

## NEW ISSUE

*In the opinion of Bond Counsel, based on laws, regulations, rulings and decisions in effect on the date of delivery of the 1993 Bonds, and assuming continuing compliance with certain covenants made by the Authority, interest on the 1993 Bonds is excludable from gross income for federal income tax purposes on the conditions and subject to the limitations set forth herein under "Tax Treatment" and is not an item of preference for purposes of the federal alternative minimum tax on individuals and corporations. Interest on the 1993 Bonds held by corporations is includable in such corporations' adjusted current earnings and modified alternative minimum taxable income. Bond Counsel is further of the opinion that interest on the 1993 Bonds is exempt from Kentucky income tax and the 1993 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.*

**\$570,540,000**

**The Turnpike Authority of Kentucky  
Economic Development Road Revenue and Revenue Refunding Bonds  
(Revitalization Projects)  
Series 1993**

**\$525,540,000 Current Interest Bonds  
\$15,000,000 Cap RITES<sup>1</sup> Bonds**

**\$15,000,000 FLOATs<sup>1</sup>  
\$15,000,000 RITES<sup>1</sup>**

The 1993 Bonds consist of Current Interest Bonds, Cap RITES Bonds, Floating Auction Tax-Exempts ("FLOATs<sup>1</sup>"), and Residual Interest Tax-Exempt Securities ("RITES<sup>1</sup>"). The 1993 Bonds will be dated, will mature in the years and amounts, and will be in the authorized denominations as set forth on the inside of this cover page.

The Cap RITES Bonds, FLOATs and RITES will be initially delivered in book entry form, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC is required to remit payment of principal and interest with respect to Cap RITES Bonds, FLOATs and RITES to its participants for disbursement to the beneficial owners of such 1993 Bonds. (See "Book Entry System").

Interest on the Current Interest Bonds and Cap RITES Bonds will be payable on January 1 and July 1, beginning July 1, 1993, by check or draft mailed to the registered owner (or by wire transfer if so requested by a registered owner of not less than \$1,000,000 in aggregate principal amount of 1993 Bonds), all as further provided herein. Interest with respect to the FLOATs and RITES is payable on April 29, 1993, May 7, 1993 and on each successive fourth Friday thereafter, subject to certain exceptions. Interest on the FLOATs and RITES will be payable by check or draft mailed to the registered owner (or by wire transfer if so requested by a registered owner of not less than \$1,000,000 in aggregate principal amount of 1993 Bonds), all as further provided herein. Although the Preliminary Interest Period and the Initial Interest Period for the FLOATs and RITES will be a shorter period of days, each subsequent Interest Period for the FLOATs and RITES will generally be a period of twenty-eight (28) days.

The principal of and redemption premium, if any, on the 1993 Bonds and interest on the Current Interest Bonds will be payable at such office within the United States as shall be designated by PNC Bank, Kentucky, Inc. (f/k/a Citizens Fidelity Bank and Trust Company), Louisville, Kentucky, or any successor, as Trustee and Paying Agent.

The 1993 Bonds are subject to optional and mandatory redemption and the FLOATs are subject to mandatory tender, all as described herein.

Prospective purchasers of the FLOATs should carefully review the Auction Procedures described herein, including the Appendices hereto, and should note that (i) a Bid or Sell Order constitutes a commitment to purchase or sell FLOATs based upon the results of an Auction, (ii) Auctions will be conducted through telephone communications and (iii) settlement for purchases and sales will be made on the next Business Day following an Auction. Unless Fixed with RITES, FLOATs may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer.

The 1993 Bonds are being issued by the Authority pursuant to a Trust Indenture dated as of October 1, 1990 (the "Indenture") and a Series 1993 Resolution adopted on April 16, 1993, to provide for the financing and refinancing of certain economic development road projects described in this Official Statement.

The 1993 Bonds are special obligations of the Authority, a de jure municipal corporation and political subdivision of the Commonwealth of Kentucky. The 1993 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 1993 Bonds do not constitute a debt of the Commonwealth of Kentucky and neither the faith and credit nor the taxing power of the Commonwealth of Kentucky or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the 1993 Bonds. The Authority has no taxing power.

Payment of the principal of and interest on the 1993 Bonds when due will be insured by a municipal bond insurance policy to be issued by AMBAC Indemnity Corporation simultaneously with the delivery of the 1993 Bonds. (See "Bond Insurance")



FOR MATURITY SCHEDULES, DATED DATES, INTEREST RATES, PRICES AND YIELDS  
SEE INSIDE COVER

*The 1993 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, Covington, Kentucky, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Brown, Todd & Heyburn, Louisville, Kentucky. It is expected that the 1993 Bonds will be available for delivery in New York, New York on or about April 20, 1993.*

**STIFEL, NICOLAUS & CO. INC.**

**LEHMAN BROTHERS  
FIRST KENTUCKY SECURITIES CORPORATION  
J.C. BRADFORD & CO.**

**MERRILL LYNCH & CO.  
J.J.B. HILLIARD, W.L. LYONS, INC.  
JOHNSTON, BROWN, BURNETT & KNIGHT, INC.  
PNC SECURITIES CORP.**

The date of this Official Statement is April 16, 1993

<sup>1</sup> FLOATs, RITES, FLOAT/RITES and Cap RITES Bonds are Service marks of Merrill Lynch & Co. Inc.

**\$450,770,000 Current Interest Serial Bonds**

**Dated: April 1, 1993**

**Authorized Denominations: \$5,000 or any integral multiple thereof**

**Due: July 1, as provided below**

| <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> |
|-------------|-------------------------|----------------------|-----------------------|-------------|-------------------------|----------------------|-----------------------|
| 1995        | \$13,055,000            | 3.50%                | 100.00%               | 2003        | \$42,675,000            | 5.20%                | 5.25%                 |
| 1996        | 13,515,000              | 4.00                 | 100.00                | 2004        | 44,900,000              | 5.30                 | 5.35                  |
| 1997        | 20,545,000              | 4.30                 | 100.00                | 2005        | 28,335,000              | 5.40                 | 5.45                  |
| 1998        | 21,430,000              | 4.60                 | 100.00                | 2006        | 29,870,000              | 5.50                 | 100.00                |
| 1999        | 22,415,000              | 4.80                 | 100.00                | 2007        | 31,515,000              | 5.50                 | 5.55                  |
| 2000        | 23,490,000              | 4.90                 | 100.00                | 2008        | 51,065,000              | 5.50                 | 5.60                  |
| 2001        | 26,145,000              | 5.00                 | 100.00                | 2009        | 40,420,000              | 5.50                 | 5.65                  |
| 2002        | 41,395,000              | 5.10                 | 100.00                |             |                         |                      |                       |

**\$74,770,000 5.50% Current Interest Term Bonds, stated to mature July 1, 2011, Yield 5.75%**

**\$15,000,000 Cap RITES Bonds**

**Dated: Date of Delivery**

**Authorized Denominations: \$100,000 or any integral multiple thereof**

**Due: July 1, as provided below**

| <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Scheduled Conversion Date</u> | <u>Set Rate</u> | <u>Level Rate</u> | <u>Price</u> | <u>Maximum Cap RITES Rate</u> | <u>Factor</u> | <u>Constant Rate</u> |
|----------------------|-------------------------|----------------------------------|-----------------|-------------------|--------------|-------------------------------|---------------|----------------------|
| 2013                 | \$15,000,000            | July 1, 1998                     | 3.95%           | 4.50%             | 100.00%      | 14.00%                        | 3             | 5.75%                |

**\$15,000,000**

**Floating Auction Tax-Exempts ("FLOATs")**

Interest Rate for Preliminary Interest Period: 2.775%(1)

Interest Rate for Initial Interest Period: 2.775%(2)

Dated: Date of Delivery

Due: June 6, 2012

Price: 100%

**\$15,000,000**

**Residual Interest Tax-Exempt Securities ("RITES")**

Interest Rate for Preliminary Interest Period: 8.45%(1)

Interest Rate for Initial Interest Period: 8.45%(3)

Dated: Date of Delivery

Due: June 6, 2012

Price: 100%

**Authorized Denomination: \$50,000 or any integral multiple thereof.**

**FLOAT/RITES Semiannual Bond Equivalent Yield: 5.70%**

An owner of FLOATs may Fix such FLOATs with an equal principal amount of RITES, and an owner of RITES may Fix such RITES with an equal principal amount of FLOATs, in each case through the facilities of DTC (as Securities Depository) as set forth herein except during Closed Periods (as defined herein).

The semiannual bond equivalent yield for FLOATs and RITES that have been Fixed (herein referred to as "Fixed Option Bonds") will be 5.70% per annum.

- The FLOATs will bear interest at 2.775% per annum and the RITES will bear interest at 8.45% per annum for the period (the "Preliminary Interest Period") commencing on the date of initial delivery of the FLOATs and RITES and ending on but excluding April 29, 1993 (the "Preliminary Interest Payment Date").
- The FLOATs will bear interest at 2.775% per annum for the Initial Interest Period, commencing on April 29, 1993 and running through but excluding May 7, 1993, consisting of 2.50% which will be paid to the owners of the FLOATs and the Service Charge Rate of .275% of 1% of which will be paid to the Auction Agent and the Broker-Dealers. Interest on FLOATs for each Subsequent Interest Period (which shall generally be 28 days) will equal the sum of (i) a rate per annum determined, except as described herein, on the basis of orders placed in an Auction conducted on the Business Day preceding the commencement of such Subsequent Interest Period and (ii) the Service Charge Rate (initially .275% of 1%), but such sum may not exceed the Maximum Rate or be less than the Minimum Rate. Interest attributable to the Service Charge Rate will not be paid to the owners of the FLOATs but will be deducted from each interest payment on the FLOATs as a service charge in connection with the Auctions unless such FLOATs are Fixed, as described herein, in which case such FLOATs will not participate in the Auctions and the Interest attributable to the Service Charge Rate generally will not be deducted. Interest on the FLOATs will be determined on the basis of a 360-day year and the number of days actually elapsed.
- For the Initial Interest Period, commencing on April 29, 1993 and running through but excluding May 7, 1993, the interest rate on the RITES will be 8.45% per annum. For each Subsequent Interest Period, the interest rate on the RITES will be determined by subtracting the product of (x) the applicable FLOATs Rate and (y) 365/360 from two times the Fixed Rate or 5.632% per annum. Interest on the RITES will be based on a 365-day year and the number of days actually elapsed.

**THE TURNPIKE AUTHORITY OF KENTUCKY**

Capitol Annex  
Frankfort, Kentucky 40601  
Telephone (502) 564-2390

**MEMBERS OF THE AUTHORITY**

**BRERETON C. JONES**  
Governor  
(Chairman of the Authority)

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

**CHRIS GORMAN**  
Attorney General

**W. PATRICK MULLOY, II**  
Secretary  
Finance and Administration Cabinet

**DON C. KELLY**  
Secretary  
Transportation Cabinet

**JAMES MCFARLAND YOWELL**  
State Highway Engineer

**MARVIN E. STRONG**  
Secretary  
Cabinet for Economic Development

**EXECUTIVE DIRECTOR OF THE AUTHORITY**

Bobby J. McKee

**TREASURER OF THE AUTHORITY**

Lisa A. Payne

**SECRETARY OF THE AUTHORITY**

Linda W. Masters

**BOND COUNSEL**

Peck, Shaffer & Williams  
Covington, Kentucky

**TRUSTEE**

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

**No dealer, broker, salesman or other person has been authorized by The Turnpike Authority of Kentucky, the Transportation Cabinet of the Commonwealth of Kentucky or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations, must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 1993 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth of Kentucky, The Turnpike Authority of Kentucky or the Transportation Cabinet of the Commonwealth of Kentucky since the date hereof.**

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1993 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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

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## OFFICIAL STATEMENT

**\$570,540,000**

**The Turnpike Authority of Kentucky  
Economic Development Road Revenue and Revenue Refunding Bonds  
(Revitalization Projects)  
Series 1993**

### 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 \$570,540,000 aggregate principal amount of Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects), Series 1993 (the "1993 Bonds").

The 1993 Bonds are being issued pursuant to Chapter 175 of the Kentucky Revised Statutes, as amended (the "Act"), and a resolution of the Authority adopted on April 16, 1993 (the "Series 1993 Resolution") and a Trust Indenture dated as of October 1, 1990, (the "Indenture"), between the Authority and Citizens Fidelity Bank and Trust Company (n/k/a PNC Bank, Kentucky, Inc.), Louisville, Kentucky, as trustee (the "Trustee").

The 1993 Bonds are being issued to (1) pay a portion of the costs of certain public highway projects described under "The Financing Plan - New Money" and "The Authority -- Transportation Cabinet Projects Financed by the Authority -- *Economic Development Road Projects; Revitalization Projects*" (the "Revitalization Projects"), (2) pay capitalized interest on the 1993 Bonds, (3) refinance certain Economic Development Road Revenue Bonds of the Authority described under the "The Financing Plan - Refinancing," (4) fund the Debt Service Reserve Fund, and (5) pay certain costs of issuance of the 1993 Bonds. The Revitalization Projects comprise a portion of the Commonwealth of Kentucky (the "Commonwealth") economic development road system within the meaning of the Act, and together with all other projects financed with the proceeds of Economic Development Road Bonds, comprise the economic development road "system" under the Indenture (the "System").

Pursuant to an Economic Development Road Revenue (Revitalization Projects) Agreement dated as of October 1, 1990, between the Authority and the Transportation Cabinet, which has been supplemented by a First Supplemental Agreement dated as of October 1, 1992, and a Second Supplemental Agreement dated as of April 1, 1993 (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, and a Second Supplemental Lease dated as of April 1, 1993 (collectively, the "Lease") for a biennial period ending June 30, 1994, 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 1993 Bonds -- Lease Payments" and Appendix D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- "The Lease." Although the Lease has been renewed for the biennial period

ending June 30, 1994, *the Transportation Cabinet is under no obligation to renew the Lease for any subsequent biennial period.* The Lease provides for automatic renewals for each ensuing biennial term unless the Authority receives written notice of the Transportation Cabinet's election not to renew the Lease. *If the Lease is not renewed and the rentals thereunder are not received, the Authority does not expect that it will have revenues sufficient to pay the Economic Development Road Revenue Bonds, including the 1993 Bonds, if required rentals are not received under the Lease.* See "Security and Source of Payment for the Bonds -- Payments if Lease is Not in Effect."

Additional Bonds may be issued on a parity with the 1993 Bonds upon compliance with restrictions contained in the Indenture and the Lease. See "Security and Source of Payment for the Bonds -- Restrictions on Future Financings."

Descriptions of the 1993 Bonds, the security therefor, the Indenture, the Lease and the Agreement are included in this Official Statement. Such description and summaries do not purport to be comprehensive or definitive. All references herein to such agreements and documents are qualified in their entirety by reference thereto. Terms not defined herein shall have the meanings given them in Appendix D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- "Certain Definitions."

## **THE FINANCING PLAN**

### **New Money**

One Hundred Fifty Million Dollars (\$150,000,000) of the 1993 Bonds are being issued pursuant to the Act and the Biennial Appropriations Act to pay a portion of the costs of the Revitalization Projects, which are currently defined in the Act to mean the construction, reconstruction or relocation of any highway, road or thoroughfare, or such part or parts thereof, as designated by the Transportation Cabinet as a part of the economic development road system of the Commonwealth of Kentucky (the "Commonwealth").

