

NEW ISSUE

RATINGS: See "Ratings" herein

Book-Entry-Only

In the opinion of Bond Counsel, based on laws, regulations, rulings and decisions in effect on the date of delivery of the 1995 Bonds, and assuming continuing compliance with certain covenants made by the Authority, interest on the 1995 Bonds is excludable from gross income for federal income tax purposes on the conditions and subject to the limitations set forth herein under "Tax Treatment" and is not an item of preference for purposes of the federal alternative minimum tax on individuals and corporations. Interest on the 1995 Bonds held by corporations is includable in such corporations' adjusted current earnings and modified alternative minimum taxable income. Bond Counsel is further of the opinion that interest on the 1995 Bonds is exempt from Kentucky income tax and the 1995 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

\$237,890,000

THE TURNPIKE AUTHORITY OF KENTUCKY
Economic Development Road Revenue and Revenue Refunding Bonds
(Revitalization Projects)
Series 1995

Dated: April 1, 1995**Due: July 1, as set forth below**

The 1995 Bonds are being issued by the Authority pursuant to a Trust Indenture dated as of October 1, 1990 (the "Indenture") between the Authority and PNC Bank, Kentucky, Inc. (f/k/a Citizens Fidelity Bank and Trust Company), Louisville, Kentucky, as Trustee and Paying Agent, and a Series 1995 Resolution adopted on April 21, 1995, to (i) provide for the financing of certain economic development road projects described in this Official Statement, (ii) refund certain of the Authority's outstanding bonds, (iii) pay the premium for a debt service reserve fund guaranty and (iv) pay certain costs of issuance of the 1995 Bonds.

The 1995 Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiples thereof, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest on the 1995 Bonds will be payable on each January 1 and July 1, beginning July 1, 1995. Purchases will be made in book-entry form only, except as permitted by the Indenture. Purchasers of 1995 Bonds will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the 1995 Bonds, as nominee of DTC, interest together with the principal of and redemption premium, if any, on the 1995 Bonds will be paid directly to DTC by the Trustee. See "DESCRIPTION OF 1995 BONDS — Book-Entry-Only System."

The 1995 Bonds are subject to optional and mandatory redemption as described herein.

The 1995 Bonds mature on the dates, in the principal amounts, bear annual interest and have the price or yield, as follows:

\$205,260,000 1995 Serial Bonds

<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2001	\$16,365,000	5.000%	100.000%	2007	\$46,035,000	6.500%	5.450%
2002	29,670,000	5.000	5.100	2008	33,605,000	6.500	5.500
2003	17,160,000	5.100	5.200	2009	8,255,000	5.500	5.600
2004	5,485,000	5.200	5.250	2010	8,710,000	5.625	5.700
2005	5,765,000	5.250	5.300	2011	9,200,000	5.750	5.750
2006	15,280,000	5.300	5.400	2012	9,730,000	5.750	5.800

\$32,630,000 5.625% Term Bonds Due July 1, 2015, Yield 5.850%
(Accrued Interest to be Added)

Payment of the principal of and interest on the 1995 Bonds when due will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the delivery of the 1995 Bonds. See "BOND INSURANCE" herein.

AMBAC

THE 1995 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, A DE JURE MUNICIPAL CORPORATION AND POLITICAL SUBDIVISION OF THE COMMONWEALTH OF KENTUCKY. THE 1995 BONDS WILL BE SECURED UNDER THE INDENTURE AND BY A PLEDGE OF LEASE RENTAL PAYMENTS TO BE MADE BY THE TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY TO THE AUTHORITY PURSUANT TO A RENEWABLE BIENNIAL LEASE. THE 1995 BONDS DO NOT CONSTITUTE A DEBT OF THE COMMONWEALTH OF KENTUCKY AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 1995 BONDS. THE AUTHORITY HAS NO TAXING POWER.

The 1995 Bonds are offered, subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject to the approval of legality by Long Aldridge & Norman, Atlanta, Georgia, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Peck, Shaffer & Williams, Covington, Kentucky. It is expected that the 1995 Bonds will be available for delivery in New York, New York on or about May 4, 1995.

Merrill Lynch & Co.

PaineWebber Incorporated J.J.B. Hilliard, W.L. Lyons, Inc. J.C. Bradford & Co.
First Kentucky Securities Corporation Johnston, Brown, Burnett & Knight, Inc.
Ross, Sinclair & Associates, Inc. Stifel, Nicolaus & Co. Inc.

The date of this Official Statement is April 21, 1995

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No dealer, broker, salesman or other person has been authorized by The Turnpike Authority of Kentucky, the Transportation Cabinet of the Commonwealth of Kentucky or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations, must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 1995 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth of Kentucky, The Turnpike Authority of Kentucky or the Transportation Cabinet of the Commonwealth of Kentucky since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1995 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE TURNPIKE AUTHORITY OF KENTUCKY

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Telephone (502) 564-2390

MEMBERS OF THE AUTHORITY

BRERETON C. JONES
Governor
(Chairman of the Authority)

PAUL E. PATTON
Lieutenant Governor
(Vice Chairman of the Authority)

CHRIS GORMAN
Attorney General

CRIT LUALLEN
Secretary
Finance and Administration Cabinet

DON C. KELLY
Secretary
Transportation Cabinet

JAMES MCFARLAND YOWELL
State Highway Engineer

MARVIN E. STRONG
Secretary
Cabinet for Economic Development

EXECUTIVE DIRECTOR OF THE AUTHORITY

Bobby J. McKee

TREASURER OF THE AUTHORITY

Gordon L. Mullis

SECRETARY OF THE AUTHORITY

Linda W. Masters

BOND COUNSEL

Long Aldridge & Norman
Atlanta, Georgia

TRUSTEE

PNC BANK, KENTUCKY, INC.
(f/k/a Citizens Fidelity Bank and Trust Company)
Louisville, Kentucky

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OFFICIAL STATEMENT

\$237,890,000

**The Turnpike Authority of Kentucky
Economic Development Road Revenue and Revenue Refunding Bonds
(Revitalization Projects)
Series 1995**

INTRODUCTION

This Official Statement of The Turnpike Authority of Kentucky (the "Authority") and the Transportation Cabinet of the Commonwealth of Kentucky (the "Transportation Cabinet") is provided to furnish certain information with respect to the Authority's \$237,890,000 aggregate principal amount of Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects), Series 1995 (the "1995 Bonds").

The 1995 Bonds are being issued pursuant to Chapter 175 of the Kentucky Revised Statutes, as amended (the "Act"), and a resolution of the Authority adopted on April 21, 1995 (the "Series 1995 Resolution") and a Trust Indenture dated as of October 1, 1990, (the "Indenture"), between the Authority and Citizens Fidelity Bank and Trust Company (n/k/a PNC Bank, Kentucky, Inc.), Louisville, Kentucky, as trustee (the "Trustee").

The 1995 Bonds are being issued to (1) pay a portion of the costs of certain public highway projects described under "THE FINANCING PLAN -- New Money" and "THE AUTHORITY -- Transportation Cabinet Projects Financed by the Authority -- *Economic Development Road Projects; Revitalization Projects*" (the "Revitalization Projects"), (2) pay capitalized interest on the 1995 Bonds, (3) refinance certain Revenue Bonds of the Authority described under "THE FINANCING PLAN -- Refinancing," (4) pay the premium for the debt service reserve fund guaranty purchased to fund the Debt Service Reserve Fund (Series 1995), and (5) pay certain costs of issuance of the 1995 Bonds. The Revitalization Projects comprise a portion of the Commonwealth of Kentucky (the "Commonwealth") economic development road system within the meaning of the Act, and together with all other projects financed with the proceeds of Economic Development Road Bonds, comprise the economic development road "system" under the Indenture (the "System").

Pursuant to an Economic Development Road Revenue (Revitalization Projects) Agreement dated as of October 1, 1990, between the Authority and the Transportation Cabinet, which has been supplemented by a First Supplemental Agreement dated as of October 1, 1992, a Second Supplemental Agreement dated as of April 1, 1993 and a Third Supplemental Agreement dated as of April 1, 1995 (collectively, the "Agreement"), the Authority has agreed to lease the System to the Transportation Cabinet under an Economic Revenue (Revitalization Projects) Lease dated as of October 1, 1990, which has been supplemented by a First Supplemental Lease dated as of October 1, 1992, a Second Supplemental Lease dated as of April 1, 1993 and a Third Supplemental Lease dated as of April 1, 1995 (collectively, the "Lease") for a biennial period ending June 30, 1996, with biennial renewal options.

The Lease requires the Transportation Cabinet to make rental payments to the Authority at the times and in the amounts required by the Indenture, to pay principal of and interest on the Economic Development Road Revenue Bonds (Revitalization Projects) to become due during the biennial period. See "SECURITY AND SOURCE OF PAYMENT FOR THE 1995 BONDS -- Lease Payments" and Appendix D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- "The Lease." Although the Lease has been renewed for the biennial period ending June 30, 1996, *the Transportation Cabinet is under no obligation to renew the Lease for any subsequent biennial period.* The Lease provides for automatic renewals for each ensuing biennial term unless the Authority receives written notice of the Transportation

Cabinet's election not to renew the Lease. *If the Lease is not renewed and the rentals thereunder are not received, the Authority does not expect that it will have revenues sufficient to pay the principal of an interest on the Economic Development Road Revenue Bonds (Revitalization Projects), including the 1995 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE 1995 BONDS -- Payments if Lease is Not in Effect."*

Additional Bonds may be issued on a parity with the 1995 Bonds upon compliance with restrictions contained in the Indenture and the Lease. See "SECURITY AND SOURCE OF PAYMENT FOR THE 1995 BONDS -- Restrictions on Future Financings."

Descriptions of the 1995 Bonds, the security therefor, the Indenture, the Lease and the Agreement are included in this Official Statement. Such description and summaries do not purport to be comprehensive or definitive. All references herein to such agreements and documents are qualified in their entirety by reference thereto. Terms not defined herein shall have the meanings given them in Appendix D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- "Certain Definitions."

THE FINANCING PLAN

New Money

The 1995 Bonds are being issued pursuant to the Act and the Biennial Appropriations Act to pay a portion of the costs of the Revitalization Projects, which are currently defined in the Act to mean the construction, reconstruction or relocation of any highway, road or thoroughfare, or such part or parts thereof, as designated by the Transportation Cabinet as a part of the economic development road system of the Commonwealth of Kentucky (the "Commonwealth").

The Act was amended in 1990 to authorize the Authority, subject to the limitations contained in the biennial appropriations acts of the Commonwealth, to issue revenue bonds or notes up to the amount of \$600,000,000, exclusive of any costs incurred in the issuance of the bonds or notes, amounts necessary to fund a debt service reserve fund, if any, or capitalized interest on the bonds or notes, or both, and to pay a portion of the costs of the Revitalization Projects described in the Act and as identified below. The Authority has heretofore used \$450,000,000 of the \$600,000,000 authorized in the Act by issuance of Bonds under the Indenture. In its 1994 Biennial Appropriations Act, the Kentucky General Assembly authorized the issuance of up to \$150,000,000 of Bonds during the 1994-1996 biennium of the \$600,000,000 authorized by the Act for the Revitalization Projects. A portion of the 1995 Bonds, the proceeds of which are being used for new construction, capitalized interest, the premium to purchase the debt service reserve fund guaranty to fund the Debt Service Reserve Fund (Series 1995) and costs of issuance, are being issued pursuant to such authorization. Proceeds of the 1995 Bonds deposited in the Construction Fund as described under "Sources and Uses of Funds" will be used to pay a portion of the costs of the Revitalization Projects identified below. The specific routes comprising the Revitalization Projects and the estimated costs of each are specified in the Act to be the following:

<u>Route</u>	<u>Estimated Cost</u>
US-60	\$ 39,250,000
US-68	174,915,000
US-127	139,560,000
US-119	5,500,000
US-460	11,500,000
AA-HWY	114,355,000
US-25E	52,950,000
US-23	161,700,000

Any proceeds of Bonds issued to pay the costs of the Revitalization Projects described above remaining after the completion of those Revitalization Projects will be transferred to the Bond Service Account. See "SECURITY AND SOURCE OF PAYMENT FOR THE 1995 BONDS -- Flow of Funds."

Refinancing

Approximately \$61,158,209.19 of the proceeds received by the Authority from the sale of the 1995 Bonds, together with \$42,728,957.72 released from the prior debt service reserve, will be used to purchase direct obligations of the United States Treasury (the "Escrow Securities"). The Authority will cause the Escrow Securities and any initial cash deposit to be deposited in an escrow fund created under an Escrow Trust Agreement (the "Escrow Trust Agreement") by and among the Authority, the Transportation Cabinet and Liberty National Bank & Trust Company of Kentucky, as escrow agent (the "Escrow Agent"), identified as the "Escrow Fund - Economic Development Bonds." The principal of and interest on the Escrow Securities, when due, along with the initial cash deposit, will be sufficient to pay the principal, interest and redemption premium on all the Authority's outstanding Economic Development Road Revenue Bonds, 1986 Series A (the "1986 Bonds"), and Economic Development Road Revenue Bonds, 1987 Series A (the "1987 Bonds"). The Trustee will give notice of the dates on which such bonds are to be redeemed shortly after the date of issuance of the 1995 Bonds.

By depositing the Escrow Securities and the initial cash deposit as described above in the Escrow Fund - Economic Development Bonds, the Authority will cause the above-described bonds to be deemed no longer outstanding under the terms of the indenture relating to such bonds and the 1986 Bonds and 1987 Bonds will thereafter be payable only from amounts on deposit in such escrow fund.

The refinancing program is being undertaken to effect an overall reduction in the net debt service payments of the Authority.

The balance of the net proceeds of the 1995 Bonds will be applied as set forth in "Sources and Uses of Funds."

The Authority intends to, on future dates, purchase direct obligations of the United States Treasury, the principal of and interest on which, if and when purchased, will be applied to pay the principal, interest and redemption premium on certain of the Authority's Resource Recovery Road Revenue Bonds, 1987 Series A and Toll Road Revenue Refunding Bonds, 1986 Series A.

SOURCES AND USES OF FUNDS

The sources and uses of the proceeds of the 1995 Bonds are as follows:

Sources:

Principal Amount of 1995 Bonds	\$ 237,890,000.00
Plus: Net Original Issue Premium	5,836,393.40
Authority Funds (transferred from prior debt service reserve)	42,728,957.72
Accrued Interest	<u>1,248,418.19</u>
 Total Sources	 <u>\$ 287,703,769.31</u>

Uses:

Deposit to Construction Fund	\$ 150,000,000.00
Deposit to Escrow Fund	103,887,166.91
Deposit to Bond Service Account	1,248,418.19
Deposit to Capitalized Interest Account	29,224,578.55
Cost of Debt Service Reserve Guaranty	391,345.44
Costs of Issuance	306,895.37
Insurance Premium	932,556.85
Underwriters' Discount	<u>1,712,808.00</u>
 Total Uses	 <u>\$ 287,703,769.31</u>

DESCRIPTION OF 1995 BONDS

General

The 1995 Bonds will be dated April 1, 1995, will be fully registered, without coupons, will be issued in the denominations of \$5,000 or any integral multiple thereof, will bear interest at the rates, payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date"), commencing July 1, 1995, and will mature on the dates and in the amounts set forth on the cover of this Official Statement. The 1995 Bonds will be initially registered in the name of and held by Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the 1995 Bonds will be made in book-entry-only form (without certificates). So long as DTC or its nominee is the registered owner of the 1995 Bonds, payment of the principal of, redemption premium, if any, and interest on the 1995 Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the 1995 Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See the heading, "Book-Entry-Only System" under this caption.

If the book-entry-only system through DTC is discontinued, principal of and redemption premium, if any, on the 1995 Bonds will be payable at such office within the United States as shall be designated from time to time by the Trustee (the "Payment Office") upon the presentation and surrender thereof. Except as described below, payment of interest on the 1995 Bonds will be made on each Interest Payment Date to the person appearing on the registration books of the Trustee as the registered owner thereof at the close of business on the fifteenth day of the month preceding the Interest Payment Date by check or draft mailed to such registered owner at the owner's address as it appears on such registration books. Upon request to the Trustee by a registered owner of not less than \$1,000,000 in aggregate principal amount of 1995 Bonds, interest on such Bonds will be paid to such registered owner by wire transfer to the account within the United States specified by such registered owner.

Transfer and Exchange

The 1995 Bonds may be transferred only upon the registration books of the Trustee upon surrender thereof to the Trustee together with an assignment duly executed by the registered owner or the owner's attorney or legal representative in form satisfactory to the Trustee. Upon any such registration of transfer, new 1995 Bonds will be delivered, registered in the name of the transferee, of any denomination authorized by the respective Indenture, in an aggregate principal amount equal to the principal amount (or maturity amount) of the 1995 Bonds being transferred, of the same maturity and bearing interest at the same rate.

