

OFFICIAL STATEMENT

NEW ISSUE—BOOK-ENTRY-ONLY

RATINGS: Moody's: Aa2
S&P: AA-
Fitch: A+

In the opinion of Bond Counsel for the 2016 Series Bonds (as hereinafter defined), based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by The Turnpike Authority of Kentucky, and subject to the conditions and limitations set forth herein under the caption "TAX MATTERS," interest on the 2016 Series Bonds is excludible from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the 2016 Series Bonds is exempt from Kentucky income tax and the 2016 Series Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX MATTERS" herein for a more complete discussion and EXHIBIT E – "FORM OF BOND COUNSEL FOR THE 2016 SERIES BONDS

\$222,670,000

THE TURNPIKE AUTHORITY OF KENTUCKY Economic Development Road Revenue Refunding Bonds (Revitalization Projects) 2016 Series A

Dated: Date of delivery

Due: July 1, as shown on inside cover.

The Economic Development Road Revenue Refunding Bonds (Revitalization Projects), 2016 Series A (the "2016 Series Bonds") are being issued by The Turnpike Authority of Kentucky (the "Authority") pursuant to a Trust Indenture dated as of October 1, 1990, as supplemented by a First Supplemental Trust Indenture dated as of November 15, 2000 (collectively, the "Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A. as successor to J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as Trustee and Paying Agent (the "Trustee"). The 2016 Series Bonds are being issued pursuant to a resolution adopted by the Authority on February 5, 2016 (the "Series 2016 Resolution") to (i) advance refund certain maturities of the outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2008 Series A and outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2009 Series A, each as hereinafter described, and (ii) pay certain costs of issuance of the 2016 Series Bonds.

The 2016 Series 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 2016 Series Bonds will be payable on each January 1 and July 1, beginning July 1, 2016. Purchases will be made in book-entry-only form, except as permitted by the Indenture. Purchasers of the 2016 Series Bonds will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the 2016 Series Bonds, as nominee of DTC, interest together with the principal of the 2016 Series Bonds will be paid directly to DTC by the Trustee. See "DESCRIPTION OF 2016 SERIES BONDS — Book-Entry-Only System."

The 2016 Series Bonds will mature on the dates and in the amounts set forth on the inside cover page hereof. The 2016 Series Bonds are subject to redemption, as further described herein. See "DESCRIPTION OF 2016 SERIES BONDS – Redemption Provisions."

THE 2016 SERIES BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, A DE JURE MUNICIPAL CORPORATION AND POLITICAL SUBDIVISION OF THE COMMONWEALTH OF KENTUCKY. THE 2016 SERIES 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 2016 SERIES 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, OR INTEREST ON THE 2016 SERIES BONDS. THE AUTHORITY HAS NO TAXING POWER.

The 2016 Series 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 Peck, Shaffer & Williams, a division of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Rubin & Hays, Louisville, Kentucky. It is expected that the 2016 Series Bonds will be available for delivery through DTC in New York, New York on or about April 7, 2016.

MORGAN STANLEY

Goldman, Sachs & Co.

Raymond James

PNC Capital Markets LLC

Fifth Third Securities

FTN Financial Capital Markets

J.J.B. Hilliard, W.L. Lyons, LLC

First Kentucky Securities Corp.

Ross, Sinclaire & Associates, LLC

Dated: March 22, 2016

\$222,670,000

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

2016 Series A

Serial Bonds

| <u>Maturity</u> <u>(July 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP*</u> |
|--|---|--|---------------------|----------------------|----------------------|
| 2016 | \$ 3,300,000 | 4.000% | 0.380% | 100.842 | 491552 G58 |
| 2019 | 1,945,000 | 3.000% | 1.200% | 105.690 | 491552 K20 |
| 2019 | 8,185,000 | 4.000% | 1.200% | 108.852 | 491552 G66 |
| 2020 | 1,700,000 | 2.000% | 1.440% | 102.290 | 491552 G74 |
| 2020 | 16,515,000 | 5.000% | 1.440% | 114.567 | 491552 H99 |
| 2021 | 920,000 | 2.125% | 1.640% | 102.421 | 491552 G82 |
| 2021 | 18,150,000 | 5.000% | 1.640% | 116.782 | 491552 J22 |
| 2022 | 1,075,000 | 2.250% | 1.810% | 102.581 | 491552 G90 |
| 2022 | 18,920,000 | 5.000% | 1.810% | 118.720 | 491552 J30 |
| 2023 | 4,730,000 | 3.000% | 2.000% | 106.701 | 491552 H24 |
| 2023 | 16,240,000 | 5.000% | 2.000% | 120.107 | 491552 J48 |
| 2024 | 275,000 | 2.200% | 2.180% | 100.148 | 491552 H32 |
| 2024 | 21,650,000 | 5.000% | 2.180% | 121.145 | 491552 J55 |
| 2025 | 765,000 | 3.000% | 2.330% | 105.535 | 491552 H40 |
| 2025 | 22,245,000 | 5.000% | 2.330% | 122.062 | 491552 J63 |
| 2026 | 525,000 | 2.400% | 2.440% | 99.637 | 491552 H57 |
| 2026 | 23,620,000 | 5.000% | 2.440% | 123.055 | 491552 J71 |
| 2027 | 285,000 | 3.000% | 2.660% | 103.026 ^c | 491552 H65 |
| 2027 | 25,055,000 | 5.000% | 2.550% | 121.941 ^c | 491552 J89 |
| 2028 | 2,600,000 | 4.000% | 2.730% | 111.268 ^c | 491552 H73 |
| 2028 | 23,995,000 | 5.000% | 2.630% | 121.138 ^c | 491552 J97 |
| 2029 | 1,790,000 | 3.000% | 3.000% | 100.000 | 491552 H81 |
| 2029 | 8,185,000 | 5.000% | 2.700% | 120.441 ^c | 491552 K38 |

^cPriced to July 1, 2026 optional redemption date

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This Official Statement does not constitute an offer to sell the 2016 Series Bonds to any person, or the solicitation of an offer from any person to buy the 2016 Series Bonds, in any jurisdiction where such offer or such solicitation of an offer to buy would be unlawful. The information set forth herein is provided by the Commonwealth of Kentucky from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriters. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Commonwealth of Kentucky or the Underwriters. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any 2016 Series Bonds shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. The Official Statement is submitted in connection with the issuance of the 2016 Series Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE 2016 SERIES BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

FOR PURPOSES OF COMPLIANCE WITH RULE 15C2-12 OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, AS AMENDED, AND IN EFFECT ON THE DATE HEREOF, THIS PRELIMINARY OFFICIAL STATEMENT CONSTITUTES AN OFFICIAL STATEMENT OF THE AUTHORITY THAT HAS BEEN DEEMED FINAL BY THE BOND BANK AS OF ITS DATE EXCEPT FOR THE OMISSION OF NO MORE THAN THE INFORMATION PERMITTED BY RULE 15C2-12.

CIRCULAR 230

THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT IS NOT INTENDED TO BE USED, AND CANNOT BE USED, BY A PURCHASER OF THE 2016 SERIES BONDS FOR THE PURPOSE OF AVOIDING FEDERAL TAX PENALTIES. EACH PURCHASER OF THE 2016 SERIES BONDS IS URGED TO CONTACT AN INDEPENDENT TAX ADVISOR CONCERNING AN INVESTMENT IN THE 2016 SERIES BONDS.

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

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OFFICIAL STATEMENT

\$222,670,000

THE TURNPIKE AUTHORITY OF KENTUCKY
Economic Development Road Revenue Refunding Bonds
(Revitalization Projects)
2016 Series A

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 \$222,670,000 aggregate principal amount of Economic Development Road Revenue Refunding Bonds (Revitalization Projects), 2016 Series A (the “2016 Series Bonds”).

The 2016 Series Bonds are being issued pursuant to Chapter 175 of the Kentucky Revised Statutes, as amended (the “Act”) and a Trust Indenture dated as of October 1, 1990, as supplemented by a First Supplemental Trust Indenture dated as of November 15, 2000 (collectively, the “Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee (the “Trustee”). The 2016 Series Bonds are being issued pursuant to a resolution of the Authority adopted on February 5, 2016 (the “Series 2016 Resolution”).

The 2016 Series Bonds are being issued to (i) advance refund certain maturities of the outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2008 Series A, (ii) advance refund certain maturities of the outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2009 Series A, as hereinafter collectively described (the “Prior Bonds”), and (iii) pay certain costs of issuance of the 2016 Series Bonds.

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; a Third Supplemental Agreement, dated as of April 1, 1995; a Fourth Supplemental Agreement, dated as of April 1, 1999; a Fifth Supplemental Agreement, dated as of February 1, 2001; a Sixth Supplemental Agreement dated as of March 1, 2001; a Seventh Supplemental Agreement dated as of May 1, 2004; an Eighth Supplemental Agreement dated as of April 1, 2005; a Ninth Supplemental Agreement dated as of March 1, 2006; a Tenth Supplemental Agreement dated as of September 1, 2007; an Eleventh Supplemental Agreement dated as of June 1, 2010; a Twelfth Supplemental Agreement dated as of April 1, 2011; a Thirteenth Supplemental Agreement, dated as of March 1, 2012; a Fourteenth Supplemental Agreement, dated as of September 1, 2013; a Fifteenth Supplemental Agreement dated as of June 1, 2014; a Sixteenth Supplemental Agreement, dated as of July 1, 2015; and a Seventeenth Supplemental Agreement, dated as of April 1, 2016 (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; a Third Supplemental Lease, dated as of April 1, 1995; a Financing/Fourth Supplemental Lease Agreement dated as of October 1, 1999, which has been amended by a First Amendment to Financing/Fourth Supplemental Lease Agreement, dated as of November 15, 2000; a Fifth Supplemental Lease, dated as of February 1, 2001; a Sixth Supplemental Lease, dated as of March 1, 2001; a Financing/Seventh Supplemental Lease Agreement dated as of May 1, 2004; an Eighth Supplemental Lease dated as of April 1, 2005; a Ninth Supplemental Lease Agreement dated as of March 1, 2006; a Financing/Tenth Supplemental Lease Agreement dated as of September 1, 2007, which has been amended by a First Amendment to Financing/Tenth Supplemental Lease Agreement, dated as of August 1, 2008 and by a Second Amendment to Financing/Tenth Supplemental Lease Agreement, dated as of April 1, 2009; an Eleventh Supplemental Lease, dated as of June 1, 2010; a Twelfth Supplemental Lease, dated as of April 1, 2011; a Thirteenth Supplemental Lease, dated as of March 1, 2012; a Fourteenth Supplemental Lease, dated as of September 1, 2013; a Fifteenth Supplemental Lease, dated as of June 1, 2014; a Sixteenth Supplemental Lease, dated as of July 1, 2015 and a Seventeenth Supplemental Lease, dated as of April 1, 2016 (collectively, the “Lease”) for a biennial period ending June 30, 2016, 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 to become due during the biennial period. See “SECURITY AND SOURCE OF PAYMENT FOR THE 2016 SERIES BONDS — Lease Payments” and APPENDIX B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE.” Although the Lease has been renewed for the biennial period ending June 30, 2016, 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, as provided in the Lease, 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, and interest on, the Economic Development Road Revenue Bonds (Revitalization Projects), including the 2016 Series Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE 2016 SERIES BONDS — Payments if Lease is Not in Effect.”

Additional Bonds may be issued on parity with the 2016 Series Bonds and other Bonds issued on parity with the 2016 Series Bonds upon compliance with restrictions contained in the Indenture and the Lease. See “SECURITY AND SOURCE OF PAYMENT FOR THE 2016 SERIES BONDS — Restrictions on Future Financings.”

Descriptions of the 2016 Series Bonds, the security therefor, the Indenture, the Lease and the Agreement are included in this Official Statement. Such descriptions 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 B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — CERTAIN DEFINITIONS.”