The Act was amended in 1990 to authorize the Authority, subject to the limitations contained in the biennial appropriations acts of the Commonwealth, to issue revenue bonds or notes up to the amount of \$600,000,000, exclusive of any costs incurred in the issuance of the bonds or notes, amounts necessary to fund a debt service reserve fund, if any, or capitalized interest on the bonds or notes, or both, and to pay a portion of the costs of the Revitalization Projects described in the Act and as identified below. The Authority has heretofore issued \$307,820,000 of Bonds, using \$300,000,000 of the \$600,000,000 authorized in the Act. In its 1992 Biennial Appropriations Act, the Kentucky General Assembly authorized the issuance of up to \$150,000,000 of Bonds during the 1992-1994 biennium of the \$600,000,000 authorized by the Act for the Revitalization Projects. A portion of the 1993 Bonds, the proceeds of which are being used for new construction, capitalized interest and costs of issuance, are also being issued pursuant to such authorization. Proceeds of the 1993 Bonds deposited in the Construction Fund as described under "Sources and Uses of Funds" will be used to pay a portion of the costs of the Revitalization Projects identified below. The specific routes comprising the Revitalization Projects and the estimated costs of each are specified in the Act to be the following:

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

Any proceeds of Bonds issued to pay the costs of the Revitalization Projects described above remaining after the completion of those Revitalization Projects must be transferred to the Bond Service Account. See "Security and Source of Payment of the Bonds - Flow of Funds."

**Refinancing**

Approximately \$283,920,688.31 of the proceeds received by the Authority from the sale of the 1993 Bonds, will be used to purchase direct obligations of the United States Treasury and provide for an initial cash deposit (the "Escrow Securities"). The Authority will cause the Escrow Securities and any initial cash deposit to be deposited in an escrow fund created under an Escrow Trust Agreement (the "Escrow Trust Agreement") by and among the Authority, the Transportation Cabinet and PNC Bank, Kentucky, Inc., as escrow agent (the "Escrow Agent"), identified as the "Escrow Fund - Series 1990 Bonds." The principal of and interest on the Escrow Securities, when due, along with the initial cash deposit, will be sufficient to pay the principal, interest and redemption premium on the Authority's Economic Development Road Revenue Bonds (Revitalization Projects), Series 1990 (the "Series 1990 Bonds"), in the principal amount of \$63,185,000 stated to mature May 15, 2010 and in the entire principal amount stated to mature May 15, 1995 to and including May 15, 2007. The Trustee will give notice of the dates on which such Series 1990 Bonds are to be redeemed shortly after the date of issuance of the 1993 Bonds.

By depositing the Escrow Securities and the initial cash deposit as described above in the Escrow Fund - Series 1990 Bonds, the Authority will cause the above-described maturities and amounts of Series 1990 Bonds to be deemed no longer outstanding under the Indenture and the Series 1990 Bonds will thereafter be payable only from amounts on deposit in such escrow fund.

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

The balance of the net proceeds of the 1993 Bonds will be applied as set forth in "Sources and Uses of Funds."

## SOURCES AND USES OF FUNDS

The sources and uses of the proceeds of the 1993 Bonds are as follows:

### Sources:

|                                      |                         |
|--------------------------------------|-------------------------|
| Principal Amount of 1993 Bonds ..... | \$570,540,000.00        |
| Less: Original Issue Discount .....  | (3,909,685.95)          |
| Accrued Interest .....               | <u>1,433,505.40</u>     |
| Total Sources .....                  | <u>\$568,063,819.45</u> |

### Uses:

|  |                         |
|--|-------------------------|
| Deposit to Construction Fund .....               | \$150,000,000.00        |
| Deposit to Escrow Fund - Series 1990 Bonds ..... | 283,920,688.31          |
| Deposit to Bond Service Account .....            | 1,641,812.25            |
| Deposit to Capitalized Interest Account .....    | 66,575,461.84           |
| Deposit to Debt Service Reserve Fund .....       | 57,054,000.00           |
| Municipal Bond Insurance Premium .....           | 3,098,333.83            |
| Costs of Issuance .....                          | 961,727.47              |
| Underwriters' Discount .....                     | <u>4,811,795.75</u>     |
| Total Uses .....                                 | <u>\$568,063,819.45</u> |

## DESCRIPTION OF CURRENT INTEREST BONDS

### General

A portion of the 1993 Bonds will be issued as Current Interest Bonds (the "Current Interest Bonds"). The Current Interest Bonds will be dated April 1, 1993, will be fully registered, without coupons, will be issued in the denominations of \$5,000 or any integral multiple thereof, will bear interest at the rates, payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date"), commencing July 1, 1993, and will mature on the dates and in the amounts set forth on the inside cover of this Official Statement. Principal of and redemption premium, if any, on the Current Interest 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 Current Interest 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 his/her 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 1993 Bonds, interest on such Bonds will be paid to such registered owner by wire transfer to the account within the United States specified by such registered owner.

## **Transfer and Exchange**

The Current Interest 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 his attorney or legal representative in form satisfactory to the Trustee. Upon any such registration of transfer, new Current Interest 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 Bonds being transferred, of the same maturity and bearing interest at the same rate.

The Current Interest Bonds, upon surrender thereof at the Payment Office, together with an assignment duly executed by the registered owner or his 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 Current Interest 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 Current Interest Bonds surrendered for exchange.

## **DESCRIPTION OF CAP RITES BONDS**

The following summary of the Cap RITES Bonds is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. Terms used in this summary and not otherwise defined shall have the respective meanings ascribed to them elsewhere in this Official Statement. See Appendix E -- GENERAL EXPLANATION OF CAP RITES BONDS.

### **General**

A portion of the 1993 Bonds are being issued as Cap RITES Bonds. The Cap RITES Bonds will be delivered in the principal amounts, and will mature on the dates indicated on the inside cover page of this Official Statement. Interest with respect to the Cap RITES Bonds will be payable on each January 1 and July 1, commencing July 1, 1993, and will accrue from the date of initial delivery through the earlier to occur of the Conversion Date indicated on the inside cover page of this Official Statement (the "Scheduled Conversion Date") or the Mandatory Conversion Date described in Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS -- "Mandatory Conversion of the Cap RITES Bonds," at a rate equal to the Set Rate indicated on the inside cover page of this Official Statement (the "Set Rate") plus the amount, if positive, obtained by subtracting three (3) time(s) the Level Rate indicated on the inside cover page of this Official Statement (the "Level Rate") from the Variable Rate, subject to the application of the Maximum Cap RITES Rate indicated on the inside cover page of this Official Statement (the "Maximum Cap RITES Rate") (computed as described in Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS -- "Cap RITES Bonds") and thereafter at the Constant Rate indicated on the inside cover page of this Official Statement (the "Constant Rate") per annum. Owners of the Cap RITES Bonds may elect on any Business Day prior to the Scheduled Conversion Date to convert the interest on not less than \$500,000 principal amount of the Cap RITES Bonds to the applicable Converted Rate. (See Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS -- "Optional Conversion of the Cap RITES Bonds").

The Cap RITES Bonds will be issued in denominations of \$100,000 and any integral multiple thereof until the earlier to occur of the Mandatory Conversion Date or the Scheduled Conversion Date described in Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS -- "Mandatory Conversion of the Cap RITES Bonds," and thereafter the Cap RITES Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. The Cap RITES Bonds are subject to redemption prior to maturity.

The Cap RITES Bonds are more fully described in Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS -- "Cap RITES Bonds."

### **Mandatory Conversion of the Cap RITES Bonds**

The interest rate payable with respect to the Cap RITES Bonds shall convert, at the option of the Authority, from the Cap RITES Rate or the Converted Rate, as the case may be, to the Constant Rate if an early termination of the Master Agreement is designated by the Authority following a Master Agreement Event of Default by Merrill Lynch Capital Services, Inc. (the "Mandatory Conversion Date"), provided, that the Mandatory Conversion Date shall be the Interest Payment Date next preceding such early termination of the Master Agreement (or, (i) if the Mandatory Conversion Date occurs prior to the first Interest Payment Date, the Effective Date or (ii) if the Mandatory Conversion Date is an Interest Payment Date, the prior Interest Payment Date). The Authority may exercise its option to convert the interest rate payable on the Cap RITES Bonds to the applicable Constant Rate only if it is unable to obtain timely market quotations for, and execute, a replacement interest rate cap transaction. The Authority is not required to enter into any such replacement transaction that would require the Authority to pay to the counterparty an amount in excess of the amount actually paid to the Authority by Merrill Lynch Capital Services, Inc. in respect of the termination of the Master Agreement. (See Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS -- "Mandatory Conversion of the Cap RITES Bonds").

No amounts shall be payable by the Authority to the Owner, or by the Owner to the Authority, in respect of the conversion of the Cap RITES Bonds on any Mandatory Conversion Date; provided, however, that if the Authority receives from MLCS any amount in respect of the early termination by the Authority of the Master Agreement following a Master Agreement Event of Default by MLCS, the Authority shall, as soon as practicable, pay to each Owner such Owner's ratable share of such amount, determined by calculating the ratio that the principal amount each such Owner's Cap RITES Bonds bear to the total principal amount of Cap RITES Bonds then outstanding. Owners of the Cap RITES Bonds should consult their tax advisors regarding the tax treatment of any such payments.

### **DESCRIPTION OF THE FLOATs AND RITES**

A portion of the 1993 Bonds will be issued as Floating Auction Tax-Exempts ("FLOATs") and Residual Tax-Exempt Securities ("RITES"). The FLOATs and RITES are described in Appendix F hereto.

## DESCRIPTION OF THE 1993 BONDS - GENERAL

### Redemption Provisions

**Current Interest Bonds.** The Current Interest Bonds are subject to optional and mandatory redemption prior to maturity, as set forth below.

**Optional Redemption.** The Current Interest Bonds maturing on or before July 1, 2009 are not subject to optional redemption prior to maturity. The Current Interest Term Bonds stated to mature on July 1, 2011 will be subject to optional redemption on and after July 1, 2003, as a whole at any time or in part on any Interest Payment Date, at the following redemption prices expressed as percentages of principal amount together with accrued interest to the redemption date:

| <u>Redemption Period</u><br><u>(both dates inclusive)</u> | <u>Redemption</u><br><u>Price</u> |
|---|-----------------------------------|
| July 1, 2003 to June 30, 2004                             | 102%                              |
| July 1, 2004 to June 30, 2005                             | 101                               |
| July 1, 2005 and thereafter                               | 100                               |

**Mandatory Redemption.** The Current Interest Term Bonds stated to mature on July 1, 2011 will be subject to mandatory sinking fund redemption on the dates described below from money deposited to the credit of the Bond Service Account in the amounts set forth below, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

| <u>Redemption</u><br><u>Date</u> | <u>Principal</u><br><u>Amount</u> |
|----------------------------------|-----------------------------------|
| July 1, 2010                     | \$59,445,000                      |
| July 1, 2011*                    | 15,325,000                        |

\*maturity

Principal amounts of the Current Interest Bonds subject to mandatory redemption may be reduced by credits for prior purchase or redemption of 1993 Bonds as described in Appendix D, SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- "The Trust Indenture, Credits Against Amortization Requirements."

**Selection of Bonds.** If less than all of the Current Interest Bonds of a maturity are called for redemption, the particular Current Interest Bonds so called to be redeemed will be selected by the Trustee at the direction of the Authority in such manner as the Authority in its discretion may deem proper.

**Notice of Redemption.** At least 30 days but not more than 60 days prior to the redemption date for any Current Interest Bonds, the Trustee will give notice by first class mail to the registered

owners of Current Interest Bonds to be redeemed containing the information described in the Indenture, including any conditions to such redemption.

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

The Current Interest Bonds and portions thereof which have been called for redemption, or with respect to which irrevocable instructions have been given to the Trustee in form satisfactory to it to call Current Interest Bonds or portions thereof for redemption at the earliest redemption date, and for the payment of the redemption price of which monies are held in separate accounts by the Trustee in trust for the registered owners of the Current Interest Bonds, of portions thereof to be redeemed, all as provided in the Indenture, will not thereafter be deemed to be Outstanding under the Indenture and will not be entitled to any security under the Indenture except the right to receive the redemption price for such Current Interest Bonds or portions thereof

**Cap RITES Bonds.** The Cap RITES Bonds are subject to optional redemption prior to maturity, as set forth below.

*Optional Redemption.* The Cap RITES Bonds are subject to optional redemption on and after July 1, 2003, as a whole at any time or in part on any Interest Payment Date, at the following redemption prices expressed as percentages of principal amount together with accrued interest to the redemption date:

| <b>Redemption Period<br/>(both dates inclusive)</b> | <b>Redemption<br/>Price</b> |
|---|-----------------------------|
| July 1, 2003 to June 30, 2004                       | 102 %                       |
| July 1, 2004 to June 30, 2005                       | 101                         |
| July 1, 2005 and thereafter                         | 100                         |

*Selection of Bonds.* If less than all of the Cap RITES Bonds are called for redemption, the particular Cap RITES Bonds so called to be redeemed will be selected by the Trustee at the direction of the Authority in such manner as the Authority in its discretion may deem proper.

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

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

The Cap RITES Bonds and portions thereof which have been called for redemption, or with respect to which irrevocable instructions have been given to the Trustee in form satisfactory to it to call Cap RITES Bonds or portions thereof for redemption at the earliest redemption date, and for the payment of the redemption price of which monies are held in separate accounts by the Trustee in trust for the registered owners of the Cap RITES Bonds, of portions thereof to be redeemed, all as provided in the Indenture, will not thereafter be deemed to be Outstanding under the Indenture and will not be entitled to any security under the Indenture except the right to receive the redemption price for such Cap RITES Bonds or portions thereof.

**FLOATs and RITES.** The FLOATs and RITES are subject to optional and mandatory redemption, as set forth below.

*Optional Redemption.* The FLOATs are subject to optional redemption prior to maturity on any Regular Record Date therefor, as a whole or in part, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued but unpaid interest to the Redemption Date, without premium.

The RITES are subject to optional redemption prior to maturity on any Regular Record Date on or after July 1, 2003 as a whole or in part, at the redemption prices set forth below (expressed as a percentage of the principal amount of the RITES to be redeemed) together with accrued but unpaid interest thereon to the Redemption Date:

| <b>Redemption Period</b>           | <b><u>Redemption Price</u></b> |
|------------------------------------|--------------------------------|
| July 1, 2003 through June 30, 2004 | 104%                           |
| July 1, 2004 through June 30, 2005 | 102                            |
| July 1, 2005 and thereafter        | 100                            |

*Mandatory Redemption.* The FLOATs and the RITES will be subject to mandatory sinking fund redemption on the first Regular Record Date on or before July 1 of the years set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. The principal amount of such FLOATs and RITES to be so redeemed in the below listed years shall be as indicated on the following table:

Principal Amount

| <u>Year</u> | <u>FLOATs</u> | <u>RITES</u> |
|-------------|---------------|--------------|
| 2011        | \$10,000,000  | \$10,000,000 |
| 2012*       | \$ 5,000,000  | \$ 5,000,000 |

\*Maturity

Provisions regarding selection of FLOAT/RITES for redemption and redemption notice for FLOAT/RITES are set forth in Appendix F - "Selection of FLOAT/RITES to be Redeemed" and "Redemption Notice."

**Book-Entry System**

The Cap RITES Bonds and the FLOAT/RITES Bonds will be initially issued in book-entry form. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Cap RITES Bonds, the FLOAT/RITES Bonds (herein only the "DTC Bonds"). Four fully registered DTC Bonds, registered in the name of Cede & Co., DTC's partnership nominee, will be issued for the DTC Bonds. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE DTC BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE DTC BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE DTC BONDS.

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

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

accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the DTC Bonds, unless use of the book-entry system is discontinued as described below.