The 1995 Bonds, upon surrender thereof at the Payment Office, together with an assignment duly executed by the registered owner or the owner's attorney or legal representative in form satisfactory to the Trustee, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of 1995 Bonds of the same maturity, bearing interest at the same rate, of any denomination authorized by the Indenture, and in the same form as the 1995 Bonds surrendered for exchange.

Book-Entry-Only System

The 1995 Bonds will be initially issued in the name of The Depository Trust Company ("DTC") or its nominee, Cede & Co. Because of this, purchasers will not be recognized by the Trustee as holders of the 1995 Bonds, as that term is used in the Indenture, and they will be able to exercise the rights of bondholders only indirectly through DTC and its participating organizations. DTC will give a proxy of its rights to the Trustee. Beneficial ownership interests will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by DTC. If the 1995 Bonds are taken out of the Book-Entry System and delivered to owners in physical form, as described hereinafter the following summary will not apply.

DTC will act as securities depository for the 1995 Bonds. The 1995 Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered security certificate will be issued for each maturity of the 1995 Bonds, 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 Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in 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, Inc. 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 Participants are on file with the Securities and Exchange Commission.

Purchases of securities under the DTC system must be made by or through direct Participants, which will receive a credit for the 1995 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 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1995 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 1995 Bonds, except in the event that use of the book-entry system for the 1995 Bonds is discontinued.

To facilitate subsequent transfers, all 1995 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1995 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 1995 Bonds; DTC's records reflect only the identity of the direct Participants to whose accounts such 1995 Bonds are credited, which may or may not be the Beneficial Owners. The 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.

Redemption notices shall be sent to Cede & Co. If less than all of the 1995 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 1995 Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Issuer 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 1995 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, redemption and interest payments on the 1995 Bonds will be made to DTC. DTC's practice is to credit direct Participants' accounts on each payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. 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 Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Trustee, disbursement of such payments to direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Participants.

DTC may discontinue providing its services as securities depository with respect to the 1995 Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 1995 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 Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Redemption Provisions

Optional Redemption. The 1995 Bonds stated to mature on July 1, 2006 and on and after July 1, 2009 will be subject to redemption at the option of the Authority on and after July 1, 2005, as a whole at any time or in part on any Interest Payment Date, at the following redemption prices expressed as percentages of principal amount together with accrued interest to the redemption date:

Redemption Period (both dates inclusive)	Redemption Price
July 1, 2005 to June 30, 2006	102%
July 1, 2006 to June 30, 2007	101%
July 1, 2007 and thereafter	100%

The 1995 Bonds maturing on July 1, 2007 and July 1, 2008 are not subject to optional redemption prior to maturity.

Mandatory Redemption. The 1995 Term Bonds stated to mature on July 1, 2015 will be subject to mandatory sinking fund redemption on the dates described below from money deposited to the credit of the Bond Service Account in the amounts set forth below, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

Redemption Date	Principal Amount
July 1, 2013	\$10,285,000
July 1, 2014	10,870,000
July 1, 2015	11,475,000*

*maturity

Principal amounts of the 1995 Bonds subject to mandatory redemption may be reduced by credits for prior purchase or redemption of 1995 Bonds as described in Appendix D, SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- "The Trust Indenture, Credits Against Amortization Requirements."

Selection of Bonds. If less than all of the 1995 Bonds of a maturity are called for redemption, the particular 1995 Bonds so called to be redeemed (i) will be determined in accordance with the DTC procedures described above under "DESCRIPTION OF 1995 BONDS -- Book-Entry-Only System" or (ii) if the Authority determines to discontinue use of the Book-Entry System, will be selected by the Trustee at the direction of the Authority in such manner as the Authority in its discretion may deem proper.

Notice of Redemption. At least 30 days but not more than 60 days prior to the redemption date for any 1995 Bonds, the Trustee will give notice by first class mail to the registered owners of 1995 Bonds to be redeemed containing the information described in the Indenture, including any conditions to such redemption.

Effect of Redemption. In case part but not all of a Bond is selected for redemption and the Authority has discontinued use of the Book-Entry System, the registered owner thereof or the owner's attorney or legal representative must present and surrender such 1995 Bond to the Trustee at the Payment Office for payment of the principal amount thereof called for redemption, and the Authority will execute and the Trustee will authenticate and deliver upon the order of such registered owner or the owner's attorney or legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Bond so surrendered 1995 Bonds of any denomination authorized by the Indenture, of the same maturity and bearing interest at the same rate.

The 1995 Bonds and portions thereof which have been called for redemption, or with respect to which irrevocable instructions have been given to the Trustee in form satisfactory to it to call 1995 Bonds or portions thereof for redemption at the earliest redemption date, and for the payment of the redemption price of which monies are held in separate accounts by the Trustee in trust for the registered owners of the

1995 Bonds, of portions thereof to be redeemed, all as provided in the Indenture, will not thereafter be deemed to be Outstanding under the Indenture and will not be entitled to any security under the Indenture except the right to receive the redemption price for such 1995 Bonds or portions thereof.

PRINCIPAL AND INTEREST REQUIREMENTS

The following table describes the net total principal and interest requirements on (i) the Commonwealth's outstanding general obligation highway bonds payable from the Road Fund, (ii) all lease revenue bonds of the Authority as of April 1, 1995 and (iii) the 1995 Bonds.

	Principal and Interest Requirements (1)					
	General Obligation Highway Bonds	Revenue Bonds	1995 Bonds			Total Net Revenue Bonds Principal & Interest
	Total Principal & Interest	Total Principal & Interest (2)(3)(4)(5)	Principal	Interest	Net Total(6)	
1995	\$13,863,150	\$ 79,238,344	\$ 0	\$ 3,404,777	\$ 548,321	\$ 79,786,665
1996	0	140,806,482	0	13,619,108	3,463,079	144,269,562
1997	0	129,703,878	0	13,619,108	3,463,079	133,166,957
1998	0	156,843,909	0	13,619,108	3,463,079	160,306,988
1999	0	145,469,206	0	13,619,108	13,619,108	159,088,313
2000	0	155,920,998	0	13,619,108	13,619,108	169,540,106
2001	0	138,332,154	16,365,000	13,619,108	29,984,108	168,316,261
2002	0	140,910,751	29,670,000	12,800,858	42,470,858	183,381,609
2003	0	139,935,724	17,160,000	11,317,358	28,477,358	168,413,081
2004	0	140,412,846	5,485,000	10,442,198	15,927,198	156,340,043
2005	0	106,312,948	5,765,000	10,156,978	15,921,978	122,234,926
2006	0	105,898,090	15,280,000	9,854,315	25,134,315	131,032,405
2007	0	103,412,890	46,035,000	9,044,475	55,079,475	158,492,365
2008	0	83,532,840	33,605,000	6,052,200	39,657,200	123,190,040
2009	0	52,408,265	8,255,000	3,867,875	12,122,875	64,531,140
2010	0	14,833,100	8,710,000	3,413,850	12,123,850	26,956,950
2011	0	20,080,237	9,200,000	2,923,913	12,123,913	32,204,149
2012	0	1,240,758	9,730,000	2,394,913	12,124,913	13,365,671
2013	0	11,456,500	10,285,000	1,835,438	12,120,438	23,576,938
2014	0	0	10,870,000	1,256,906	12,126,906	12,126,906
2015	0	\$ 0	\$ 11,475,000	\$ 645,469	\$ 12,120,469	\$ 12,120,469
	<u>\$13,863,150</u>	<u>\$1,866,487,319</u>	<u>\$ 237,890,000</u>	<u>\$ 171,126,171</u>	<u>\$ 375,691,628</u>	<u>\$2,242,178,943</u>

- (1) Represents highway-related obligations of the Transportation Cabinet including \$3,364,000.00 in Fiscal Year 1995 and \$ 3,363,000.00 in Fiscal Year 1996 which are appropriated from the General Fund.
- (2) Amounts are shown net of Debt Service Reserve Fund receipts on the Authority's Economic Development Road Revenue Bonds (Revitalization Projects), Series 1993, Resource Recovery Road Revenue Refunding Bonds, 1985 Series A and 1987 Series A and Toll Road Revenue Bonds, Series 1984 and 1986 Series A. Such receipts are assumed to be available if the Debt Service Reserve Funds remain as currently invested. No assurance can be given that the Debt Service Reserve Funds will remain invested at rates sufficient to produce such earnings.
- (3) Amounts shown do not include principal of or interest on the Economic Development Road Revenue Bonds, 1986 Series A and 1987 Series A which are being advance refunded through the issuance of the 1995 Bonds.
- (4) Amounts shown are net principal and interest requirements on the Authority's Economic Development Road Revenue Bonds (Revitalization Projects), Series 1993 payable by the Authority (inclusive of amounts that

may be paid to or received by the Authority from Merrill Lynch Capital Services, Inc. with respect to the Cap RITES Bonds, which were issued as a portion of such Bonds).

- (5) Amounts shown do include principal of or interest on certain Toll Road Revenue Refunding Bonds, 1986 Series A and Resource Recovery Road Revenue Bonds, 1987 Series A which the Authority plans to defease through the purchase of United States Treasury Obligations at future dates. The purchase of such obligations and receipts thereon are assumed to be available. No assurance can be given that such obligations will be purchased. If such purchases do occur, principal and interest requirements in the years 2002 through 2008 will be decreased by the receipts from such Treasury Obligations.
- (6) Amounts are shown net of capitalized interest to be applied to payment of debt service on the 1995 Bonds. Such receipts are assumed to be available if the Capitalized Interest Account remains as currently invested. No assurance can be given that the Capitalized Interest Account will remain invested at rates sufficient to produce such earnings.

SECURITY AND SOURCE OF PAYMENT FOR THE 1995 BONDS

General

Subject only to the provisions of the Indenture permitting the application of such money for the purposes and on the terms and conditions set forth therein, pursuant to the Indenture, the Authority pledges for the payment of principal of and premium, if any, and interest on the 1995 Bonds, the Revenues of the System and all funds and accounts established pursuant to the Indenture. "Revenues" means all rental, monies and other revenues derived from the Lease and, during such times as the Lease is not in effect, motor fuel taxes and surtaxes derived from motor fuels consumed on the System not directed by law or previous binding contract to be applied to uses other than payment of the principal of and premium, if any, and interest on the Bonds, and any other revenues derived from time to time by the Authority from its ownership or operation of the System which can legally be applied to payment of the Bonds. The Authority does not expect the collections of such motor fuel taxes will be sufficient to pay debt service on the 1995 Bonds during any such period. Further, the General Assembly of Kentucky is free to alter or repeal any or all of such motor fuel taxes.

Bond Insurance

Concurrently with the issuance of the 1995 Bonds, AMBAC Indemnity Corporation (the "Bond Insurer") will issue (i) a financial guaranty insurance policy (the "Bond Insurance Policy") to insure the payment, when scheduled, of principal (including mandatory sinking fund payments) of and interest on the 1995 Bonds, and (ii) a debt service reserve fund surety bond (the "Debt Service Reserve Guaranty") for deposit into the Debt Service Reserve Fund (Series 1995) to satisfy the Reserve Requirement for the 1995 Bonds. See "BOND INSURANCE" herein.

Lease Payments

The Transportation Cabinet is required under the Lease to make rental payments to the Authority at the times and in the amounts required by the Indenture for deposit in the Bond Service Account of the Bond Fund created under the Indenture (other than by reason of a declaration of acceleration of the Economic Development Road Revenue Bonds (Revitalization Projects)). Pursuant to the Indenture, monies in the Bond Service Account are to be applied solely to pay principal of and interest on the Economic Development Road Revenue Bonds (Revitalization Projects), including the 1995 Bonds. The rental payments under the Lease may be increased in the discretion of the Transportation Cabinet for certain administrative and other expenses of the Authority with respect to the respective System, for maintenance, operation, repair, renewal or replacement of the System or any portion thereof, or to redeem Economic

Development Road Revenue Bonds (Revitalization Projects). See Appendix D, "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- The Lease."

The current term of the Lease is from July 1, 1994 to and including June 30, 1996 . While the *Lease has been renewed for the biennial period ending June 30, 1996 , the Transportation Cabinet is under no obligation to renew the Lease for successive biennial periods.* The Lease provides for automatic renewals for each ensuing biennial term unless the Authority receives written notice on or before the last working day in April prior to the beginning of each biennial term of the Transportation Cabinet's election not to renew the Lease. Pursuant to the Act, the Lease provides that any renewal of the Lease is a general obligation of the Transportation Cabinet, payable not only from revenues of the respective System, but also from any other funds of the Transportation Cabinet not required by law or previous binding contract to be devoted to other purposes. See "THE TRANSPORTATION CABINET -- Revenue Sources of the Transportation Cabinet" and "THE TRANSPORTATION CABINET -- Claims on Certain Road Fund Revenues." Such other funds of the Transportation Cabinet are derived primarily from funds deposited in the Road Fund which are required by the Constitution of the Commonwealth to be devoted only to highway purposes, and are described in the Constitution as "excise or license taxation relating to gasoline and other motor fuels" and "fees, excise or license taxation relating to registration, operation or use of vehicles on public highways." See "THE TRANSPORTATION CABINET -- Revenue Sources of the Transportation Cabinet."

The Transportation Cabinet is under no obligation to renew the Lease for future biennial periods after the biennial period ending June 30, 1996 . If the Lease is not renewed, the Authority does not expect that Revenues will be sufficient to pay the debt service on the Economic Development Road Revenue Bonds (Revitalization Projects), including the 1995 Bonds. The Economic Development Road Revenue Bonds (Revitalization Projects), including the 1995 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 projects constituting the System or revenues therefrom. See "Payments if Lease is Not in Effect," below. Further, in order to balance the budget of the Commonwealth, the Governor may limit spending by Commonwealth departments, including the Transportation Cabinet, and reduce appropriations previously made by the Kentucky General Assembly, including appropriations for rental payments under the Lease. Failure of the Cabinet to receive such appropriations could have an adverse effect on or preclude the Authority's ability to pay the principal of and interest on the 1995 Bonds. See Appendix C - THE COMMONWEALTH OF KENTUCKY."

Payments if Lease is Not in Effect

In the event that the Lease is not renewed, the Transportation Cabinet will immediately be liable for the balance (if any) of rentals due in the current biennial term of the Lease; and, during any period when the Lease is not in effect, the Transportation Cabinet must collect from the Commonwealth and pay over to the Authority motor fuel taxes and surtaxes collected by the Commonwealth on gasoline and other motor fuels consumed on the System not directed by law or previous binding contract to be applied to uses other than payment of the principal of and premium, if any, and interest on the Bonds.

The Authority has covenanted in the Indenture that, during any period that the Lease is not in effect, it will take all such actions as may be reasonably necessary, giving due consideration to the anticipated expenses in taking such action, to collect such motor fuel taxes and surtaxes from the Commonwealth, to facilitate the reasonable determination of the amount of gasoline and other motor fuels so consumed, and to deposit any such amounts collected in the Revenue Fund created under the Indenture.

Flow of Funds

Pursuant to the Indenture, a Construction Fund, a Revenue Fund and a Bond Fund are created. Four accounts are created in the Bond Fund: a Capitalized Interest Account, a Bond Service Account, a Redemption Account and a Rebate Account. The Authority has covenanted in the Indenture that, so long as the Lease is in effect, it will cause all rentals paid by the Transportation Cabinet to the Authority under the Lease to be deposited in the Revenue Fund. The Trustee will withdraw from the Revenue Fund, to the extent monies are available therein, and, not later than each Interest Payment Date, will deposit to the credit of the following accounts in the following order and amounts:

(a) To the Bond Service Account of the Bond Fund, first, an amount, if any, which, when added to any amount on deposit therein and available for such purpose, will equal the amount required for interest on the Outstanding Bonds, including the 1995 Bonds, payable on the next Interest Payment Date, and, second, the amount, if any, necessary to make the amount in the Bond Service Account equal to the principal of all Bonds, including the 1995 Bonds, maturing on the next Interest Payment Date and the Amortization Requirement, less certain credits described in the Indenture; and

(b) To the Redemption Account, to the extent available after making the deposits required under clause (a) above, an amount equal to the amount included in the most recent rental payment for deposit into the Redemption Account; and

(c) To the Authority, to the extent available after making the deposits required under clauses (a) and (b) above, an amount equal to the amount determined by the Authority and concurred in by the Transportation Cabinet required in the next six-month period for administrative and other expenses of the Authority with respect to the System, including repairs and maintenance of the System to the extent not directly paid by the Transportation Cabinet; and

(d) To the Authority, the balance of the sum remaining in the Revenue Fund after making the deposits required by clauses (a) through (c) above, to be used for any lawful purposes.