PLAN OF FINANCE

The proceeds of the 2016 Series Bonds will be used by the Authority to (i) advance refund the Prior Bonds (identified in APPENDIX C), and (ii) pay costs of issuing the 2016 Series Bonds. See “SOURCES AND USES OF FUNDS” and “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

In order to refund the Prior Bonds, the proceeds of the 2016 Series Bonds will be used to purchase Governmental Obligations (as defined in the Indenture) (the “Escrow Securities”). The Authority will cause the Escrow Securities to be deposited in an escrow fund created under an Escrow Trust Agreement, dated as of the date of issuance of the 2016 Series Bonds (the “Escrow Trust Agreement”), by and among the Authority, the Transportation Cabinet and The Bank of New York Mellon Trust Company, N.A., as escrow trustee (the “Escrow Trustee”), identified as the “Escrow Fund – Economic Development Bonds” (the “Escrow Fund”). The principal of and interest on the Escrow Securities, when due, will be sufficient to redeem the remaining maturities of the Prior Bonds.

By depositing the Escrow Securities in the Escrow Fund, the Authority will cause the Prior Bonds to be deemed no longer outstanding under the terms of the Indenture and the Prior Bonds will therefore be payable only from amounts on deposit in the Escrow Fund. (The Trustee will give notice of the dates on which the Prior Bonds are to be redeemed shortly after the date of issuance of the 2016 Series Bonds.) Amounts on deposit in the Escrow Fund will not serve as security or be available for the payment of principal of or interest on the 2016 Series Bonds. For additional information, see “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2016 Series Bonds.

| | |
|-------------------------------|-------------------------|
| Sources: | |
| Par Amount | \$222,670,000.00 |
| Net Original Issuance Premium | <u>41,043,860.80</u> |
| TOTAL SOURCES | \$263,713,860.80 |

| | |
|--|-------------------------|
| Uses: | |
| Deposit to Escrow Fund | \$262,350,744.19 |
| Costs of Issuance (including Underwriters' Discount) | <u>1,363,116.61</u> |
| TOTAL USES | <u>\$263,713,860.80</u> |

DESCRIPTION OF 2016 SERIES BONDS

General

The 2016 Series Bonds will be dated their date of delivery, will be fully registered, without coupons, and will be issued in the denominations of \$5,000 or any integral multiple thereof. The 2016 Series Bonds 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, 2016, and will mature on the dates and in the amounts set forth on the inside cover of this Official Statement. The 2016 Series 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 2016 Series Bonds will be made in book-entry-only form (without certificates). So long as DTC or its nominee is the registered owner of the 2016 Series Bonds, payment of the principal of and interest on the 2016 Series 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 2016 Series Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See "Book-Entry-Only System" under this caption and "APPENDIX D – BOOK-ENTRY-ONLY SYSTEM."

If the book-entry-only system through DTC is discontinued, principal of the 2016 Series 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 2016 Series 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 2016 Series Bonds, interest on such 2016 Series Bonds will be paid to such registered owner by wire transfer to the account within the United States specified by such registered owner.

Redemption Provisions

Optional Redemption. The 2016 Series Bonds maturing on or after July 1, 2027 are subject to optional redemption prior to maturity in whole or in part, in the amount of \$5,000 or integral multiples thereof on any date on or after July 1, 2026, at the redemption price of 100 % of the principal amount redeemed, plus accrued interest to the redemption date.

Selection of 2016 Series Bonds to be Redeemed. If less than all of 2016 Series Bonds within a series are called for redemption, the particular 2016 Series Bonds or portions thereof to be redeemed will be selected by the Trustee in such manner as the Authority in its discretion may deem proper; provided that the portion of any registered 2016 Series Bond to be redeemed must be in the principal amount of \$5,000 or an integral multiple thereof, and that, in selecting 2016 Series Bonds for redemption, the Trustee will treat each 2016 Series Bond as representing that number of 2016 Series Bonds which is obtained by dividing the principal amount of such Bond by \$5,000.

Notice of Redemption. Any such redemption, either in whole or in part, will be made upon at least 30 days prior notice as provided in the Trust Indenture, and will be made in the manner and under the terms and conditions provided in the Trust Indenture and the Series 2016 Resolution. On the date designated for redemption, notice having been given and moneys for payment of the redemption price being held by the Trustee, all as provided in the Trust Indenture, the 2016 Series Bonds or portions thereof so called for redemption will become and be due and payable at the redemption price provided for in the Trust Indenture and the Series 2016 Resolution for redemption of such 2016 Series Bonds or such portions thereof on such date, and interest on such 2016 Series Bonds or such portions thereof so called for redemption will cease to accrue, such 2016 Series Bonds or such portions thereof so called for redemption will cease to be entitled to any benefit or security under the Trust Indenture, and the

registered owners thereof will have no rights in respect of such 2016 Series Bonds or such portions thereof so called for redemption except to receive payment of the redemption price thereof so held by the Trustee.

Transfer and Exchange

The 2016 Series 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 2016 Series 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 2016 Series Bonds being transferred, of the same maturity and bearing interest at the same rate.

The 2016 Series 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 2016 Series 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 2016 Series Bonds surrendered for exchange.

Book-Entry-Only System

The 2016 Series Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of 2016 Series Bonds and, except as otherwise provided herein with respect to tenders of beneficial ownership interests by Beneficial Owners, as defined in APPENDIX D, will not be or be considered to be, and will not have any rights as, owners or holders of the 2016 Series Bonds under the Indenture and the Series 2016 Resolution. For additional information about DTC and the book-entry-only system see "APPENDIX D – BOOK-ENTRY-ONLY SYSTEM." DTC will act as securities depository for the 2016 Series Bonds. The 2016 Series Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 2016 Series Bond certificate will be issued for each maturity of each series of the 2016 Series Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

SECURITY AND SOURCE OF PAYMENT FOR THE 2016 SERIES 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 interest on the 2016 Series 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 interest on the 2016 Series 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 2016 Series Bonds. The Authority does not expect the collections of such motor fuel taxes will be sufficient to pay debt service on the 2016 Series Bonds during any period that the Lease is not renewed. Further, the General Assembly of Kentucky is free to alter or repeal any or all of such motor fuel taxes. The Transportation Cabinet has also entered into leases with the State Property and Buildings Commission (the "SPBC") requiring payments from the Commonwealth's Road Fund, having terms that are similar to the Lease, but without any pledge of revenues derived from the System.

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 2016 Series Bonds. The rental payments under the Lease may be increased at the discretion of the Transportation Cabinet for certain administrative and other expenses of the Authority with respect to the 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 B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE.”

The current term of the Lease ends June 30, 2016. 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. The Transportation Cabinet is under no obligation to renew the Lease for successive biennial periods. 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 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 Transportation Cabinet 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 2014 Budget Act includes amounts sufficient to meet the rental payments under the Lease, and therefore to meet the debt service requirements of the 2016 Series Bonds, through June 30, 2016 authorized in House Bill 236 of the 2014 Regular Session of the General Assembly. The Governor has submitted a proposed budget for the biennial period ending June 30, 2018 to the General Assembly and is designated as House Bill 304 of the 2016 Regular Session of the General Assembly and includes amounts sufficient to meet the rental payments under the Lease, and therefore to meet the debt service requirements of the 2016 Series Bonds, through June 30, 2018. The General Assembly is presently considering House Bill 304.

The Transportation Cabinet is under no obligation to renew the Lease for future biennial periods after the biennial period ending June 30, 2016. 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 2016 Series Bonds. The Economic Development Road Revenue Bonds (Revitalization Projects), including the 2016 Series 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. 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 Transportation 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 2016 Series Bonds.

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 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 2016 Series 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 2016 Series 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 with 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 with 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 will be applied solely to pay principal of (including the Amortization Requirement, if any) and interest on the Bonds; amounts on deposit in the Redemption Account will be used to optionally redeem or purchase Bonds; and amounts on deposit in the Rebate Fund will be used to pay any required rebate to the United States Government with respect to the 2016 Series Bonds, all as further described in the Indenture. See APPENDIX B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE TRUST INDENTURE.”

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” (as defined below) are at least 2.0 times “Maximum Annual Debt Service” (as defined below). Similar covenants are contained in agreements and leases relating to the Authority’s Resource Recovery Road Revenue Bonds, Toll Road Revenue Bonds and other Economic Development Road Bonds as well as bonds issued by SPBC supported by Road Fund Revenues, as described in this Official Statement. See “THE AUTHORITY — Outstanding Obligations of the Authority and the Transportation Cabinet.”

“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 parity with the 2016 Series Bonds and other Bonds previously issued on parity with the 2016 Series 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. The Chairman of the Authority intends to deliver a certificate satisfying the requirements of this paragraph, indicating that the aggregate principal and interest of (i) the 2016 Series Bonds and (ii) all other Bonds Outstanding (other than the Prior Bonds) equaling \$2,040,398,187 is less than the aggregate principal and interest of the Bonds Outstanding equaling \$2,064,589,109 immediately prior to the issuance of the 2016 Series Bonds and the refunding of the Prior Bonds. The calculations in the preceding sentence are based on payments owing from the Transportation Cabinet to the Authority and SPBC under leases.

Based upon amounts credited to the Road Fund for the twelve-month period ended February 29, 2016 and assuming issuance of the 2016 Series Bonds at the interest rates and with the maturities set forth on the inside cover page of this Official Statement (and the refunding of the Prior Bonds), the ratio of Adjusted Revenues to Maximum Annual Debt Service is estimated to be 7.16. Between December 2010 and March 2015, the prevailing rates for motor fuel taxes exceeded the statutory floor. Upon passage of HB 299, enacted by the 2015 Regular Session of the General Assembly, the prevailing rates for the motor fuel taxes will be at the statutory floor from April 1, 2015 through June 30, 2016. See “THE TRANSPORTATION CABINET – Revenue Sources of the Transportation Cabinet” and “THE TRANSPORTATION CABINET – Recent Changes to Road Fund Receipts – Kentucky

Gasoline Motor Fuel Tax Rate History”. The ratio is based on an estimated Maximum Annual Debt Service of \$166,644,511.03, which includes payments by the Transportation Cabinet to the Authority and SPBC under leases.

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 Finance and Administration Cabinet, the Secretary of the Transportation Cabinet, the State Highway Engineer and the Secretary of the Cabinet for Economic Development. The current members of the Authority are as follows:

| | |
|--|------------------------|
| Governor | Matthew G. Bevin |
| Lieutenant Governor | Jenean M. Hampton |
| Attorney General | Andrew G. Beshear |
| Secretary, Finance and Administration Cabinet | William M. Landrum III |
| Acting Secretary, Transportation Cabinet | Greg Thomas |
| State Highway Engineer | Vacant |
| Acting Secretary, Cabinet for Economic Development | Erik Dunnigan |

The Executive Director of the Authority is Edgar C. Ross, the Treasurer of the Authority is Jason Hamilton and the Secretary of the Authority is Ryan Barrow.

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 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.

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, and Revitalization Projects were financed through the issuance of bonds in 1990, 1992, 1993, 1995, 2000, 2001, 2004, 2005, 2006, 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015.

