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

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

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

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

Fiscal Year 2001

General Fund revenue on a budgetary basis for 2001 was \$6.84 billion, an increase of 1.8% over 2000. This amount includes \$6.76 billion in tax and non-tax receipts, and \$82.07 million of Operating Transfers In. Taxes represented 93.5% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 2001 totaled \$7.04 billion, including Operating Transfers Out of \$782.20 million. During 2001, expenditures increased by 7.5% and transfers

increased by 23.78% compared to 2000. The general government function includes \$931.38 million of expenditures and transfers for the state supported universities, which together amount to 13.2% of the General Fund total.

The General Fund had a 2001 budgetary undesignated fund balance of \$197,844,140. This is an increase of \$21,490,424 compared to the 2000 year-end budgetary undesignated fund balance of \$176,353,716.

Revenue for general governmental functions totaled \$13.27 billion for 2001, an increase of 2.12% over the amount recognized during 2000.

2001 Governmental Funds Revenue rose \$276.14 million compared to 2000. Other Revenues increased by nearly \$386.04 million, including an increase of \$116.7 million in the General Fund. In addition, Tax Revenue climbed over \$148.82 million, with the Sales and Gross Receipts increasing \$79.30 million and the Capital Projects Fund adding \$60.6 million. Interest and Investments was up \$68.21 million, with the major contributor being the General Fund with an increase over 2000 of \$36.06 million. These three specifically described gains, offset by declines, account for 90.0% of revenue growth since last year.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$12.61 billion for 2001, an increase of 4.5% compared to 2000.

2001 Governmental Funds Expenditures grew \$539.24 million compared to 2000. General Government expenditures increased spending by \$131.6 million due to the additional expenditure of almost \$66 million in the General Fund and \$54 million in the Special Revenue Funds. Debt Service cost rose about \$107 million, based on \$132.54 million more spent in the Debt Service Fund, for the retirement of principal debt. Education and Humanities jumped \$91.32 million, based on \$89 million more spent in the General Fund. The increases are also partially offset by \$6.63 million less spent in the Public Protection and Regulation Fund. The combined effect of these differences accounts for 62.5% of the net growth in expenditures this year.

Ending fund balances for all governmental fund types decreased 16.45%, from \$2.92 billion as restated for 2000, to \$2.44 billion in 2001. Of these totals, unreserved fund balances decreased 8.64%, from \$1.13 billion as restated at July 1, 2000, to \$1.04 billion at June 30, 2001.

During 2001, Kentucky issued revenue bonds totaling \$762,945,000 for general governmental functions which are supported by governmental fund appropriations. At June 30, 2001, total principal outstanding for revenue bonds paid from governmental fund appropriations was \$2,944,838,570.

Fiscal Year 2002 (unaudited)

The Consensus Forecasting Group revised the official estimate of General Fund receipts for Fiscal Year 2002 on October 15, 2001 from \$6,887.0 million (the June 14, 2001 Consensus Estimate) to \$6,715.5 million, a decrease of \$171.5 million. The General Fund will also collect an estimated \$126.5 million in Master Settlement Agreement Payments (relating to the settlement of litigation with certain companies that sold tobacco products) during Fiscal Year 2002, bringing the total projected General Fund receipts to \$6,842.0 million. The Consensus Forecasting Group met again in December to review the Fiscal Year 2002 forecast and made no changes to the General Fund estimate, but did increase the Master Settlement Agreement Payments by \$7.6 million.

Pursuant to KRS 48.130 and 48.600, a General Fund Budget Reduction Plan is enacted for state government in the event of an actual or projected deficit in estimated revenues as modified by related Acts and actions of the General Assembly in an extraordinary or regular session. The Governor must take action to balance the budget to eliminate any deficit prior to the fiscal year ending June 30, 2002. On September 7, 2001 the Governor, State Budget Director, and Secretary of the Finance and Administration Cabinet issued General Fund Budget Reduction Order 02-01. Order 02-01 made reductions based upon the June 2001 revision to the official estimate totaling approximately \$290 million. Budget reductions were made for most governmental agencies with the exception of scheduled Support Education Excellence in Kentucky ("SEEK") payments for education, Medicaid, postsecondary education institutions and capital construction. The majority of the reductions in appropriations were generated from three sources: \$120 million from the Budget Reserve Trust Fund, \$50 million of excess SEEK funds above the amount needed to meet Fiscal Year 2002 targeted spending levels, and \$26 million in unutilized Agency Funds transferred to the General Fund. The \$120 million withdrawal from the Budget Reserve Trust Fund represents 50% of the available balance and is the maximum amount permitted by House Bill 502. Amounts above the 50% statutory threshold may be accessed only with the approval of the General Assembly. The remaining amounts identified in the Reduction Order represented unexpended appropriations carried forward from Fiscal Year 2001 and amounts deemed available from current year budgets.