To facilitate subsequent transfers, all DTC Bonds deposited by DTC Participants are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Bonds with DTC and the registration of DTC Bonds in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the DTC Bonds, the beneficial owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to the DTC Bonds. 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 the DTC Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the DTC Bonds will be made by the Trustee to DTC. Payments by DTC 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 DTC Participants and not of DTC, the Trustee or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to DTC is the responsibility of the Authority and the Trustee as set forth in the Indenture, and payments made by or on behalf of the Authority to DTC or its nominee shall satisfy the Authority's obligations under the Indenture. Disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payment to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

**THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE DTC BONDS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE DTC BONDS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN DTC BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE DTC BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR**

**INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.**

**NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE DTC BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE DTC BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO DTC BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE DTC BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS A DTC BONDHOLDER.**

#### **Discontinuation of Book-Entry System**

DTC may discontinue providing its services as Securities Depository with respect to the DTC Bonds at any time by giving reasonable notice to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the book-entry system for the DTC Bonds will be discontinued unless a successor securities depository is appointed by the Authority. In addition, the Authority may discontinue the book-entry system for the DTC Bonds at any time by giving reasonable notice to DTC (or a successor securities depository).

In the event that the book-entry system for the DTC Bonds is discontinued, the following provisions would apply, subject in each case to further conditions set forth in the Indenture.

#### **Payment of DTC Bonds**

The principal of and any redemption premium on the DTC Bonds would be payable upon surrender thereof at the Payment Office, and interest would be payable by check or draft mailed by the Trustee to the registered owners of the DTC Bonds as shown on the registration books of the Authority maintained at the principal office of the Trustee as of the close of business on the fifteenth day of the month preceding the month in which the interest payment is due. Upon receipt of a written request at least 30 days prior to the date an interest payment is due or such shorter period as may be agreed upon by the Trustee, the Trustee would pay interest to any registered owner of DTC Bonds in the aggregate principal amount of \$1,000,000 or more by wire transfer or by such other method as is acceptable to the Trustee and such DTC Bondholder.

**Transfers and Exchanges.** DTC Bonds would be exchangeable at the principal office of the Trustee for a like aggregate principal amount of DTC Bonds of other authorized denominations, and the execution by the Authority of any DTC Bond of any denomination would constitute full and due authorization of such denomination, and the Trustee would thereby be authorized to authenticate and deliver such fully registered DTC Bond. Upon surrender for transfer of any fully registered DTC Bond at the Payment Office, the Authority would execute and the Trustee would authenticate and deliver in the name of the transferee or transferees a new fully registered DTC Bond or DTC Bonds for a like aggregate principal amount.

Except as otherwise provided in the Indenture, the person in whose name any DTC Bond is registered will be deemed and regarded as the absolute owner thereof, and payment of or on account of the principal or interest on any DTC Bond will be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such DTC Bond to the extent of the sum or sums so paid.

The Authority may charge the Bondholder a sum not exceeding the actual cost of printing such DTC Bond for each new DTC Bond issued upon any exchange or transfer. In each case the Trustee will require the payment by the Bondholder of any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer provided that the Trustee may not exchange or register the transfer of any DTC Bond being called for redemption after the Record Date with respect to the redemption of such DTC Bond. Any fees of the Trustee incurred through such exchange will be ordinary expenses of the Trustee payable under the Indenture.

Any DTC Bond surrendered for the purpose of payment or retirement, or for exchange or transfer, or for replacement, pursuant to the Indenture, is to be canceled upon surrender thereof to the Trustee or any paying agent. If the Authority acquires any of the DTC Bonds, the Authority is required to deliver such DTC Bonds to the Trustee for cancellation, and the Trustee is required to cancel the same. Any such Bonds canceled by any paying agent other than the Trustee is to be promptly transmitted by such paying agent to the Trustee. Certification of DTC Bonds canceled by the Trustee, and Bonds canceled by a paying agent other than the Trustee which are transmitted to the Trustee, is to be made to the Authority. Canceled DTC Bonds may be destroyed by the Trustee, unless instructions to the contrary are received from the Authority. No transfer or exchange made other than as described above and in the Indenture would be valid or effective for any purposes under the Indenture.

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

### **PRINCIPAL AND INTEREST REQUIREMENTS**

The following table describes the net total principal and interest requirements on (i) the Commonwealth's outstanding general obligation highway bonds payable from the Road Fund, (ii) all lease revenue bonds of the Authority and (iii) the 1993 Bonds.

**Principal and Interest Requirements(1)**

|      | <b>General<br/>Obligation<br/>Highway Bonds</b> | <b>Revenue Bonds</b>                             | <b>1993 Bonds(4)</b> |                      |                         | <b>Total<br/>Net Revenue<br/>Bonds<br/>Principal<br/>&amp; Interest</b> |
|------|---|--|----------------------|----------------------|-------------------------|---|
|      | <b>Total Principal<br/>&amp; Interest</b>       | <b>Total Principal<br/>&amp; Interest (2)(3)</b> | <b>Principal</b>     | <b>Interest</b>      | <b>Net<br/>Total(5)</b> |   |
| 1993 | \$14,041,025                                    | \$ 131,039,548                                   | \$ 0                 | \$ 7,168,700         | \$ 0                    | \$ 131,039,548  |
| 1994 | 14,007,450                                      | 115,248,439                                      | 0                    | 29,708,626           | 0                       | 115,248,439   |
| 1995 | 13,863,150                                      | 105,443,892                                      | 13,055,000           | 29,708,626           | 12,588,750              | 118,032,642   |
| 1996 | 0   | 105,487,060                                      | 13,515,000           | 29,381,314           | 27,296,570              | 132,783,630   |
| 1997 | 0   | 104,101,364                                      | 20,545,000           | 28,711,101           | 45,652,101              | 149,753,465   |
| 1998 | 0   | 106,407,388                                      | 21,430,000           | 27,827,666           | 45,653,666              | 152,061,054   |
| 1999 | 0   | 114,681,537                                      | 22,415,000           | 26,841,886           | 45,652,886              | 160,334,423   |
| 2000 | 0   | 104,191,699                                      | 23,490,000           | 25,765,966           | 46,651,966              | 149,843,665   |
| 2001 | 0   | 102,199,362                                      | 26,145,000           | 24,614,956           | 47,155,956              | 149,355,318   |
| 2002 | 0   | 104,167,120                                      | 41,395,000           | 23,307,706           | 61,098,706              | 165,265,826   |
| 2003 | 0   | 103,204,576                                      | 42,675,000           | 21,196,561           | 60,267,561              | 163,472,137   |
| 2004 | 0   | 103,679,842                                      | 44,900,000           | 18,977,461           | 60,273,461              | 163,953,303   |
| 2005 | 0   | 69,577,911                                       | 28,335,000           | 16,597,761           | 41,328,761              | 110,906,672   |
| 2006 | 0   | 69,158,169                                       | 29,870,000           | 15,067,671           | 41,333,671              | 110,491,840   |
| 2007 | 0   | 66,670,819                                       | 31,515,000           | 13,424,821           | 41,335,821              | 108,006,640   |
| 2008 | 0   | 46,786,019                                       | 51,065,000           | 11,691,496           | 59,152,496              | 105,938,515   |
| 2009 | 0   | 15,662,969                                       | 40,420,000           | 8,882,921            | 45,698,921              | 61,361,890  |
| 2010 | 0   | 13,727,675                                       | 59,445,000           | 6,659,821            | 33,175,821              | 46,903,496  |
| 2011 | 0   | 0  | 35,325,000           | 3,384,174            | 11,705,174              | 11,705,174  |
| 2012 | 0   | 0  | 10,000,000           | 1,421,071            | 11,165,071              | 11,165,071  |
| 2013 | 0   | 0  | 15,000,000           | 882,500              | 11,456,500              | 11,456,500  |
|      | <u>\$41,911,625</u>                             | <u>\$1,581,435,389</u>                           | <u>\$570,540,000</u> | <u>\$371,202,804</u> | <u>\$747,643,858</u>    | <u>\$2,329,079,248</u>  |

- (1) Represents highway-related obligations of the Transportation Cabinet except for \$3,393,100 in Fiscal Year 1993 and \$3,391,000 in Fiscal Year 1994 which are appropriated from the General Fund.
- (2) Amounts are shown net of Debt Service Reserve Fund receipts on the Authority's Economic Development Road Revenue Bonds, 1986 Series A, and the Recovery Road Revenue Refunding Bonds, 1985 Series A and 1987 Series A. Such receipts are assumed to be available if the Debt Service Reserve Funds remain as currently invested. No assurance can be given that the Debt Service Reserve Funds will remain invested at rates sufficient to produce such earnings.
- (3) Amounts shown do not include principal of or interest on the Series 1990 Bonds which are being advance refunded through the issuance of the 1993 Bonds.
- (4) Amounts shown are net principal and interest requirements on the 1993 Bonds payable by the Authority (exclusive of amounts that may be received by the Authority from Merrill Lynch Capital Services, Inc. with respect to the Cap RITES Bonds, under the Master Agreement). See Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS -- "Master Agreement."
- (5) Amounts are shown net of capitalized interest and Debt Service Reserve Fund receipts to be applied to payment of debt service on the 1993 Bonds. Such receipts are assumed to be available if the Debt Service Reserve Fund and the Capitalized Interest Account remain as currently invested. No assurance can be given that the Debt Service Reserve Fund and the Capitalized Interest Account will remain invested at rates sufficient to produce such earnings.

## SECURITY AND SOURCE OF PAYMENT FOR THE 1993 BONDS

### General

Subject only to the provisions of the Indenture permitting the application of such money for the purposes and on the terms and conditions set forth therein, pursuant to the Indenture, the Authority pledges for the payment of principal of and premium, if any, and interest on the 1993 Bonds, the Revenues of the System and all funds and accounts established pursuant to the Indenture. "Revenues" means all rental, monies and other revenues derived from the Lease and, during such times as the Lease is not in effect, motor fuel taxes and surtaxes derived from motor fuels consumed on the System not directed by law or previous binding contract to be applied to uses other than payment of the principal of and premium, if any, and interest on the Bonds, and any other revenues derived from time to time by the Authority from its ownership or operation of the System which can legally be applied to payment of the Bonds. The Authority does not expect the collections of such motor fuel taxes will be sufficient to pay debt service on the 1993 Bonds during any such period. Further, the General Assembly of Kentucky is free to alter or repeal any or all of such motor fuel taxes.

### 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). 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, including the 1993 Bonds. The rental payments under the Lease may be increased in the discretion of the Transportation Cabinet for certain administrative and other expenses of the Authority with respect to the respective System, for maintenance, operation, repair, renewal or replacement of the System or any portion thereof, or to redeem Economic Development Road Revenue Bonds. See Appendix D, "Summary of Principal Legal Documents, The Lease."

The current term of the Lease is from July 1, 1992 to and including June 30, 1994. **While the Lease has been renewed for the biennial period ending June 30, 1994, the Transportation Cabinet is under no obligation to renew the Lease for successive biennial periods.** The Lease provides for automatic renewals for each ensuing biennial term unless the Authority receives written notice on or before the last working day in April prior to the beginning of each biennial term of the Transportation Cabinet's election not to renew the Lease. Pursuant to the Act, the Lease provides that any renewal of the Lease is a general obligation of the Transportation Cabinet, payable not only from revenues of the respective System, but also from any other funds of the Transportation Cabinet not required by law or previous binding contract to be devoted to other purposes. See "The Transportation Cabinet -- Revenue Sources of the Transportation Cabinet" and "The Transportation Cabinet -- Claims on Certain Road Fund Revenues." Such other funds of the Transportation Cabinet are derived primarily from funds deposited in the Road Fund which are required by the Constitution of the Commonwealth to be devoted only to highway purposes, and are described in the Constitution as "excise or license taxation relating to gasoline and other motor fuels" and "fees, excise or license taxation relating to registration, operation or use of vehicles on public highways." See "The Transportation Cabinet -- Revenue Sources of the Transportation Cabinet."

The Transportation Cabinet is under no obligation to renew the Lease for future biennial periods after the biennial period ending June 30, 1994. 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, including the 1993 Bonds. The Economic Development Road Revenue Bonds, including the 1993 Bonds are payable solely from and secured by a pledge of rental payments under the Lease and are not secured by any lien on, or interest in, the projects constituting the System or revenues therefrom. See "Payments if Lease is Not in Effect," below. Further, in order to balance the budget of the Commonwealth, the Governor may limit spending by Commonwealth departments, including the Transportation Cabinet, and reduce appropriations previously made by the Kentucky General Assembly, including appropriations for rental payments under the Lease. Failure of the Cabinet to receive such appropriations could have an adverse effect on or preclude the Authority's ability to pay the principal of and interest on the 1993 Bonds. See Appendix C - THE COMMONWEALTH OF KENTUCKY -- "Financial Management: Fund Structure and Basis of Accounting."

#### **Payments if Lease is Not in Effect**

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

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

#### **Flow of Funds**

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

- (a) To the Bond Service Account of the Bond Fund, first, an amount, if any, which, when added to any amount on deposit therein and available for such purpose, will equal the amount required for interest on the Outstanding Bonds, including the 1993 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 1993 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 clauses (a) and (b) above, an amount equal to the amount included in the most recent rental payment for deposit into the Redemption Account; and

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

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

With respect to the Cap RITES Bonds only, the Authority has additionally covenanted to pay to the Trustee such amounts as are received from Merrill Lynch Capital Services, Inc. under the Master Agreement. See Appendix E - GENERAL EXPLANATION OF CAP RITES BONDS - "Master Agreement."

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

Amounts on deposit in the Bond Service Account of the Bond Fund and the Debt Service Reserve Fund will be applied solely to pay principal of (including the Amortization Requirement, if any) and interest on the Bonds; amounts in the Capitalized Interest Account of the Bond Fund will be applied solely to pay interest on the Bonds; amounts on deposit in the Redemption Account will be used to optionally redeem or purchase Bonds (see "Description of the 1993 Bonds -- Redemption Provisions"); and amounts on deposit in the Rebate Fund will be used to pay any required rebate to the United States Government, all as further described in the Indenture. See Appendix D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - "The Indenture."

#### **Debt Service Reserve Fund**

The Series Resolution establishes a Debt Service Reserve Fund to be held in trust by the Trustee. The Debt Service Reserve Fund is to be maintained in an amount equal to the least of (i) the maximum principal and interest requirements on the 1993 Bonds due in any Fiscal Year, (ii) ten percent of the proceeds of the 1993 Bonds or (iii) 125% of the average annual debt service on the 1993 Bonds; less certain permitted withdrawals from the Debt Service Reserve Fund (the "Debt Service Reserve Requirement"). The Debt Service Reserve Fund is being funded with proceeds of the 1993 Bonds in an amount equal to the Debt Service Reserve Requirement. In lieu of deposits of money for the Debt Service Reserve Fund, the Authority may instead obtain a Debt Service Reserve Guaranty. As a condition precedent to the delivery of a Debt Service Reserve Guaranty, the Authority is required to obtain (i) the Debt Service Reserve Guaranty, (ii) an opinion of counsel stating the delivery of the Debt Service Reserve

Guaranty is authorized under the Series Resolution and complies with its terms and (iii) written evidence from the Bond Insurer stating the substitution of the Debt Service Reserve Guaranty will not result in cancellation of the Municipal Bond Insurance Policy.