Outstanding Obligations of the Authority and the Transportation Cabinet

The outstanding bond obligations of the Authority and the SPBC that constitute obligations of the Transportation Cabinet as of March 1, 2016 are as follows:

| <u>Name of Revenue Bond Issue</u> | <u>Date Issued</u> | <u>Final Maturity</u> | <u>Original Principal Amount Issued</u> | <u>Par Amount Outstanding</u> |
|---|--------------------|-----------------------|---|-------------------------------|
| <u>Bonds Issued by the Authority</u> | | | | |
| Economic Development Road Revenue Bonds (Revitalization Projects) | | | | |
| Series 2006A | 3/29/2006 | 7/1/2016 | \$ 74,605,000 | \$ 3,855,000 |
| Series 2006B | 6/21/2006 | 7/1/2016 | 146,630,000 | 6,625,000 |
| Series 2008A* | 8/14/2008 | 7/1/2028 | 195,665,000 | 169,130,000 |
| Series 2009A* | 4/28/2009 | 7/1/2029 | 153,305,000 | 124,050,000 |
| Series 2010A | 6/25/2010 | 7/1/2020 | 153,260,000 | 109,915,000 |
| Series 2010B | 6/25/2010 | 7/1/2030 | 187,640,000 | 187,640,000 |
| Series 2011A | 4/19/2011 | 7/1/2031 | 115,175,000 | 115,175,000 |
| Series 2012A | 3/13/2012 | 7/1/2032 | 218,200,000 | 218,200,000 |
| Series 2013A | 10/2/2013 | 7/1/2033 | 187,625,000 | 181,240,000 |
| Series 2014A | 6/25/2014 | 7/1/2025 | 121,325,000 | 121,325,000 |
| Series 2015A | 7/22/2015 | 7/1/2035 | 68,880,000 | 68,880,000 |
| Series 2015B | 7/22/2015 | 7/1/2026 | <u>122,005,000</u> | <u>122,005,000</u> |
| Total Outstanding Bonds of the Authority | | | <u>\$1,744,315,000</u> | <u>\$1,428,040,000</u> |
| <u>Bonds Issued by the SPBC</u> | | | | |
| Road Fund Revenue and Revenue Refunding Bonds | | | | |
| Project No. 94 | 2/25/2009 | 5/1/2021 | 33,750,000 | 16,265,000 |
| Project No. 73 (Taxable Fourth Series) | 11/15/2011 | 11/1/2021 | 43,700,000 | 36,530,000 |
| Project No. 107 (Series A) | 5/21/2014 | 5/1/2030 | 6,085,000 | 6,085,000 |
| Project No. 107 (Series B – Taxable) | 5/21/2014 | 5/1/2022 | 4,400,000 | 3,835,000 |
| Project No. 111 | 12/3/2015 | 11/1/2035 | <u>4,960,000</u> | <u>4,960,000</u> |
| Total Outstanding Bonds of the SPBC | | | <u>\$ 92,895,000</u> | <u>\$ 67,675,000</u> |
| TOTAL TRANSPORTATION CABINET BOND OBLIGATIONS | | | <u>\$1,837,210,000</u> | <u>\$1,495,715,000</u> |

Source: Turnpike Authority of Kentucky and Transportation Cabinet

*Certain callable maturities of the 2008 Series A & 2009 Series A Bonds are expected to be refunded by proceeds of the 2016 Series Bonds.

Outstanding Debt Service Requirements

The following table sets forth the outstanding debt service requirements of the Authority and the SPBC that constitute obligations of the Transportation Cabinet as of the end of each June 30:

Annual Transportation Cabinet Debt Service Requirements

| Fiscal Year | Outstanding Debt Service | | 2016 Series Bonds | | | Total |
|--------------|----------------------------|------------------------|-------------------------|------------------------|-------------------------|---------------------------|
| | Authority ^{1,2,3} | SPBC | Principal | Interest | Total | |
| 2016 | \$113,875,627.05 | \$ 5,115,940.79 | \$ 3,300,000.00 | \$ 2,490,597.08 | \$ 5,790,597.08 | \$124,782,164.92 |
| 2017 | 144,013,754.10 | 12,088,769.43 | | 10,541,987.50 | 10,541,987.50 | 166,644,511.03 |
| 2018 | 143,976,422.86 | 12,080,202.65 | | 10,541,987.50 | 10,541,987.50 | 166,598,613.01 |
| 2019 | 132,907,235.36 | 12,083,063.53 | 10,130,000.00 | 10,541,987.50 | 20,671,987.50 | 165,662,286.39 |
| 2020 | 113,166,846.60 | 8,941,938.43 | 18,215,000.00 | 10,156,237.50 | 28,371,237.50 | 150,480,022.53 |
| 2021 | 113,197,577.86 | 8,941,195.95 | 19,070,000.00 | 9,296,487.50 | 28,366,487.50 | 150,505,261.31 |
| 2022 | 102,389,663.06 | 7,943,199.83 | 19,995,000.00 | 8,369,437.50 | 28,364,437.50 | 138,697,300.39 |
| 2023 | 101,988,154.76 | 1,179,843.76 | 20,970,000.00 | 7,399,250.00 | 28,369,250.00 | 131,537,248.52 |
| 2024 | 101,698,198.46 | 1,180,243.76 | 21,925,000.00 | 6,445,350.00 | 28,370,350.00 | 131,248,792.22 |
| 2025 | 101,290,163.56 | 1,179,343.76 | 23,010,000.00 | 5,356,800.00 | 28,366,800.00 | 130,836,307.32 |
| 2026 | 85,641,588.76 | 1,178,943.76 | 24,145,000.00 | 4,221,600.00 | 28,366,600.00 | 115,187,132.52 |
| 2027 | 69,613,175.76 | 1,178,793.76 | 25,340,000.00 | 3,028,000.00 | 28,368,000.00 | 99,159,969.52 |
| 2028 | 69,254,063.60 | 1,174,018.76 | 26,595,000.00 | 1,766,700.00 | 28,361,700.00 | 98,789,782.36 |
| 2029 | 68,862,955.10 | 1,178,253.13 | 9,975,000.00 | 462,950.00 | 10,437,950.00 | 80,479,158.23 |
| 2030 | 68,448,852.40 | 1,180,112.51 | | | | 69,628,964.91 |
| 2031 | 46,514,962.50 | 344,687.51 | | | | 46,859,650.01 |
| 2032 | 39,917,318.76 | 340,162.51 | | | | 40,257,481.27 |
| 2033 | 20,790,231.26 | 340,018.76 | | | | 21,130,250.02 |
| 2034 | 5,445,800.00 | 344,256.26 | | | | 5,790,056.26 |
| 2035 | 5,444,400.00 | 342,853.13 | | | | 5,787,253.13 |
| 2036 | 0 | 335,981.25 | | | | 335,981.25 |
| Total | \$1,648,436,991.81 | \$78,671,823.23 | \$222,670,000.00 | \$90,619,372.08 | \$313,289,372.08 | \$2,040,398,187.12 |

- Notes:
1. July principal and interest payments are paid and included in the prior fiscal year.
 2. Outstanding debt service does not take into account receipt of direct payments from the United States Treasury under the Build America Bond program for the 2010 Series B Bonds.
 3. Does not include debt service refunded by the 2016 Series Bonds.

FUTURE FINANCINGS

The 2010 Extraordinary Session of the General Assembly adopted House Bill 3 (The Kentucky Transportation Cabinet Budget), which included authorization for \$400 million of Economic Development Road Revenue Bonds to support projects in the Biennial Highway Construction Plan, of which \$200 million was permanently funded by the Economic Development Road Revenue Bonds (Revitalization Projects), 2013 Series A Bonds and \$75 million permanently funded by the 2015 Series A Bonds. The remaining \$125 million is anticipated to be sold in the second half of calendar year 2016.

House Bill 2 of the 2012 Extraordinary Session of the General Assembly authorized \$12.5 million for the replacement of the Driver Licensing System expected to be issued through SPBC during calendar year 2016.

The Kentucky General Assembly may authorize additional debt financing to support various capital initiatives of the Commonwealth in future budgets. Bonds may also be issued to refund outstanding appropriation-supported bonds.

THE TRANSPORTATION CABINET

General

The Department of Highways was established as an agency of the Commonwealth by the 1912 General Assembly. Pursuant to Executive Orders 72-288 and 73-543, confirmed by the Kentucky General Assembly by legislation enacted in 1974, the Department of Transportation (the "Department"), predecessor to the Transportation Cabinet, was created as the successor to, and represented a reorganization and consolidation of, the Departments of

Highways, Motor Transportation and Aeronautics. The Department also succeeded to certain specific functions and responsibilities of the Department of Public Safety and the Department of Revenue as such functions and responsibilities related to transportation. Pursuant to legislation enacted in 1982, the Transportation Cabinet was created as a successor to and succeeded to all duties of the Department.

The Transportation Cabinet is responsible for the construction, reconstruction and maintenance of the Commonwealth's primary road system, which carries an estimated 85% of the Commonwealth's motor vehicle traffic. This represents nearly 40.1 billion vehicle miles of travel. The system consists of some 27,620 miles of parkways, interstate highways, the economic development road system, primary roads, secondary roads, rural secondary roads and supplemental roads, and includes over 9,000 bridges. Additionally, the Transportation Cabinet provides direction for licensed airports and heliports throughout the Commonwealth.

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

Organization and Management

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

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

Operations and Maintenance

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

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

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

Capital Planning For Highways

General. The Commonwealth's road planning process is structured to ensure the development of a continuous and credible highway improvement program that complements the Commonwealth's overall

transportation system. The process and its products have evolved considerably over the past decade as the Transportation Cabinet has lengthened its planning horizon and the General Assembly has assumed a more participatory role.

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

The Six-Year Plan consists of a biennial construction program and a four-year preconstruction planning document. It is through this plan that legislative involvement in the project development process has been assured. In recent years, the Six-Year Plan has formed the foundation for development by the Transportation Cabinet of a more forward-looking transportation planning tool, which is formally known as the "Statewide Transportation Plan." This plan, required first by the 1991 Federal Authorization Act, Intermodal Surface Transportation Efficiency Act (ISTEA) and continued in the Transportation Equity Act for the 21st Century (TEA-21) in 1998, the Safe, Accountable, Flexible, Efficient Transportation Equity Act, A Legacy for Users (SAFETEA-LU) in 2005, the Moving Ahead for Progress in the 21st Century (MAP-21) in 2012 and the Fixing America's Surface Transportation Act (FAST Act) in 2016, integrates all modes of transportation and expands the horizon of project needs identification beyond the six-year period prescribed by Kentucky statutes and allows a more far-sighted approach to transportation planning.

Highway Plan Development. Beginning with an unconstrained list of potential projects, the planning process, utilizing input from local citizens and officials, Area Development District Public Involvement Committees, Metropolitan Planning Organization Committees, and Transportation Cabinet staff, sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years and approved by the Kentucky Legislature every two years, represent the highest priority projects and constitute the Six-Year Plan. The remaining projects are prioritized and selected every four years for the Statewide Transportation Plan and for possible inclusion in later Six-Year Plans. The most current Six-Year Plan consists of approximately 1,440 roadway projects that are eligible for state and federal funding. Each project has been evaluated, based on its relative contribution toward the satisfaction of four goal-oriented criteria. These goals focus on: (1) preservation and management of the existing transportation system, (2) providing system connectivity of the individual modes to promote economic development, (3) coordination and cooperation among a wide variety of interests in the transportation planning process, and (4) enhancement of transportation system safety and convenience for the benefit of its many users.

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

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

Implementation of the Six-Year Plan. Kentucky's Six-Year 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. The annual federal-aid highway fund appropriation is governed by a multi-year federal authorization act. MAP-21 was enacted on July 6, 2012 and extended the Federal surface transportation programs for highways, highway safety, and transit through September 30, 2015.

On December 4, 2015 President Barack Obama signed into law the FAST Act. The FAST Act provides long-term funding certainty for surface transportation projects, giving States and local governments federal funding to move forward with transportation projects, like new highways and transit lines. The FAST Act provides \$305 billion of transportation funding through September 30, 2020, extends fuel taxes and other highway user taxes through September 30, 2022 and provides additional funding for the Highway Trust Fund to address shortfalls in the Highway Trust Fund. The FAST Act will provide every state a 5.1% increase in formula funds in Federal Fiscal Year 2016. This funding increase is followed by annual increases ranging from 2.1% in Federal Fiscal Year 2017 to 2.4% in Federal Fiscal Year 2020, increases that are anticipated to approximately offset the effect of projected inflation during such years. The FAST Act allocates \$3.52 billion to Kentucky for transportation projects over five years, ranging from \$674 million in FY 2016 to \$736 million in FY 2020 with an average of approximately \$704 million annually or over the five year period, which is approximately a \$310 million total increase above prior funding levels for Kentucky.

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.). In general, all federal dollars must be spent within the appropriate funding category; however, states have some flexibility to transfer funds between program categories.

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

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

Revenue Sources of the Transportation Cabinet

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

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

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

Following is a brief description of the various sources of revenue deposited in the Road Fund. The table under "THE TRANSPORTATION CABINET - Historical Available Road Fund Revenues, Expenses and Lease

Rentals” herein provides an accounting of the portion of these revenue sources over each of the past five Fiscal Years that were available to pay debt service. These amounts are shown exclusive of any taxes, fees and miscellaneous revenues that are dedicated for other uses.

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

During the past five Fiscal Years the motor vehicle usage taxes have made up approximately 38% of the total monies deposited to the Road Fund and available to pay lease rentals. See “THE TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Lease Rentals” herein.