General Fund Budget Reduction Order 02-02 was issued by the Governor, State Budget Director and the Secretary of the Finance and Administration Cabinet on December 19, 2001. Order 02-02 directs the reduction of certain appropriations and fund transfers to prevent a deficit in the finances of the Commonwealth based upon the October 15, 2001 revision to the official revenue estimate that was confirmed on December 17, 2001. Appropriation reductions were derived primarily from excess debt service appropriations (\$44 million), Medicaid benefits and other health services (\$22 million), and cuts in postsecondary education (\$40 million). Transfers of funds from excess moneys in the EMPOWER Kentucky initiative (\$10 million), the Petroleum Storage Tank Assurance Fund (\$50 million) and the administrative and community based services accounts of the Cabinet for Families and Children (\$6 million) were also made.

The Commonwealth reported General Fund revenue for the Fiscal Year 2002, beginning July 1, 2001 through January 31, 2002 of \$3,848.8 million versus \$3,830.2 million for the same period last year, an increase of .5%. January 2002 receipts were \$573.0 million versus \$603.3 million in January 2001, a 5.0% decrease. Sales tax receipts were flat for the month of January and 2.5% over the same period last year. Individual income tax receipts declined by 5.7% for January and have grown 0.4% versus the previous fiscal year-to-date collections.

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 December 31, 2001, the Commonwealth's operating portfolio was approximately \$3.64 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (19%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (43%); repurchase agreements collateralized by the aforementioned (15%); municipal securities (5%); and corporate and

asset backed securities, including money market securities (18%). The portfolio had a current yield of 3.25% and a modified duration of 1.44 years.

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

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

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

The Commonwealth has had a securities lending program since the mid-1980s. The state is able to enter into either a principal relationship or an agent relationship. In a principal relationship the state 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 lends the states treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the state. At the present time the state has entered into an agent agreement that has a guarantee of 14 basis points of the average market value of securities in the program.

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

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional investment securities with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, including sovereign and 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.

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five (5) years or less. Money market securities rated A1-P1 or higher are limited to 20% of any investment pool and when combined with corporate and asset backed securities must not exceed 25% of any investment pool. Asset backed securities must have a weighted-average-life of not more than four (4) years at the time of purchase. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of twenty-five percent (25%) of any investment portfolio. MBS must have a stated final maturity of ten (10) years or less and a weighted-average-life of not more than four (4) years at time of purchase. CMO must have a weighted-average-life of four (4) years or less at time of purchase.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

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

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. In addition to the deposit to the Escrow Fund described under "PLAN OF FINANCE" herein, deposits of the proceeds of the Bonds and Revenues will be made as described below.

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

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

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

3. Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund shall constitute a trust fund for the benefit of the Bondholders. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings, real estate or economic development projects or community development projects, including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings,

appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Fund.

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

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

Events of Default. The Resolution defines “Events of Default” as follows:

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

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

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky Revised Statutes and under the Resolution forthwith by such suits, actions, or by special proceedings in equity or at law, or by proceedings in the

office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Resolution or in aid of the execution of any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

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

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

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

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the

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

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

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

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

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

Whenever there shall be held by the Trustee in the Bond Service Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Service Fund or such escrow fund, shall be sufficient, to pay when due the principal of and

interest on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed in accordance with this Bond Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Bond Resolution, and the Trustee will and is irrevocably instructed by the Resolution to publish notice thereof.

As used herein, “Defeasance Obligations” means:

(a) 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 (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof), including, but not limited to, Resolution Funding Corp. debt obligations, and U.S. Agency for International Development guaranteed notes (must mature at least four business days before the appropriate payment date);

(c) certificates rated “AAA” by Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. (“S&P”), “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by Fitch Inc. (“Fitch”) (if rated by Fitch) evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee 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); 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, Student Loan Marketing Association debt obligations, Resolution Funding Corp. debt obligations and U.S. Agency for International Development “USAID” guaranteed notes. USAID guaranteed notes must mature at least four business days before the applicable payment date.

The Lease

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

The Lease has an initial term ending June 30, 2002. The Commission has granted the Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. 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 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 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 Cabinet is bound for the entire amount of the rent becoming due during such term as a general obligation of the Cabinet, limited to amounts appropriated for such purpose payable from any and all funds of the 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 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 Cabinet sufficient amounts (over and above all other requirements of the Cabinet) to enable the 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 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 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 Cabinet terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof to any party it deems appropriate, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Cabinet's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Cabinet under the Lease upon delivery of an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in the gross income of

the holders of the Bonds for federal income tax purposes. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's") has given the Bonds the rating of "Aaa", Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has given the Bonds the rating of "AAA" and Fitch, Inc. ("Fitch") has given the Bonds the rating of "AAA". Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300; an explanation of the rating given by S&P may be obtained from Standard & Poor's Rating Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch, Inc. at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as Exhibit D.

LITIGATION

Except as described herein, there is no litigation pending or, to the knowledge of the Commission or the Cabinet, threatened to restrain or enjoin the authorization, sale or delivery of the Bonds or which would adversely affect the application of the revenues of the Commission to the payment of the Bonds.