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

Moneys held to the credit of the Debt Service Reserve Fund may be (i) used to purchase or redeem 1993 Bonds maturing on or after July 1, 2010 at a purchase or redemption price which is no greater than the principal amount of such Bonds being redeemed plus interest accrued thereon, (ii) deposited in an escrow fund as a part of a plan of refinancing 1993 Bonds in whole or in part, (iii) used to pay the principal amount of 1993 Bonds maturing on or after July 1, 2010, or (iv) transferred to a debt service reserve fund established under the Indenture as security for all Bonds Outstanding under the Indenture.

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

#### **Restrictions on Future Financings**

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

"Adjusted Revenues" means the aggregate of all amounts credited to the Road Fund for any 12 consecutive of the preceding 18 months, excluding (a) proceeds of obligations for borrowed money and (b) amounts required by law (excluding appropriations law) to be used for purposes other than for debt service on obligations for borrowed money payable from the Road Fund or for rentals on leases entered into by the Transportation Cabinet pursuant to the Act. In calculating Adjusted Revenues, if there is in effect at the date of such calculation any change in the rate or charge at which any tax or fee included in Adjusted Revenues is levied or any new tax or fee which is to be credited to the Road Fund, it is to be assumed that such new rate, charge, tax or fee was in effect at all times and the amounts credited to the Road Fund are to be adjusted to reflect the amounts which would have been credited had such rate, charge, tax or fee been in effect at all times.

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

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

*Restrictions in the Indenture.* The Indenture permits the issuance of additional Bonds on a parity with the 1993 Bonds and other Bonds issued on a parity with the 1993 Bonds. Additional Bonds (including refunding Bonds other than as described below) may be issued only if the certificate of the chief accounting officer of the Transportation Cabinet described above is filed with the Trustee on the date of issuance of such additional Bonds.

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

Based upon amounts credited to the Road Fund for the twelve-month period ended December 31, 1992 and assuming issuance of the 1993 Bonds at the interest rates and with the maturities set forth on the inside cover page of this Official Statement, the ratio of Adjusted Revenues to Maximum Annual Debt Service is at least 3.80.\*

\*Based on a Maximum Annual Debt Service of \$165,265,826. See "Principal and Interest Requirements" herein.

## **BOND INSURANCE**

### **Payment Pursuant to Municipal Insurance Policy**

AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the 1993 Bonds effective as of the date of issuance of the 1993 Bonds. Under the terms of the Municipal Bond Insurance Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 1993 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). AMBAC Indemnity will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the 1993 Bonds and, once issued, cannot be canceled by AMBAC Indemnity.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 1993 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 1993 Bonds, AMBAC Indemnity will remain obligated to pay principal of and interest on outstanding 1993 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee/Paying Agent has notice that any payment of principal of or interest on a 1993 Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

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

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

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of 1993 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 1993 Bonds to be registered in the name of AMBAC Indemnity to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest

pursuant to the Municipal Bond Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the 1993 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

A specimen of the Municipal Bond Insurance Policy is attached hereto as Appendix H.

### **AMBAC Indemnity Corporation**

AMBAC Indemnity Corporation ("AMBAC Indemnity") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, and the Commonwealth of Puerto Rico, with admitted assets of approximately \$1,600,000,000 (unaudited) and statutory capital of approximately \$926,500,000 (unaudited) as of December 31, 1992. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Moody's Investors Service, Inc. and Standard & Poor's Corporation have both assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

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

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

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

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

## THE AUTHORITY

### General

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

|  |                        |
|--|------------------------|
| Governor   | Brereton C. Jones      |
| Lieutenant Governor                              | Paul E. Patton         |
| Attorney General                                 | Chris Gorman           |
| Secretary, Finance and<br>Administration Cabinet | W. Patrick Mulloy, II  |
| Secretary, Transportation Cabinet                | Don C. Kelly           |
| State Highway Engineer                           | James McFarland Yowell |
| Secretary, Cabinet<br>for Economic Development   | Marvin E. Strong       |

The Executive Director of the Authority is Bobby J. McKee, the Treasurer of the Authority is Lisa A. Payne, and the Secretary of the Authority is Linda W. Masters.

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

### Transportation Cabinet Projects Financed by the Authority

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

**Turnpike Projects.** Commencing in 1960, the Transportation Cabinet initiated the construction of a system of toll roads (turnpikes) designed to relieve congested traffic conditions and to facilitate vehicular travel within the Commonwealth. The toll road projects which have been financed by the

Authority and leased to the Transportation Cabinet include the Eastern Kentucky Toll Road, the Eastern Kentucky Extension, the Western Kentucky Toll Road, the Central Kentucky Toll Road, the Jackson Purchase Parkway, the Pennyrite Parkway and Western Extension, the Audubon Parkway, the Green River Parkway, the Cumberland Parkway and the Daniel Boone Parkway. All of these projects were financed through the issuance of bonds by the Authority in 1960, 1961, 1962, 1963, 1966, 1969 and 1971.

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

***Economic Development Road Projects; Revitalization Projects.*** In 1980, the Kentucky General Assembly amended the Act to empower the Authority to issue obligations to finance economic development road projects which are currently defined in the Act to mean the construction, reconstruction or relocation of any highway, road or thoroughfare, or such part or parts thereof, as designated by the Transportation Cabinet as a part of the economic development road system of the Commonwealth. The Kentucky General Assembly found that "in many cases, highways, roads and thoroughfares which are vital economic links between various sections of the Commonwealth have become, by reason of age and continued usage, obsolete and are no longer capable of affording the services required in a modern industrial society," and authorized the Authority to issue economic development road revenue bonds to correct such conditions. The Authority financed economic development road projects through the issuance of bonds in 1984 and 1987.

The Act was amended in 1990 to authorize the Authority, subject to the limitations contained in the biennial appropriations act, to issue revenue bonds or notes up to the amount of \$600,000,000, exclusive of (i) any costs incurred in the issuance of the bonds or notes, (ii) amounts necessary to fund a debt service reserve fund (which was not used with respect to the Series 1990 Bonds), if any, or (iii) capitalized interest on the bonds or notes, or both, to finance a portion of the costs of the Revitalization Projects described below. In 1990, the Authority issued \$307,820,000 of those bonds, using the \$300,000,000 authorization provided in the 1990 Biennial Appropriations Act. In its 1992 Biennial Appropriations Act, the Kentucky General Assembly authorized the issuance of up to an additional \$150,000,000 of those bonds (exclusive of costs of issuance and capitalized interest of the 1993 Bonds) in the 1992-1994 biennium. The 1993 Bonds, the proceeds of which are being used for new construction, are being issued pursuant to such authorization. Proceeds of the 1993 Bonds deposited in the Construction Fund as described under "Sources and Uses of Funds" will be used to pay a portion of the costs of the Revitalization Projects described below. The specific routes comprising the Revitalization Projects and the estimated cost of each is specified in the Act to be the following:

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

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

The actual costs of each route comprising the Revitalization Projects described are anticipated to differ from those estimated. As of December 31, 1992, \$204,655,922.68 of the proceeds of the Series 1990 Bonds had been expended to pay a portion of the costs of such Revitalization Projects.

The Transportation Cabinet currently anticipates that the issuance of Economic Development Road Revenue Bonds by the Authority in addition to the 1993 Bonds will be required to finance completion of the Revitalization Projects described above. Any authorization for the issuance of such Economic Development Road Revenue Bonds must be included by the Kentucky General Assembly in a biennial appropriations act. The General Assembly convenes in Regular Session in January of even-numbered years to consider and adopt an appropriations act. The Transportation Cabinet currently anticipates that authorization for the issuance of additional Bonds to complete the Revitalization Projects described above will be sought from the General Assembly during its 1994 Regular Session.

## Outstanding Obligations of the Authority

The outstanding bonded obligations of the Authority as of April 1, 1993, were as follows:

| <u>Name of Revenue Bond Issue</u>  | <u>Date Issued</u> | <u>Final Maturity Outstanding</u> | <u>Amount of Issue (1)</u> | <u>Amount Outstanding</u> |
|--|--------------------|-----------------------------------|----------------------------|---------------------------|
| <b>Toll Road Revenue Refunding Bonds (2)</b>                             |                    |                                   |                            |                           |
| 1984 Series A  | 10/1/84            | 7/1/1995                          | \$ 218,705,000             | \$ 17,160,000             |
| 1986 Series A  | 7/1/86             | 7/1/2010                          | \$ 226,385,000             | \$ 214,970,000            |
| <b>Resource Recovery Road Revenue Refunding Bonds(3)</b>                 |                    |                                   |                            |                           |
| 1985 Series A  | 7/1/85             | 7/1/2009                          | \$ 309,961,261             | \$ 146,792,985 (7)        |
| 1987 Series A  | 5/1/87             | 7/1/2008                          | \$ 257,989,380             | \$ 264,055,448(5,7)       |
| 1988 Series A  | 6/1/88             | 7/1/1996                          | \$ 45,910,000              | \$ 34,770,000 (7)         |
| <b>Economic Development Road Revenue Bonds(4)</b>                        |                    |                                   |                            |                           |
| 1986 Series A  | 8/1/86             | 1/1/2004                          | \$ 367,960,000             | \$ 123,045,000            |
| 1987 Series A  | 11/1/87            | 7/1/2007                          | \$ 36,600,000              | \$ 10,505,000             |
| <b>Economic Development Road Revenue Bonds (Revitalization Projects)</b> |                    |                                   |                            |                           |
| Series 1990  | 10/1/90            | 5/15/2010                         | \$ 307,820,000             | \$ 249,900,000(6)         |
| Series 1992  | 10/1/92            | 1/1/2010                          | \$ 250,493,658             | \$ 252,605,395(7)         |

Source: Transportation Cabinet

- (1) Represents amount of bonds issued. Any additional bonds beyond those approved would require approval of the Kentucky General Assembly except for certain refunding obligations or obligations used to finance projects which will produce revenues that fully meet required debt service. See "Transportation Cabinet Projects Financed by the Authority: Economic Development Road Projects; Revitalization Project" above.
- (2) These bonds are secured primarily by renewable biennial leases of the applicable turnpike projects, and in the event such leases are not renewed by the Transportation Cabinet, by a claim upon tolls and motor fuel taxes on fuel consumed on such turnpike projects.
- (3) These bonds are secured primarily by a renewable biennial lease of certain resource recovery road projects, and, in the event the lease is not renewed by the Transportation Cabinet, by a claim upon collections from coal severance taxes, tolls, fees and charges that may be imposed for use of such projects and motor fuel taxes on fuel consumed on such resource recovery projects.
- (4) These bonds are secured primarily by renewable biennial leases of certain economic development road projects, and, in the event such leases are not renewed by the Transportation Cabinet, by a claim upon motor fuel taxes on fuel consumed on such economic development road projects.
- (5) Amount Outstanding includes the accreted value of capital appreciation bonds and therefore exceeds the original Amount of Issue.
- (6) To be fully refunded with the proceeds of the 1993 Bonds.
- (7) Accreted values as of July 1, 1993.

## **THE TRANSPORTATION CABINET**

### **General**

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

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

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

### **Organization and Management**

The Transportation Cabinet is organized into five major operating departments: Highways, Administrative Services, Rural and Municipal Aid, Vehicle Regulation, and Fiscal Management. Seven offices perform staff functions: Office of the Secretary, Policy and Budget, Personnel, General Counsel, Minority Affairs, Aeronautics, and Public Relations. The Transportation Cabinet employs approximately 6,200 people on a full-time basis, and approximately 500 people on a part-time or seasonal basis.

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

## **Operations and Maintenance**

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

The Transportation Cabinet relies on automated systems for tracking and assessing the activities in virtually all functional areas. The Transportation Cabinet uses a sophisticated automated maintenance management system which provides managers with performance data on all aspects of roadway maintenance work. The Transportation Cabinet also maintains an extensive and detailed database of the Commonwealth's highway infrastructure, which Transportation Cabinet engineers have valued at \$96 billion.

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

## **Capital Planning For Highways**

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

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

The Six-Year Plan consists of a biennial construction program and a four-year preconstruction planning document. It is through this plan that legislative involvement in the project development process has been assured. In recent years, the Six-Year Plan has formed the foundation for development by the Transportation Cabinet of a more forward-looking transportation planning tool, which is formally known as the "Long Range Transportation Plan." This plan integrates all modes of transportation and expands

the horizon of project needs identification beyond the six-year period prescribed by the statutes and allows a more far-sighted approach to highway planning.

**Highway Plan Development.** Beginning with an unconstrained list of potential projects, the planning process sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years represent the highest priority projects and constitute the Six-Year Plan. The remaining projects are pooled into the Long-Range Transportation Plan for possible inclusion in later Six-Year Plans. This pool consists of approximately 1,000 major roadway projects which are eligible for state and federal funding. Each project is evaluated and assigned a high, medium, or low ranking, based on its relative contribution toward the satisfaction of five goal-oriented criteria. These goals focus on (1) preservation of the existing highway network, (2) improvement of highway capacity and reduction of congestion, (3) promotion of cultural, social, and economic growth throughout the Commonwealth, (4) efficient use of highway revenues, and (5) reliance on planning and research data.

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

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

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

In preparing the Six-Year Plan, the Transportation Cabinet projects anticipated future funding levels against which future projects can be established. An effort is made to identify annual funding

ceilings within each funding category and to budget proposed highway activities against those dollars expected to be available during the period. Once anticipated funding levels are set, projects are included in each funding category as funding levels permit. No project is included unless it can realistically be funded within the specified time frame.

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

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

### **Revenue Sources of the Transportation Cabinet**

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

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

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

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

**Motor Fuel Taxes.** Motor fuel taxes make up the largest portion of the total Road Fund, representing nearly one half of the total monies deposited, including those monies which are dedicated by statute to specific uses. These taxes are levied on gasoline, liquified petroleum gas and special fuels (predominantly diesel) sold for use in motor vehicles operated on public highways. These taxes make up approximately 31 percent of the Road Fund that is available for debt service on Economic Development Road Revenue Bonds. See "Historical Available Road Fund Revenues, Expenses and Debt Service."

The currently effective rate for the basic motor fuels tax is 15 cents per gallon for gasoline and LP gas and 12 cents per gallon for special fuels. In addition, firms operating commercial trucks in Kentucky are assessed a motor fuels tax for any fuel purchased outside the Commonwealth but consumed on Kentucky highways. Motor carriers are also charged a basic motor fuels surtax which equates to approximately 2.2 cents per gallon of gasoline and 5.2 cents per gallon of special fuels. Finally, vehicles with a declared gross operating weight of 60,000 pounds or more are taxed a heavy vehicle fuel surtax of an additional 2.0 cents per gallon.

A substantial portion of certain of the motor fuels taxes is statutorily dedicated to a revenue sharing program. See "Claims on Certain Road Fund Revenues -- Revenue Sharing Programs and Other Restricted Revenues" below.

**Motor Vehicle Usage Tax.** A usage tax is currently imposed on the sale or transfer of new or used motor vehicles at the rate of 6% of the vehicle's value. The value on which the tax is assessed on new cars is a percentage of the retail price, and for used cars and trucks is determined by reference to an automobile reference manual. A similar assessment is charged on the value of contracts for leased and rented vehicles. This category of taxes accounts for approximately 37% of the available Road Fund receipts. See "Historical Available Road Fund Revenues, Expenses and Debt Service" herein.

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

**Other Taxes.** The major component in this category is the weight distance tax. The weight distance tax is assessed on trucks operating on Kentucky roads at declared weights of 60,000 pounds or more. A basic rate of 2.85 cents per mile, plus a surtax of 1.15 cents per mile is currently imposed on this category of highway user. The weight distance surtax of 1.15 cents is scheduled to sunset under provisions contained in the current biennial appropriations act no later than June 30, 1994. However, the surtax may sunset or be reduced effective June 30, 1993 if revenues to the Road Fund exceed the official Road Fund estimate for Fiscal Year 1992-93.