Motor Fuel Taxes. Motor fuel taxes are levied on gasoline, liquefied petroleum gas and special fuels (predominantly diesel fuel) sold for use in motor vehicles operated on public highways and set by statute. The law provides for a variable tax rate equal to 9% of the average wholesale price (awp) of gasoline, which shall be rounded to the third decimal. The awp is calculated by the Department of Revenue for each calendar quarter using the awp from the first month of the previous quarter. The law further limits the awp increase to 10% from one fiscal year to the next, effectively capping the annual growth. In addition to the variable tax, the law provides for a supplemental highway-user motor fuel tax that is a fixed rate of 5 cents per gallon for gasoline and 2 cents per gallon for special fuels. See “THE TRANSPORTATION CABINET - Recent Changes to Road Fund Receipts” herein.

In addition to the above, firms operating commercial trucks in Kentucky are assessed a surtax of 2% of the awp on gasoline and 4.7% of the awp on special fuels on the amount of fuel used in operation on the public highways of the Commonwealth. By statute, this rate cannot be less than 3.6 cents per gallon on gasoline and 8.4 cents per gallon on special fuels. The current surtax rate effective July 1, 2015 was 4.35 cents for gasoline and 10.23 cents for special fuels which shall remain in effect through June 30, 2016.

These taxes made up approximately 40% of deposits in Fiscal Years 2011 and 2012, 41% of deposits in Fiscal Year 2013, 42% of deposits in Fiscal Year 2014, and 41% of deposits in Fiscal Year 2015 that were available for lease rentals. See “THE TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Lease Rentals” herein.

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

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

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

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

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

Recent Changes to Road Fund Receipts

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

Motor Vehicle Usage Tax. The usage tax statutes generally provide for a usage tax of 6% levied on every motor vehicle used in Kentucky, subject to exemptions for certain kinds of transfers. The motor vehicle usage tax is collected when a motor vehicle is offered for registration for the first time in Kentucky or upon a transfer of ownership.

The 2013 General Assembly enacted legislation to make permanent a trade-in allowance for new vehicles in the Commonwealth for buyers who trade a used vehicle towards the purchase of a new vehicle. The purchaser pays the Motor Vehicle Usage Tax based on the value of the new vehicle in excess of the value of the trade-in vehicle. The trade-in allowance was effective July 1, 2014, and it has reduced Road Fund receipts available to pay lease rentals by \$35,480,000 in Fiscal Year 2015 and is estimated to reduce receipts available to pay lease rentals by an equivalent amount in Fiscal Year 2016.

The 2015 General Assembly enacted legislation, with the passage of H.B. 378, that exempted from taxation purchases made from Kentucky auto dealers by military service members assigned to duty in Kentucky. It is estimated that it will reduce Road Fund receipts available to pay lease rentals by \$500,000 annually beginning in Fiscal Year 2016.

Motor Fuel Taxes. The motor fuel tax statutes provide for a variable tax rate equal to 9% of the average wholesale price (awp) of gasoline, which was, until July 1, 2005, subject to a statutory floor of \$1.11 per gallon for both gasoline and special fuels (primarily diesel). The awp was calculated by the Department of Revenue for each calendar quarter using the awp from the first month of the previous quarter. Until March 31, 2015, the law limited the annual fiscal year increase of the awp to 10%, but did not place an annual limit on the decrease (other than the statutory floor).

Since 2004 there have been several changes to the awp, both from legislative actions and through the automatic adjustment provisions. A complete history of those changes is displayed in the table titled KENTUCKY GASOLINE MOTOR FUEL TAX RATE HISTORY that follows this section.

The 2015 General Assembly enacted legislation, with the passage of H.B. 299, which established a new statutory awp floor of \$2.177 per gallon effective April 1, 2015. This legislation increased the motor fuel tax from 21.1 cents per gallon to 24.6 cents per gallon, and fundamentally changed the manner in which motor fuel tax rates are calculated. While motor fuel taxes have a fixed and variable rate component; prior to H.B. 299, the variable component of the tax was calculated and imposed on a quarterly basis. The new legislation calculates the awp on an annual basis and limits the decline to either 90% of the awp in effect at the close of the previous fiscal year or the statutory floor, whichever is higher. Some specific provisions of this legislation are: (1) For Fiscal Year 2016, the awp is the new wholesale floor price; (2) On or before June 1, 2016, and on or before each June 1 thereafter, an "annual survey value" will be calculated for the current fiscal year. This annual value will be determined by averaging the awp quarterly survey values for a fiscal year, as determined through continued regular surveys conducted by the Kentucky Department of Revenue; (3) Effective July 1, 2016, and each July 1 thereafter, the awp used to calculate the tax rate will be the annual survey value described above; and (4) Changes in the annual survey value from one fiscal year to the next are subject to +/-10% change in the awp in effect at the close of the previous fiscal year. However, the effective awp can at no point and time be lower than the new \$2.177 per gallon statutory awp floor.

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

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

| Begin | Effective End | Gasoline Tax Rate KRS 138.220(1) | Motor Fuel User Tax KRS 138.220(2) | Total Motor Fuel Tax | Comments |
|-----------|------------------|---|--|-------------------------|---|
| 7/1/1986 | 6/30/2004 | \$1.11 X 9% = 10 Cents | 5 Cents | 15 Cents | \$1.11 was the awp floor from 1986-2004 |
| 7/1/2004 | 6/30/2005 | \$1.22 X 9% = 11 Cents | 5 Cents | 16 Cents | Effective 7/1/2005 awp floor made permanent by HB267 2005 General Assembly |
| 7/1/2005 | 6/30/2006 | \$1.34 X 9% = 12.1 Cents | 5 Cents | 17.1 Cents | Effective 7/1/2006 awp floor made permanent by HB280 2006 General Assembly |
| 7/1/2006 | 6/30/2007 | \$1.47 X 9% = 13.3 Cents | 5 Cents | 18.3 Cents | |
| 7/1/2007 | 6/30/2008 | \$1.62 X 9% = 14.6 Cents | 5 Cents | 19.6 Cents | |
| 7/1/2008 | 9/30/2009 | \$1.79 X 9% = 16.1 Cents | 5 Cents | 21.1 Cents | Effective April 1, 2009 the awp floor made permanent by HB374 2009 General Assembly |
| 10/1/2009 | 12/31/2009 | \$1.86 X 9% = 16.8 Cents | 5 Cents | 21.8 Cents | |
| 1/1/2010 | 6/30/2010 | \$1.97 X 9% = 17.7 Cents | 5 Cents | 22.7 Cents | |
| 7/1/2010 | 9/30/2010 | \$2.17 X 9% = 19.5 Cents | 5 Cents | 24.5 Cents | |
| 10/1/2010 | 12/31/2010 | \$2.13 X 9% = 19.2 Cents | 5 Cents | 24.2 Cents | |
| 1/1/2011 | 6/30/2011 | \$2.162 X 9% = 19.5 Cents | 5 Cents | 24.5 Cents | |
| 7/1/2011 | 6/30/2012 | \$2.378 X 9% = 21.4 Cents | 5 Cents | 26.4 Cents | |
| 7/1/2012 | 6/30/2013 | \$2.616 X 9% = 23.5 Cents | 5 Cents | 28.5 Cents | |
| 7/1/2013 | 12/31/2013 | \$2.878 X 9% = 25.9 Cents | 5 Cents | 30.9 Cents | |
| 1/1/2014 | 3/31/2014 | \$2.708 X 9% = 24.4 Cents | 5 Cents | 29.4 Cents | |
| 4/1/2014 | 6/30/2014 | \$2.634 X 9% = 23.7 Cents | 5 Cents | 28.7 Cents | |
| 7/1/2014 | 9/30/2014 | \$2.897 X 9% = 26.1 Cents | 5 Cents | 31.1 Cents | |
| 10/1/2014 | 12/31/2014 | \$2.837 X 9% = 25.5 Cents | 5 Cents | 30.5 Cents | |
| 1/1/2015 | 3/31/2015 | \$2.354 X 9% = 21.2 Cents | 5 Cents | 26.2 Cents | |
| 4/1/2015 | 6/30/2015 | STATUTORY FLOOR \$2.177 X 9% = 19.6 Cents | 5 Cents | 24.6 Cents | Effective April 1, 2015 the awp floor made permanent by HB299 2015 General Assembly |
| 7/1/2015 | 6/30/2016 | \$2.177 X 9% = 19.6 Cents | 5 Cents | 24.6 Cents | Per provisions of HB299 enacted by 2015 General Assembly |

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

Road Fund Revenue Estimate Fiscal Year 2016

The Fiscal Year 2016 Road Fund revenue estimate of \$1,558.4 million was officially published by the Consensus Forecast Group (“CFG”) in December 2013. This Road Fund revenue estimate was the basis for expenditures found in H.B. 236, the Transportation Cabinet’s budget bill enacted in April 2014 by the 2014 Regular Session of the General Assembly. Declining motor fuel prices have caused a decline in the motor fuels tax component of the Road Fund receipts for Fiscal Year 2016. The decline has been somewhat mitigated due to passage of H.B. 299 in the 2015 Regular Session of the General Assembly. See “THE TRANSPORTATION CABINET – Recent Changes to Road Fund Receipts – Motor Fuel Taxes” herein. In December 2015, the CFG officially revised the Road Fund revenue estimate for Fiscal Year 2016 to \$1,445.9 million which will result in an anticipated Road Fund shortfall of \$112.5 million for Fiscal Year 2016. The CFG also adopted its Road Fund revenue estimates for the upcoming biennium which are \$1,456.9 million for Fiscal Year 2017 and \$1,478.2 million for Fiscal Year 2018.

Road Fund receipts increased 6.9% in February with collections of \$120.6 million. Year-to-date Road Fund receipts through February 2016 were \$972.8 million compared to \$1.026 billion for the same period in Fiscal Year 2015 and are down 5.2% compared to the same period in Fiscal Year 2015. Based on year-to-date collections, revenues can fall 5.6% for the remainder of Fiscal Year 2016 to meet the official revenue estimate. According to the Office of the State Budget Director’s second quarter economic and revenue report for Fiscal Year 2016, the first two quarters of Fiscal Year 2016 have seen Road Fund revenues decline 5.4% largely due to a drop in motor fuels revenues. Reduction in Road Fund receipts in the second half of Fiscal Year 2016 is estimated to be comparable to first half with a decline of 5.1% while reduction in the first quarter of Fiscal Year 2017 is forecasted to be 1.7%. Motor fuels tax collections are forecasted to decline 7% over the final six months of Fiscal Year 2016, an improvement from the first two quarters. For further information, tax receipts are available and released monthly on Kentucky’s Office of the State Budget Director’s website.