TAX EXEMPTION

General

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

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

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not

undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the tax status of the interest on the Bonds.

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

Although Bond Counsel for the Bonds has rendered an opinion that interest on the Bonds is excludable from gross income for Federal income tax purposes and that interest on the Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

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

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

Premium

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. 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 excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining

Bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original Bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

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

Original Issue Discount

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 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 excludable from gross income for federal income tax purposes.

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Inc. (the "Verifier") has verified, from the information provided to them, the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the principal of, premium, if any and interest on the Prior Bonds described above under the caption "PLAN OF FINANCE" and (ii) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. The Verifier will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

UNDERWRITING

The Bonds are to be purchased by a syndicate managed by UBS PaineWebber Inc. as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase

price of \$71,717,795.85 (which is equal to the principal amount of the Bonds plus net original issue premium of \$5,255,614.75 and less underwriting discount of \$352,818.90) plus accrued interest from the dated date of the Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering prices or yields set forth on the cover page hereof, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

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

OTHER MATTERS

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

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

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

COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

By s/ Gordon L. Mullis, Jr.

Executive Director

Office of Financial Management

(Secretary to the Commission)

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management, 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 state agencies which currently are 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. The Office serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, and the Kentucky Local Correctional Facilities Construction Authority.

Structure

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

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

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

Project revenue 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 revenues are not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases, the direct revenues generated from the project funded constitute the entire source of payment.

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

Default Record

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

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING*
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA-/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA-/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to \$2.5 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs limited to \$60 and \$125 million of debt outstanding, for maturities under and over 3 years, respectively.	Aa3/AA-/AA-
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to \$950 million of debt outstanding.	Aaa/AA-
School Facilities Construction Commission	KRS 157.800-157.895 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+/A
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	AAA
Kentucky Agricultural Finance Corporation	KRS 247.940 Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures.	Limited to \$500 million of debt outstanding.	NA

*Ratings, where applicable, include Moody's, Standard & Poor's and Fitch.

EXHIBIT B
THE PROJECT

The following is a description of Project No. 76:

<u>Project Description</u>	<u>Authorized Amount*</u>
Worldwide Equipment – Floyd County	\$ 250,000
Williamette Industries, Inc. – Hancock County	225,000
Stupp Brothers – City of Bowling Green	150,000
Meritor Suspension Systems Co., U.S. – City of Hopkinsville	100,000
IBM – Lexington Fayette Urban County Government	240,000
Grupo Antolin KY, Inc. – City of Hopkinsville	81,000
Ford Motor Co. Kentucky Truck Plant – Jefferson County	1,700,000
Family Dollar Services, Inc. – Rowan County	400,000
Dana Corp. – City of Greensboro	400,000
Dana Corp. – City of Hopkinsville	250,000
Clayton Homes – Larue County	30,000
Ashland, Inc. – Kenton County Airport Board	<u>1,334,000</u>
Total	\$5,160,000

* Excludes allocable costs of issuance.

EXHIBIT C

SUMMARY OF THE REFUNDED BONDS

Kentucky State Property and Buildings Commission
Revenue Bonds, Project No. 71

Bonds	Maturity Date	Interest Rate	Original Principal*	Amount Refunded
Project No. 71	08/01/2008	5.500%	\$16,450,000	\$15,995,000
	08/01/2009	5.500	19,700,000	15,745,000
	08/01/2010	5.500	18,000,000	15,425,000
	08/01/2011	5.500	18,680,000	15,195,000
				\$62,360,000

* The Original Principal that is not refunded will remain outstanding under the resolution under which the Prior Bonds were issued and will be payable from rent payments under the lease with respect to the Prior Bonds.

EXHIBIT D

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky

Re: \$66,815,000 Commonwealth of Kentucky, State Property and Buildings Commission Revenue and Revenue Refunding Bonds, Project No. 76

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 Revenue and Revenue Refunding Bonds, Project No. 76, in the aggregate principal amount of \$66,815,000 (the "Bonds"), dated February 1, 2002. The Bonds are being issued on behalf of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet"), a state agency of the Commonwealth of Kentucky (the "Commonwealth").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly (i) Chapter 56 of the Kentucky Revised Statutes; (ii) Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes; and (iii) H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session and in accordance with a resolution of the Commission adopted on January 24, 2002 (the "Resolution") for the purpose of (A) refunding the Prior Bonds, as defined in the Resolution; (B) providing financing for the projects described in Exhibit B to the Resolution; and (C) paying the cost of issuing the Bonds.

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

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

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

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

3. The Bonds have been duly authorized and issued by the Commission and are the valid and binding limited and special obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal and interest from and are secured by a pledge of and a first lien on the revenues derived or to be derived by the Commission from a Lease Agreement dated as of

February 1, 2002 between the Commission and the Cabinet (the “Lease”), a sufficient portion of which revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

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

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

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Bonds is excludable from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds.

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

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

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

Very truly yours,

EXHIBIT E

FORM OF FINANCIAL GUARANTY INSURANCE POLICY