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

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

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

The motor fuels tax rate was increased in 1986 from a basic effective rate of 10 cents per gallon for gasoline and LP gas to the current effective rate of 15 cents per gallon. A similar increase in the effective tax rate for most users of special fuels was effected through a combination of changes to both the basic motor fuels tax and the motor fuels surtax paid by commercial motor carriers. The basic effective tax was increased from 10 cents to 12 cents per gallon and the surtax was increased from 2.2 cents to 5.2 cents per gallon. This change became effective at the beginning of Fiscal Year 1987. A 3.5 cent per gallon tax credit for gasohol was allowed to sunset by the 1988 General Assembly at the end of Fiscal Year 1988. Further, as a means to improve the accountability for credits for off-highway use, the 1988 General Assembly changed the point of taxation for special fuels from the retail to the distributor level.

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

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

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

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

Although motor fuels taxes represent a major portion of the revenues of the Road Fund, policy-makers and management recognize the limitations and potential volatility of this source and have taken measures to enhance these taxes. First, protection was built into the basic per-gallon rate in 1980, because the price of gasoline had increased so rapidly and was projected to increase. The General

Assembly changed the tax base to the average wholesale price per gallon and set the rate at 9 percent. As designed, if the price of gasoline increased, the taxes collected would also increase proportionately. A minimum wholesale price of \$1.11 per gallon was established in 1982, thus creating a "floor," or minimum effective tax rate, of 10 cents per gallon. In 1986, "the supplemental highway user motor fuel tax" was enacted and became effective on July 1 at a rate of 5 cents per gallon for gasoline and a rate of 2 cents per gallon for special fuels. This raised the effective minimum tax to 15 cents per gallon for gasoline and 12 cents per gallon for special fuels. Steps have also been taken to reduce evasion and maximize collections. Most recently, the 1992 General Assembly appropriated \$1,250,000 in each year of the 1992-94 biennium to increase auditing efforts in motor fuels and vehicle compliance functions.

Second, the Commonwealth has made a concerted effort to assure that the commercial trucking industry, which represents an increasing presence on the nation's highways, is assessed for its use of highways in the Commonwealth by implementing taxes based upon weight and distance traveled, supplemental fuel taxes for heavy vehicles and a special surtax (see "License and Privilege Taxes" and "Recent Changes to Road Fund Receipts" above). This modified tax structure used by the Commonwealth has been augmented by the construction of five new state-of-the-art weigh stations and the operation of all vehicle enforcement facilities on a virtually around-the-clock basis. Computerized observation reports now ensure more accurate auditing of motor carrier tax returns. This focus on enhanced collections and enforcement initially generated truck tax receipts at 25% to 30% above projections. An additional benefit of the program has been the protection of both motorists and the road infrastructure from unsafe or overweight vehicles.

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

Despite recent adjustments to several Road Fund revenue sources, additional taxing capacity clearly exists in certain categories. The Commonwealth's motor fuels tax rate of 15 cents per gallon (see "Motor Fuels Taxes" above) remains below the national average of approximately 19.0 cents per gallon. The tax rate is also below the average rate of surrounding states, which is approximately 20.0 cents per gallon. Given current consumption rates, increasing Kentucky's rate to match the national average would generate approximately \$75,000,000 of additional Road Fund revenues annually. An increase to the average rate of the contiguous states would yield approximately \$94,000,000 in new funds annually. Any such increases would require the approval of the Kentucky General Assembly, and a portion of these increases may be dedicated to the Revenue Sharing Programs. See "Claims on Certain Road Fund Revenues - Revenue Sharing Programs and Other Restricted Revenues" below.

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

### **Claims on Certain Road Fund Revenues**

***General Obligation Highway Bonds.*** Road Fund revenues are subject to certain outstanding statutory and contractual claims or required applications. Road Fund revenues are subject to the first and prior lien of the general obligation highway bonds of the Commonwealth designated Highway

Construction Bonds approved at elections in 1960 and 1964, of which \$38,410,000 aggregate principal amount maturing serially to July 1, 1995, was outstanding as of June 30, 1992. Annual debt service on the outstanding general obligation highway bonds ranges from \$13,863,150 - \$14,041,025 for the years 1993 through 1995. The legislation authorizing such outstanding general obligation bonds requires that taxes for the benefit of the Road Fund in the form of license fees, excise taxes and fees relating to registration, operation and use of vehicles on Kentucky public highways be maintained at rates not less than the rates imposed by law at the time of enactment of such legislation or at rates adjusted so as to produce for the Road Fund not less than the amount then derived from all such sources.

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

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

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

#### **Historical Available Road Fund Revenues, Expenses and Debt Service**

The table below illustrates the Transportation Cabinet's historical total available Road Fund revenues, expenses, debt service on general obligation highway bonds, and lease rental obligations for the past five fiscal years and the six month period ended December 31, 1992. The figures for the past five fiscal years are derived from the Transportation Cabinet's Financial Reports to Management for each Fiscal Year, and the figures for the six month period ended December 31, 1992 are derived directly from the Transportation Cabinet's interim financial statements (see "Basis of Accounting" below). Motor fuel revenues are shown net of the required allocations for urban roads and streets, for rural and secondary roads, for county roads and bridges, and for the Kentucky Transportation Center. Operating and maintenance expenses reflect only those related to Commonwealth highway and highway-related projects payable from the Road Fund.

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

|  | <u>Fiscal Year Ended June 30 (1)</u> |                  |                  |                  |                  | <b>6 Month<br/>Period<br/>Ended</b> |
|--|--------------------------------------|------------------|------------------|------------------|------------------|-------------------------------------|
|  | <u>1988</u>                          | <u>1989</u>      | <u>1990</u>      | <u>1991</u>      | <u>1992</u>      | <u>12/31/92</u>                     |
|  | (\$ Amounts in Thousands)            |                  |                  |                  |                  |                                     |
| <b>Total Available Road Fund Revenues (2)</b>                                      |                                      |                  |                  |                  |                  |                                     |
| <b>TAXES:</b>  |                                      |                  |                  |                  |                  |                                     |
| Motor Fuels .....  | \$166,877                            | \$187,908        | \$188,829        | \$183,861(6)     | \$188,974        | \$ 98,563                           |
| Usage .....  | 191,420                              | 190,327          | 202,063          | 215,744          | 222,523          | 119,868                             |
| Other (3) .....  | 1,790                                | 56,623           | 59,965           | 61,307           | 63,775           | 34,464                              |
| LICENSE, FEES, AND PERMITS   | 72,489                               | 80,970           | 85,960           | 81,748           | 82,823           | 32,092                              |
| CHARGE FOR SERVICES .....  | 22,284                               | 23,652           | 24,581           | 24,117           | 22,659           | 8,097                               |
| FINES AND FORFEITS .....   | 43                                   | 48               | 1                | 14               | 6                | 33                                  |
| INTEREST INCOME .....  | <u>9,450</u>                         | <u>16,178</u>    | <u>18,357</u>    | <u>27,565</u>    | <u>24,180</u>    | <u>6,924</u>                        |
| Total Available Revenues .....   | \$464,353                            | \$555,706        | \$579,756        | \$594,336        | \$604,940        | \$300,041                           |
| <b>Operating and Maintenance Expenses:</b>   |                                      |                  |                  |                  |                  |                                     |
| Personnel Cost .....   | \$ 93,735                            | \$ 98,869        | \$ 97,215        | \$110,006        | \$116,912        | \$ 56,256                           |
| Personal Service .....   | 3,367                                | 2,621            | 1,765            | 1,447            | 1,813            | 1,039                               |
| Operating Expense .....  | 36,777                               | 34,945           | 40,948           | 47,184           | 47,596           | 28,968                              |
| Grants .....   | 44                                   | 124              | 43               | 50               | 267              | 169                                 |
| Debt Service .....   | 293                                  | 440              | 534              | 412              | 290              | 72                                  |
| Capital Outlay .....   | 2,578                                | 1,885            | 2,630            | 5,415            | 3,867            | 388                                 |
| Capital Construction .....   | 13,439                               | 14,083           | 14,280           | 15,176           | 17,585           | 1,511                               |
| Highway Materials .....  | <u>19,699</u>                        | <u>17,560</u>    | <u>19,555</u>    | <u>20,751</u>    | <u>14,979</u>    | <u>6,584</u>                        |
| Total Operating and Maint. Expenses .....  | <u>\$169,932</u>                     | <u>\$170,527</u> | <u>\$176,970</u> | <u>\$200,441</u> | <u>\$203,309</u> | <u>\$ 94,987</u>                    |
| Net Available Road Fund Revenues .....   | \$294,421                            | \$385,179        | \$402,786        | \$393,915        | \$401,631        | \$205,054                           |
| <b>Debt Service on Commonwealth General<br/>Obligation Highway Bonds (4) .....</b> | \$ 18,333                            | \$ 18,539        | \$ 18,388        | \$ 14,098        | \$ 14,104        | \$ 878                              |
| <b>Lease Rentals (5):</b>  |                                      |                  |                  |                  |                  |                                     |
| Toll Road Projects .....   | \$ 26,531(6)                         | \$ 33,983        | \$ 35,525        | \$ 33,298        | \$ 31,071        | \$ 9,018                            |
| Economic Recovery Road Projects .....  | 35,768                               | 35,160           | 35,156           | 66,300           | 67,398           | 51,201                              |
| Resource Recovery Road Projects .....  | <u>43,178</u>                        | <u>41,994</u>    | <u>42,722</u>    | <u>41,764</u>    | <u>41,798</u>    | <u>13,779</u>                       |
| Total Debt Service and<br>Lease Rentals: .....                                     | \$123,810                            | \$129,496        | \$131,791        | \$155,460        | \$154,371        | \$ 74,876                           |
| Gross Coverage .....   | 3.7505                               | 4.2913           | 4.3991           | 3.8232           | 3.9187           | 4.0072                              |
| Net Coverage .....   | 2.3780                               | 2.9744           | 3.0562           | 2.5339           | 2.6017           | 2.7386                              |

Source: Transportation Cabinet, Financial Reports to Management for the Years Ended June 30, 1988 through June 30, 1992.  
Transportation Cabinet, unaudited Financial Statements for the six month period ended December 31, 1992.

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

revenues and operating and maintenance expenses in the schedule of Historical Available Road Fund Revenues, Expenses, Debt Service on General Obligation Highway Bonds, and Lease Rentals has been modified for Fiscal Years 1988 through 1992 to reflect this classification structure.

- (2) Excludes taxes, fees, and miscellaneous revenues which are dedicated for other uses and not available to make lease payments to the Authority or pay debt service on the general obligation highway bonds.
- (3) The major revenue component of the "Taxes: Other" revenue classification is the weight distance tax for which collections during FY 88 were \$1.0 million. This tax was suspended during that year, but was reinstated in fiscal year 1989 by the 1988 Regular Session of the Kentucky General Assembly.
- (4) The general obligation highway bonds have a prior lien on revenues in the Road Fund. See "Claims on Certain Road Fund Revenues: General Obligation Highway Bonds" above.
- (5) Lease rentals paid by the Transportation Cabinet to the Authority include amounts representing the following: (i) principal and interest requirements on Authority bonds, net of Debt Service Reserve Fund investment earnings and principal amounts required by the Authority for administrative and other expenses of the Authority; and (iii) any amounts for deposit into the Redemption Account.
- (6) The motor vehicle usage tax rate increased from 5% to 6% of value effective July 1, 1990. See "Revenue Sources of the Transportation Cabinet: Motor Vehicle Usage Tax" and "Revenue Sources of the Transportation Cabinet: Recent Changes to Road Fund Receipts."

Additionally, lease rental payments due on the Western Kentucky Parkway during Fiscal Year 1988 were paid from the Debt Payment Acceleration Fund appropriated by the 1986 General Assembly. With this payment, funds held by the trustee were sufficient to decrease all outstanding bonds issued for the Parkway.

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### **Basis of Accounting**

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

The (annual, as of June 30) audited financial statements and the unaudited financial statements as of December 31, 1992 are prepared on a modified accrual basis of accounting in compliance with Generally Accepted Accounting Principles and Legal Compliances as outlined by the Governmental

Accounting Standards Board. A copy of the Transportation Cabinet's audited financial statements for the Fiscal Years ended June 30, 1992 and June 30, 1991 are included as Appendix A to this Official Statement. Also included in that Appendix is a summary of the audited balance sheets of the Transportation Cabinet for Fiscal Years 1988 through 1992, which reflect year-end cash, investment and fund balances. The unaudited financial statements as of and for the year ended December 31, 1992, are included as Appendix B to this Official Statement.

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

### **Budget Process**

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

Transportation Cabinet budgeting is initially dependent upon determining (1) available funds both dedicated and undedicated, (2) debt service requirements and lease rental obligations, (3) construction program requirements and (4) operating requirements. The budget is developed from the analysis of the above factors, prior year performance and new data modifying or expanding the highway 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, rights-of-way, construction, engineering, utilities, design, location and other similar factors.

The operating requirements for the Transportation Cabinet are determined initially by requests from each budget unit with subsequent analysis, discussion and adjustment of the budget unit. A complete study of the proposed budget is made by a budget staff analyst. Final Transportation Cabinet approval of the budget is given by the Secretary of the Transportation Cabinet prior to submission to the Governor's Office for Policy and Management.

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

## **Conditions to Additional Indebtedness**

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

## **TAX TREATMENT**

### **Exclusion of Interest**

In the opinion of Bond Counsel, based upon certain representations and certifications of the Authority, which Bond Counsel has not independently verified, and assuming continuing compliance therewith, as set forth below, interest on the 1993 Bonds is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and decisions in effect on the date of delivery of the 1993 Bonds.

The Authority is required by the Internal Revenue Code of 1986, as amended (the "Code"), to comply on an ongoing basis with certain obligations in order for the interest on the 1993 Bonds to be and remain excludable from gross income for federal income tax purposes. Failure to meet those obligations could result in the interest on the 1993 Bonds becoming subject to federal income taxation, retroactive to the date of the 1993 Bonds. The Authority has covenanted to comply with all such obligations. Under the Code, interest on the 1993 Bonds will not be treated as an item of tax preference in computing the alternative minimum tax on individuals and corporations and the corporate environmental tax. However under the Code, interest on the 1993 Bonds will be included in the "adjusted current earnings" of certain corporations, and such corporations would be required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for alternative tax net operating losses). Interest on the 1993 Bonds is therefore includable in the tax base for computing such corporations' liability with respect to the alternative minimum tax, and with respect to the environmental tax, which is equal, in general, to 12% of the amount of such corporations' modified alternative minimum taxable income in excess of \$2,000,000 for taxable years beginning before January 1, 1996. Interest on the 1993 Bonds will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States. In addition, the Code disallows certain federal income tax deductions of certain financial institutions and property and casualty insurance companies which acquire the 1993 Bonds.