Claims on Certain Transportation Cabinet Revenues

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

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

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

Historical Available Road Fund Revenues, Expenses and Lease Rentals

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

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**Transportation Cabinet's
Historical Available Road Fund Revenues,
Expenses and Lease Rentals⁽¹⁾**
(AMOUNTS IN THOUSANDS)
FOR THE FISCAL YEAR ENDED JUNE 30

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|---------------------|---------------------|---------------------|---------------------|--------------------|
| TOTAL AVAILABLE ROAD FUND REVENUES: | | | | | |
| TAXES: | | | | | |
| Motor Fuels ⁽²⁾ | \$ 408,849 | \$ 438,035 | \$ 461,659 | \$ 485,972 | \$467,503 |
| Vehicle Usage ⁽³⁾ | 381,540 | 417,188 | 427,086 | 443,110 | 432,920 |
| Weight Distance | 75,610 | 76,584 | 75,689 | 78,244 | 80,494 |
| TRUCK LICENSES AND FEES | 64,957 | 72,349 | 69,159 | 67,159 | 76,228 |
| PASSENGER VEHICLE LICENSES AND FEES | 44,299 | 44,950 | 45,436 | 45,742 | 46,940 |
| OTHER RECEIPTS ⁽⁴⁾ | 19,548 | 21,543 | 18,403 | 18,176 | 18,447 |
| VEHICLE OPERATORS LICENSES | 15,710 | 15,683 | 15,883 | 15,941 | 15,756 |
| INTEREST INCOME | <u>1,995</u> | <u>3,081</u> | <u>-399</u> | <u>3,998</u> | <u>2,914</u> |
| TOTAL AVAILABLE ROAD FUND REVENUES: | \$ 1,012,508 | \$ 1,089,413 | \$ 1,112,916 | \$ 1,158,342 | \$1,141,202 |
| OPERATING & MAINTENANCE EXPENSES: | | | | | |
| Personnel Cost | \$ 188,976 | \$ 186,596 | \$ 196,979 | \$ 202,258 | \$ 219,460 |
| Personal Service | 9,704 | 9,769 | 11,704 | 12,131 | 11,251 |
| Operating Expense | 167,998 | 177,817 | 163,350 | 171,199 | 199,130 |
| Grants | 2 | 759 | 76 | 161 | 4 |
| Capital Outlay | 4,851 | 4,096 | 4,375 | 539 | 598 |
| Capital Construction | 1,259 | 2,211 | 1,831 | 1,017 | 1,034 |
| Highway Materials | 67,070 | 54,162 | 45,200 | 54,327 | 81,508 |
| Other Agency Cost ⁽⁵⁾ | <u>83,674</u> | <u>86,233</u> | <u>93,746</u> | <u>96,169</u> | <u>100,301</u> |
| TOTAL OPERATING & MAINTENANCE: | \$ 523,534 | \$ 521,643 | \$ 517,261 | \$ 537,801 | \$ 613,286 |
| NET AVAILABLE ROAD FUND REVENUES: | \$488,974 | \$567,770 | \$595,655 | \$ 620,541 | \$ 527,916 |
| LEASE RENTALS: ⁽⁶⁾⁽⁷⁾ | | | | | |
| The Turnpike Authority | | | | | |
| Economic Development Road Projects | 97,069 | 99,772 | 135,379 | 142,416 | 149,596 |
| SPBC | <u>10,919</u> | <u>10,837</u> | <u>9,985</u> | <u>10,939</u> | <u>11,370</u> |
| TOTAL LEASE RENTALS: | \$107,988 | \$110,609 | \$145,364 | \$ 153,355 | \$ 160,966 |
| GROSS COVERAGE ⁽⁷⁾ | 9.38x | 9.85x | 7.66x | 7.55x | 7.09x |
| NET COVERAGE ⁽⁷⁾ | 4.53x | 5.13x | 4.10x | 4.05x | 3.28x |

NOTES:

1. This schedule displays detailed information relating to the Commonwealth of Kentucky's Road Fund that can be used to calculate the coverage of available revenues compared to lease rental payments. For this table display, the Transportation Cabinet has revised and updated the categories into which revenues are subdivided to better reflect the significant sources of revenue available to make lease rental payments. These revisions and updates do not affect the total revenue available, only the way in which the revenue is categorized. Total Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees, and miscellaneous revenues that are dedicated for other uses and not available to make lease rental payments to the Turnpike Authority or the SPBC. Operating and Maintenance Expenses include certain non-construction maintenance, operating, regulatory and administrative expenses related to the public highways. Net Available Road Fund Revenues represent Total Available Revenues less Operating and Maintenance Expenses.
2. The Kentucky motor fuel tax rates are set by statute and are subject to annual adjustments based on changes in the awp of fuel. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet and Recent Changes to Road Fund Receipts" herein.
3. The Kentucky motor vehicle usage tax is imposed on the sale or transfer of new or used motor vehicles at the rate of 6% of the vehicle's value. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet and Recent Changes to Road Fund Receipts" for more details.
4. Other Receipts consists primarily of general fees to the public, which includes the sale of maps, road plans, driver history records, and various other miscellaneous sales to the general public. Motor vehicle titling fees and proceeds from one-time sales of Cabinet assets also significantly contribute to this category.
5. The Kentucky General Assembly routinely appropriates Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of traffic law enforcement, the collection of Road Fund tax revenues, and other administrative support functions related to the Cabinet.
6. Lease Rentals paid by the Transportation Cabinet to the Turnpike Authority of Kentucky include amounts representing the following: principal and interest requirements on Turnpike Authority Bonds and amounts required by the Turnpike Authority for administrative and other expenses; and any amounts to be transferred into the Redemption Account from the Debt Service Reserve Fund. Amounts paid to the SPBC include principal and interest requirements on bonds issued from time to time to finance construction of various projects for the Transportation Cabinet.
7. Gross Coverage equals Total Available Road Fund Revenues divided by Total Lease Rentals. Net Coverage equals Net Available Road Fund Revenues divided by Total Lease Rentals.

Basis of Accounting

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

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

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

Cash Management

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

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

Using the cash flow financing approach, the Transportation Cabinet has used the Road Fund cash balance to expedite the start and completion of highway projects. Before the start of the Program in July 2000, the Road Fund cash balance was approximately \$690,000,000. The Road Fund cash balance as of February 29, 2016 was approximately \$213,800,000.

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

Budget Process of the Transportation Cabinet

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

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

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

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

The construction program requirements consist of the estimated cost of new construction by project within each system of highways, by phase and by quarter. Cost estimates are based upon the estimated contractual and

non-contractual costs of preliminary engineering, acquiring rights-of-way, construction, relocating utilities, design and other factors.

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

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

American Recovery and Reinvestment Act Transportation Appropriations

The American Recovery and Reinvestment Act (ARRA) appropriated \$48 billion to states for transportation related activities. Kentucky's share of the economic stimulus bill was \$421.1 million for highways and bridges and \$50.3 million for transit. A significant portion of the transit funding was allocated directly to mass transit organizations throughout the state with \$21.4 million available to the Transportation Cabinet to disburse. Of the Commonwealth's \$421.1 million in highway funds, \$282.1 million was available for use in any area of the state; \$12.6 million was designated for Transportation Enhancement projects; \$40.6 million is allocated for large urbanized areas with populations greater than 200,000; \$72.6 million is allocated for areas with populations of 200,000 or less, and \$13.2 million is allocated for areas with populations under 5,000. Specific allocations for the large metro areas are: Northern Kentucky (as part of the Cincinnati area), \$8.762 million; Lexington, \$7.845 million; Louisville, \$23.149 million; and Henderson (as part of the Evansville area), \$831 thousand. The Commonwealth was later awarded Tiger Grant funding of \$23.0 million for rail corridor improvements.

The Transportation Cabinet satisfied the March 1, 2010 obligation requirements for ARRA funds and as of January 31, 2016, had expended approximately \$436 million in ARRA and Tiger Grant funds on highway and rail improvement projects. As of the same date, ARRA expenditures related to public transportation were approximately \$21.4 million.

THE COMMONWEALTH

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

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

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

Like most states, Kentucky non-farm employment was particularly hard hit by the 2007 recession. After peaking almost simultaneously with the start of the recession, the trough occurred in the third quarter of Fiscal Year

2010, nine quarters later. Job growth was positive in every quarter of Fiscal Year 2014 and recent quarters have seen record decreases in the unemployment rates across all Kentucky counties. The rates of growth in employment in goods-producing, service-providing, and government super sectors are projected to be solidly positive going into Fiscal Year 2016.

For the second half of Fiscal Year 2015, as forecast, Kentucky posted growth in most every measure of economic activity, such as state consumption or wages and salary income. Kentucky's unemployment rate has fallen from 8.1% in March 2013 to 5.7% in December, 2015. Year-on-year personal income growth has been higher in Kentucky than the U.S. as a whole, a trend that is projected to continue into Fiscal Year 2016. General Fund receipts topped \$1 billion for the first time in April 2015, and revenue is projected to be slightly above the enacted estimates at the end of Fiscal Year 2016.

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

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

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

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

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2015 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2015 with the following Nationally Recognized Municipal Securities Information Repository ("NRMSIR") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"):

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

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2015 may be obtained from EMMA or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2015 and certain other fiscal years may be found on the Internet at:

<http://finance.ky.gov/services/statewideacct/Pages/ReportsandPublications.aspx>

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

The Authority will enter into a Continuing Disclosure Agreement (as hereinafter defined) in order to enable the purchaser of the 2016 Series Bonds to comply with the provisions of Rule 15c2-12. See "CONTINUING DISCLOSURE" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with EMMA as required under Rule 15c2-12.

INVESTMENT POLICY

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees nominated by the Kentucky Bankers Association and the Bluegrass Bankers Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day to day investment management to the Office of Financial Management. OFM engaged PFM Asset Management LLC ("PFM") to conduct an evaluation of existing statutes and regulations, general investment functions, and portfolio performance benchmarks reporting and suggested best practices. PFM has made its recommendations to OFM and the State Investment Commission, and some recommendations have been implemented. The Kentucky State Investment Commission Investment Program Review dated March 22, 2012 prepared by PFM may be found on the Internet at:

<http://finance.ky.gov/services/ofm/Documents/SIC%20Invest%20Prog%20Rev.pdf>

On February 29, 2016, the Commonwealth's operating portfolio was approximately \$3.973 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (35%); securities issued by agencies and instrumentalities of the United States Government (10%); mortgage-backed securities and collateralized mortgage obligations (10%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (1%); and corporate and asset-backed securities, including money market securities (31%). The portfolio had a current yield of 0.76% and an effective duration of 0.75 years.

The Commonwealth's investments are currently categorized into four investment pools; the Short Term, Limited Term, Intermediate Term, and the Bridges Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short Term Pool consists primarily of the General Fund and related accounts. The Limited Term Pool is a money market like pool which focuses on principal protection for certain agency funds. The Intermediate Term Pool represents a combination of Agency Fund investments, state held component unit funds, fiduciary funds held for the benefit of others, and also bond proceeds for capital construction projects, held until spent for their intended purpose. Bond proceeds were previously invested separately until July 2010 when they were added into the Intermediate Term Pool to provide additional economies of scale. The Bridges Pool consists of bond proceeds for the Louisville-Southern Indiana Ohio River Bridges capital construction project.

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

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to \$25 million per issuer and a stated final maturity of five years or less. Money market securities rated A1 P1 or higher are limited to 20% of the investment pools. Asset-Backed Securities ("ABS") are limited to 20% of the investment pools. Mortgage-Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25% of the investment pools. ABS, MBS and CMO must have a weighted average life of four years or less at time of purchase. Changes have been proposed for these regulations which generally would tighten the securities eligible for purchase while allowing a larger position in certain of those security types.

State Retirement Systems

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

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Kentucky Teacher Retirement System ("KTRS"). The Kentucky Retirement Systems is comprised of five retirement plans, Kentucky Employees Retirement System ("KERS") Non-Hazardous, KERS Hazardous, County Employees Retirement System ("CERS") Non-Hazardous, CERS Hazardous, and the State Police Retirement System ("SPRS"). Each retirement plan is state supported, except for the CERS plans, which have been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. Most retirement benefits are subject to a statutory inviolable contract under which the benefits shall not, with limited exceptions, be reduced or impaired by alteration, amendment or repeal. KERS eligible employees hired January 1, 2014 and after are no longer party to the inviolable contract and the General Assembly can amend, suspend or reduce benefits with future legislation. The Pension Plans are component units of the Commonwealth for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2015* Note 8 beginning on page 88. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at <http://kyret.ky.gov> and <http://www.ktrs.ky.gov>, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2015 actuarial valuation reports used in preparing the associated Pension Plans' 2015 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of \$10.8 billion. KTRS, assuming a 7.5% investment return, had a UAAL of \$13.9 billion. Under the GASB 67 Accounting Method and assuming a 4.88% blended investment rate of return, the pension UAAL would be \$24.4 billion. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2015 had funding percentages of 22.6% for the Kentucky Retirement Systems and 55.3% for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2015 pension benefits was \$580.8 million; \$582.2 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2015 was \$913.7 million; \$559.6 million was contributed.

Other Post Employment Benefits ("OPEB"). The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"), which the Commonwealth has adopted.

The Commonwealth is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the Commonwealth pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the Commonwealth commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self-funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Retirees insurance through the state health insurance program, which has since become self-insured. Beginning January 1, 2007, KTRS offered its Medicare Eligible Retirees an insured Medicare Advantage Plan and, beginning July 1, 2010, offered this group an insured Employer Group Waiver Drug Plan. The KTRS Board requires retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage.

The Pension Plans commissioned actuarial studies which provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was completed for the period ending June 30, 2013 for the Kentucky Retirement Systems which was dated April of 2014. KTRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the KTRS board in September 2011.