During any period when the Lease is not in effect, on a monthly basis, the Trustee will withdraw from the Revenue Fund an amount equal to the amount of all monies held to the credit of the Revenue Fund on the last day of the preceding month, less an amount determined by resolution of the Authority (concurred in by the Trustee) required in the current month and the next month for administrative and other expenses of the Authority with respect to the System, and deposit the same first to the credit of the Bond Service Account of the Bond Fund in the amounts described above, and then the balance, if any, to the Redemption Fund.

Amounts on deposit in the Bond Service Account of the Bond Fund and the Debt Service Reserve Fund (Series 1995) will be applied solely to pay principal of (including the Amortization Requirement, if any) and interest on the Bonds; amounts in the Capitalized Interest Account of the Bond Fund will be applied solely to pay interest on the 1995 Bonds; amounts on deposit in the Redemption Account will be used to optionally redeem or purchase Bonds (see "Description of the 1995 Bonds -- Redemption Provisions"); and amounts on deposit in the Rebate Fund will be used to pay any required rebate to the United States Government, all as further described in the Indenture. See Appendix D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- "The Indenture."

Debt Service Reserve Fund (Series 1995)

The Series Resolution establishes a Debt Service Reserve Fund (Series 1995) to be held in trust by the Trustee. The Debt Service Reserve Fund (Series 1995) is to be maintained in an amount equal to

the least of (i) the maximum principal and interest requirements on the 1995 Bonds due in any Fiscal Year, (ii) ten percent of the proceeds of the 1995 Bonds or (iii) 125% of the average annual debt service on the 1995 Bonds; less certain permitted withdrawals from the Debt Service Reserve Fund (Series 1995) (the "Debt Service Reserve Requirement"). The Debt Service Reserve Fund (Series 1995) is being funded with a Debt Service Reserve Guaranty.

Amounts credited to the Debt Service Reserve Fund (Series 1995) will be used for the purposes of paying interest on the 1995 Bonds as the same becomes due, and of paying maturing principal of the 1995 Bonds, whether at the stated payment date or by mandatory redemption, whenever and to the extent that the amounts held for the credit of the Bond Service Account for payment of the 1995 Bonds are insufficient for such purposes. If the amount available to the Trustee to pay principal of or interest on the 1995 Bonds on any date on which payment of principal of or interest on the 1995 Bonds is due, the Trustee will draw under the Debt Service Reserve Guaranty in such amount in accordance with its terms and apply the proceeds of such draw to the payment of such principal and interest.

Whenever amounts paid under the Lease and held in the Bond Service Account for payment of the 1995 Bonds plus amounts in the Debt Service Reserve Fund (Series 1995) are sufficient to pay in full the 1995 Bonds outstanding under the Trust Indenture and the Series 1995 Resolution, including the principal of and the interest on all 1995 Bonds and any redemption premium and any amounts needed to pay redemption expenses, such moneys may be applied by the Trustee at the discretion of the Authority to the payment, purchase or redemption of such 1995 Bonds and the payment of all expenses in connection with any such purchase or redemption.

The Trustee is required to make a determination of the value of investments in the Debt Service Reserve Fund (Series 1995) on any interest or principal payment date for any such investments or, if directed by the Authority, on each July 1 and January 1, but in any event such calculation is not required to be made more often than semiannually. In determining the value of investments in the Debt Service Reserve Fund (Series 1995), investments which pay current interest shall be valued at their purchase price, investments which pay interest only at maturity shall be valued at their accreted value and the Debt Service Reserve Guaranty will be valued at its face amount.

Any moneys in excess of the Debt Service Reserve Requirement in the Debt Service Reserve Fund (Series 1995) may be transferred to the Bond Service Account and used as a credit against rentals due under the Lease.

Restrictions on Future Financings

Restrictions in the Lease. The Lease imposes a restriction on any future financings by the Transportation Cabinet of road projects under the Act, including Toll Road, resource recovery road and economic development road projects, including Revitalization Projects. The Transportation Cabinet covenants in the Lease not to enter into leases with respect to such future financings unless there is filed with the Trustee a certificate of the chief accounting officer of the Transportation Cabinet stating that "Adjusted Revenues" are at least 1.75 times "Maximum Annual Debt Service." Similar covenants are contained in agreements and leases relating to the Authority's Toll Road and Resource Recovery Road Revenue Bonds, Toll Road Revenue Bonds and other Economic Development Road Bonds described in this Official Statement. See "THE AUTHORITY -- Transportation Cabinet Projects Financed by the Authority."

"Adjusted Revenues" means the aggregate of all amounts credited to the Road Fund for any 12 consecutive of the preceding 18 months, excluding (a) proceeds of obligations for borrowed money and (b) amounts required by law (excluding appropriations law) to be used for purposes other than for debt service on obligations for borrowed money payable from the Road Fund or for rentals on leases entered

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

"Maximum Annual Debt Service" means the sum of all amounts required to be paid from the Road Fund during any single Fiscal Year commencing after the date of such calculation, or set aside during such Fiscal Year for payment of debt service on each outstanding obligation for borrowed moneys, and that portion of rentals required to pay debt service under each lease in effect on such date entered into by the Transportation Cabinet pursuant to the Act. In calculating Maximum Annual Debt Service it is to be assumed that (i) the new lease into which the Transportation Cabinet proposes to enter is in effect, (ii) the obligations for borrowed money proposed to be issued at the time of execution of such lease are outstanding, (iii) the proceeds of such obligations if issued to refund other obligations have been applied as provided in the proceedings in connection with the issuance of such proposed obligations, (iv) Bonds bearing or to bear interest at a Short Term Rate will be deemed to bear interest at the "Maximum Rate" such Bonds may bear as defined in the Series Resolution authorizing the issuance of such Series of Bonds and (v) Bonds scheduled to be Outstanding during such period which are subject to Puts payable from a Credit Facility will not be deemed to be payable on Put dates.

Further, in calculating Maximum Annual Debt Service, there is to be subtracted from such calculation with respect to any Fiscal Year (a) an amount equal to the reasonably projected interest earnings on investments held for the credit of a debt service fund which are to be deposited in a bond service account pursuant to the provisions of a trust indenture and (b) an amount equal to the principal amount of any money and investments in a debt service reserve fund that are to be deposited in a bond service account pursuant to a trust indenture and applied to the payment and discharge of bonds during such Fiscal Year and on the immediately succeeding July 1.

Restrictions in the Indenture. The Indenture permits the issuance of additional Bonds on a parity with the 1995 Bonds and other Bonds issued on a parity with the 1995 Bonds. Additional Bonds (including refunding Bonds other than as described below) may be issued only if the certificate of the chief accounting officer of the Transportation Cabinet described above is filed with the Trustee on the date of issuance of such additional Bonds.

Bonds of any Series to refund Bonds may be authenticated and delivered by the Trustee without compliance with the requirement described above if there is filed with the Trustee a certificate of the Chairman of the Authority stating that the aggregate principal and interest requirements, assuming the issuance of such refunding Bonds, in Fiscal Years after the Fiscal Year in which such series of Bonds is to be issued through the last stated maturity date of any Bonds, other than the Bonds to be refunded, Outstanding immediately prior to the issuance of such Series of Bonds will not be greater than the aggregate of the principal and interest requirements in such future Fiscal Years calculated immediately prior to the proposed issuance of such Series of Bonds.

Based upon amounts credited to the Road Fund for the twelve-month period ended November 30, 1994 and assuming issuance of the 1995 Bonds at the interest rates and with the maturities set forth on the cover page of this Official Statement, the ratio of Adjusted Revenues to Maximum Annual Debt Service is at least 3.83 (based on a Maximum Annual Debt Service of \$183,381,609, see "PRINCIPAL AND INTEREST REQUIREMENTS" herein).

BOND INSURANCE

Payments Under the Bond Insurance Policy

AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the 1995 Bonds effective as of the date of issuance of the 1995 Bonds. Under the terms of the Municipal Bond Insurance Policy, AMBAC Indemnity will pay to the United States Trust Company 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 1995 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). AMBAC Indemnity 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 Indemnity shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the 1995 Bonds and, once issued, cannot be cancelled by AMBAC Indemnity.

The Municipal Bond 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 1995 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 1995 Bonds, AMBAC Indemnity will remain obligated to pay principal of and interest on outstanding 1995 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of an acceleration of the principal of the 1995 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/Paying Agent has notice that any payment of principal of or interest on a 1995 Bonds which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer 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 Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond 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 Municipal Bond Insurance Policy, payment of principal requires surrender of 1995 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 1995 Bonds to be registered in the name of AMBAC Indemnity to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the 1995 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 1995 Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

The Bond Insurer

AMBAC Indemnity Corporation ("AMBAC Indemnity") 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, and the Commonwealth of Puerto Rico, with admitted assets of approximately \$2,145,000,000 (unaudited) and statutory capital of approximately \$1,218,000,000 (unaudited) as of December 31, 1994. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Standard & Poor's Corporation, Moody's Investors Service and Fitch Investors Service, Inc. have each assigned a "AAA" claims-paying ability rating to AMBAC Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity 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 Indemnity under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds. **No representation is made by AMBAC Indemnity regarding the federal income tax treatment of payments that are made by AMBAC Indemnity under the terms of the Policy due to nonappropriation of funds by the Cabinet under the Lease.**

AMBAC Indemnity makes no representation regarding the 1995 Bonds or the advisability of investing in the 1995 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented under the heading "BOND INSURANCE".

THE AUTHORITY

General

The Authority was created by the Act and constitutes a de jure municipal corporation and political subdivision of the Commonwealth. The Authority is authorized under the Act, subject to the limitations contained in the biennial appropriations act and terms of written agreements with the Transportation Cabinet, to construct, reconstruct, maintain, repair and operate turnpike projects, resource recovery road projects, and economic development road projects, to lease such projects to the Transportation Cabinet and to issue its revenue bonds, revenue refunding bonds, revenue notes and revenue bond anticipation notes to finance such projects. The Authority members are the Governor (serving as Chairman), the Lieutenant Governor (serving as Vice Chairman), the Attorney General, the Secretary of the Transportation Cabinet, the State Highway Engineer, the Secretary of the Finance and Administration Cabinet and the

Secretary of the Cabinet for Economic Development. The current members of the Authority are as follows:

Governor	Brereton C. Jones
Lieutenant Governor	Paul E. Patton
Attorney General	Chris Gorman
Secretary, Finance and Administration Cabinet	Crit Luallen
Secretary, Transportation Cabinet	Don C. Kelly
State Highway Engineer	James McFarland Yowell
Secretary, Cabinet for Economic Development	Marvin E. Strong

The Executive Director of the Authority is Bobby J. McKee; the Treasurer of the Authority is Gordon L. Mullis, and the Secretary of the Authority is Linda W. Masters.

The Act establishes and governs the operations of the Authority and authorizes and empowers the Authority under the terms of written agreements with the Transportation Cabinet to construct, reconstruct, maintain, repair and operate turnpike projects, resource recovery road projects and economic development road projects, to lease such projects to the Transportation Cabinet, to issue revenue bonds to finance such projects and to refund such revenue bonds. The Authority is also empowered to issue revenue notes and revenue bond anticipation notes.

Transportation Cabinet Projects Financed by the Authority

Pursuant to the Act, the Transportation Cabinet and the Authority are empowered to enter into agreements and leases for various types of highway projects. The following briefly describes each of the types of projects which have been or are currently planned to be financed under the Act.

Turnpike Projects. Commencing in 1960, the Transportation Cabinet initiated the construction of a system of toll roads (turnpikes) designed to relieve congested traffic conditions and to facilitate vehicular travel within the Commonwealth. The toll road projects which have been financed by the Authority, constructed by the Transportation Cabinet on behalf of the Authority, and leased to the Transportation Cabinet include the Eastern Kentucky Toll Road, the Eastern Kentucky Extension, the Western Kentucky Toll Road, the Central Kentucky Toll Road, the Jackson Purchase Parkway, the Pennyrile Parkway and Western Extension, the Audubon Parkway, the Green River Parkway, the Cumberland Parkway and the Daniel Boone Parkway. All of these projects were financed through the issuance of bonds by the Authority in 1960, 1961, 1962, 1963, 1966, 1969 and 1971. A portion of the bonds issued to construct the Audubon Parkway, the Green River Parkway, the Cumberland Parkway, and the Daniel Boon Parkway remain outstanding and the lease for those projects remains in effect. All other toll road bonds have been paid.

Resource Recovery Road Projects. Pursuant to a 1976 amendment to the Act, the Transportation Cabinet and the Authority are authorized to enter into agreements and leases to provide for the construction and financing of resource recovery road projects. Such projects are described in the 1976 amendment as "express highways or super highways designed to serve as a modern, heavy-duty motorway capable of carrying vehicles transporting coal, and also servicing the general public." Various projects throughout the Commonwealth were financed by the Authority's issuance of bonds in 1977, 1978 and 1979.

Economic Development Road Projects; Revitalization Projects. In 1980, the Kentucky General Assembly amended the Act to empower the Authority to issue obligations to finance economic development road projects which are currently defined in the Act to mean the construction, reconstruction

or relocation of any highway, road or thoroughfare, or such part or parts thereof, as designated by the Transportation Cabinet as a part of the economic development road system of the Commonwealth. The Kentucky General Assembly found that "in many cases, highways, roads and thoroughfares which are vital economic links between various sections of the Commonwealth have become, by reason of age and continued usage, obsolete and are no longer capable of affording the services required in a modern industrial society," and authorized the Authority to issue economic development road revenue bonds to correct such conditions. The Authority financed economic development road projects through the issuance of bonds in 1984 and 1987.

The Act was amended in 1990 to authorize the Authority, subject to the limitations contained in the biennial appropriations act, to issue revenue bonds or notes up to the amount of \$600,000,000, exclusive of (i) any costs incurred in the issuance of the bonds or notes, (ii) amounts necessary to fund a debt service reserve fund (which was not used with respect to the Series 1990 Bonds), if any, or (iii) capitalized interest on the bonds or notes, or both, to finance a portion of the costs of the Revitalization Projects described below. In 1990 the Authority issued Bonds using \$300,000,000 and in 1993 issued Bonds using an additional \$150,000,000 of the authorization provided in the 1990 Biennial Appropriations Act. In its 1994 Biennial Appropriations Act, the Kentucky General Assembly authorized the issuance of up to an additional \$150,000,000 of those bonds (exclusive of costs of issuance and capitalized interest of the 1995 Bonds) in the 1994-1996 biennium. The 1995 Bonds, the proceeds of which are being used for new construction, are being issued pursuant to such authorization. Proceeds of the 1995 Bonds deposited in the Construction Fund as described under "Sources and Uses of Funds" will be used to pay a portion of the costs of the Revitalization Projects described below. The specific routes comprising the Revitalization Projects and the estimated cost of each is specified in the Act to be the following:

<u>Route</u>	<u>Estimated Cost</u>
US-60	\$ 39,250,000
US-68	174,915,000
US-127	139,560,000
US-119	5,500,000
US-460	11,500,000
AA-HWY	114,355,000
US-25E	52,950,000
US-23	161,700,000

The Act provides that the Authority may expend funds in excess of the estimated cost for projects on each route, but may not exceed the estimated cost by more than 10%. The Act further provides that if any route is completed at a cost less than the amount specified above, the Authority must utilize the remainder of the funds for the sole purpose of completion of the Revitalization Projects specified above, regardless of whether costs exceed the 10% requirement. Any proceeds of Bonds issued to finance the Revitalization Projects described above remaining after the completion of those Revitalization Projects must be transferred to the Bond Service Account. See "SECURITY AND SOURCE OF PAYMENT FOR THE 1995 BONDS -- Flow of Funds."

The actual costs of each route comprising the Revitalization Projects described are anticipated to differ from those estimated. As of December 31, 1994, \$352,115,576.22 of the proceeds of the Series 1990 and Series 1993 Bonds had been expended to pay a portion of the costs of such Revitalization Projects.