The 1993 Bonds maturing on July 1, 2003, 2004, 2005, 2007, 2008, 2009 and 2011 (the "Discount Bonds") will be issued at an original issue discount within the meaning of Section 1288 of the Code. Any original issue discount deemed received by any purchaser of a Discount Bond under the original issue discount provisions of the Code will constitute tax-exempt interest for federal income tax purposes. However, such interest is taken into account for purposes of determining the alternative

minimum tax imposed on corporation and may result in collateral federal income tax consequences described above. The total amount of original issue discount on a Discount Bond will be the excess of its stated redemption price at maturity over the initial offering price at which a substantial amount of such Discount Bonds of the same maturity are sold to the public, excluding bond houses and brokers. Generally, an original purchaser of a Discount Bond will be treated as receiving in each taxable year during which such purchaser holds such Discount bond an amount of interest on such Discount Bond equal to the original issue discount accrued on a semi-annual compound interest basis that reflects an economic accrual of original issue discount. This economic accrual of the original issue discount will constitute tax-exempt interest to such purchaser of the Discount Bond for federal income tax purposes. Pursuant to the original issue discount provisions of the Code, such purchaser's adjusted tax basis in each Discount Bond (which is relevant for purposes of determining gain or loss on a sale or redemption of such Discount Bond) will be increased by the amount of the original issue discount treated as received by such purchaser.

If the amount realized by an original purchaser from the sale, redemption, or other disposition, prior to maturity, of a Discount Bond is in excess of such purchaser's adjusted tax basis in such Discount Bond (by reason of, for example, unearned original issue discount, a decline in interest rates or redemption premium, if any), such purchaser will recognize taxable gain to the extent of such excess and such gain will be treated as capital gain (assuming the Discount Bond is a capital asset during the period it is owned by such purchaser). If the adjusted tax basis of an original purchaser in a Discount Bond exceeds such purchaser's amount realized from a sale, redemption, or other disposition, prior to maturity of such bonds, such purchaser will recognize a loss, and such loss will be treated as a capital loss (assuming the Discount Bond is a capital asset during the period it is owned by such purchaser). Under current federal income tax law, if an original purchaser of a Discount Bond holds such Discount Bond to maturity, such purchaser will not realize taxable gain or loss upon payment of the stated redemption price of such Discount Bond at maturity.

In the opinion of Bond Counsel, the 1993 Bonds are exempt from ad valorem taxation and interest thereon is exempt from income taxation by the Commonwealth of Kentucky and any political subdivisions thereof.

Prior to any purchase of the 1993 Bonds, prospective purchasers of the 1993 Bonds are advised to consult their own tax advisors as to the impact of the Code on their acquisition, holding or disposition of the 1993 Bonds.

With regard to tax treatment of Cap RITES Bonds, see additional discussion in Appendix E - THE CAP RITES BONDS - "Optional Conversion of the Cap RITES Bonds."

### **ENFORCEABILITY OF REMEDIES**

The remedies available to the Trustee and the owners of the 1993 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 1993 Bonds and such documents will be qualified to the extent that the enforceability of certain legal rights related to the 1993 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

Except as described herein, 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 1993 Bonds or which would adversely affect the application of the revenues of the Transportation Cabinet to the payment of the 1993 Bonds. Except as described herein, there is no litigation pending or, to the knowledge of the Authority, threatened against the Authority or any of its assets or revenues that would materially adversely affect the Authority or its operations.

A lawsuit was filed on October 2, 1990, in the Franklin Circuit Court of the Commonwealth styled Wilson v. Kentucky Transportation Cabinet, et al. ("Wilson"). Wilson seeks, *inter alia*, a judgment declaring the Series 1990 Bonds unconstitutional and invalid. Wilson alleges constitutional and statutory defects and other matters previously raised and rejected by the Kentucky Supreme Court in Blythe v. Transportation Cabinet, 660 S.W. 2d 668 (Ky. 1983). In Blythe, the Kentucky Supreme Court reaffirmed long-standing precedent in the Commonwealth upholding the validity of biennially renewable leases executed pursuant to authorization by the Kentucky General Assembly. After a temporary restraining order was entered to prevent the issuance of the Series 1990 Bonds, the Kentucky Court of Appeals vacated that temporary restraining order. The Kentucky Supreme Court affirmed the decision of the Court of Appeals, and stated that "the movant [Wilson] has failed to establish, for purposes of granting temporary injunction under the aegis of CR 65.09, that there is a 'reasonable possibility or a likelihood' that they will prevail on the substantive merits . . . ." Wilson remains before the Franklin Circuit Court. Wilson on April 14, 1993, filed a motion in Franklin Circuit Court to assign a hearing date for all pending motions. The Court set the motion for hearing on April 26, 1993.

The validity of biennial renewal lease financing in the Commonwealth has been upheld for nearly a century by the courts of the Commonwealth. Bond Counsel is of the opinion that a final decision in Wilson adversely affecting the validity of the Bonds is highly unlikely and that the Bonds will continue as legal, valid and binding obligations of the Authority and the Lease will continue as a legal, valid and binding obligation of the Transportation Cabinet, each enforceable in accordance with their respective terms.

The Supplemental Highway Users Tax, enacted by the 1986 General Assembly and implemented during Fiscal Year 1987, was declared unconstitutional in the case of Transportation Cabinet v. American Trucking Association, Inc., 746 S.W. 2d 65 (Ky. 1988). The Kentucky Board of Tax Appeals (the "Board") subsequently ruled that the Commonwealth must refund all such taxes paid by any motor carrier who had timely filed an appeal with the Board, subject, however, to certain offsets. Under the Board's ruling, the Commonwealth would be required to refund approximately \$59,000,000, subject to offsets of approximately \$32,000,000. All parties appealed the Board's ruling and the case is now pending before the Franklin Circuit Court.

During 1990 a lawsuit, styled Thomas Heavy Hauling v. Transportation Cabinet, was filed challenging the constitutionality of the over-weight/over-dimension permit fees charged pursuant to Kentucky Revised Statutes Section 189.270 for any vehicle which hauls a load in excess of the set weight

rating for the highway on which it is being transported. It is alleged that the fees charged are excessive and therefore unconstitutional. The case has been certified as a class action and is now pending before the Franklin Circuit Court.

### **CERTAIN LEGAL MATTERS**

Certain legal matters incident to the authorization and issuance of the 1993 Bonds are subject to the approval of Peck, Shaffer & Williams, Covington, Kentucky, Bond Counsel, whose approving legal opinion will be printed on the 1993 Bonds. The proposed form of such opinion is attached hereto as Appendix G. Certain legal matters concerning the Transportation Cabinet will be passed upon by A. Stephen Reeder, General Counsel of the Transportation Cabinet; certain legal matters concerning the Authority will be passed upon by Charles Wickliffe, Attorney, Office of Legal and Legislative Services; and certain legal matters will be passed upon for the Underwriters by their counsel, Brown, Todd & Heyburn, Louisville, Kentucky. Brown, Todd & Heyburn is also serving as counsel to the Transportation Cabinet and the Authority in the Wilson litigation.

Under Kentucky law, issuance of Bonds by the Authority requires the approval of the Office of Financial Management and Economic Analysis in the Finance and Administration Cabinet, which approval will be obtained for the 1993 Bonds prior to their issuance.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

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

### **RATINGS**

Moody's Investors Service ("Moody's"), and Standard & Poor's Corporation ("Standard & Poor's") have given the 1993 Bonds the ratings of "AAA" and "Aaa," respectively, with the understanding that upon delivery of the 1993 Bonds, a policy insuring the payment when due of the payment of and interest on the 1993 Bonds will be issued by AMBAC Indemnity Corporation. Such ratings reflect only the views of Moody's, and Standard & Poor's and an explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York, New York, 10007, (212) 553-0470, and from Standard & Poor's at 25 Broadway, New York, New York 10004, (212) 208-8000. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The ratings do not constitute a recommendation to buy, sell or hold the 1993 Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal could have an adverse effect on the market price of the 1993 Bonds.

## **UNDERWRITING**

The 1993 Bonds are being purchased for reoffering by the Underwriters, for whom Merrill Lynch & Co. and Stifel, Nicolaus & Co., Inc. are acting as representatives. The Underwriters have agreed to purchase the 1993 Bonds at an aggregate purchase price of \$561,818,518.30 (representing the \$570,540,000.00 original principal amount of the 1993 Bonds less \$3,909,685.95 original issue discount and less \$4,811,795.75 of Underwriters' discount) plus accrued interest. The Bond Purchase Agreement with respect to the 1993 Bonds provides that the Underwriters will purchase all the 1993 Bonds if any are purchased, and contains certain conditions to the purchase of the 1993 Bonds by the Underwriters. The initial public offering prices are set forth on the inside cover page of this Official Statement.

## **FINANCIAL STATEMENTS**

Included in Appendix A are a summary of audited balance sheets of the Transportation Cabinet for the years ended June 30, 1988 through June 30, 1992, as well as a summary of the unaudited balance sheet of the Transportation Cabinet as of December 31, 1992, and the audited Combined Financial Statements of the Transportation Cabinet as of and for the years ended June 30, 1992 and June 30, 1991. The combined financial statements of the Transportation Cabinet as of and for the year ended June 30, 1992 have been audited by Coopers & Lybrand, Independent Accountants, as set forth in their report dated September 29, 1992, which report is included in Appendix A. The Combined Financial Statements of the Transportation Cabinet as of and for the year ended June 30, 1991 were audited by Deloitte & Touche, Independent Accountants, as set forth in their report dated October 18, 1991, which report is also included in Appendix A.

Attached hereto as Appendix B are the unaudited combined financial statements of the Transportation Cabinet as of and for the six month period ended December 31, 1992.

## **MISCELLANEOUS**

All quotations from, and summaries and explanations of, the Act, the Indenture, the Lease, the Agreement, the Bonds and the 1993 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 1993 Bonds upon request directed to the Authority, Capitol Annex, Frankfort, Kentucky 40601, or the Underwriters, c/o Merrill Lynch & Co., World Financial Center, North Tower, 9th Floor, New York, New York 10281-1309.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract among the Authority, the Transportation Cabinet and the purchasers or holders of any of the 1993 Bonds.

**THE TURNPIKE AUTHORITY OF KENTUCKY**

By s/Brereton C. Jones  
Authorized Officer, Turnpike Authority of Kentucky

**THE TRANSPORTATION CABINET OF THE  
COMMONWEALTH OF KENTUCKY**

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

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**THE COMMONWEALTH OF KENTUCKY**

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## THE COMMONWEALTH OF KENTUCKY

### General

The Commonwealth of Kentucky (the "Commonwealth"), 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, Virginia, Tennessee, and Missouri.

Kentucky is among the leading coal producing states and ranks among the top 10 states in the value of all minerals produced. Tobacco is the dominant agricultural crop and Kentucky ranks second among the states in the total cash value of tobacco raised. The manufacturing mix in the Commonwealth reflects a significant diversification. In addition to the traditional concentration of tobacco processing plants and bourbon distilleries, there is considerable durable goods production, such as automobiles, heavy machinery, consumer appliances and office equipment. The Commonwealth's parks and the horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in an expanding tourist business in the Commonwealth.

The Commonwealth has a centralized administrative system with the Governor, the chief executive officer of the Commonwealth, responsible for the execution of the laws of the Commonwealth. The Governor has a cabinet form of government. In addition, there are seven other constitutional officers of the Commonwealth elected in statewide elections, all serving four-year terms. The term of the office for each such official currently in office expires in December 1995.

| <u>Name</u>         | <u>Office</u>                        |
|---------------------|--------------------------------------|
| Brereton C. Jones   | Governor                             |
| Paul E. Patton      | Lieutenant Governor                  |
| Robert A. Babbage   | Secretary of State                   |
| Chris Gorman        | Attorney General                     |
| A. B. Chandler, III | Auditor of Public Accounts           |
| Francis Jones Mills | Treasurer                            |
| Ed Logsdon          | Commissioner of Agriculture          |
| John Stephenson     | Superintendent of Public Instruction |

Pursuant to the Constitution of the Commonwealth, all legislative powers are vested in the General Assembly which convenes biennially in even-numbered years.

### Population

During the 1970's, the Commonwealth experienced its largest population growth. Commonwealth population increased 13.7% from the previous census compared to a growth rate of 11.4% for the nation. Population growth in the metropolitan areas was most evident in the surrounding suburban areas.

During the 1980's the growth rate slowed down substantially to 0.6% for the decade. However, preliminary data indicates that there was net migration into the state primarily due to the improved economy.

| <u>Year</u>     | <u>Population<br/>Kentucky</u> |               |                        | <u>United States</u> |               |
|-----------------|--------------------------------|---------------|------------------------|----------------------|---------------|
|                 | <u>Total Pop.</u>              | <u>Change</u> | <u>% U.S.<br/>Pop.</u> | <u>Total Pop.</u>    | <u>Change</u> |
|                 | <u>(000s)</u>                  |               |                        | <u>(000s)</u>        |               |
| 1930 .....      | 2,615                          | —             | 2.1%                   | 122,775              | —             |
| 1940 .....      | 2,846                          | 8.8%          | 2.2                    | 131,669              | 7.2%          |
| 1950 .....      | 2,945                          | 3.5           | 1.9                    | 151,326              | 14.9%         |
| 1960 .....      | 3,038                          | 3.2           | 1.7                    | 179,323              | 18.5          |
| 1970 .....      | 3,219                          | 5.9           | 1.6                    | 203,302              | 13.4          |
| 1980 .....      | 3,660                          | 13.7          | 1.6                    | 226,546              | 11.4          |
| 1990 .....      | 3,690                          | 0.7           | 1.5                    | 249,466              | 10.1          |
| 1991 (estimate) | 3,713                          | 0.6           | 1.5                    | 252,177              | 1.1           |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 1992.

### Personal Income

Kentucky's per capita income has shown substantial growth in the latter part of the 1980's. In the last three years per capita income in Kentucky grew faster than the national average. In 1989, the Commonwealth's per capita income was 81.9% of the national average. The following tables detail total personal income and per capita income of the Commonwealth and the United States from 1960 to 1991. In addition, a breakdown of the major sources of total personal income for Kentucky and the United States is provided.

| <u>Year</u> | <u>Personal Income<br/>Kentucky</u> |                     | <u>United States</u> |                     |
|-------------|-------------------------------------|---------------------|----------------------|---------------------|
|             | <u>Total</u>                        | <u>%<br/>Change</u> | <u>Total</u>         | <u>%<br/>Change</u> |
|             | <u>(\$ Millions)</u>                |                     | <u>(\$ Millions)</u> |                     |
| 1960 .....  | \$ 4,919                            | —                   | \$ 405,658           | —                   |
| 1970 .....  | 10,148                              | 106.3%              | 825,534              | 103.5%              |
| 1980 .....  | 29,401                              | 188.7               | 2,254,076            | 173.0               |
| 1990 .....  | 55,319                              | 87.8                | 4,649,706            | 106.9               |
| 1991 .....  | 57,702                              | 5.1                 | 4,814,495            | 3.2                 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, April 1992.

### Per Capita Personal Income

| <u>Year</u> | <u>Kentucky</u> |                     |                      | <u>United States</u> |                     |
|-------------|-----------------|---------------------|----------------------|----------------------|---------------------|
|             | <u>Total</u>    | <u>%<br/>Change</u> | <u>%<br/>of U.S.</u> | <u>Total</u>         | <u>%<br/>Change</u> |
|             |                 |                     |                      | <u>(\$ Millions)</u> |                     |
| 1960 .....  | \$ 1,618        | —                   | 71.8%                | \$ 2,254             | —                   |
| 1970 .....  | 3,141           | 94.1%               | 77.5                 | 4,051                | 79.7%               |
| 1980 .....  | 8,022           | 155.4%              | 80.9                 | 9,919                | 144.9               |
| 1990 .....  | 14,965          | 86.6                | 80.3                 | 18,639               | 87.9                |
| 1991 .....  | 15,626          | 4.4                 | 81.9                 | 19,092               | 2.4                 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis, July 1992.