In addition to the experience studies, annual actuarial reports are performed on both retirement systems. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2015 was estimated to not exceed \$1.7 billion for the Kentucky Retirement Systems and \$2.9 billion for KTRS. These estimates represent the present value of the amount of healthcare benefits under the respective Health Plans, payable over future periods and allocated by the actuarial cost method, as of June 30, 2015. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities decreased from the \$1.7 billion reported in the Kentucky Retirement Systems' 2014 CAFR. The actuarial estimates for KTRS decreased from the \$2.7 billion reported in their 2014 CAFR.

The Kentucky Retirement Systems' state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2015 was \$153.5 million; \$161.2 million was contributed. The KTRS state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2015 was \$107.7 million; \$169.1 million was contributed. The state supported portion of the OPEB for Fiscal Year ended June 30, 2015 had funding percentages of 43.2% for the Kentucky Retirement Systems and 20.3% for KTRS.

Recent Changes to State Retirement Systems. On December 3, 2015 the Kentucky Retirement Systems Board of Trustees was presented with the reports on the annual actuarial valuation of KERS, CERS and the SPRS, as prepared by Cavanaugh Macdonald as of June 30, 2015. The assumptions employed in the report included a reduction in the actuarially assumed investment rate of return from 7.75% to 7.50%. The Kentucky Retirement Systems board also adopted Resolution No. 4-2015, effective July 1, 2015. This resolution further reduced the assumed rate of return on investments for the KERS Non-Hazardous and SPRS plans from 7.5% to 6.75%. The new rate of 6.75% will be utilized for the annual valuation conducted as of June 30, 2016 on the KERS Non-Hazardous and SPRS plans. According to Cavanaugh Macdonald, the 6.75% investment rate of return assumption would have resulted in a combined increase in UAAL for the KERS Non-Hazardous and SPRS plans of approximately \$983 million had the assumption been applied to June 30, 2015 results. However, KRS 61.565(3)(a) requires the Kentucky Retirement Systems board to determine the normal contribution and actuarially accrued liability contribution rates on the basis of the most recent annual actuarial valuation preceding the July 1 of each even numbered year. As a result of KRS 61.565(3)(a), the 7.5% rate was applied to the Board's determination of the normal contribution and actuarially accrued liability contribution rates for Fiscal Years 2017 and 2018. Additionally, KRS 61.565(3)(c) provides in effect that the Kentucky Retirement Systems board has no authority to amend contribution rates as of July 1 of an odd numbered year. The 2016 Kentucky General Assembly convened in a regular legislative session that began in January 2016 and ends in April 2016.

House Bill 62 from the 2015 Regular Session of the General Assembly, which was signed by the Governor on March 20, 2015, provides that certain employers participating in KERS and CERS may elect to voluntarily cease participation in the system. The law further details and establishes requirements for voluntary cessation of participation by the employer including requirements to (i) adopt a resolution ceasing participation, which shall apply to all employees of the employer, and submission of the resolution to the Kentucky Retirement Systems' board; (ii) pay for an actuarial cost study to determine the cost to the employer for discontinuing participation; (iii) offer an alternative retirement plan to impacted employees; and (iv) pay the Kentucky Retirement Systems for the full actuarial cost of discontinuing participation either in a lump-sum payment or in installments under the terms established by the board. Any employees hired after the employer ceases participation will not participate in KERS or CERS, and existing employees participating in the Kentucky Retirement Systems will not earn benefits after the employer has ceased participation, but will be vested for those benefits accrued prior to the employer's cessation date. The same rules apply to any agency required to involuntarily cease participation in KERS or CERS in the event the board has determined the employer is no longer eligible to participate in a governmental plan or has failed to comply with the provisions of KRS 61.510 to 61.705 or 78.510 to 78.852. This legislation does not have a retroactive effect on any pending litigation.

Senate Bill 2 from the 2013 Regular Session of the General Assembly, which was signed into law by the Governor on April 4, 2013. The bill created a new section in KRS Chapter 7A establishing a 13 member Public Pension Oversight Board to oversee the Kentucky Retirement Systems and report to the General Assembly on benefits, administration, investments, funding, laws, administration regulations and legislation pertaining to Kentucky Retirement Systems. The bill also states that new employees hired after January 1, 2014 will be placed in a Hybrid Cash Balance Plan. This plan has a guaranteed rate of return of 4.0% for both hazardous and non-hazardous employees, plus 75% of the investment return in the plan in excess of 4.0% to the employee. Hazardous employees' employer contribution is set at 7.5% of salary and non-hazardous employees have an employer contribution of 4.0%. The bill further provides for a 1.5% COLA only if it is prefunded and appropriated by the General Assembly or if the pension plan is 100% funded. New employees as of January 1, 2014 are no longer party

to the inviolable contract, and the General Assembly has the right to amend, suspend or reduce benefits with future legislation. The bill additionally makes provisions for a Health Savings Account as an insurance option for retirees, requires the General Assembly to start fully funding the ARC beginning in Fiscal Year 2015, and resets to a 30 year amortization beginning in 2015.

Financing and Refinancing of Certain KTRS Obligations. On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Kentucky Revised Statutes by modifying the definition of “funding notes” and authorizing funding notes to be issued by ALCo for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (the “Funding Obligation”). This authorization, together with certain authorizations in the Budget Act, permits ALCo to issue funding notes in an amount not to exceed \$875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, ALCo issued its \$467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. In February 2011, ALCo issued its \$269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012. Pursuant to authorization granted in the State Budget for Fiscal Years 2013-2014, ALCo issued its \$153.290 Funding Notes General Fund First Series (Taxable) in February, 2013 to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2013 and 2014. Under the provisions of House Bill 540, discussed earlier, the elimination of future borrowings is expected once the plan is fully phased in over a period of six years.

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

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

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

In June 2014, KERS appealed the Bankruptcy Court’s ruling. As a result of the issues pending on appeal, KERS did not file a proof of claim. On October 6, 2014, Seven Counties filed a formal reorganization plan with the Bankruptcy Court. On October 10, 2014, KERS filed a direct appeal of the May 30, 2014 ruling with the United States Sixth Circuit Court of Appeals. On December 30, 2014, the Sixth Circuit determined that a direct appeal was not warranted and remanded the matter to the U.S. District Court for the Western District of Kentucky (the “District Court”) for consideration. On January 6, 2015, the Bankruptcy Court confirmed Seven Counties’ plan of reorganization (the “Confirmation Order”). On January 19, 2015, KERS appealed the Confirmation Order. At a hearing on January 20, 2015, the Bankruptcy Court denied a motion by KERS seeking a stay of the Confirmation Order, which would have delayed implementation of the reorganization plan pending the determination of the issues on appeal. After the Bankruptcy Court denial of the stay, KERS filed an emergency motion for a stay with the District Court, which the District Court denied on February 4, 2015. On May 12, 2015, KERS filed a motion with the District Court to certify a question to the Kentucky Supreme Court in connection with whether the relationship between KERS and Seven Counties (i) constituted a “contract” subject to rejection in bankruptcy by Seven Counties or (ii) was a statutory obligation of Seven Counties not constituting a contract. The District Court has not yet ruled on the motion.

Other entities within the Commonwealth, including some entities with pending litigation, are attempting to terminate their participation in KERS. For example, Kentucky Retirement Systems filed an action against Kentucky

River Community Care (“KRCC”) to compel it to comply with its statutory duties and require retirement plan participation. Similarly, Bluegrass Oakwood, Inc., a subsidiary of Bluegrass MHMR, attempted to terminate its participation in KERS through an action before the Kentucky Court of Appeals that was dismissed on February 24, 2015, resulting in Bluegrass Oakwood remaining as a participant in KERS. No assurance can be provided with respect to the impact of such actions, if any, on the future contribution rates.

TAX MATTERS

In the opinion of Bond Counsel for the 2016 Series Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 2016 Series Bonds is excludible from gross income for Federal income tax purposes and interest on the 2016 Series Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the “Code”) for purposes of the Federal individual or corporate alternative minimum taxes. Bond Counsel for the 2016 Series Bonds is also of the opinion that interest on the 2016 Series Bonds is exempt from income taxation by the Commonwealth and the 2016 Series Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the 2016 Series Bonds is set forth in *EXHIBIT E*.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the 2016 Series Bonds. The Turnpike Authority of Kentucky has covenanted to comply with certain restrictions designed to ensure that interest on the 2016 Series Bonds will not be or become includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the 2016 Series Bonds being includable in gross income for Federal income tax purposes and such inclusion could be retroactive to the date of issuance of the 2016 Series Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2016 Series Bonds may adversely affect the Federal tax status of the interest on the 2016 Series Bonds.

Certain requirements and procedures contained or referred to in the Series 2016 Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2016 Series Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2016 Series Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Dinsmore & Shohl LLP.

Although Bond Counsel has rendered an opinion that interest on the 2016 Series Bonds is excludible from gross income for Federal income tax purposes and that interest on the 2016 Series Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2016 Series Bonds may otherwise affect a Bondholder’s Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder’s other items of income or deduction. For example, such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the 2016 Series Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the 2016 Series Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the 2016 Series Bonds. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the 2016 Series Bonds on the tax liabilities of the individual or entity.

The Turnpike Authority of Kentucky has not designated the 2016 Series Bonds as “qualified tax-exempt obligations” under Section 265 of the Code.

Tax Treatment of Original Issue Discount

The 2016 Series Bonds that have an interest rate that is lower than the yield, as shown on the inside cover page hereto, (the “Discount 2016 Series Bonds”) are being offered and sold to the public at an original issue discount (“OID”) from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the “issue price” of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of 2016 Series Bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each Bond sold as a Discount Bond will accrue over the term of the bond, and for the Discount 2016 Series Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the “yield to maturity”). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser’s tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludible from gross income for federal income tax purposes.

Holders of Discount 2016 Series Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount 2016 Series Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

Tax Treatment of Original Issue Premium

“Acquisition Premium” is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for 2016 Series Bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The 2016 Series Bonds that have an interest rate that is greater than the yield, as shown on the inside cover page hereto (the “Premium 2016 Series Bonds”) are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each Bond the interest on which is excludible from gross income for federal income tax purposes (“tax-exempt 2016 Series Bonds”) must be amortized and will reduce the Bondholder’s adjusted basis in that Bond. However, no amount of amortized Acquisition Premium on tax-exempt 2016 Series Bonds may be deducted in determining Bondholder’s taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium 2016 Series Bonds, or on any of the 2016 Series Bonds, that must be amortized during any period will be based on the “constant yield” method, using the original Bondholder’s basis in such 2016 Series Bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any 2016 Series Bonds, including any Premium 2016 Series Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee and the owners of the 2016 Series 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 2016 Series Bonds and such documents will be qualified to the extent that the enforceability of certain legal rights related to the 2016 Series 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 2016 Series Bonds or which would

adversely affect the application of the revenues of the Transportation Cabinet to the payment of the 2016 Series Bonds. 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.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the 2016 Series Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams, a division of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. The proposed form of approving opinion for the 2016 Series Bonds is attached hereto as APPENDIX E. Such approving legal opinion will be delivered as of the date of issuance of the 2016 Series Bonds.

Certain legal matters concerning the Transportation Cabinet will be passed upon by its counsel, Office of Legal Services, Transportation Cabinet; certain legal matters concerning the Authority will be passed upon by its counsel, Office of General Counsel, Finance and Administration Cabinet; and certain legal matters will be passed upon for the Underwriters by their counsel, Rubin & Hays, Louisville, Kentucky.

Under Kentucky law, issuance of 2016 Series Bonds by the Authority requires the approval of the Office of Financial Management in the Finance and Administration Cabinet, which approval will be obtained prior to issuance of the 2016 Series Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The mathematical accuracy of (a) the computation of the adequacy of the maturing principal and interest earned on the Escrow Securities held in the Escrow Fund to provide for the payment of the principal, interest and redemption premium on the Prior Bonds and (b) the computations made supporting the conclusion by Bond Counsel that the 2016 Series Bonds are not “arbitrage bonds” under Section 148 of the Code, will be verified by Samuel Klein & Co., Certified Public Accountants.

RATINGS

Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. (“Standard & Poor’s”), Moody’s Investors Service, Inc. (“Moody’s”), and Fitch Ratings (“Fitch”) have each assigned their municipal bond ratings of “AA-,” “Aa2,” and “A+,” respectively, to the 2016 Series Bonds.