Outstanding Obligations of the Authority

The outstanding bonded obligations of the Authority as of April 1, 1995, were as follows:

<u>Name of Revenue Bond Issue</u>	<u>Date Issued</u>	<u>Final Maturity Outstanding</u>	<u>Amount of Issue (1)</u>	<u>Amount Outstanding</u>
Toll Road Revenue Refunding Bonds (2)				
1984 Series A	10/1/84	7/1/1995	\$218,705,000	\$ 6,260,000.00
1986 Series A	7/1/86	7/1/2007	226,385,000	129,215,000.00
1993 Series A	6/1/93	7/1/1996	94,370,000	34,465,000.00
Resource Recovery Road Revenue Refunding Bonds(3)				
1985 Series A	7/1/85	7/1/2009	309,961,261	138,810,522.34(5,6)
1987 Series A	5/1/87	7/1/2008	257,989,380	252,845,987.01(5,6)
1988 Series A	6/1/88	7/1/1996	45,910,000	18,535,000.00 (6)
Economic Development Road Revenue Bonds(4)				
1986 Series A	8/1/86	1/1/2000	367,690,000	90,245,000.00
1987 Series A	11/1/87	7/1/1999	36,600,000	7,995,000.00
Economic Development Road Revenue Bonds (Revitalization Projects)				
Series 1992	10/1/92	1/1/2010	250,493,658	243,773,912.45(5,6)
Series 1993	4/1/93	7/1/2013	570,540,000	570,540,000.00

Source: Turnpike Authority of Kentucky

- (1) Represents amount of bonds issued. Any additional bonds beyond those approved would require approval of the Kentucky General Assembly except for certain refunding obligations or obligations used to finance projects which will produce revenues that fully meet required debt service. See "Transportation Cabinet Projects Financed by the Authority: Economic Development Road Projects; Revitalization Project" above.
- (2) These bonds are secured primarily by renewable biennial leases of the applicable turnpike projects, and in the event such leases are not renewed by the Transportation Cabinet, by a claim upon tolls and motor fuel taxes on fuel consumed on such turnpike projects. The Authority plans to defease certain maturities of these bonds through the future purchase of United States Treasury Obligations.
- (3) These bonds are secured primarily by a renewable biennial lease of certain resource recovery road projects, and, in the event the lease is not renewed by the Transportation Cabinet, by a claim upon collections from coal severance taxes, tolls, fees and charges that may be imposed for use of such projects and motor fuel taxes on fuel consumed on such resource recovery projects. The Authority plans to refund certain maturities of these bonds through the future purchase of United States Treasury Obligations.
- (4) These bonds are secured primarily by renewable biennial leases of certain economic development road projects, and, in the event such leases are not renewed by the Transportation Cabinet, by a claim upon motor fuel taxes on fuel consumed on such economic development road projects. The Authority plans to defease these bonds with a portion of the proceeds of the 1995 Bonds.
- (5) Amount Outstanding includes the accreted value of capital appreciation bonds and bond income growth securities.
- (6) Calculated by the Authority using accreted values as of January 1, 1995 for capital appreciation bonds and bond income growth securities.

THE TRANSPORTATION CABINET

General

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

The Transportation Cabinet is responsible for the construction, reconstruction and maintenance of the Commonwealth's primary road system, which carries an estimated 84% of the Commonwealth's motor vehicle traffic. This represents more than 27 billion vehicle miles of travel. The system consists of some 27,500 miles of toll roads, interstate highways, resource recovery roads, the economic development road system, primary roads, secondary roads, rural secondary roads and unclassified roads, and approximately 8,600 bridges.

The Transportation Cabinet also regulates the operation of motor vehicles upon Kentucky's public highways and registers approximately 2.9 million vehicles and licenses 2.4 million drivers. The Transportation Cabinet is also responsible for enforcing Kentucky and federal laws and regulations pertaining to commercial vehicles in regard to weight and size limits, operating authority, safety, and tax compliance.

Organization and Management

The Transportation Cabinet is organized into five major operating departments: Highways, Administrative Services, Rural and Municipal Aid, Vehicle Regulation, and Fiscal Management. Seven offices perform staff functions: Office of the Secretary, Policy and Budget, Personnel Management, General Counsel, Minority Affairs, Environmental Affairs, and Public Relations. The Transportation Cabinet employs approximately 5,800 people on a full-time basis, and approximately 500 people on a part-time or seasonal basis.

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

Operations and Maintenance

The Transportation Cabinet provides transportation services to the travelling public through a network of highly developed programs and operating units. To assure prompt and efficient delivery of services across the Commonwealth, the Transportation Cabinet operates 13 regional district offices, and highway maintenance facilities in each of the 120 counties.

The Transportation Cabinet relies on automated systems for tracking and assessing the activities in virtually all functional areas. The Transportation Cabinet uses a sophisticated automated maintenance management system which provides managers with performance data on all aspects of roadway maintenance work. The Transportation Cabinet also maintains an extensive and detailed database of the Commonwealth's highway infrastructure, which Transportation Cabinet engineers have valued at more than \$100 billion.

The Transportation Cabinet is committed to efficiency and cost containment. This commitment is demonstrated in the Transportation Cabinet's ability to keep operations and maintenance expenditures relatively constant over the last several years (even though the highway system has been expanding and vehicle miles traveled has increased). This efficient management of operating and maintenance expenditures may be attributed, in part, to several factors. First, the Commonwealth introduced an early retirement program in 1988, which, combined with the Transportation Cabinet's subsequent efforts to maintain reduced personnel levels, has significantly reduced payroll costs. Second, the Transportation Cabinet has sought to use private contractors to perform maintenance and other functions where economies can and have been realized. Finally, the Transportation Cabinet's enhanced program of resurfacing and major road construction and reconstruction has reduced the need for day-to-day maintenance on many routes.

Capital Planning For Highways

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

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

The Six-Year Plan consists of a biennial construction program and a four-year preconstruction planning document. It is through this plan that legislative involvement in the project development process has been assured. In recent years, the Six-Year Plan has formed the foundation for development by the Transportation Cabinet of a more forward-looking transportation planning tool, which is formally known as the "Statewide Transportation Plan." This plan integrates all modes of transportation and expands the horizon of project needs identification beyond the six-year period prescribed by the statutes and allows a more far-sighted approach to transportation planning.

Highway Plan Development. Beginning with an unconstrained list of potential projects, the planning process sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years represent the highest priority projects and constitute the Six-Year Plan. The remaining projects are pooled into the Statewide Transportation Plan for possible inclusion in later Six-Year Plans. This plan consists of approximately 300 major roadway projects which are eligible for state and federal funding. Each project has been evaluated, based on its relative contribution toward the satisfaction of four goal-oriented criteria. These goals focus on: 1) preservation and management of the existing transportation system, 2) providing system connectivity of the individual

modes to promote economic development, 3) coordination and cooperation among a wide variety of interests in the transportation planning process, and 4) enhancement of transportation system safety and convenience for the benefit its many users.

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

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

Implementation of the Six Year Plan. Kentucky's Six Year Highway Plan is funded through the use of Commonwealth and federal highway dollars. Commonwealth funds are generally derived from fuel and motor vehicle excise taxes and other revenues to the Road Fund, plus the proceeds from road bonds issued by the Authority. Commonwealth funds are allocated to the Transportation Cabinet on a biennial basis and are used to finance state-funded projects or to match federal aid funds at various participation ratios dictated by the federal government. The majority of Kentucky's federal-aid highway funds are appropriated annually from the Federal Highway Trust Fund operated by the U.S. Department of Transportation. These federal-aid monies are generated by federal excise taxes and are made available in specific dollar amounts for specific types of improvements (i.e., national highway system, surface transportation program, bridge replacement projects, etc.). As an Appalachian state, the Commonwealth also receives an annual apportionment of Appalachian Development (APD) highway funds from the federal Appalachian Regional Commission. Regardless of origin, all federal dollars must be spent within the appropriate funding category and cannot be transferred for use in other federal-aid categories except as specifically permitted by federal legislation.

In preparing the Six-Year Plan, the Transportation Cabinet projects anticipated future funding levels against which future projects can be established. An effort is made to identify annual funding ceilings within each funding category and to budget proposed highway activities against those dollars expected to be available during the period. Once anticipated funding levels are set, projects are included in each funding category as funding levels permit. No project is included unless it can realistically be funded within the specified time frame.

The transportation planning process allows for the systematic consideration of projects in view of the impact on other projects which rely on similar funding sources. When a previously unfunded project is added without the availability of additional funding, fiscal balance must be achieved by eliminating an equivalent project (or projects). New projects using previously unanticipated funding can be added to the Plan without adverse effect.

The overall transportation planning process is relatively new and still undergoing refinement. The Intermodal Surface Transportation Efficiency Act of 1991 requires both enhanced short range and long range transportation planning processes and Kentucky has adjusted its programs to meet those mandates. With these processes in place, program continuity is improved and Kentucky is positioned to provide a more credible and efficient future highway program.

Revenue Sources of the Transportation Cabinet

The Transportation Cabinet is funded through appropriations from a diversified revenue base, including the Road Fund, federal funds, restricted agency funds, and the General Fund. Information on the revenues of the Transportation Cabinet is set forth in Appendices A and B hereto. In addition, the Transportation Cabinet expends funds on behalf of various government agencies and other organizations, including the Authority, which participate in the construction and maintenance of highway projects and, in the case of the Authority, provide funds through the issuance of revenue bonds.

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

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

Following is a brief description of the various sources of revenue deposited in the Road Fund. The table under "Historical Available Road Fund Revenues, Expenses and Debt Service" provides a breakdown on the portion of these revenue sources over each of the past five fiscal years which were available to pay debt service and are shown exclusive of taxes, fees and miscellaneous revenues which are dedicated for other uses.

Motor Fuel Taxes. Motor fuel taxes make up the largest portion of the total Road Fund, representing nearly one half of the total monies deposited, including those monies which are dedicated by statute to specific uses. These taxes are levied on gasoline, liquified petroleum gas and special fuels (predominantly diesel) sold for use in motor vehicles operated on public highways. These taxes make up approximately 30 percent of the Road Fund that is available for debt service on Economic Development Road Revenue Bonds (Revitalization Projects). See "THE TRANSPORTATION CABINET -- Historical Available Road Fund Revenues, Expenses and Debt Service."

The currently effective rate for the basic motor fuels tax is 15 cents per gallon for gasoline and LP gas and 12 cents per gallon for special fuels. In addition, firms operating commercial trucks in Kentucky are assessed a motor fuels tax for any fuel purchased outside the Commonwealth but consumed on Kentucky highways. Motor carriers are also charged a basic motor fuels surtax which equates to approximately 2.2 cents per gallon of gasoline and 5.2 cents per gallon of special fuels. A substantial portion of these motor fuels taxes is statutorily dedicated to a revenue sharing program. See "Claims on Certain Road Fund Revenues -- Revenue Sharing Programs and Other Restricted Revenues" below.

A heavy vehicle fuel surtax is imposed which is not subject to being statutorily distributed to a revenue sharing program. This tax is levied at the rate of 2.0 cents per gallon on fuels consumed on Kentucky highways by vehicles with a declared gross operating weight of 60,000 pounds or more. It is anticipated that this tax will be sunsetted by the General Assembly effective during fiscal year 1996-97 in order to comply with a federal mandate. The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) requires that all states become participants in the International Fuel Tax Agreement (IFTA) by September 30, 1996. The conditions for membership in IFTA will prevent Kentucky from imposing the heavy vehicle fuel surtax. It is uncertain whether the General Assembly will replace the revenues from this tax with another tax. The revenues from the heavy vehicle fuel surtax were \$6,677,892 in the fiscal year ended June 30, 1994.

Motor Vehicle Usage Tax. A usage tax is currently imposed on the sale or transfer of new or used motor vehicles at the rate of 6% of the vehicle's value. The value on which the tax is assessed on new cars is a percentage of the retail price, and for used cars and trucks is determined by reference to an automobile reference manual. A similar assessment is charged on the value of contracts for leased and rented vehicles. This category of taxes accounts for approximately 44% of the available Road Fund receipts. See "THE TRANSPORTATION CABINET -- Historical Available Road Fund Revenues, Expenses and Debt Service" herein.

Licenses, Fees and Permits. Licenses, Fees and Permits consist of charges for (i) passenger car and truck registrations, (ii) operator's licenses and (iii) various certificates, cards and permits. Registration fees for cars and light trucks are levied at the rate of \$11.50 annually for each vehicle registered and commercial trucks are assessed a per vehicle registration fee from \$24 to \$1,260 annually, based on the gross weight of the vehicle. A vehicle operator's license currently costs \$8.00 for a four-year basic license.

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

A portion of the licenses, fees and permits resulting from the issuance or renewal of operator licenses and those relating to the extended weight coal haul system and the coal haul cooperative agreements are restricted. See "Claims on Certain Road Fund Revenues - Revenue Sharing Program and Other Restricted Revenues" below.

Charges for Services. This category of revenues is composed of various sales, rentals, record fees, and toll facility charges. The Commonwealth currently operates four parkways on which tolls are collected.

Recent Changes to Road Fund Receipts. The Kentucky General Assembly, over the last decade has made a number of changes which affect Road Fund receipts. A brief outline of some of the most notable tax modifications follows.

The motor fuels tax rate was increased in 1986 from a basic effective rate of 10 cents per gallon for gasoline and LP gas to the current effective rate of 15 cents per gallon. A similar increase in the effective tax rate for most users of special fuels was effected through a combination of changes to both the basic motor fuels tax and the motor fuels surtax paid by commercial motor carriers. The basic effective tax was increased from 10 cents to 12 cents per gallon and the surtax was increased from 2.2 cents to 5.2 cents per gallon. This change became effective at the beginning of Fiscal Year 1987. A 3.5 cent per gallon tax credit for gasohol was allowed to sunset by the 1988 General Assembly at the end of

Fiscal Year 1988. Further, as a means to improve the accountability for credits for off-highway use, the 1988 General Assembly changed the point of taxation for special fuels from the retail to the distributor level.

The 1988 General Assembly also took action to replace revenues lost from a tax on heavy trucks, the Supplemental Highway User Tax (also referred to as the "Decal Tax"), which was declared unconstitutional in October 1987, resulting in a projected annual loss of approximately \$60 million in Road Fund revenues. In reaction, the Transportation Cabinet proposed and the 1988 General Assembly approved two major initiatives to replace these lost revenues. First, the General Assembly reimposed the weight distance tax which had been replaced by the Decal Tax in 1986 (see "*Other Taxes*" above). Second, it approved increases in various licenses, fees and permits paid by this category of highway user (See "*Licenses, Fees and Permits*" above). The tax and fee package was coupled with a program of enhanced enforcement and auditing efforts designed to more effectively monitor truck travel and assure tax compliance.

The 1990 General Assembly increased the rate for the motor vehicle usage tax from 5% to 6% of taxable value effective July 1, 1990. See "*Motor Vehicle Usage Tax*" above.

Growth Potential and Economic Responsiveness of Road Fund Revenues; Additional Taxing Capacity

The measures taken by the General Assembly to maintain and increase Road Fund revenues, along with the enhanced methods utilized in monitoring and collecting taxes over the past decade have improved the Transportation Cabinet's ability to make lease payments to the Authority to provide debt service on the Authority's bonded indebtedness. Through both the tax structure and the collection mechanisms of the Road Fund, the Commonwealth is positioned to take advantage of economic growth and economic activity, and to capture an appropriate level of user fees from the various users of the highway system.

Although motor fuels taxes represent a major portion of the revenues of the Road Fund, policy makers and management recognize the limitations and potential volatility of this source and have taken measures to enhance these taxes. First, protection was built into the basic per-gallon rate in 1980, because the price of gasoline had increased so rapidly and was projected to increase. The General Assembly changed the tax base to the average wholesale price per gallon and set the rate at 9 percent. As designed, if the price of gasoline increased, the taxes collected would also increase proportionately. A minimum wholesale price of \$1.11 per gallon was established in 1982, thus creating a "floor," or minimum effective tax rate, of 10 cents per gallon. In 1986, "the supplemental highway user motor fuel tax" was enacted and became effective on July 1 at a rate of 5 cents per gallon for gasoline and a rate of 2 cents per gallon for special fuels. This raised the effective minimum tax to 15 cents per gallon for gasoline and 12 cents per gallon for special fuels. Steps have also been taken to reduce evasion and maximize collections. Additional funding was provided to the Revenue Cabinet in the 1992 and 1994 biennial appropriations acts to increase auditing efforts in motor fuels and vehicle usage tax compliance functions.

Second, the Commonwealth has made a concerted effort to assure that the commercial trucking industry, which represents an increasing presence on the nation's highways, is assessed for its use of highways in the Commonwealth by implementing taxes based upon weight and distance traveled, supplemental fuel taxes for heavy vehicles and a special surtax (see "*License and Privilege Taxes*" and "*Recent Changes to Road Fund Receipts*" above). This modified tax structure used by the Commonwealth has been augmented by the construction of five new state-of-the-art weigh stations and the operation of all vehicle enforcement facilities on a virtually around-the-clock basis. Computerized observation reports now ensure more accurate auditing of motor carrier tax returns. This focus on enhanced collections and

enforcement initially generated truck tax receipts at 25% to 30% above projections. An additional benefit of the program has been the protection of both motorists and the road infrastructure from unsafe or overweight vehicles.

Finally, the recent increase in the vehicle usage tax rate from 5% to 6% (see "*Motor Vehicle Usage Tax*" and "*Recent Changes to Road Fund Receipts*" above) is the latest example of increased emphasis on receipt categories which respond to economic growth.