## Major Sources of Personal Income - 1991

|  | <u>Kentucky</u>                |                             | <u>United States</u>           |                             |
|--|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
|  | <u>Millions<br/>of Dollars</u> | <u>Percent<br/>of Total</u> | <u>Millions<br/>of Dollars</u> | <u>Percent<br/>of Total</u> |
| Total Personal Income .....                      | \$58,027                       | 100.0                       | \$4,814,495                    | 100.0                       |
| Nonfarm Personal Income .....                    | 57,011                         | 98.2                        | 4,769,705                      | 99.1                        |
| Farm Income .....                                | 1,016                          | 1.8                         | 44,790                         | 0.9                         |
| Population (Thousands) .....                     | 4                              | 0.0                         | 252                            | 0.0                         |
| Per Capita Personal Income (Dollars) .....       | 16                             | 0.0                         | 19                             | 0.0                         |
| Earnings by Place of Work .....                  | 40,581                         | 69.9                        | 3,453,094                      | 71.7                        |
| Less: Personal Cont. for Social Insurance .....  | 2,508                          | 4.3                         | 237,661                        | 4.9                         |
| Plus: Adjustment for Residence .....             | 194                            | 0.3                         | (774)                          | 0.0                         |
| Equals: Net Earnings by Place of Residence ..... | 38,267                         | 65.9                        | 3,214,659                      | 66.8                        |
| Plus: Dividends, Interest, and Rent .....        | 8,745                          | 15.1                        | 827,168                        | 17.2                        |
| Plus: Transfer Payments .....                    | 11,016                         | 19.0                        | 772,668                        | 16.0                        |
| Wages and Salaries .....                         | 31,689                         | 54.6                        | 2,799,001                      | 58.1                        |
| Other Labor Income .....                         | 3,644                          | 6.3                         | 288,052                        | 6.0                         |
| Proprietors' Income .....                        | 5,249                          | 9.0                         | 366,041                        | 7.6                         |
| Farm .....                                       | 854                            | 1.5                         | 33,834                         | 0.7                         |
| Nonfarm .....                                    | 4,395                          | 7.6                         | 332,207                        | 6.9                         |
| Farm .....                                       | 1,016                          | 1.8                         | 44,790                         | 0.9                         |
| Nonfarm .....                                    | 39,565                         | 68.2                        | 3,408,304                      | 70.8                        |
| Private .....                                    | 32,516                         | 56.0                        | 2,833,832                      | 58.9                        |
| Ag. Serv., Forestry, Fisheries, and other .....  | 235                            | 0.4                         | 20,726                         | 0.4                         |
| Mining .....                                     | 1,516                          | 2.6                         | 32,193                         | 0.7                         |
| Construction .....                               | 2,185                          | 3.8                         | 187,747                        | 3.9                         |
| Manufacturing .....                              | 8,822                          | 15.2                        | 657,027                        | 13.6                        |
| Nondurable Goods .....                           | 3,807                          | 6.6                         | 257,741                        | 5.4                         |
| Durable Goods .....                              | 5,015                          | 8.6                         | 399,286                        | 8.3                         |
| Transportation and Public Utilities .....        | 2,973                          | 5.1                         | 230,608                        | 4.8                         |
| Wholesale Trade .....                            | 2,096                          | 3.6                         | 220,976                        | 4.6                         |
| Retail Trade .....                               | 4,351                          | 7.5                         | 334,469                        | 6.9                         |
| Finance, Insurance, and Real Estate .....        | 1,526                          | 2.6                         | 229,753                        | 4.8                         |
| Services .....                                   | 8,812                          | 15.2                        | 920,332                        | 19.1                        |
| Government and Government Enterprises .....      | 7,050                          | 12.1                        | 574,473                        | 11.9                        |
| Federal, Civilian .....                          | 1,397                          | 2.4                         | 115,475                        | 2.4                         |
| Military .....                                   | 755                            | 1.3                         | 48,922                         | 1.0                         |
| State and Local .....                            | 4,897                          | 8.4                         | 410,076                        | 8.5                         |

Source: Bureau of Economic Analysis, U.S. Department of Commerce, August, 1992.

## Labor Force and Employment

As shown in the following table, the annual average nonagricultural employment in the Commonwealth has increased in all but five of the last 20 years and has increased in each of the past eight years.

### Annual Average Non-Agricultural Employment

|           | Kentucky<br>(000) | %<br>Change | U.S.<br>(000) | %<br>Change |
|-----------|-------------------|-------------|---------------|-------------|
| 1973..... | 1,035.8           | 4.7%        | 76,790        | 4.2%        |
| 1974..... | 1,070.7           | 3.4         | 78,265        | 1.9         |
| 1975..... | 1,064.3           | (0.6)       | 76,943        | (1.7)       |
| 1976..... | 1,111.7           | 4.5         | 79,382        | 3.2         |
| 1977..... | 1,158.8           | 4.2         | 82,471        | 3.9         |
| 1978..... | 1,209.2           | 4.3         | 86,697        | 5.1         |
| 1979..... | 1,245.4           | 3.0         | 89,823        | 3.6         |
| 1980..... | 1,210.0           | (2.8)       | 90,406        | 0.6         |
| 1981..... | 1,196.0           | (1.2)       | 91,156        | 0.8         |
| 1982..... | 1,158.3           | (3.2)       | 89,566        | (1.7)       |
| 1983..... | 1,152.3           | (0.5)       | 90,200        | 0.7         |
| 1984..... | 1,213.8           | 5.3         | 94,496        | 4.8         |
| 1985..... | 1,250.3           | 3.0         | 97,614        | 3.3         |
| 1986..... | 1,277.0           | 2.1         | 100,167       | 2.6         |
| 1987..... | 1,328.2           | 4.2         | 102,310       | 2.8         |
| 1988..... | 1,370.4           | 3.2         | 105,600       | 3.3         |
| 1989..... | 1,432.9           | 3.7         | 108,330       | 2.6         |
| 1990..... | 1,470.5           | 2.8         | 109,971       | 1.6         |
| 1991..... | 1,470.7           | 0.0         | 108,975       | -1.0        |
| 1992..... | 1,510.7           | 2.4         | —             | —           |

Source: Cabinet for Human Resources, Dept. for Employment Services, Research and Statistics Branch, Kentucky Labor Force Estimates. U.S. Department of Labor, Bureau of Labor Statistics, February, 1993.

**Nonagricultural Employment by Categories - 1991**

|  | <u>Kentucky</u><br>(000) | <u>Percent</u> | <u>U.S.*</u><br>(000) | <u>Percent</u> |
|--|--------------------------|----------------|-----------------------|----------------|
| Total .....                            | 1,510.7                  | 100.0%         | 108,972.5             | 100.0%         |
| Manufacturing .....                    | 287.3                    | 19.0           | 18,425.8              | 16.9           |
| Nondurable .....                       | 135.7                    | 9.0            | 7,870.0               | 7.2            |
| Durable .....                          | 151.6                    | 10.0           | 10,555.7              | 9.7            |
| Mining .....                           | 29.9                     | 2.0            | 697.3                 | 0.6            |
| Construction .....                     | 69.2                     | 4.6            | 4,696.2               | 4.3            |
| Transportation and Utilities .....     | 81.8                     | 5.4            | 5,822.0               | 5.3            |
| Wholesale and Retail Trade .....       | 355.4                    | 23.5           | 25,418.3              | 23.3           |
| Finance, Insurance & Real Estate ..... | 62.5                     | 4.1            | 6,707.3               | 6.2            |
| Services .....                         | 350.6                    | 23.2           | 28,771.0              | 26.4           |
| Government .....                       | 274.0                    | 18.1           | 18,433.0              | 16.9           |

Source: Cabinet for Human Resources, Dept. for Employment Services, Research and Statistics Branch, February, 1993.  
 U.S. Department of Labor, Bureau of Labor Statistics, March 1992.

\*The U.S. data is for 1991. More recent data was unavailable.

Unemployment rates for the Commonwealth peaked in 1982 and 1983, when national unemployment rates were also at record highs. Since 1983, the Commonwealth's unemployment rate has steadily declined, although it is higher than that of the United States. The impact of the recent recession has caused the unemployment rate to rise in both Kentucky and the U.S.

**Annual Average Unemployment Rates**

|           | <u>Kentucky</u> | <u>United States</u> |
|-----------|-----------------|----------------------|
| 1973..... | 3.7%            | 4.9%                 |
| 1974..... | 4.5             | 5.6                  |
| 1975..... | 7.3             | 8.5                  |
| 1976..... | 5.6             | 7.7                  |
| 1977..... | 4.7             | 7.1                  |
| 1978..... | 5.2             | 6.1                  |
| 1979..... | 5.6             | 5.8                  |
| 1980..... | 8.0             | 7.1                  |
| 1981..... | 8.4             | 7.6                  |
| 1982..... | 10.6            | 9.7                  |
| 1983..... | 11.7            | 9.6                  |
| 1984..... | 9.3             | 7.4                  |
| 1985..... | 9.5             | 7.2                  |
| 1986..... | 9.3             | 7.0                  |
| 1987..... | 8.8             | 6.2                  |
| 1988..... | 7.8             | 5.5                  |
| 1989..... | 6.1             | 5.2                  |
| 1990..... | 5.8             | 5.5                  |
| 1991..... | 7.4             | 6.8                  |
| 1992..... | 6.7             | —                    |

Source: Cabinet for Human Resources, Dept. for Employment Services, Research and Statistics Branch, Kentucky Labor Force Estimates. U.S. Department of Labor, Bureau of Labor Statistics, February, 1993.

Total nonagricultural employment statistics for the Commonwealth and the United States are presented in the following table, together with a breakdown of categories comprising the totals.

**Transportation**

Kentucky is strategically located at the center of a 31-state distribution area, virtually equidistant from the Northern manufacturing states, the Eastern seaboard and the Southern gulf ports. This 31-state consumer and industrial market accounts for nearly three-quarters of the population, manufacturing employment and retail sales in the United States. Transportation of goods to this massive consumer and industrial market is facilitated by Kentucky's excellent highway, rail, waterway and air transportation systems. Presented below is a brief description of these transportation systems.

*Highways.* Three transcontinental interstate highways pass through Kentucky. I-64 is a major east-west highway and I-75 and I-65 are major north-south routes. I-71 and I-24, routes which link major interstate highways to each other, also pass through Kentucky.

Kentucky's parkway system connects major Kentucky cities to interstate highways and to other Kentucky cities. The parkway system is constructed and maintained under standards approximately equivalent to the interstate highway system. The combination of interstate and parkway systems provides over 1,300 miles (2,080 kilometers) of multilane limited access highways and provides access to almost all areas of the state.

*Rail.* Nearly 3,500 miles (5,600 kilometers) of track are operated within the Commonwealth of Kentucky. Eight Class I lines (railroads with annual gross receipts of \$10 million or more), four Class II lines (annual gross receipts of less than \$10 million), and three switching and terminal companies operate in the Commonwealth.

*Airports.* Three Kentucky and six out-of-State commercial airports serve Kentucky. In-state commercial airports are located at Boone County (northern Kentucky), Louisville and Lexington. Out-of-state commercial airports are located at Nashville, Knoxville and Bristol, Tennessee; Evansville, Indiana; and Huntington, West Virginia. Four Kentucky airports - London, Owensboro, Paducah, and Bowling Green - and one Tennessee airport Clarksville - are classified as commuter airports. Commuter service has been discontinued to Bowling Green but may be reinstated at a later date.

*Water Transportation.* Kentucky has 1,545 miles (2,326 kilometers) of commercially navigable waterways which provide an expedient means of transportation of bulk materials to inland markets and Gulf ports. The Ohio River flows 664 miles (1,062 kilometers) along the northern border of Kentucky.

The waterborne commerce through Kentucky is primarily on the Ohio and Mississippi Rivers. Freight also is transported on the Tennessee, Cumberland, Green, Kentucky and Big Sandy Rivers and on Kentucky Lake and Lake Barkley.

*Public Riverports.* In recognition of the growing importance of waterborne commerce to Kentucky, the Kentucky General Assembly created the Kentucky Port and River Development Commission in 1966. The commission promotes waterborne commerce and water-oriented industry, serves as a conduit for state grant funding, assists in securing federal financial aid to public riverport development and assists riverports in the certification for Port of Entry designation and Foreign Trade zone classification.

Nine chartered riverport authorities have been established in Kentucky and one non-chartered authority in Calvert City. Six of the public, chartered riverports are now fully operational and three are still under construction. The Calvert City Riverport Authority is also operational.

## **FINANCIAL MANAGEMENT**

The Commonwealth's financial operations are primarily the responsibility of the Governor and the Secretary of Finance and Administration. The Finance and Administration Cabinet manages the Commonwealth's finances, and is responsible for planning, property management and fiscal administration.

### **Debt Management**

The office for Financial Management and Economic Analysis, Finance and Administration Cabinet, has central responsibility for the issuance and management of Commonwealth debt. Specific

functions of the office include the review and approval of bonds sold by all entities which issue bonds in the name of the Commonwealth, as well as the entities created by the Commonwealth. The office is also responsible for coordination and monitoring of cash needs relative to debt activity, making debt service payments, and the development and maintenance of a comprehensive long-term debt plan.

### **Appropriations System**

The Constitution requires that the Governor submit a balanced Executive Budget, containing the overall financial plan for the Commonwealth government, to the General Assembly for review, modification and approval. The Governor's Office for Policy and Management is required by the Constitution to prepare the Executive Budget by the 15th legislative day of each Regular Session of the General Assembly.

The General Assembly has unlimited power to increase or decrease budget items, but the Governor may veto any appropriations bill within ten days of receipt, either in whole or in part. Appropriations bills automatically become law if not vetoed; vetoed bills may be passed with a simple majority vote of both houses of the General Assembly. Once the budget bill becomes law, it serves as the basis for the administration of the Commonwealth's finances. The Governor's Office for Policy and Management implements appropriations by an allotment system and monitors receipts, disbursement and program performance. The Governor is required to offset any decrease in revenue receipts through appropriations reductions or other means, such as transfer or surplus funds.

The Constitution requires the Auditor of Public Accounts to audit all Commonwealth revenues collection, all general accounts of the Commonwealth, and the accounts and records of Commonwealth agencies. The Treasurer is the centralized disbursement agent for the Commonwealth. He is responsible for the receipt and custody of all revenues collected by Commonwealth government and the disbursement of Commonwealth funds upon receipt of warrants from the Secretary of the Finance and Administration Cabinet. The Treasurer may not make disbursements in excess of appropriations or available cash, or without appropriate certifications from the Finance and Administration Cabinet.

The Governor has substantial authority in administering Commonwealth finances. Consistent with the above, the Governor may limit spending by Commonwealth departments, reduce appropriations and cancel or delay construction projects. This applies particularly to the Governor's responsibility to have a balanced annual budget. This authority is primarily administered through the Governor's Office for Policy and Management.

### **Fund Structure and Basis of Accounting**

All of the governmental funds (where the measurement focus is on the flow of current financial resources) are accounted for on the modified accrual basis of accounting. In accordance with the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal period. Available revenue will be received within 30 days. Principal revenue sources accounted for on the modified accrual basis include federal grants, sales and use tax., coal severance tax, property tax, departmental fees, income taxes, and interest income. Motor vehicle registration fees and fines and forfeitures are accounted for on the cash basis. Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levies (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date. Expenditures are recorded at the time liabilities are incurred except: (1) inventories generally are considered expenditures

at acquisition; (2) prepayments usually are accounted for as expenditures of the period of acquisition; (3) principal and interest on long-term debt is recorded when paid; and (4) compensated absences are accounted for as expenditures of the period when used. Encumbrances represented by executed and unperformed contracts, which have been approved by the Finance and Administration Cabinet, at year end are reported as reservations of fund balance for subsequent year expenditure in the Capital Projects and Transportation Funds. Encumbrances in all other funds lapse at the end of the fiscal year.