The ratings of each respective rating agency only reflect the views of such rating agency. An explanation of the ratings given by Standard & Poor’s may be obtained from Standard & Poor’s Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; an explanation of the significance of the ratings given by Moody’s may be obtained from Moody’s Investors Service, Inc. at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 553-0300; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that 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 2016 Series Bonds.

UNDERWRITING

The 2016 Series Bonds are to be purchased by Morgan Stanley & Co. LLC as representative (the “Representative”) of the managing underwriters identified on the cover hereof and on behalf of itself (the “Managers”) (the Managers and any other syndicate members collectively, the “Underwriters”). The Underwriters have agreed, subject to certain conditions, to purchase the 2016 Series Bonds at an aggregate purchase price of \$262,709,859.65 (which is equal to the principal amount of the 2016 Series Bonds plus net original issuance premium of \$41,043,860.80 less underwriting discount of \$1,004,001.15). The Underwriters will be obligated to purchase all 2016 Series Bonds if any are purchased. The Underwriters have advised the Authority that they intend to make a public offering of the 2016 Series Bonds at the initial public offering prices set forth on the inside cover

page hereof, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the 2016 Series Bonds.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the 2016 Series Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2016 Series Bonds.

CONTINUING 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 (the “Rule”), as amended, under the Securities Exchange Act of 1934. Specifically, the Authority will enter into a Continuing Disclosure Agreement in which it will covenant to provide notice in a timely manner, not later than ten business days after the event, to each nationally recognized municipal securities information repository (“NRMSIR”) or the Municipal Securities Rulemaking Board (the “MSRB”), and the appropriate state information depository, if any, of any of the following types of events with respect to the 2016 Series Bonds (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security; (vii) modifications to rights of security holders, if material; (viii) bond calls (except in the case of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which 2016 Series Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the Bondholders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the securities, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person); (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into

a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Effective on July 1, 2009, the MSRB became the sole NRMSIR and the Commission's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access (EMMA) system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities, including timely notices of changes in the Authority's underlying ratings affecting its outstanding securities. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled The Kentucky Comprehensive Annual Financial Report and Supplementary Information to the Kentucky Comprehensive Annual Financial Report (or successor reports) with EMMA as required under Rule 15c2-12. The Commonwealth is required to make such filing no later than nine months after the end of each fiscal year. The Commonwealth and the Authority have learned that in some instances prior rating changes on certain securities issued by the Commonwealth and its agencies, including the Authority, resulting from rating downgrades on certain bond insurers, were not the subject of material event notices, due, in part, to the lack of any direct notification to the Commonwealth of the specific rating impact on such particular securities of the Commonwealth and its agencies. The Commonwealth and the Authority have taken necessary actions to assure compliance with Rule 15c2-12 with respect to such events. Additionally, the Commonwealth and the Authority are putting procedures in place to assure that future material event notices will be timely filed with respect to such events.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Act, the Indenture, the Lease, the Agreement and the 2016 Series 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 2016 Series Bonds upon request directed to the Authority, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, or the Underwriters, Morgan Stanley & Co. LLC, 1585 Broadway, 11th Floor, New York, New York 10038.

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 2016 Series Bonds.

THE TURNPIKE AUTHORITY OF KENTUCKY

By: /s/ Jason Hamilton
Treasurer, The Turnpike Authority of Kentucky

THE TRANSPORTATION CABINET OF THE COMMONWEALTH OF KENTUCKY

By: /s/ Greg Thomas
Acting Secretary, Transportation Cabinet

APPENDIX A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

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

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

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

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

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

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

Default Record

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

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

| <u>ENTITY</u> | <u>STATUTORY AUTHORITY/PURPOSE</u> | <u>DEBT LIMITATIONS</u> | <u>RATINGS*</u> |
|---|--|---|---|
| State Property and Buildings Commission | KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Aa3/A/A+ |
| Kentucky Asset/Liability Commission | KRS 56.860 Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year. | Varies |
| Turnpike Authority of Kentucky | KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly | Aa2/AA-/A+ |
| The State Universities (consisting of nine) | KRS 56.495 Construct educational buildings and housing and dining facilities. | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly. | Varies |
| Kentucky Housing Corporation | KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low to moderate income residents of the State. | Limited to \$ 5.0 billion of debt outstanding. | Aaa/AAA/NR |
| Kentucky Infrastructure Authority | KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities. | Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million. | Aa3/A/A+ (Appropriation) Aaa/AAA/AAA (Leverage Loan) |
| Kentucky Higher Education Student Loan Corporation | KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state. | Limited to \$5.0 billion of debt outstanding. | Varies |
| School Facilities Construction Commission | KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities. | Cannot incur debt without appropriation of debt service by General Assembly. | Aa3 |
| Kentucky Economic Development Finance Authority | KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state. | None. | Varies |
| Kentucky Public Transportation Infrastructure Authority | KRS 175B.005-175B.115 Facilitate construction, financing, operation, and oversight of significant transportation projects within the Commonwealth by entering into bi-state agreements and by creating bi-state authorities and project authorities. | Cannot incur debt without prior approval of projects by General Assembly. | Baa3/BBB- |

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

Notes

- The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA+" by Standard & Poor's and are backed by the loans of the borrowers. The Kentucky Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A, Series 2012A and Series 2015A are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.
- On February 18, 2014, Moody's downgraded certain stand-alone GARVEEs, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "Aa3" to "A1" with a negative outlook. On June 16, 2014, Moody's downgraded certain GARVEEs, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "A1" to "A2" and changed the outlook from negative to stable.
- On March 4, 2016, Standard & Poor's downgraded the Turnpike Authority of Kentucky's Road Fund appropriation-supported obligations from "AA" to "AA-" and changed the outlook from negative to stable.
- On September 3, 2015, Standard & Poor's downgraded the Commonwealth's issuer credit rating to "A+" from "AA-" and its rating on the Commonwealth's appropriation debt to "A" from "A+". At the same time, Standard & Poor's has lowered its rating on debt backed by the commonwealth state intercept programs for schools and university to "A" from "A+" and on lease debt issued by various Kentucky county public property corporations backed by the appropriations from Administrative Office of the Courts to "A-" from "A". The outlook for all is stable.

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APPENDIX B

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 2016 Series 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.

“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 2016 Series 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.

“ALCo” means the Kentucky Asset/Liability Commission.

“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 2016 Series 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 2016 Series Bonds.

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

“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.

“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 Standard & Poor’s 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.

“Eighth Supplemental Agreement” means the agreement amending the Agreement to provide for the coverage of the Lease.

“Eighth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental payments under the Lease.

“Eleventh Supplemental Agreement” means the agreement amending the Agreement to provide for the coverage of the Lease.

“Eleventh Supplemental Lease” means the lease amending the Lease to provide for the modification of rental projects under the Lease.

“Fifteenth 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.

“Fifteenth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental projects under the Lease.

“Fifth 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.

“Fifth 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.

“Financing/Fourth Supplemental Lease Agreement” 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.

“Financing/Seventh Supplemental Lease Agreement” means the lease amending the Lease to provide for the modification of rental payments under the Lease.

“First Amendment to Financing/Fourth Supplemental Lease Agreement” means the amendment to the Financing/Fourth Supplemental Lease Agreement modifying the rental payments under the Lease.

“First Amendment to Financing/Tenth Supplemental Lease Agreement” means the amendment to the Financing/Tenth Supplemental Lease Agreement modifying the rental payments under the Lease.

“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.

“Fourteenth 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.

“Fourteenth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental projects under the Lease.

“Fourth 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.

“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 2016 Series Bonds, January 1 and July 1 of each year, commencing July 1, 2016.

“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 2016 Series BONDS — Restrictions on Future Financings” in this Official Statement.

“Ninth 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.

“Ninth 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.

“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 2016 Series 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 Amendment to Financing/Tenth Supplemental Lease Agreement” means the second amendment to the Financing/Tenth Supplemental Lease Agreement modifying the rental payments under the Lease.

“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.

“Seventeenth Supplement Agreement” means the Agreement dated as of April 1, 2016, by and between the Transportation Cabinet and the Authority, amended the Agreement to provide for, inter alia, the transfer of certain economic development road projects to coverage of the Lease.

“Seventeenth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental payments under the Lease.

“Seventh Supplemental Agreement” means the agreement amending the Agreement to provide for the coverage of the Lease.

“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.

“Sixteenth Supplement Agreement” means the Agreement dated as of July 1, 2015, by and between the Transportation Cabinet and the Authority, amended the Agreement to provide for, *inter alia*, the transfer of certain economic development road projects to coverage of the Lease.

“Sixteenth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental payments under the Lease.

“Sixth Supplemental Agreement” means the agreement amending the Agreement to provide for the coverage of the Lease.

“Sixth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental payments under the Lease.

“SPBC” means the State Property and Buildings Commission.

“State Investment 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.

“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.

“Tenth Supplemental Agreement” means the Financing/Tenth Supplemental Lease Agreement, dated as of September 1, 2007, by and among ALCo, the Finance and Administration Cabinet of the Commonwealth and the Authority.

“Tenth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental payments under the Lease.

“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.

“Thirteenth Supplemental Agreement” means the Agreement dated as of March 1, 2012, by and among The Transportation Cabinet and the Authority, amending the Agreement to provide for, *inter alia*, the transfer of certain economic development road projects to the coverage of the Lease.

“Thirteenth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental projects 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 principal functions thereof or to whom the powers given by the Act to the Transportation Cabinet are transferred by law.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association, as trustee under the Indenture, and any successor Trustee appointed pursuant to the Indenture.

“Twelfth Supplemental Agreement” means the Agreement dated as of April 1, 2011, by and among The Transportation Cabinet and the Authority, amending the Agreement to provide for, inter alia, the transfer of certain economic development road projects to the coverage of the Lease.

“Twelfth Supplemental Lease” means the lease amending the Lease to provide for the modification of rental projects under the Lease.

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 2016 Series Bonds is accomplished as described under the caption “DESCRIPTION OF 2016 SERIES 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 (ii) 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 Transportation 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 2016 SERIES 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.

Depositary

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 Depositaries and at the direction of the Authority must be deposited in one or more Depositaries in such amounts as the Authority, with the concurrence of the State Investment Commission, directs consistent with the Indenture. All monies and investments deposited under the provisions of the Indenture with the Trustee or any other Depositary 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 State Investment 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 State Investment 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 alien 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 succeeding biennial terms, currently ending June 30, 2016. 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 Commissioner of the Department of Revenue prior to October 1 of each Fiscal Year the amount required for payment of amounts due under the Lease 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.

Supplemental Leases

The Lease has been amended by the First Supplemental Lease, the Second Supplemental Lease, the Third Supplemental Lease, the Financing/Fourth Supplemental Lease Agreement, the Fifth Supplemental Lease, the Sixth Supplemental Lease, the Financing/Seventh Supplemental Lease, the Eighth Supplemental Lease, the Ninth Supplemental Lease, the Financing/Tenth Supplemental Lease Agreement, which has been amended by a First Amendment to Financing/Tenth Supplemental Lease Agreement and by a Second Amendment to Financing/Tenth Supplemental Lease Agreement, the Eleventh Supplemental Lease, the Twelfth Supplemental Lease, the Thirteenth Supplemental Lease, the Fourteenth Supplemental Lease and the Fifteenth Supplemental Lease as permitted by the Lease. The First Supplemental Lease, Second Supplemental Lease, Third Supplemental Lease, Financing/Fourth Supplemental Lease Agreement, including the First Amendment to Financing/Fourth Supplemental Lease Agreement, Fifth Supplemental Lease, Sixth Supplemental Lease, Financing/Seventh Supplemental Lease, Eighth Supplemental Lease, Ninth Supplemental Lease, Financing/Tenth Supplemental Lease Agreement, which has been amended by a First Amendment to Financing/Tenth Supplemental Lease Agreement and by a Second Amendment to Financing/Tenth Supplemental Lease Agreement, Eleventh Supplemental Lease, Twelfth Supplemental Lease, Thirteenth Supplemental Lease, Fourteenth Supplemental Lease, Fifteenth Supplemental Lease Sixteenth Supplemental Lease and the Seventeenth 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 2016 Series Bonds.

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.