Despite recent adjustments to several Road Fund revenue sources, additional taxing capacity clearly exists in certain categories. The Commonwealth's motor fuels tax rate of 15 cents per gallon (see "*Motor Fuels Taxes*" above) remains below the national average of approximately 19.0 cents per gallon. The tax rate is also below the average rate of surrounding states, which is approximately 20.0 cents per gallon. Given current consumption rates, increasing Kentucky's rate to match the national average would generate approximately \$99,000,000 of additional Road Fund revenues annually. An increase to the average rate of the contiguous states would yield approximately \$124,000,000 in new funds annually. Any such increases would require the approval of the Kentucky General Assembly, and a portion of these increases may be dedicated to the Revenue Sharing Programs. See "*Claims on Certain Road Fund Revenues - Revenue Sharing Programs and Other Restricted Revenues*" below.

Other Kentucky highway use fees are also below those of other states. The average toll charge on Kentucky parkways is about two cents per mile for automobiles. Nationwide, highway tolls average approximately four cents per mile. Additionally, the Commonwealth's fees for passenger car registrations and driver licenses are well below those of most states. See "*Licenses, Fees and Permits*" above.

Claims on Certain Road Fund Revenues

General Obligation Highway Bonds. Road Fund revenues are subject to certain outstanding statutory and contractual claims or required applications. Road Fund revenues are subject to the first and prior lien of the general obligation highway bonds of the Commonwealth designated Highway Construction Bonds approved at elections in 1960 and 1964, of which \$13,290,000 aggregate principal amount maturing July 1, 1995 are outstanding. Annual debt service on the outstanding general obligation highway bonds is \$13,863,150. The legislation authorizing such outstanding general obligation bonds requires that taxes for the benefit of the Road Fund in the form of license fees, excise taxes and fees relating to registration, operation and use of vehicles on Kentucky public highways be maintained at rates not less than the rates imposed by law at the time of enactment of such legislation or at rates adjusted so as to produce for the Road Fund not less than the amount then derived from all such sources.

Revenue Sharing Programs and Other Restricted Revenues. There are a number of statutory requirements affecting certain Road Fund revenues. A total of 48.2% of the collections of motor fuels, normal, normal use and surtaxes are restricted and reserved for use on county, municipal and rural secondary roads. Chapter 177 of these Kentucky Revised Statutes requires that 22.2% of these motor fuels tax receipts be expended by the Transportation Cabinet on the rural secondary road system. Chapter 177 also directs that 7.7% and 18.3% of the motor fuels tax be distributed, based on statutory formula, to municipal and county governments, respectively, for use on urban roads and streets and county roads and bridges. Finally, the statutes require that .1% of the motor fuels tax collections, up to a maximum of \$190,000, be set aside for the Kentucky Transportation Center. See "*Motor Fuels Taxes*" above.

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

Transportation Cabinet and transporters of coal, through which coal transporters may share in the maintenance of roads over which extended weights are hauled. Road Funds collected through these agreements are restricted to expenditures on roads covered by the agreements.

A portion of the receipts to the Road Fund resulting from the issuance or renewal of operator's licenses are also statutorily restricted (see "*Licenses, Fees and Permits*" above). Chapter 186 of the Kentucky Revised Statutes requires that a portion of each fee be dedicated to expansion of the Kentucky driver education program. The amount is 25 cents for each two-year license and 50 cents for each four-year license. Additionally, Chapter 186 provides that \$1 from each license fee is to be set aside exclusively to cover the cost of issuing a photo license.

Historical Available Road Fund Revenues, Expenses and Debt Service

The table below illustrates the Transportation Cabinet's historical total available Road Fund revenues, expenses, debt service on general obligation highway bonds, and lease rental obligations for the past five fiscal years and the three month period ended September 30, 1994. The figures for the past five fiscal years are derived from the Transportation Cabinet's Financial Reports to Management for each Fiscal Year, and the figures for the three month period ended September 30, 1994 are derived directly from the Transportation Cabinet's interim financial statements (see "Basis of Accounting" below). Motor fuel revenues are shown net of the required allocations for urban roads and streets, for rural and secondary roads, for county roads and bridges, and for the Kentucky Transportation Center. Operating and maintenance expenses reflect only those related to Commonwealth highway and highway-related projects payable from the Road Fund.

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**Transportation Cabinet's
Historical Available Road Fund Revenues,
Expenses, Debt Service on
General Obligation Highway Bonds and Lease Rentals**

	(\$ AMOUNTS IN THOUSANDS)					FOR 3 MONTH PERIOD ENDING 09/30/94
	(NOTE 1)					
	FOR THE FISCAL YEAR ENDED JUNE 30					
	1990	1991	1992	1993	1994	
TOTAL AVAILABLE ROAD FUND REVENUES (2):						
TAXES:						\$
Motor Fuels	\$188,829	\$183,861	\$188,974	\$196,839	\$199,973	\$ 54,623
Usage (3)	202,063	215,744	222,523	249,096	295,253	78,280
Other (4)	59,965	61,307	63,775	69,287	58,513	14,288
LICENSE, FEES AND PERMITS	85,960	81,748	82,823	85,746	87,139	19,388
CHARGES FOR SERVICES (5)	24,581	24,117	22,659	16,488	16,450	4,510
FINES AND FORFEITS	1	14	6	34	13	4
INTEREST INCOME	<u>18,357</u>	<u>27,565</u>	<u>24,180</u>	<u>17,776</u>	<u>17,427</u>	<u>3,739</u>
TOTAL AVAILABLE REVENUES:	579,756	594,356	604,940	635,266	674,768	174,832
OPERATING & MAINTENANCE EXPENSES (2):						
Personnel Cost	97,215	110,006	116,912	117,111	116,251	27,638
Personal Service	1,765	1,447	1,813	2,530	3,362	926
Operating Expense	40,948	47,184	47,596	55,543	62,147	18,286
Grants	43	50	267	211	58	50
Debt Service	534	412	290	295	0	0
Capital Outlay	2,630	5,415	3,867	2,659	3,284	658
Capital Construction	14,280	15,176	17,585	2,229	1,617	488
Highway Materials	19,555	20,751	14,979	20,643	23,305	4,524
Other Agency Cost (6)	<u>35,000</u>	<u>0</u>	<u>0</u>	<u>30,000</u>	<u>29,999</u>	<u>15,102</u>
TOTAL OPERATING & MAINTENANCE EXPENSES:	<u>211,970</u>	<u>200,441</u>	<u>203,309</u>	<u>231,221</u>	<u>240,023</u>	<u>67,672</u>
NET AVAILABLE ROAD FUND REVENUES	367,786	393,915	401,631	404,045	434,745	107,160
DEBT SERVICE ON COMMONWEALTH GOB (7)	18,388	14,098	14,104	13,944	13,990	5
LEASE RENTALS (8):						
TOLL ROAD PROJECT	35,525	33,298	31,071	19,796	45,540	19,522
ECONOMIC DEVELOPMENT ROAD PROJECT	35,156	66,300	67,398	65,694	44,679	0
RESOURCE RECOVERY ROAD PROJECT	<u>42,722</u>	<u>41,764</u>	<u>41,798</u>	<u>41,649</u>	<u>41,692</u>	<u>0</u>
TOTAL DEBT SERVICE AND LEASE RENTALS:	131,791	155,460	154,371	141,083	145,901	19,527
GROSS COVERAGE	4.3991	3.8232	3.9187	4.5028	4.6248	8.9533
NET COVERAGE	2.7907	2.5339	2.6017	2.8639	2.9797	5.4878

(1) The above schedule displays detailed information relating to the Commonwealth of Kentucky's Road Fund which can be used to calculate the coverage of available revenues compared to debt and lease rental payments. Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees and miscellaneous revenues which are dedicated for other uses and not available to pay debt service on the general obligation highway bonds or to make lease rental payments to the Authority. Operating and Maintenance Expenses include certain non-construction maintenance, operating, regulatory and administrative expenses related to the public highways. Gross Coverage represents the comparison of Total Available Road Fund Revenues to Total Debt Service and Lease Rentals. Net Coverage represents the comparison of Net Available Road Fund Revenues to Total Debt Service and Lease Rentals.

(2) Effective July 1, 1992, the Transportation Cabinet's accounting system was integrated into the Commonwealth of Kentucky's central accounting system. As a result, classification structure of revenues and expenditures used by the Transportation Cabinet has been changed to conform to the classification structure of the central accounting system. Accordingly, the presentation of revenues and operating and

maintenance expenses has been modified for Fiscal Years 1990 through 1992 to reflect this classification structure.

- (3) The motor vehicle usage tax rate increased from 5% to 6% to taxable value effective July 1, 1990. See "Revenue Sources of the Transportation Cabinet: Motor Vehicle Usage Tax" and "Revenue Sources of the Transportation Cabinet: Recent Changes to Road Fund Receipts."
- (4) Effective July 1, 1993, the Cabinet ceased assessment of the Weight Distance Surtax in accordance with sunset provisions contained in the 1992 appropriations act. Enacted by the 1988 General Assembly, the Weight Distance Surtax was imposed on motor carriers for the operation on Kentucky highways at a rate of 1.15¢ per mile traveled. The following is a summary of Weight Distance Surtax collections for the fiscal years ended June 30: 1990, \$16.8 million; 1991, \$17.1 million; 1992, \$17.9 million; 1993, \$19.5 million; and 1994, \$5.5 million.
- (5) Effective January 8, 1991, toll collections were discontinued on the Central Kentucky Toll Road. The following is a summary of the Central Kentucky Toll Road toll collection revenues reported in the Charges for Services category for the fiscal years ended June 30: 1990, \$4.0 million; and 1991, \$2.5 million.

Effective June 30, 1992, toll collections were discontinued on the Jackson Purchase and Pennyrile Parkways in western Kentucky. The following is a summary of the Jackson Purchase and Pennyrile Parkway's toll collection revenues reported in the Charges for Services category for the fiscal years ended June 30: 1990, \$5.7 million; 1991, \$5.9 million; 1992, \$6.1 million; and 1993, \$4 million.
- (6) In certain fiscal years, the Kentucky General Assembly appropriated Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of enforcement of traffic laws, collection of Road Fund tax revenues, and other administrative support functions related to the Cabinet. In those years when Road Fund dollars are not displayed in this category, the costs of these activities were funded from the Commonwealth's General Fund.
- (7) The general obligation highway bonds have a prior lien on revenues in the Road Fund. See "Claims on Certain Road Fund Revenues: General Obligation Highway Bonds" above.
- (8) Lease rentals paid by the Transportation Cabinet to the Authority include amounts representing the following: principal and interest requirements on Authority bonds, net of Debt Service Reserve Fund investment earnings and principal amounts required by the Authority for administrative and other expenses of the Authority; and any amounts for deposit into the Redemption Account.

Basis of Accounting

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

The (annual, as of June 30) audited financial statements and the unaudited financial statements as of September 30, 1994 are prepared on a modified accrual basis of accounting in compliance with Generally Accepted Accounting Principles and Legal Compliances as outlined by the Governmental Accounting Standards Board. A copy of the Transportation Cabinet's audited financial statements for the Fiscal Years ended June 30, 1994 and June 30, 1993 are included as Appendix A to this Official Statement. Also included in that Appendix is a summary of the audited balance sheets of the Transportation Cabinet for Fiscal Years 1990 through 1994, which reflect year-end cash, investment and

fund balances. The unaudited financial statements as of and for the three month period ended September 30, 1994, are included as Appendix B to this Official Statement.

The interim financial statements reconcile directly with the audited financial statements. Under the interim financial statements, the Transportation Cabinet maintains five operating accounts: the Road Fund, the Federal Fund, the General Fund, the Agency Fund, and the Capital Projects Fund. General operating revenues such as motor fuel receipts, license and privilege taxes, departmental fees, and toll revenues are recorded in the Road Fund. Federal grants are recorded in the Federal Fund, and transfers from the Commonwealth's General Fund are recorded in the General Fund. Receipts dedicated to specific programs or purposes and related expenditures are recorded in the Agency Fund. Transactions relating to the acquisition, construction or renovation of the Cabinet's major capital facilities and the acquisition of major equipment are accounted for in the Capital Projects Fund.

Budget Process

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

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

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

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

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

Conditions to Additional Indebtedness

General obligation bonds of the Commonwealth payable from Road Fund revenues and receipts may be issued, pursuant to the Constitution of Kentucky, only upon approval by the electorate. The Transportation Cabinet may, pursuant to law, issue bonds or certain other obligations payable from Road Fund revenues and receipts. Unless such obligations are to be used to finance projects which will produce

revenues which will fully meet required debt service their issuance is conditioned, pursuant to existing law, upon approval by the Kentucky General Assembly. Issuance of such bonds or other obligations also requires the approval of the Office of Financial Management and Economic Analysis in the Finance and Administration Cabinet.

INVESTMENT POLICY

The general investment programs of the Commonwealth of Kentucky, and as they pertain to the Transportation Cabinet and the Road Fund, are governed by Kentucky Revised Statute 42.500 et seq. and Kentucky Administrative Regulations Title 200 Chapter 14. The State Investment Commission, which is comprised of the Governor, the Treasurer, the Secretary of the Finance and Administration Cabinet and representatives of the Community Independent Banker's Association and 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. The day to day responsibility is delegated to the Office of Financial Management and Economic Analysis.

The Commonwealth maintains an average operating portfolio of approximately \$1.8 billion in cash and securities. The majority of which are invested in U.S. Treasury securities (61%), securities issued by agencies, corporations and instrumentalities of the United States Government (6%), repurchase agreements collateralized by the aforementioned (30%), municipal securities rated A or higher by Standard & Poor's or Moody's (2%) and money market securities rated A1-P1 or higher by S&P or Moody's (1%). Money market securities, which include Bankers' Acceptances, Commercial Paper and Certificates of Deposit, are limited to twenty percent of the total portfolio and ten million per issuer. The book yield of the portfolio is 5.24% and has a modified duration of .9 years as of January 19, 1995.

The Commonwealth of Kentucky does engage in certain 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 prohibits the use of margin or other leveraging techniques. Among the transactions which may be considered derivative transactions are: over-the-counter treasury options, securities lending program and fixed receiver interest rate swap.

The Commonwealth has used over-the-counter-treasury options since the mid-1980's to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of both put and call options on the basis of either cash or securities being held 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, this commitment has been less than ten percent.

The Commonwealth has had a securities lending program since the mid-1980's. This program is structured as a paired tri-party repurchase transaction with an approved custodian bank and a primary dealer acting as principal. 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 eligible pursuant to KRS 42.500. Currently, the Commonwealth receives a guaranteed 9.5 basis points of the average market value of securities in the program.

The Commonwealth has also engaged in an asset based interest rate swap to better match its assets and liabilities and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific period of time. The Commonwealth has not had an interest rate swap transaction in effect since March 13, 1993. Although the state does not have an interest rate swap transaction at the present time, it is possible that such a

transaction might take place in the not too distant future. Currently, these transactions are limited by the State Investment Commission to \$200 million (notional amount).

TAX TREATMENT

General

In the opinion of Bond Counsel, based upon certain representations and certifications of the Authority, which Bond Counsel has not independently verified, and assuming continuing compliance therewith, as set forth below, interest on the 1995 Bonds is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and decisions in effect on the date of delivery of the 1995 Bonds.

The Authority is required by the Internal Revenue Code of 1986, as amended (the "Code"), to comply on an ongoing basis with certain obligations in order for the interest on the 1995 Bonds to be and remain excludable from gross income for federal income tax purposes. Failure to meet those obligations could result in the interest on the 1995 Bonds becoming subject to federal income taxation, retroactive to the date of the 1995 Bonds. The Authority has covenanted to comply with all such obligations.

Under the Code, interest on the 1995 Bonds will not be treated as an item of tax preference in computing the alternative minimum tax on individuals and corporations and the corporate environmental tax. However under the Code, interest on the 1995 Bonds will be included in the "adjusted current earnings" of certain corporations, and such corporations would be required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for alternative tax net operating losses). In addition, the accrual or receipt of interest on the 1995 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the 1995 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States, property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security benefits are advised to consult their tax advisors as to the tax consequences of purchasing or holding the 1995 Bonds.

In the opinion of Bond Counsel, the 1995 Bonds are exempt from ad valorem taxation and interest thereon is exempt from income taxation by the Commonwealth of Kentucky and any political subdivisions thereof.

Prior to any purchase of the 1995 Bonds, prospective purchasers of the 1995 Bonds are advised to consult their own tax advisors as to the impact of the Code on their acquisition, holding or disposition of the 1995 Bonds.

Tax Treatment of Premium

The 1995 Bonds maturing on July 1, 2007 and July 1, 2008 are being sold at prices in excess of the principal amount thereof. Under the Code, the excess of the cost basis of a 1995 Bond over the principal amount of the 1995 Bond (other than a registered owner who holds a 1995 Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) is generally characterized as "bond premium." For federal income tax purposes bond premium is amortized over the term of such 1995 Bonds. A registered owner will therefore be required to decrease his basis in the 1995 Bonds by an amount of amortizable bond premium attributable to each taxable year he holds such 1995 Bonds. The

amount of amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal tax purposes. Purchasers of 1995 Bonds sold at a premium should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of such 1995 Bonds.