Supplemental Agreements

The Agreement has been amended by the First Supplemental Agreement, Second Supplemental Agreement, Third Supplemental Agreement, Fourth Supplemental Agreement, Fifth Supplemental Agreement, Sixth Supplemental Agreement, Seventh Supplemental Agreement, Eighth Supplemental Agreement, Ninth Supplemental Agreement, Tenth Supplemental Agreement, Eleventh Supplemental Agreement, Twelfth Supplemental Agreement, Thirteenth Supplemental Agreement, Fourteenth Supplemental Agreement and Fifteenth Supplemental Agreement, as permitted by the Agreement. The First Supplemental Agreement, Second Supplemental Agreement, Third Supplemental Agreement, Fourth Supplemental Agreement, Fifth Supplemental Agreement, Sixth Supplemental Agreement, Seventh Supplemental Agreement, Eighth Supplemental Agreement, Ninth Supplemental Agreement, Tenth Supplemental Agreement, Eleventh Supplemental Agreement, Twelfth Supplemental Agreement, Thirteenth Supplemental Agreement, Fourteenth Supplemental Agreement, Fifteenth Supplemental Agreement, Sixteenth Supplemental Agreement and Seventeenth 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 Agreement, Second Supplemental Agreement, Third Supplemental Agreement, Fourth Supplemental Agreement, Fifth Supplemental Agreement, Sixth Supplemental Agreement, Seventh Supplemental Agreement, Eighth Supplemental Agreement, Ninth Supplemental Agreement, Tenth Supplemental Agreement, Eleventh Supplemental Agreement, Twelfth Supplemental Agreement, Thirteenth Supplemental Agreement, Fourteenth Supplemental Agreement, Fifteenth Supplemental Agreement, Sixteenth Supplemental Agreement and Seventeenth Supplemental Agreement also affirm all covenants made in the Agreement, including the covenant to complete Revitalization Projects.

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APPENDIX C

SUMMARY OF PRIOR BONDS

| <u>The Turnpike Authority of Kentucky Bond Issue</u> | <u>Maturity Date</u> | <u>Interest Rate (%)</u> | <u>Par Amount (\$)</u> | <u>Redemption Date</u> | <u>Redemption Price</u> |
|---|---------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|------------------------------------|
| 2008 Series A | | | | | |
| | 07/01/2019 | 4.125 | \$ 1,555,000 | 07/01/2018 | 100.000 |
| | 07/01/2019 | 5.000 | 9,540,000 | 07/01/2018 | 100.000 |
| | 07/01/2020 | 4.250 | 6,635,000 | 07/01/2018 | 100.000 |
| | 07/01/2020 | 5.000 | 5,000,000 | 07/01/2018 | 100.000 |
| | 07/01/2021 | 4.375 | 2,055,000 | 07/01/2018 | 100.000 |
| | 07/01/2021 | 5.000 | 10,110,000 | 07/01/2018 | 100.000 |
| | 07/01/2022 | 4.500 | 375,000 | 07/01/2018 | 100.000 |
| | 07/01/2022 | 5.000 | 12,385,000 | 07/01/2018 | 100.000 |
| | 07/01/2023 | 4.500 | 510,000 | 07/01/2018 | 100.000 |
| | 07/01/2023 | 5.000 | 12,890,000 | 07/01/2018 | 100.000 |
| | 07/01/2024 | 5.000 | 14,065,000 | 07/01/2018 | 100.000 |
| | 07/01/2025 | 4.625 | 925,000 | 07/01/2018 | 100.000 |
| | 07/01/2025 | 5.000 | 13,845,000 | 07/01/2018 | 100.000 |
| | 07/01/2026 | 5.000 | 15,505,000 | 07/01/2018 | 100.000 |
| | 07/01/2027 | 5.000 | 16,280,000 | 07/01/2018 | 100.000 |
| | 07/01/2028 | 4.800 | 9,680,000 | 07/01/2018 | 100.000 |
| | 07/01/2028 | 5.000 | 7,410,000 | 07/01/2018 | 100.000 |
| | | | <u>\$138,765,000</u> | | |
| 2009 Series A | | | | | |
| | 07/01/2020 | 5.000 | \$ 7,700,000 | 07/01/2019 | 100.000 |
| | 07/01/2021 | 4.125 | 1,670,000 | 07/01/2019 | 100.000 |
| | 07/01/2021 | 5.000 | 6,415,000 | 07/01/2019 | 100.000 |
| | 07/01/2022 | 4.250 | 510,000 | 07/01/2019 | 100.000 |
| | 07/01/2022 | 5.000 | 7,965,000 | 07/01/2019 | 100.000 |
| | 07/01/2023 | 4.375 | 3,180,000 | 07/01/2019 | 100.000 |
| | 07/01/2023 | 5.000 | 5,715,000 | 07/01/2019 | 100.000 |
| | 07/01/2024 | 4.500 | 3,760,000 | 07/01/2019 | 100.000 |
| | 07/01/2024 | 5.000 | 5,560,000 | 07/01/2019 | 100.000 |
| | 07/01/2025 | 4.625 | 180,000 | 07/01/2019 | 100.000 |
| | 07/01/2025 | 5.000 | 9,585,000 | 07/01/2019 | 100.000 |
| | 07/01/2026 | 4.750 | 4,110,000 | 07/01/2019 | 100.000 |
| | 07/01/2026 | 5.000 | 6,140,000 | 07/01/2019 | 100.000 |
| | 07/01/2027 | 4.875 | 1,355,000 | 07/01/2019 | 100.000 |
| | 07/01/2027 | 5.000 | 9,400,000 | 07/01/2019 | 100.000 |
| | 07/01/2029 | 5.000 | 23,145,000 | 07/01/2019 | 100.000 |
| | | | <u>\$ 96,390,000</u> | | |
| TOTAL PRIOR BONDS REFUNDED | | | <u><u>\$ 235,155,000</u></u> | | |

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APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2016 Series Bonds. The 2016 Series Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2016 Series Bond will be issued for each maturity, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”), DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2016 Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Series Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2016 Series Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2016 Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2016 Series Bonds, except in the event that use of the book-entry system for the 2016 Series Bonds is discontinued.

To facilitate subsequent transfers, all 2016 Series Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2016 Series Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2016 Series Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2016 Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the 2016 Series Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2016 Series Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 2016 Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2016 Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2016 Series Bonds at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 2016 Series Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2016 Series Bonds will be printed and delivered to DTC.

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

For so long as the 2016 Series Bonds are registered in the name of DTC or its nominee or any successor securities depository or its nominee, the Authority and the Trustee will recognize only DTC or its nominee or such successor securities depository or its nominee as the registered owner of the 2016 Series Bonds for all purposes, including payments, notices and voting.

In the event that either (1) the Authority received notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the 2016 Series Bonds or (2) the Authority elects to discontinue its use of DTC as a clearing agency for the 2016 Series Bonds, then the Authority and the Trustee, Paying Agent or Registrar will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the 2016 Series Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the 2016 Series Bonds and to transfer the ownership of each of the 2016 Series Bonds to such person or persons, including any to the clearing agency, as the holder of such 2016 Series Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the 2016 Series Bonds will be paid by the Authority.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

April 7, 2016

The Turnpike Authority of Kentucky
Frankfort, Kentucky

Re: \$222,670,000 The Turnpike Authority of Kentucky Economic Development Road Revenue
Refunding Bonds (Revitalization Projects) 2016 Series A

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 the above captioned bonds (collectively, the "2016 Series Bonds"). The 2016 Series Bonds are issued as fully registered bonds without coupons in denominations of \$5,000 or integral multiples thereof.

The 2016 Series Bonds are dated and mature, or are subject to mandatory or optional redemption prior to maturity, and will bear interest at the rates or approximate yields as set forth in (i) the Series Resolution adopted by the Authority on February 5, 2016 (the "Series Resolution"), 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 (as succeeded by Chase Manhattan Trust Company, National Association, as succeeded by J.P. Morgan Trust Company, National Association, and as further succeeded by The Bank of New York Mellon Trust Company, N.A.), as trustee (the "Trustee") as amended and supplemented by a First Supplemental Trust Indenture, dated as of November 15, 2000, by and between the Authority and the Trustee (collectively, the "Indenture"); and (ii) the Bond Purchase Agreement, dated March 22, 2016 (the "Bond Purchase Agreement"), by and between the Authority and Morgan Stanley & Co. LLC, as representative of the underwriters. Interest on the 2016 Series Bonds will be payable on each January 1 and July 1, beginning July 1, 2016.

The 2016 Series 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, and under and pursuant to a resolution of the Authority duly adopted on August 28, 1990 and the Series Resolution (together, the "Resolution") and the Indenture. 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; a Third Supplemental Agreement, dated as of April 1, 1995; a Fourth Supplemental Agreement, dated as of April 1, 1999; a Fifth Supplemental Agreement, dated as of February 1, 2001; a Sixth Supplemental Agreement, dated as of March 1, 2001; a Seventh Supplemental Agreement, dated as of May 1, 2004; an Eighth Supplemental Agreement, dated as of April 1, 2005; a Ninth Supplemental Agreement, dated as of March 1, 2006; a Tenth Supplemental Agreement, dated as of September 1, 2007; an Eleventh Supplemental Agreement, dated as of June 1, 2010; a Twelfth Supplemental Agreement, dated as of April 1, 2011; a Thirteenth Supplemental Agreement, dated as of March 1, 2012; a Fourteenth Supplemental Agreement, dated as of September 1, 2013; a Fifteenth Supplemental Agreement, dated as of June 1, 2014; a Sixteenth Supplemental Agreement, dated as of July 1, 2015 and a Seventeenth Supplemental Agreement, dated as of April 1, 2016, (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; a Third Supplemental Lease, dated as of April 1, 1995; a Financing/Fourth Supplemental Lease Agreement, dated as of October 1, 1999, which has been amended by a First Amendment to Financing/Fourth Supplemental Lease Agreement, dated as of November 15, 2000; a Fifth Supplemental Lease, dated as of February 1, 2001; a Sixth Supplemental Lease, dated as of March 1, 2001; a Financing/Seventh Supplemental Lease Agreement, dated as of May 1, 2004; an Eighth Supplemental Lease, dated as of April 1, 2005;

a Ninth Supplemental Lease, dated as of March 1, 2006; a Financing/Tenth Supplemental Lease Agreement, dated as of September 1, 2007, which has been amended by a First Amendment to Financing/Tenth Supplemental Lease Agreement, dated as of August 1, 2008 and by a Second Amendment to Financing/Tenth Supplemental Lease Agreement, dated as of April 1, 2009; an Eleventh Supplemental Lease, dated as of June 1, 2010; a Twelfth Supplemental Lease, dated as of April 1, 2011; a Thirteenth Supplemental Lease, dated as of March 1, 2012; a Fourteenth Supplemental Lease, dated as of September 1, 2013; a Fifteenth Supplemental Lease, dated as of June 1, 2014, a Sixteenth Supplemental Lease, dated as of July 1, 2015 and a Seventeenth Supplemental Lease, dated as of April 1, 2016 (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, 2016, 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 Escrow Trust Agreement, dated as of April 7, 2016 (the "Escrow Trust Agreement"), between the Authority, the Transportation Cabinet and The Bank of New York Mellon Trust Company, N.A.; (ii) the Constitution and statutes of the Commonwealth of Kentucky; (iii) certified copies of the proceedings of the Authority authorizing the issuance, sale and delivery of the 2016 Series Bonds, including the Resolution; (iv) duplicate executed originals of the Indenture, the Agreement and the Lease; (v) certifications as to incumbency, conditions precedent, signature, litigation, reasonable expectations and other matters, upon which we have relied; and (vi) such other records, documents and proceedings as we have considered necessary or appropriate for the purposes of this opinion, including a specimen 2016 Series Bond.

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

1. The 2016 Series 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 2016 Series Bonds in accordance with the terms thereof.
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 2016 Series 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 2016 Series 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. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the 2016 Series Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the 2016 Series Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the 2016 Series Bonds.
7. The Authority has not designated the 2016 Series Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

8. The interest on the 2016 Series Bonds is exempt from income taxation by the Commonwealth and the 2016 Series 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 Series Resolution, the Indenture, the Lease, the Agreement, the 2016 Series Bonds, the Escrow Trust Agreement 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,