Tax Treatment of Original Issue Discount

Certain of the 1995 Bonds are being sold to the public at an original issue discount ("OID"). Under the Code, the difference between the maturity amounts of such 1995 Bonds and the initial offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the 1995 Bonds of the same maturity was sold is "original issue discount". OID will accrue to the owner of a 1995 Bond over the period to its maturity based on the constant interest rate method, compounded semiannually. A purchaser who acquires such 1995 Bonds in the initial offering at a price equal to the initial offering price thereof to the public will be treated as receiving an amount of interest excludable from that purchaser's gross income for federal income tax purposes equal to the original issue discount during the period he holds such 1995 Bonds, and will increase his adjusted basis in such 1995 Bonds for purposes of determining taxable gain or loss on the sale or other disposition of such 1995 Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of 1995 Bonds which are not purchased in the initial offering at the initial offering prices may be determined according to rules which differ from those described herein. Owners of such 1995 Bonds (including owners that purchase a 1995 Bond other than pursuant to the initial public offering) should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to the 1995 Bonds, the adjusted basis of the 1995 Bonds for purposes of determining taxable gain or loss upon the sale or other disposition of the 1995 Bonds (including sale, redemption or other disposition of the 1995 Bonds at maturity) and as to other federal tax consequences and any state and local tax aspects of owning 1995 Bonds issued at an original issue discount.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee and the owners of the 1995 Bonds upon occurrence of an event of default under the Lease, the Agreement, or the Indenture are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for under the Lease, the Agreement, and the Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 1995 Bonds and such documents will be qualified to the extent that the enforceability of certain legal rights related to the 1995 Bonds are subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

LITIGATION

There is no litigation pending or, to the knowledge of the Authority or the Transportation Cabinet, threatened to restrain or enjoin the authorization, sale or delivery of the 1995 Bonds or which would adversely affect the application of the revenues of the Transportation Cabinet to the payment of the 1995 Bonds. Except as described herein, there is no litigation pending or, to the knowledge of the Authority, threatened against the Authority or any of its assets or revenues that would materially adversely affect the Authority or its operations.

The Cabinet has pending in the Franklin Circuit Court the case of American Trucking Assoc., Inc., et al vs. Commonwealth, Case No. 86-C1-0464. The complaint contends that KRS 138.660, as amended by the 1986 Kentucky General Assembly and implemented during Fiscal Year 1987, is unconstitutional. That statute established the supplemental highway users tax, which required the purchase of a decal by all owners of trucks operating in Kentucky at more than 55,000 pounds. The Court declared the tax unconstitutional and collections were halted in October 1987; however, the issue of refunds has not been finalized. Since the initial entry of an order by the Court requiring refunds, the probable liability of the Transportation Cabinet has been estimated at approximately \$16,000,000. Currently, there are discussions between the plaintiffs and the Transportation Cabinet with regard to the structure of a refund procedure and the payment of interest and attorney's fees.

Another case of significance involves the over-weight/over-dimension permit fees charged by the Transportation Cabinet pursuant to KRS 189.270, which was amended by the 1988 Kentucky General Assembly to substantially increase the fees. The permits are required for any vehicle which hauls a load which exceeds the established size or weight limits for the highway on which it is being transported. This case, currently pending in the Franklin Circuit Court is styled Thomas Heavy Hauling v. Transportation Cabinet. The complaint against the Cabinet contends that the fees charged are excessive and thus unconstitutional. The Kentucky Supreme Court affirmed the Franklin Circuit Court ruling that an average fee of \$60 per permit is reasonable. The Cabinet had been collecting an average fee of \$82.00. Based on this differential, the Cabinet's liability has been estimated to be between \$11,000,000 and \$16,000,000, excluding interest.

The case styled Paschall Truck Lines, Inc., et al, v. Commonwealth is pending in Franklin Circuit Court. This litigation involves the additional weight distance tax which was initially imposed by the 1988 Kentucky General Assembly through KRS 138.660, and then extended via the biennial appropriations acts of the 1990 and 1992 sessions of the General Assembly. This surtax of \$.0115 per mile was imposed on all vehicles operating in Kentucky at weights in excess of 59,999 pounds. The tax was effective with the beginning of the fourth quarter of Fiscal Year 1988 and collections have averaged more than \$15,000,000 annually. The plaintiffs have contended in this lawsuit that the extension of the surtax violates both statutory and constitutional provisions. On March 14, 1995, the Court issued an Opinion and Order that held unlawful and voided the procedures used by the General Assembly in 1990 and 1992 to extend the surtax, and further stated that the plaintiffs are entitled to refunds. However, the order has been appealed and there exists several valid legal issues which the Transportation Cabinet intends to vigorously pursue and argue in this matter. At this time, an opinion cannot be given with regard to the Cabinet's potential liability, if any.

The case of Usher Transport, Inc., et al, v. Commonwealth, pending in Franklin Circuit Court, is a class action challenging the cab card fee program administered by the Transportation Cabinet. The Cabinet collects approximately \$7.5 million each year in fees from this program. The complainants are seeking refunds for five years in addition to requesting the elimination of the cab card in its entirety. Details of a settlement are being finalized. It has been agreed that the Transportation Cabinet will refund approximately 20% of the permanent cab card fees collected, which has been calculated as a result of the issuance of a temporary cab card pending the issuance of a corresponding permanent card. This refund will not exceed \$852,000. The Transportation Cabinet's maximum liability is \$6,952,000.00.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the 1995 Bonds are subject to the approval of Long Aldridge & Norman, Atlanta, Georgia, Bond Counsel, whose approving legal opinion will be printed on the 1995 Bonds. The proposed form of such opinion is attached hereto as Appendix E. Certain legal matters concerning the Transportation Cabinet will be passed upon by A.

Stephen Reeder, General Counsel of the Transportation Cabinet; certain legal matters concerning the Authority will be passed upon by Charles Wickliffe, Attorney, Office of Legal and Legislative Services; and certain legal matters will be passed upon for the Underwriters by their counsel, Peck, Shaffer & Williams, Covington, Kentucky.

Under Kentucky law, issuance of 1995 Bonds by the Authority requires the approval of the Office of Financial Management and Economic Analysis in the Finance and Administration Cabinet, which approval will be obtained for the 1995 Bonds prior to their issuance.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The mathematical accuracy of (a) the computation of the adequacy of the maturing principal and interest earned on the United States Treasury Obligations held in each Escrow Fund to provide for the payment of the principal of, interest on and call premium, if any, due and to be due on the bonds being refinanced and (b) the computations made supporting the conclusion by Bond Counsel that the 1995 Bonds are not "arbitrage bonds" under Section 148 of the Code, will be verified by Arthur & Company, Lexington, Kentucky, independent public accountants.

RATINGS

Standard & Poor's Corporation ("Standard & Poor's"), Moody's Investors Service ("Moody's"), and Fitch's Investors Service, Inc. ("Fitch") have each assigned their municipal bond ratings of "AAA", "Aaa" and "AAA", respectively, to this issue of 1995 Bonds with the understanding that upon delivery of the 1995 Bonds, a policy insuring the payment when due of the principal of and interest on the 1995 Bonds will be issued by AMBAC Indemnity Corporation. Such ratings reflect only the views of Moody's, and Standard & Poor's and an explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York, 10007, (212) 553-0470, and from Standard & Poor's at 25 Broadway, New York, New York 10004, (212) 208-8000. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The ratings do not constitute a recommendation to buy, sell or hold the 1995 Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal could have an adverse effect on the market price of the 1995 Bonds.

UNDERWRITING

The 1995 Bonds are being purchased for reoffering by the Underwriters, for whom Merrill Lynch & Co. is acting as their representative. The Underwriters have agreed to purchase the 1995 Bonds at an aggregate purchase price of \$242,013,585.40 (representing the \$237,890,000 original principal amount of the 1995 Bonds plus \$5,836,393.40 net original issue premium and less \$1,712,808.00 of Underwriters' discount) plus accrued interest. The Bond Purchase Agreement with respect to the 1995 Bonds provides that the Underwriters will purchase all the 1995 Bonds if any are purchased, and contains certain conditions to the purchase of the 1995 Bonds by the Underwriters. The initial public offering prices are set forth on the inside cover page of this Official Statement.

FINANCIAL STATEMENTS

Included in Appendix A is a summary of information taken from audited balance sheets of the Transportation Cabinet for the years ended June 30, 1990 through June 30, 1994, as well as information

taken from a summary of the unaudited balance sheet of the Transportation Cabinet as of September 30, 1994, and the audited Financial Statements of the Transportation Cabinet as of and for the years ended June 30, 1994 and June 30, 1993. The financial statements of the Transportation Cabinet as of June 30, 1994 and 1993 and for the years then ended, included in this Official Statement, have been audited by Coopers & Lybrand L.L.P., independent auditors, as stated in their reports dated September 28, 1994 and September 29, 1993, respectively, appearing in Appendix A, which is an integral part of this Official Statement.

Attached hereto as Appendix B are the unaudited combined financial statements of the Transportation Cabinet as of and for the three month period ended September 30, 1994.

DISCLOSURE

The Authority will comply with the requirements of the Securities and Exchange Commission regarding secondary market disclosure as set forth in rule 15c2-12, as amended, under the Securities and Exchange Act of 1934.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Act, the Indenture, the Lease, the Agreement, the Bonds and the 1995 Bonds contained in this Official Statement do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their respective provisions. The Appendices attached hereto are a part of this Official Statement. Copies in reasonable quantity of the Act, the Indenture, the Agreement and the Lease may be obtained during the offering period of the 1995 Bonds upon request directed to the Authority, Capitol Annex, Frankfort, Kentucky 40601, or the Underwriters, c/o Merrill Lynch & Co., World Financial Center, North Tower, 9th Floor, New York, New York 10281-1309.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract among the Authority, the Transportation Cabinet and the purchasers or holders of any of the 1995 Bonds.

THE TURNPIKE AUTHORITY OF KENTUCKY

By: /s/ Gordon L. Mullis
Authorized Officer, Turnpike Authority of Kentucky

THE TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY

By: /s/ Don C. Kelly
Secretary, Transportation Cabinet

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APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Indenture, the Lease and the Agreement relating to the Bonds, not summarized elsewhere in this Official Statement. Such statements do not purport to be complete and reference is made to the Indenture, the Lease and the Agreement for the full text thereof.

CERTAIN DEFINITIONS

Certain capitalized terms used in this Official Statement will have the following meanings. Capitalized terms used and not otherwise defined in this Official Statement will have the meanings given them in the Indenture, the Lease and the Agreement.

"Accreted Value" means, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond at its original issuance plus the interest accrued on the Capital Appreciation Bond from the date of its original issuance to the Interest Payment Date preceding the date of computation or the date of computation if an Interest Payment Date, compounded on each Interest Payment Date at the interest rate per annum set forth in the Series Resolution authorizing the issuance of such Capital Appreciation Bond, plus, if such date of computation is not an Interest Payment Date, a portion of the difference between the Accreted Value as of the immediately preceding Interest Payment Date (or the date of original issuance if the date of computation is prior to the first Interest Payment Date) and the Accreted Value as of the immediately succeeding Interest Payment Date, calculated based upon an assumption that Accreted Value accrues during any period in equal daily amounts on the basis of a year of 360 days consisting of 12 months of 30 days each.

"Act" means Chapter 175 of the Kentucky Revised Statutes, as amended from time to time.

"Adjusted Revenue" has the meaning given it under the caption "Security and Source of Payment for the Bonds -- Restrictions on Future Financings" in this Official Statement.

"Agreement" means the Economic Development Road Revenue Revitalization Project Agreement dated as of October 1, 1990, made and entered into by the Authority and the Transportation Cabinet, as supplemented.

"Amortization Requirement" for any Fiscal Year means the amount required for such Fiscal Year for the payment of the principal of specified Outstanding Term Bonds, plus the premium, if any, on such principal amount of Outstanding Term Bonds, which would be payable during such Fiscal Year for the redemption or payment at maturity of such principal amount of Outstanding Term Bonds.

"Appreciated Value" will have the meaning given it in the Indenture.

"Authority" means The Turnpike Authority of Kentucky, a de jure municipal corporation and political subdivision of the Commonwealth, and any successor or successors to the Authority.

"Biennial Term" means the two-year fiscal period of the Commonwealth, commencing on the first day of July in an even-numbered calendar year and ending on the last day of June of the next ensuing even-numbered calendar year.

"Bond Fund" means the Kentucky Economic Development Road Bond Fund (Revitalization Projects) established by the Indenture, including the four accounts therein, namely, "Capitalized Interest Account," "Bond Service Account," "Redemption Account" and "Rebate Account", described under the caption "Security and Source of Payment for the Bonds -- Flow of Funds" in this Official Statement.

"Bonds" means all economic development road revenue bonds and all economic development road revenue refunding bonds at any time issued under the Indenture, including the 1995 Bonds.

"Capital Appreciation Bonds" means those Bonds as to which interest is compounded on each of the applicable dates designated for compounding and payable in an amount equal to the then current Accreted Value only at the maturity, earlier redemption or other payment date therefor, all as so designated by the Series Resolution providing for the issuance of such Bonds.

"Capital Appreciation and Income Bonds" will have the meaning given it in the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the Treasury Regulations promulgated thereunder.

"Commission" means the Investment Commission of the Commonwealth or, if the Investment Commission shall be abolished, the department, board, body or commission succeeding to the principal functions thereto or to whom the powers given by Kentucky Revised Statutes Section 42.500, as amended from time to time, to the Investment Commission shall be transferred by law.

"Construction Fund" means the Kentucky Economic Development Road Construction Fund (Revitalization Projects), established by the Indenture.

"Cost" or "Costs," as applied to the System or any Revitalization Project, includes without limitation, the costs of construction of Revitalization Projects and all obligations and expenses and all items of cost set forth in the Indenture.

"Costs of Issuance" means items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale and issuance of Bonds, as further described in the Indenture.

"Current Interest Bonds" means any Bonds the interest on which is paid currently on Interest Payment Dates.

"Debt Service Reserve Fund" means the special fund created and so designated by the Series 1995 Resolution.

"Debt Service Reserve Requirement" means (i) an amount equal to the lesser of (a) the maximum principal and interest requirements of the 1995 Bonds which are due in any fiscal year, (b) ten percent (10%) of the proceeds of the 1995 Bonds, or (c) 125% of the average annual debt service on the 1995 Bonds.

"Defeased Municipal Obligations" means obligations of state or local governments or obligations of public authorities or agencies which are rated in the highest rating category by S&P or Moody's and provisions for payment of which have been made by deposit of monies or Government Obligations with a trustee or escrow agent for the benefit of holders of such Defeased Municipal Obligations.

"Depository" means one or more banks or trust companies, which may include the Trustee, designated by the Authority as a depository of monies under the provisions of the Indenture and which, for the Construction Fund, includes the Treasury of the Commonwealth.

"Economic Development Road Account" means the account of that name in the Road Fund of the Commonwealth established pursuant to Section 175.810 of the Kentucky Revised Statutes, or any successor account thereto.

"First Supplemental Agreement" means the agreement amending the Agreement to provide for, inter alia, the transfer of certain economic development road projects to the coverage of the Lease.

"First Supplemental Lease" means the lease amending the Lease to provide for, inter alia, the transfer of certain economic development road projects to the Lease and the modification of rental payments under the Lease.

"Fiscal Year" means the period commencing on the first day of July of any calendar year and ending on the last day of June of the following calendar year.

"Government Obligations" means (a) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America; (b) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations described in clause (a) above or in any specific interest or principal payments due in respect thereof; provided, however, that the custodian of such obligations or specific interest or principal portions must be a Qualified Financial Institution; and (c) Defeased Municipal Obligations.

"Interest Payment Date" means, with respect to the 1995 Bonds, January 1 and July 1 of each year, commencing July 1, 1995.

"Lease" means the Economic Development Road Revenue Revitalization Project Lease dated as of October 1, 1990 between the Authority and the Transportation Cabinet, as supplemented.

"Maximum Annual Debt Service" has the meaning given it under the caption "Security and Source of Payment for the Bonds -- Restrictions on Future Financings" in this Official Statement.

"Outstanding" when used in reference to the Bonds, means, as of any particular date, the aggregate of all Bonds authenticated and delivered hereunder except:

(a) those cancelled at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation;

(b) those deemed to be paid under the Indenture;

(c) those deemed to be purchased in accordance with any agreement with a Tender Agent or Remarketing Agent; and

(d) those in lieu of or in exchange or substitution for which other Bonds have been authenticated and delivered under the Indenture.

"Permitted Investments" means (a) obligations, and contracts for future delivery of obligations, backed by the full faith and credit of the United States or a United States government agency, or any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (a); (b) obligations of any corporation of the United States Government; (c) collateralized or uncollateralized certificates of deposit, issued by banks rated in one of the three highest categories by a nationally-recognized rating agency or other interest-bearing accounts in depository institutions chartered by the Commonwealth or by the United States, except for shares in mutual savings banks; (d) bankers acceptances for banks rated in one of the three highest categories by a nationally-recognized rating agency; (e) commercial paper rated in the highest category by a nationally-recognized rating agency; (f) securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally-recognized rating agency; (g) repurchase

agreements for obligations described in (a) through (f) above, provided that the entity which agrees to repurchase such obligations from the Authority must be a Qualified Financial Institution or a government bond dealer reporting to, trading with and recognized as a primary dealer by a Federal Reserve Bank, in any case with a capital and surplus aggregating at least \$100,000,000, and provided that the agreement provides for the Authority to be secured by such obligations with a market value at least equal to the repurchase amount; and (h) any other investment permitted by Kentucky Revised Statute 42.500, as amended from time to time.

"Revenue Fund" means the Kentucky Economic Development Road Revenue Fund (Revitalization Projects) established by the Indenture, described under the caption "Security and Source of Payment for the Bonds -- Flow of Funds" in this Official Statement.

"Revenues" means all rental, moneys and any other revenues, and, during such times as the Lease is not in effect, motor fuel taxes and surtaxes derived from motor fuels consumed on the System not directed by law or previous binding contract to be applied to uses other than payment on the Bonds, and any other revenues, all as derived from time to time by the Authority from its ownership or operation of the System which can be legally applied to the payment of the Bonds.

"Second Supplemental Agreement" means the agreement amending the Agreement to provide for, inter alia, the transfer of certain economic development road projects to the coverage of the Lease.

"Second Supplemental Lease" means the lease amending the Lease to provide for, inter alia, the transfer of certain economic development road projects to the Lease and the modification of rental payments under the Lease.

"Serial Bonds" means the Bonds so designated in a Series Resolution.

"Series" means all Bonds authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as herein provided, regardless of variations in maturity, interest rates or other provisions.

"Series Resolution" means the resolution of the Authority authorizing the issuance of a particular series of Bonds, including any resolution supplemental thereto.

"Short Term Rate" means an interest rate on a Bond that varies from period to period during the term of the Bonds, which Bond may or may not be subject to a Put, and which may include an interest rate fixed for a period of time less than the term of the Bond, all as designated in the resolution pursuant to which such Bonds are issued.

"System" means that portion of the Kentucky economic development road system within the meaning of the Act consisting of all the Revitalization Projects funded under the Indenture.

"Term Bonds" means the Bonds so designated in a Series Resolution.

"Third Supplemental Agreement" means the agreement amending the Agreement to provide for, inter alia, the transfer of certain economic development road projects to the coverage of the Lease.

"Third Supplemental Lease" means the lease amending the Lease to provide for, inter alia, the transfer of certain economic development road projects to the Lease and the modification of rental payments under the Lease.

"Transportation Cabinet" means the Transportation Cabinet of the Commonwealth or, if the Transportation Cabinet is abolished, the department, board, body or commission succeeding to the principal functions thereof or to whom the powers given by the Act to the Transportation Cabinet are transferred by law.

"Trustee" means Citizens Fidelity Bank and Trust Company, Louisville, Kentucky (n/k/a PNC Bank, Kentucky, Inc.), as initial trustee under the Indenture, and any successor Trustee appointed pursuant to the Indenture.

THE TRUST INDENTURE

Ownership of Bonds

Any registered owner of any Bond is granted power to transfer absolute title thereto, by assignment thereof before maturity of such Bond, to a bona fide purchaser for value (present or antecedent) without notice of prior defeasances or equities or claims of ownership enforceable against his assignor or any person in the chain of title. Every prior holder or owner of any Bond will be deemed to have waived and renounced all its right therein in favor of every such bona fide purchaser, and every such bona fide purchaser will acquire absolute title thereto and to all rights represented thereby. Registration of transfer of ownership of 1995 Bonds is accomplished as described under the caption "Description of 1995 Bonds -- Transfer and Exchange" in this Official Statement.

Mutilated, Destroyed or Lost Bonds

In case any Bond secured under the Indenture becomes mutilated or is destroyed or lost, the Authority or any designated officer of the Authority will cause to be executed, and the Trustee will authenticate and deliver, a new Bond of the date and tenor in exchange and substitution for and upon the cancellation of such mutilated Bond or in lieu of and in substitution for such Bond destroyed or lost, upon the holder's paying the reasonable expenses and charges of the Authority and the Trustee in connection therewith and, in the case of a Bond destroyed or lost, his filing with the Trustee evidence satisfactory to it and to the Authority that such Bond was destroyed or lost, and of his ownership thereof, and furnishing the Authority and the Trustee indemnity satisfactory to them.

Credits Against Amortization Requirements

At its option, to be exercised by written notice to the Trustee on or before the 60th day preceding any Interest Payment Date on which an Amortization Requirement is due, the Authority may (i) deliver to the Trustee for cancellation, Bonds of the maturity which is subject to such Amortization Requirement, in any aggregate principal amount desired, or (b) receive credit for any Bonds of the maturity which is subject to such Amortization Requirement which prior to said date have been redeemed (otherwise than through an Amortization Requirement) or purchased and cancelled by the Trustee and not theretofore applied as a credit against the Amortization Requirements for such maturity of Bonds. Each Bond delivered or previously redeemed or purchased as described above will be credited by the Trustee at the principal amount thereof against any Amortization Requirement for such maturity of Bonds as the Authority in its discretion may deem proper, and on the date such Amortization Requirement for such maturity of Bonds is payable, such Amortization Requirement shall be correspondingly reduced.

Construction Fund

All payment of costs of the Revitalization Projects are to be made from the Construction Fund established under the Indenture. When any payment of the cost of Revitalization Projects is made from the Construction Fund, the Authority is required to file with the State Treasurer, with a copy to the

Trustee, a warrant in the form required by the Indenture. The Indenture provides for the creation of a fund to be used by the Authority for the payment of items of cost and expenses in connection with the construction of the Revitalization Projects which cannot conveniently be paid upon requisition. The fund is deemed a part of the Construction Fund and will be reimbursed from other monies in the Construction Fund upon requisition of the Authority. No amounts are to be paid from the Construction Fund during the time the Lease is not in effect.

Upon certification of completion of construction of the Revitalization projects in respect to which the Bonds have been issued and the payment of all costs or the making of provision therefor, any balance in the Construction Fund, including any revolving fund, will be transferred to the Bond Service Account.

Revenue Fund

The Authority covenants that it will cause all rentals paid by the Cabinet to the Authority under the Lease to be deposited in the Revenue Fund.

If and so long as the Lease shall be in effect, the Trustee shall make withdrawals from the Revenue Fund to the extent monies are available therein and, not later than the Interest Payment Date, shall make deposits to the credit of the accounts described under the caption "Security and Source of Payment for the Bonds--Flow of Funds" in this Official Statement.

Bond Fund

Capitalized Interest Account. On or prior to each Interest Payment Date for Bonds of which any interest has been capitalized, the Trustee will transfer from the Capitalized Interest Account to the Bond Service Account the amounts which, when added to the amount, if any, which has otherwise been deposited from the proceeds of the Series of Bonds, will equal the amount required to pay the interest to become due and payable on such Bonds on such Interest Payment Date.

Bond Service Account. On each Interest Payment Date, the Trustee will apply amounts on deposit in the Bond Service Account to pay principal and interest on the Bonds, including any Amortization Requirement, or to reimburse the obligor under any Credit Facility for amounts paid under the Credit Facility to pay such principal and interest.

Redemption Account. Monies held for the credit of the Redemption Account will be applied to the retirement of Bonds as follows:

(a) The Trustee, pursuant to the direction of the Authority, will endeavor to purchase Bonds or portions of Bonds Outstanding, whether or not such Bonds or portions thereof are then subject to redemption, at the most advantageous price obtainable with reasonable diligence, such price not to exceed the principal of such Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holder of such Bonds under the provisions of the Series Resolutions pursuant to which such Bonds were issued, if such Bonds or portions of Bonds were called for redemption on such date. No such purchase will be made by the Trustee within the period of 60 days preceding any Interest Payment Date on which such Bonds are subject to redemption.

(b) The Trustee will call for redemption on each date on which Bonds are subject to redemption from monies in the Redemption Account such amount of Bonds or portions of Bonds then subject to redemption; provided that not less than \$100,000 principal amount of Bonds may be called for redemption at any one time unless the Authority otherwise directs; and provided further that any monies in the Redemption Account 15 days prior to any redemption date which

are not to be used to redeem Bonds on the following redemption date will be transferred to the Bond Service Account to be applied to the payment of principal of and interest on Bonds on the next Interest Payment Date. Any monies in the Redemption Account on the second Interest Payment Date following the deposit of such monies thereto which are not to be used to redeem Bonds on such date will be transferred to the Bond Service Account and applied to pay principal and interest on Bonds payable on such date.

Rebate Account. For all Bonds other than taxable Bonds, the Trustee will make deposits into and payments from the Rebate Account at such times and in such manner as provided in the rebate agreement to be entered into between the Trustee and the Authority applicable to each Series of Bonds.

Depository

Except as otherwise provided in the Indenture, all monies received by the Authority under the provisions of the Indenture and all obligations purchased as an investment of such monies required by the Indenture to be held or maintained by the Trustee may be deposited by the Trustee in one or more Depositories and at the direction of the Authority must be deposited in one or more Depositories in such amounts as the Authority, with the concurrence of the Commission, directs consistent with the Indenture. All monies and investments deposited under the provisions of the Indenture with the Trustee or any other Depository will be held in trust and applied only in accordance with the provisions of the Indenture and will not be subject to lien or attachment by any creditor of the Authority.

Investments

Monies held in the Revenue Fund, Bond Service Account, the Capitalized Interest Account, the Redemption Account and the Rebate Account of the Bond Fund are to be invested and reinvested, in accordance with the direction of the Commission, in Permitted Investments which mature, or which are subject to redemption by the holder thereof at the option of such holder, not later than the respective dates when the money held for the credit of said accounts will be required for the purposes intended.

To the extent permitted by law, monies held for the credit of the Construction Fund, excluding the money set aside as provided in the Indenture, are also to be invested and reinvested, in accordance with the direction of the Commission, in Permitted Investments.

Obligations so purchased as an investment of monies in any such Fund or Account will be deemed at all times to be a part of such Fund or Account, and the interest accruing thereon and any profit realized from such investment will be credited to such Fund or Account, and any loss resulting from such investment will be charged to such Fund or Account. The Trustee is to sell at the best price reasonably obtainable or present for redemption any obligation so purchased whenever it is necessary in order to provide money to meet any payment or transfer from such Fund or Account. Neither the Trustee nor the Authority will be liable or responsible for any loss resulting from any such investment.

Arbitrage Covenant

The Authority has covenanted not to permit the proceeds of the Bonds or any other fund of the Authority to be used in such manner as to constitute any such bond an "arbitrage bond" as that term is defined in Section 148 of the Code.

Other Covenants of the Authority

The Authority covenants in the Indenture that at all times while any Bonds are Outstanding, it will require the Transportation Cabinet to bear, except to the extent that such cost is paid by the Transportation Cabinet to the Authority pursuant to the Lease, all costs of maintenance, repair and operation of the System as public highways provided for the use of the Commonwealth, pursuant to the provisions of the Act and as provided in the Agreement.

The Authority covenants and agrees that it will not take any action or do anything which may result in the termination or cancellation of the Lease or in a failure of renewal of the Lease other than as may be provided therein; and that it will not enter into any supplement to the Lease or the Agreement except as may be provided therein.

The Authority covenants that it will not create or suffer to be created any lien or charge upon the rentals payable under the Lease or, if the Lease is not in effect for any period, upon the motor fuels taxes or surtaxes derived from motor fuel consumed on the System during such period, superior or equal to the lien and charge of and in favor of the Bonds; and that it will cause to be paid or otherwise discharged certain claims against the Revitalization Projects unless such claims are being contested in good faith.

The Authority has covenanted not to expend proceeds of the Bonds on any express highway or superhighway or part of parts thereof originally constructed as a "turnpike project" or a "resource recovery road project," as defined in the Act, unless the authority to do so has been established by amendment of the Act or other legislation or by a final decision (including a decision not to review a lower decision) of the highest court of the Commonwealth.

The Authority has covenanted to keep or cause to be kept records of the total cost and the total length, in miles, of the Revitalization Projects constructed with all or a portion of the proceeds of a Series of Bonds and that, if the Lease is not in effect for any period, to keep or cause to be kept accurate records and accounts of the motor fuel taxes and surtaxes derived from motor fuel consumed on the System and received from the Commonwealth and the application of such motor fuel taxes and surtaxes. Such records will be open at all reasonable times to the inspection of the Trustee and the bondholders and their agents and representatives. The Authority also covenants to cause certain audits to be made of the funds and accounts under the Indenture pledged to the payment of the Bonds.

The Authority has covenanted that it will not sell, lease or otherwise dispose of or encumber the System or any part thereof, except as otherwise provided in the Indenture and the Lease.

Arrearages

In case the time for payments of interest on any Bond is extended, whether or not such extension is with the consent of the Authority, such interest so extended will not be entitled in case of default under the Indenture to the benefit or security of the Indenture except subject to the prior payment in full of the principal of all Outstanding Bonds and interest the time for the payment of which has not been extended.

Events of Default

Each of the following events is an event of default under the Indenture:

(a) if payment of the principal of, redemption premium, if any, on, and Amortization Requirement for, any of the Bonds is not made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) if payment of any installment of interest on any of the Bonds shall not be made when the same becomes due and payable; or

(c) if the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Indenture; or

(d) failure to pay an amount due in respect of a Put of any Bond when such amount has become due and payable; or

(e) certain events required by an obligor of a Credit Facility described in a Series Resolution pursuant to which the Series of Bonds secured by said Credit Facility were issued, including, without limitation, the occurrence of an event of default under any reimbursement agreement pursuant to which the Credit Facility is issued or failure to reinstate the Credit Facility following a drawing thereon to pay such Series of Bonds; or

(f) if final judgment for the payment of money is rendered against the Authority as a result of the ownership, control or operation of the System and any such judgment shall not be discharged within 60 days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment has been granted or entered, in such manner as to stay the execution of a levy under such judgment, order, decree or process or the enforcement thereof; or

(g) if any proceeding is instituted by the Authority pursuant to the federal bankruptcy code or any federal or state statute for the purpose of adjusting the claims of creditors of the Authority or of entities such as the Authority, if claims of the Authority's creditors are under any circumstances payable from the revenues of the System; or

(h) if the Authority defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or the Indenture on the part of the Authority to be performed; provided that no such default will constitute an event of default until written notice thereof has been given to the Authority by the Trustee (which may give such notice in its discretion and shall give notice at the written request of the holders of not less than 10% in principal amount of the Outstanding Bonds) and the Authority shall have had 60 days after receipt of such notice to correct such default or cause the same to be corrected and shall not have corrected such default or caused the same to be corrected within such period; and provided further that if the default is such that it cannot be corrected within such period, it shall not constitute an event of default if action to correct the same is instituted within such period and diligently pursued until default is corrected.

Acceleration

Upon any event of default, except as described in subparagraph (e) above, the Trustee may, and upon the written request of the registered owners of not less than 20% in aggregate principal amount of the Bonds Outstanding must, declare the principal of all of the Bonds Outstanding (if not then due and payable) to be immediately due and payable, anything contained in the Bonds or in the Indenture to the contrary notwithstanding. Upon an event of default described in subparagraph (e) above and the receipt by the Trustee of notice thereof from the obligor under the Credit Facility, the Trustee will make such declaration on the first day on or after its receipt of such notice on which the Trustee may draw on such Credit Facility.

If, at any time after such declaration, but before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Indenture, sufficient moneys have accumulated in the Bond Fund to pay the principal of all matured Bonds and all arrears of interest, if any, upon all Bonds Outstanding (except the principal of any Bonds not then due by their terms and the interest accrued on such Bonds since the last Interest Payment Date) and provision for payment of amounts due the Trustee and the Authority under the Indenture has been made, and every other default known to the Trustee has been remedied to the satisfaction of the Trustee, the Trustee, with the consent of the obligor under any Credit Facility, may, and upon written request of the registered owners of not less than 20% in aggregate principal amount of the Bonds Outstanding and not then due by their terms and with the consent of the obligor under any Credit Facility, or at the direction of the obligor under any Credit Facility, must, rescind and annul such declaration of acceleration and its consequences. If an event of default described in subparagraph (e) above has occurred and the Trustee thereafter receives notice from the obligor under a Credit Facility that the notice which caused such event of default has been withdrawn and that the amounts available to be drawn on that Credit Facility have been reinstated as provided in the Indenture, such event of default will be deemed waived and its consequences rescinded and annulled and the Trustee will give notice thereof as provided in the Indenture. No such waiver, rescission or annulment will, however, extend to or affect any subsequent default or impair any right consequent thereon.

Enforcement of Remedies

Upon an event of default, the Trustee may proceed, and upon the written request of the registered owners of not less than 10% in aggregate principal amount of the Bonds Outstanding or the written request of the obligor under any Credit Facility must proceed, subject to the provisions of the Indenture, to protect and enforce its rights and the rights of the bondholders under the laws of the Commonwealth and under the Indenture by any such action as the Trustee, being advised by counsel, may deem most effectual to protect and enforce such rights.

Majority of Bondholders May Control Proceedings

Anything in the Indenture to the contrary notwithstanding, the registered owners of not less than a majority in principal amount of the Bonds Outstanding have the right, subject and pursuant to the provisions of the Indenture, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee, provided that such direction may not be otherwise than in accordance with law and the provisions of the Indenture.

Restrictions Upon Actions by Individual Bondholders

No holder of any of Bonds has any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust under the Indenture or for any other remedy thereunder unless such bondholder has given the Trustee written notice of the event of default giving rise to such action and the registered owners of not less than 10% in aggregate principal amount of the Bonds Outstanding have also made written request of the Trustee after the right to exercise such powers or rights of action has accrued, and have afforded the Trustee a reasonable opportunity to either proceed or exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its name, and unless also the Trustee has been offered reasonable security and indemnity as provided in the Indenture, and the Trustee has refused or neglected to comply with such request within a reasonable time; such notification, request and offer of indemnity being in every case, at the Trustee's option, conditions precedent to the execution of the powers and trusts of the Indenture or any other remedy thereunder. Notwithstanding the foregoing, however, the owners of not less than 20% in aggregate principal amount of the Bonds Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all owners of Bonds Outstanding.

The Indenture provides that except as described above, no one or more owners of Bonds has any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right thereunder, except as therein provided, all proceedings at law or in equity must be instituted, had and maintained as provided in the Indenture and for the benefit of all owners of Outstanding Bonds, and any individual right of action or other right given to one or more of such owners by law are restricted by the Indenture to the rights and remedies therein provided.

The Trustee

The Trustee has accepted and agreed to execute the trusts imposed upon it by the Indenture, but only upon the terms and conditions set forth in such Indenture. Subject to the provisions of any contract between the Authority and the Trustee relating to the Trustee's fees and expenses and those of the Trustee's counsel, the Authority will pay, from the Revenues, the Trustee's reasonable fees and expenses and those of the Trustee's counsel for all services performed by it under the Indenture. If the Authority fails to make any payments so required by the Indenture, the Trustee may make such payment from any moneys in its possession under the Indenture, and is entitled to a preference therefor, over any of the Bonds Outstanding under the Indenture.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Authority and executed by the holders of not less than 20% of the aggregate principal amount of the Bonds Outstanding; provided that if, prior to the date on which such removal is stated to take effect an instrument or concurrent instruments in writing objecting to the removal of the Trustee are filed with the Authority and executed by the owners of a greater aggregate principal amount of the Bonds Outstanding than those executing the removal instrument, such removal instrument will be ineffective. The Trustee may resign and thereby become discharged from the trusts created pursuant to the Indenture by notice in writing given to the Authority and to all registered owners of Bonds as provided in the Indenture. No such removal or resignation of the Trustee pursuant to the Indenture will become effective, however, until the appointment and acceptance of a successor Trustee.

The Trustee is under no obligation to institute any suit, take any remedial proceeding, enter an appearance in or defend any suit or take steps in the execution of trusts or enforcement of rights and powers until indemnified to its satisfaction as provided in the Indenture, but the Trustee may so act without such indemnity and be reimbursed either by the Authority or from money under the Indenture.

Modification of the Indenture

The Authority and the Trustee may enter into supplemental trust indentures:

(a) to cure any ambiguity or formal defect or omission in the Indenture or in any supplemental trust indenture,

(b) to grant to or confer upon the Trustee for the benefit of the bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the bondholders or the Trustee,

(c) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements to be observed by the Authority that are not contrary to or inconsistent with the Indenture,

(d) to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture,

(e) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture of the Revenues or of any other money, securities or funds,

(f) to modify any of the provisions of the Indenture, in any other respect whatever, provided that such modification is, and is expressed to be, effective only after all Bonds of each Series Outstanding at the date of such supplemental indenture cease to be Outstanding,

(g) to make any changes or modifications of the Indenture or amendments, additions or deletions which may be required to permit the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, or laws analogous thereto applicable to bonds issued by governmental bodies, or

(h) to make any other change which, in the opinion of the Authority and the Trustee, is not detrimental to the interests of the bondholders.

In addition, the Indenture may be modified, altered, amended, added to or rescinded in any particular from time to time with the consent of the holders of not less than two-thirds of the aggregate principal amount of the Bonds Outstanding (and if a Credit Facility is then in effect, the consent of the obligor thereunder is also required), provided that no modification, alteration, amendment, addition or recession may permit (a) an extension of the maturity of the principal of or the interest on any Bond issued under the Indenture, or (b) a reduction in the principal amount of any Bond, the rate of interest or redemption premium thereon, or (c) the creation of a lien upon or pledge of Revenues superior to or on a parity with the lien and pledge created by the Indenture, or a release of the lien and pledge created by the Indenture except as otherwise provided therein, or (d) the creation of a preference or priority of any Bond or Bonds over any other Bond or Bonds, except as may be provided in connection with the issuance of any Series of subordinated Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture.

If the owners of not less than two-thirds in aggregate principal amount of the Bonds Outstanding at the time of execution of any supplemental indenture have consented to and approved the execution thereof as provided in the Indenture, no bondholder will have any right to object to the execution of such supplemental indenture or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

Defeasance

Any Bonds will, prior to the maturity or redemption date therefor, be deemed to have been paid and to be no longer Outstanding under the provisions of the Indenture if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee irrevocable instructions to give notice of redemption on said date of such Bonds in accordance with the Indenture, (b) there has been deposited with the Trustee other money in an amount which will be sufficient, or Government Obligations the principal of and the interest on which, when due, will provide moneys which together with the money, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the principal and the interest and premium, if any, so due and payable on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the succeeding 60 days, the Authority has given the Trustee in form satisfactory to it irrevocable instructions to give, in accordance with the Indenture and as soon as practicable, notice to holders of such Bonds that the deposit described in (b) above has been made

with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which money is to be available for the payment of the principal and the interest and the premium, if any, so due and payable on said Bonds.

THE LEASE

Initial Term; Renewal

The initial term of the Lease was from October 1, 1990, to and including June 30, 1992 and it has been renewed for the biennial term ending June 30, 1996. The Lease is renewable for successive biennial terms at the option of the Transportation Cabinet. The option to renew will be deemed to have been automatically exercised for each succeeding biennial term, effective on the first day thereof, unless the Authority shall receive written notice of the Transportation Cabinet's election not to renew the Lease prior to the close of business on the last working day in April immediately preceding the beginning of such succeeding biennial term. The Lease is renewable for successive biennial terms, one at a time, until all Bonds have been paid or deemed to have been paid in accordance with the Indenture.

Rentals

Rentals are payable at the times of and in such amounts as may be required to satisfy required deposits to the Bond Service Account of the Bond Fund under the Indenture. Upon the renewal of the Lease for any biennial term the Transportation Cabinet will be bound to pay Lease rentals for such biennial term as a general obligation of the Transportation Cabinet to be paid not only from revenues of the System but also from any other available funds of the Transportation Cabinet not required by law or by previous binding contract to be devoted to other purposes. No damage to or destruction of the System or any portion thereof will relieve the Transportation Cabinet from any of its obligations under the Lease.

The Transportation Cabinet has covenanted, in accordance with the Act, to certify to the Secretary of the Revenue Cabinet prior to October 1 of each Fiscal Year the amount required for the Lease rental payment during such Fiscal Year. Upon deposit of the amounts certified, the Transportation Cabinet covenants and agrees that said amounts will be applied only to the payment of rentals and for no other purpose, except as otherwise provided in the Lease.

At all times the Lease shall be in effect, the Transportation Cabinet shall have authority to establish and enforce rules and regulations for the use of the System.

Maintenance and Operation of the Economic Development Road System

From and after the date of issuance of the Bonds and for the entire period until all the Bonds issued under the Indenture are paid or deemed to have been paid, the Transportation Cabinet agrees to maintain and operate the System in an efficient and economical manner, maintain the same in good repair and sound operating condition, and make all necessary repairs, renewals and replacements, all at the expense of the Transportation Cabinet, except to the extent that funds for the payment thereof are included in the rentals paid by the Transportation Cabinet to the Authority pursuant to the Lease. The Transportation Cabinet shall have the right, subject to the approval of the Authority, to make additions, improvements and extensions to the System at the expense of the Transportation Cabinet, and any such additions, improvements and extensions to the System will be deemed a part of the System for all purposes of the Agreement and the Lease.

Amendments

The Authority and the Transportation Cabinet may amend or modify the Lease to cure any ambiguity or formal defect or omission, or to modify the rentals payable thereunder by reason of the issuance of another Series of Bonds. The Lease may be modified, altered, amended, added to or rescinded in any particular from time to time with the consent of the holders of not less than two-thirds of the aggregate principal amount of the Bonds Outstanding.

First, Second and Third Supplemental Lease

The Lease has been amended by the First Supplemental Lease, the Second Supplemental Lease and the Third Supplemental Lease, as permitted by the Lease. The First Supplemental Lease, Second Supplemental Lease and Third Supplemental Lease transfer certain economic development road projects to the Lease and modify the rental payments to provide for payments that are adequate to pay the interest on and principal of the Bonds Outstanding, including the 1995 Bonds.

The Series 1995 Resolution has created a Debt Service Reserve Fund (Series 1995) to secure payments on the 1995 Bonds. If at any time the amount on deposit in the Debt Service Reserve Fund (Series 1995) is less than the Debt Service Reserve Requirement, the Cabinet is obligated to make additional payments under the Lease in an amount equal to such deficiency.

THE AGREEMENT

Construction of the Revitalization Projects

The Transportation Cabinet is to construct the Revitalization Projects on behalf of the Authority. Costs of the Revitalization Projects incurred by the Transportation Cabinet on behalf of the Authority will be paid from the Construction Fund in the manner provided in the Indenture. The Transportation Cabinet is to keep proper records and accounts of all such costs.

Revitalization Projects to be a Public Highway

The Revitalization Projects are to continuously constitute a part of the highway system of the Commonwealth and, upon completion, are always to be open to public traffic.

Cost of Maintenance and Operation of the System

As and from the date of issuance of the Bonds and whether the Lease is renewed or not, the Transportation Cabinet is required to continuously pay all the costs of repairing, maintaining and operating the System until the Bonds are paid or deemed to have been paid in accordance with the Indenture, except to the extent such costs are included in rentals.

Conveyance of the System to the Commonwealth

When all Bonds have been paid or have been deemed paid pursuant to the Indenture, the System will become, without further act, the property of the Commonwealth and will thereafter be maintained by the Transportation Cabinet.

Amendments

The Agreement may not be supplemented, modified or amended without the consent of bondholders then owning two-thirds of the aggregate principal amount of Bonds outstanding, provided that no such consent is required for any supplement, modification or amendment which (a) cures any ambiguity or formal defect or omission in the Agreement and any amendment thereto, or (b) increases the rentals payable under the Lease by reason of the issuance of additional Bonds in order to finance costs of Revitalization Projects.

First, Second and Third Supplemental Agreement

The Agreement has been amended by the First Supplemental Agreement, Second Supplemental Agreement and Third Supplemental Agreement, as permitted by the Agreement. The First Supplemental Agreement, Second Supplemental Agreement and Third Supplemental Agreement provide that certain economic development road projects will be transferred to be under the Lease as described under the heading "The Authority-Transportation Cabinet Projects Financed by the Authority" in this Official Statement. The First Supplemental, Second Supplemental Agreement and Third Supplemental Agreement also affirm all covenants made in the Agreement, including the covenant to complete the Revitalization Projects.

3210.03

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

May 4, 1995

The Turnpike Authority of Kentucky
Frankfort, Kentucky

\$237,890,000
The Turnpike Authority of Kentucky
Economic Road Revenue and Revenue Refunding Bonds
(Revitalization Projects)
Series 1995

Ladies and Gentlemen:

The Turnpike Authority of Kentucky (the "Authority"), a de jure municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), on the date hereof, has issued its the above-captioned bonds (the "Bonds"). The Bonds are issued as fully registered bonds without coupons in denominations of \$5,000 or integral multiples thereof, and will bear interest at the rates or approximate yields set forth in the Series 1995 Resolution adopted by the Authority on April 21, 1995 (the "Series Resolution"). Interest on the Bonds will be payable on each January 1 and July 1, beginning July 1, 1995.

The Bonds are dated and mature or are subject to mandatory or optional redemption prior to maturity as set forth in the Series Resolution adopted pursuant to the Trust Indenture dated as of October 1, 1990, by and between the Authority and Citizens Fidelity Bank and Trust Company, Louisville, Kentucky (n/k/a PNC Bank, Kentucky, Inc.), as trustee (the "Indenture").

The Bonds are issued under the authority of the Constitution and statutes of the Commonwealth of Kentucky, including particularly Chapter 175 of the Kentucky Revised Statutes, as amended. The Authority and the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet") have entered into an Agreement, dated as of October 1, 1990, a First Supplemental Agreement dated as of October 1, 1992, a Second Supplemental Agreement dated as of April 1, 1993, and a Third Supplemental Agreement dated as of April 1, 1995 (collectively the "Agreement"), under which the Cabinet agrees to continuously bear, except to the extent such cost is included in rentals under the Lease (hereinafter defined), the cost of maintaining, repairing and operating the System (as defined in the Indenture), for the entire period of years until all bonds issued under the Indenture have been retired. The Authority and the Cabinet have entered into a Lease, dated as of October 1, 1990, a First Supplemental Lease dated as of October 1, 1992, a Second Supplemental Lease dated as of April 1, 1993, and a Third Supplemental Lease dated as of April 1, 1995 (collectively the "Lease") whereby the Authority, as Lessor, leases the System to the cabinet, as Lessee, for a term extending to and including June 30, 1996, and pursuant to which the Cabinet has the exclusive option to renew the Lease for the next biennial term and for successive biennial terms thereafter until all bonds issued under the Indenture have been retired.

We have examined (i) the Constitution and statutes of the Commonwealth of Kentucky, (ii) certified copies of the proceedings of the Authority authorizing the issuance, sale and delivery of the Bonds, including the Resolution, (iii) duplicate executed originals of the Indenture, the Agreement and the Lease, (iv) certifications as to incumbency, conditions precedent, signature, litigation, reasonable expectations and other matters, upon which we have relied, and (v) such other records, documents and proceedings as we have considered necessary or appropriate for the purposes of this opinion, including a specimen Bond.

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

1. The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Kentucky and constitute valid, special and limited obligations of the Authority.

2. The Series Resolution has been duly adopted by the Authority and the Resolution is in full force and effect.

3. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid obligation of the Authority, and the Indenture creates a valid pledge of the Revenues (as defined in the Indenture) and all funds and accounts held under the Indenture in favor of the trustee for the payment of the Bonds in accordance with the terms hereof.

4. The Lease and the Agreement, including all supplements thereto, have been duly authorized, executed and delivered by the Authority and the Cabinet and constitute valid, binding and legal obligations of the Authority and the Cabinet.

5. The Bonds are special and limited obligations of the Authority payable solely and only from the Revenues and the funds and accounts held under the Indenture, and the Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth, the Authority, the Cabinet or any other agency or political subdivision of the Commonwealth.

6. Interest payable on the Bonds, including original issue discount, is excludable from gross income for Federal income tax purpose under the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Bonds will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. However, under the Code, interest on the Bonds will have to be included in the "adjusted current earnings" of certain corporations and such corporations would be required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for alternative tax net operating losses) for purposes of determining such corporations' liability for the alternative minimum tax. The Authority has covenanted to comply with the applicable provisions of the Code, and such compliance by the Authority is necessary to maintain the federal income tax status described above.

The Turnpike Authority of Kentucky
May 4, 1995
Page 3

7. 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 Indenture, the Lease, the Agreement, 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 creditor's rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,

LONG, ALDRIDGE & NORMAN

APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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Issuer:

Policy Number:

Bonds:

Premium:

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AMBAC will make such payments to the Insurance Trustee within one (1) business day following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholders' rights of payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds 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 Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and therefore 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 to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of AMBAC, nor against any risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the counter-signature of its duly authorized representative.

[Signature]
 President



[Signature]
 Secretary

Effective Date:

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Representative

[Signature]
 Authorized Officer

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