## COMMONWEALTH TAX SYSTEM

### Description of Tax Sources-All Governmental Funds Types

The major tax sources of Kentucky's tax system and a brief description of each are given below.

**Sales and Use** - On July 1, 1960, Kentucky became the thirty-fourth state to enact a sales and use tax. Although the tax was broad based at the time of its inception, the sales and use tax has been significantly eroded over the years with the passage of new exemptions. This has been partially offset with rate increases in 1968 (3% to 5%) and 1990 (5% to 6%), and expansion of the tax base in 1985 to cover leases and rentals of tangible personal property. During fiscal year 1992, the sales and use tax continued to be the second largest generator of General Fund revenue for the Commonwealth.

**Coal Severance** - Kentucky's coal severance tax became effective April 1, 1972, and was intended to replace a major portion of the revenue expected to be lost by the exemption of groceries from the sales tax. It was the first major severance tax among the states. The initial rate of four percent on the gross value of coal mined in Kentucky or thirty cents per ton, whichever is greater, was raised to 4.5% of the gross value of coal mined or fifty cents per ton, whichever is greater, in 1976. In 1978, the statute was revised to include the taxation of coal processing and to add to deduction from the gross value for the cost of transportation. A 1986 amendment provided that coal producing and coal impact counties are to receive a minimum of 10% of coal severance and processing taxes for fiscal year 1987-87 and 12% for subsequent years. The 1992 General Assembly increased this amount by 15% for fiscal year 1992-1993, 18% for 1993-1994, 25% for 1994-1995 and 50% for 1995-1997.

**Motor Fuels** - In 1920, Kentucky became the fifth state to adopt a gasoline tax. The initial rate of one cent per gallon reached five cents per gallon by 1926. Effective April 1, 1948, the tax per gallon was raised to seven cents, with two-sevenths of the total set aside for rural and secondary roads. On July 1, 1962, administration of the motor fuels use tax was transferred from the Department of Revenue to the Department of Motor Transportation, and on July 1, 1972, the tax rate increased to nine cents per gallon. The currently effective rate for basic motor fuels tax is 15 cents per gallon for gasoline and LP gas and 12 cents per gallon for special fuels. See the Official Statement, "Revenue Sources of the Transportation Cabinet - Motor Fuel Taxes" for more information.

**Motor Vehicle Registration** - The 1936 General Assembly fixed a flat \$4.50 registration fee (plus fifty cents for the County Clerk) for passenger cars. Similar fees were enacted in 1938 for farm trucks and in 1944 for church buses, water well drillers, and certain wreckers. Truck licenses were changed to a graduated "gross weight" basis in 1964. The current \$11.50 fee for passenger cars, farm trucks, and the lightest trucks was passed in 1968. In 1973, all motor vehicle registration functions were transferred from the Department of Revenue to the Department of Transportation and the apportioned registration of commercial vehicles began. Current rates for heavier trucks range from \$24 to \$1,260

annually, based on the gross weight of the truck, with extended weight tags required for still heavier vehicles.

**Individual Income Tax** - The individual income tax became effective for income earned during calendar year 1936 and produced its first revenue during fiscal year 1936-37. The initial rates ranged from 2% on the first \$3,000 of income to 5% on all over \$5,000. In 1950, a rate of 6% was imposed on income in excess of \$8,000. In 1954, Kentucky became the fourth state to implement a withholding system and also adopted the federal definition of net income. For tax years beginning after December 31, 1989, net income is computed using the Internal Revenue Code in effect on December 31, 1989. The rates currently applied to net income are: 2% of the first \$3,000; 3% of the next \$1,000; 4% of the next \$1,000; 5% of the next \$3,000; and 6% of the excess over \$8,000. The present tax credit of \$20 went into effect in 1961 and the current standard deduction of \$650 was adopted in 1976. A low income tax credit of 5% to 100% for single persons or married couples with adjusted gross income of \$25,000 or less was enacted in 1990.

**Corporation Income Tax** - The corporation income tax was enacted to first apply to calendar 1936 income. The rate was 4% of net income assigned to Kentucky after deduction of federal income taxes. This rate was changed to 4.5% in 1950 and again to 5% of the first \$25,000 of taxable income and 7% of all in excess thereof in 1956. In 1972, the federal tax deduction was removed and the State rate reduced to 4% of the first \$25,000 and 5.8% on the excess. Effective for taxable years beginning after December 31, 1981, net income is computed by the Internal Revenue Code in effect December 31, 1981, including the provisions of the Economic Recovery Tax Act of 1981.

**Property Tax** - The most marked changes in taxation during the past 42 years have occurred in the property tax. Prior to 1934, the property tax was the Commonwealth's major revenue source. In that year, an attempt to remove the tax on real estate was ruled unconstitutional. The tax rate was then reduced from thirty cents to five cents per \$100 assessed value. The 1965 Special Session of the General Assembly further reduced the rate on real estate from five to one-and-one half cents and on tangible property from fifty to fifteen cents. House Bill 4, passed in the 1976 regular session of the General Assembly, established the power equalization program for school funding and raised the State tax rate on real property from one-and-one-half cents to thirty-one-and-one-half cents per \$100 of assessed value and the tax rate on tangible personal property from fifteen cents to forty-five cents per \$100 of assessed value. This increase in the State property tax rate was accompanied by a thirty cents per \$100 of assessed value decrease in local school tax rates. House Bill 44, enacted by the 1979 extraordinary legislative sessions, established a new rate setting mechanism, which limited the increase in aggregate revenues for all taxing districts, in general, and specifically limited the State rate for real estate to no greater than necessary to provide a 4% increase in revenue from year to year. As a result, the State tax rate on real property has dropped 41.6% from thirty-one-and-one-half cents per \$100 in 1978 to eighteen-and-seven-tenths cents per \$100 in 1992.

**Inheritance and Estate Tax** - The inheritance tax began in Kentucky in 1906 and provided that all property of persons residing in the Commonwealth and property within the Commonwealth owned by non-residents shall be subject to a tax of \$5 on each \$100 of its fair cash value at the times of their deaths. The original exemption was \$500. In 1936, 1948, 1976, 1978, and 1985, various changes in the then-existing legacy brackets and exemptions were legislated into law. Effective for dates of death on or after August 1, 1985, the surviving spouse's exemption for inheritance tax increases from the previous \$50,000 to the total inheritable interest, and the tax rates for others range from 2% to 16%, depending on legacy bracket and estate value. An additional exemption of personal property (up to \$7,500) is available upon application to the district court by the surviving children (when there is no surviving spouse), regardless

of whether the decedent died testate or intestate. The estate tax is an amount by which the State death tax credit allowable under the federal estate tax law exceeds the inheritance tax.

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**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

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## SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

### CERTAIN DEFINITIONS

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

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

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

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

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

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

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

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

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

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

"Bonds" means all economic development road revenue bonds and all economic development road revenue refunding bonds at any time issued under the Indenture, including the 1993 Bonds.

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

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

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

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

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

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

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

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

"Debt Service Reserve Fund" means the special fund created and so designated by the Series 1993 Resolution.

"Debt Service Reserve Requirement" means (i) an amount equal to the lesser of (a) the maximum principal and interest requirements of the Series 1993 Bonds which are due in any fiscal year, (b) ten percent (10%) of the proceeds of the Series 1993 Bonds, or (c) 125% of the average annual debt service on the Series 1993 Bonds; less (ii) withdrawals from the Debt Service Reserve Fund described under "SECURITY AND SOURCE OF PAYMENT FOR THE 1993 BONDS - Debt Service Reserve Fund"; provided that principal and interest requirements for the Cap RITES Bonds shall be the amounts payable by the Authority under the Master Agreement hereinafter approved.

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

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

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

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

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

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

"Government Obligations" means (a) direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America; (b) certificates, depository 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" with respect to the Current Interest Bonds and Cap RITES Bonds, means January 1 and July 1 of each year, commencing July 1, 1993 and with respect to the FLOATs and RITES means the interest payment dates described in Appendix G hereto.

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

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

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

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

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

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

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

"Permitted Investments" means (a) obligations, and contracts for future delivery of obligations, backed by the full faith and credit of the United States or a United States government agency, or any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (a); (b) obligations of any corporation of the United States Government; (c) collateralized or uncollateralized certificates of deposit, issued by banks rated in one of the three highest categories in depository institutions chartered by the Commonwealth or by the United States, except for shares in mutual savings banks; (d) bankers acceptances for banks rated in one of the three highest categories by a nationally-recognized rating agency; (e) commercial paper rated in the highest category by a nationally-recognized rating agency; (f) securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally-recognized rating agency; (g) repurchase agreements for obligations described in (a) through (f) above, provided that the entity which agrees to repurchase such obligations from the Authority must be a Qualified Financial Institution or a government bond dealer reporting to, trading with and recognized as a primary dealer by a Federal Reserve Bank, in any case with a capital and surplus aggregating at least \$100,000,000, and provided that the agreement provides for the Authority to be secured by such obligations with a market value at least equal to the repurchase amount; and (h) any other investment permitted by Kentucky Revised Statute 42.500, as amended from time to time.

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

"Revenues" means all rental, moneys and any other revenues, and, during such times as the Lease is not in effect, motor fuel taxes and surtaxes derived from motor fuels consumed on the System, and any other revenues, all as derived from time to time by the Authority from its ownership or operation of the System.

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

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

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

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

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

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

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

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

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

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

## **THE TRUST INDENTURE**

### **Ownership of Bonds**

Any registered owner of any Bond is hereby 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 1993 Bonds is accomplished as described under the caption "Description of Current Interest Bonds and Capital Appreciation Bonds -- Transfer and Exchange" and "Description of the 1993 Bonds - General -- Book-Entry System and Discontinuation of Book-Entry System" in this Official Statement.

### **Mutilated, Destroyed or Lost Bonds**

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

### **Credits Against Amortization Requirements**

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

## Construction Fund

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

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

## Revenue Fund

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

If and so long as the Lease shall be in effect, the Trustee shall withdraw from the Revenue Fund to the extent monies are available therein and, not later than the Interest Payment Date, shall deposit to the credit of the following accounts in the following order and amounts:

(a) To the Bond Service Account, first, an amount 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 payable on the next Interest Payment Date, and second, the amount necessary to make the amount in the Bond Service Account equal to the principal of Bonds maturing on the next Interest Payment Date and the Amortization Requirement (less any credits) due on such Interest Payment Date for the Bonds; and

(b) To the credit of 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 by clauses (a) and (b) above, an amount equal to the amount determined by the Authority and concurred in by the Cabinet as is 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 not directly paid by the Cabinet and any Credit Facility fees; 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 purpose. The Cabinet and Authority have agreed in the Lease, as supplemented, that the payments under the Master Agreement will be made pursuant to this clause (d).

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

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

Subject to the terms of the rebate agreement, 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 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, however, 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, though 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 or until 30 days after such default can be 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, 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% of the Bonds Outstanding 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% 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, a condition 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, however, that if, prior to the date on which such removal is stated to take effect an instrument or concurrent instruments in writing objecting to the removal of the Trustee are filed with the Authority and executed by the owners of a greater aggregate principal amount of the Bonds Outstanding than those executing the removal instrument, such removal instrument will be ineffective. The Trustee may resign and thereby become discharged from the trusts created pursuant to the Indenture by notice in writing given to the Authority and to all registered owners of Bonds as provided in the Indenture. No such removal or resignation of the Trustee pursuant to the Indenture will become effective, however, until the appointment and acceptance of a successor Trustee.

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

#### **Modification of the Indenture**

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

- (a) to cure any ambiguity or formal defect or omission in the Indenture or in any supplemental trust indenture,
- (b) to grant to or confer upon the Trustee for the benefit of the bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the bondholders or the Trustee,
- (c) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements to be observed by the Authority that are not contrary to or inconsistent with the Indenture,
- (d) to add to the limitations and restrictions in the Indenture other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Indenture,
- (e) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture of the Revenues or of any other money, securities or funds,

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

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

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

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

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

#### **Defeasance**

Any Bonds will, prior to the maturity or redemption date therefor, be deemed to have been paid and to be no longer Outstanding under the provisions of the Indenture if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee irrevocable instructions to give notice of redemption on said date of such Bonds in accordance with the Indenture, (b) there has been deposited with the Trustee other money in an amount which will be sufficient, or Government

Obligations the principal of and the interest on which, when due, will provide moneys which together with the money, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the principal and the interest and premium, if any, so due and payable on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the succeeding 60 days, the Authority has given the Trustee in form satisfactory to it irrevocable instructions to give, in accordance with the Indenture and as soon as practicable, notice to holders of such Bonds that the deposit described in (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which money is to be available for the payment of the principal and the interest and the premium, if any, so due and payable on said Bonds.

## **THE LEASE**

### **Initial Term; Renewal**

The initial term of the Lease was from October 1, 1990, to and including June 30, 1992 and it has been renewed for the biennial term ending June 30, 1994. The Lease is renewable for successive biennial terms at the option of the Transportation Cabinet. The option to renew shall 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.

Upon the initial execution of the Lease and upon the renewal thereof for any biennial term, the Transportation Cabinet shall be obligated to make all payments coming due during such biennial term, which obligations will not be relieved by damage to or destruction of the System or any portion thereof.

The Transportation Cabinet has covenanted, in accordance with the Act, to certify to the Secretary of the Revenue Cabinet prior to October 1 of each Fiscal Year the amount required for the Lease rental payment during such

Fiscal Year. Upon deposit of the amounts certified, the Transportation Cabinet covenants and agrees that said amounts will be applied only to the payment of rentals and for no other purpose, except as otherwise provided in the Lease.

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

#### **Maintenance and Operation of the Economic Development Road System**

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

#### **Amendments**

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

#### **First and Second Supplemental Lease**

The Lease has been amended by the First Supplemental Lease and a Second Supplemental Lease, as permitted by the Lease. The First Supplemental Lease transfers certain economic development road projects to the Lease. The First Supplemental Lease and Second Supplemental Lease also modify the rental payments to provide for payments that are adequate to pay the interest on and principal of the Bonds Outstanding after issuance of the 1993 Bonds and to pay amounts due under the Master Agreement, as defined in Appendix F hereto.

The Series 1993 Resolution has created a Debt Service Reserve Fund to secure payments on the Series 1993 Bonds and payments under the Master Agreement. If at any time the amount on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the Cabinet is obligated to make additional payments under the Lease in an amount equal to such deficiency (the "Debt Service Reserve Payments"). Any Debt Service Reserve Payment is due and payable on the first July 1 succeeding (i) the date such deficiency occurred and (ii) the earliest date on which the Cabinet's

budget can be amended to authorize such payment. Debt Service Reserve Payments shall not constitute Revenues. The Cabinet has agreed to seek all appropriations from the General Assembly which may be necessary to make a Debt Service Reserve Payment.

## **THE AGREEMENT**

### **Construction of the Revitalization Projects**

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

### **Revitalization Projects to be a Public Highway**

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

### **Cost of Maintenance and Operation of the System**

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

### **Conveyance of the System to the Commonwealth**

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

### **Amendments**

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

### **First and Second Supplemental Agreement**

The Agreement has been amended by the First Supplemental Agreement and a Second Supplemental Agreement, as permitted by the Agreement. The First Supplemental Agreement and Second 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 and Second Supplemental Agreement also affirm all covenants made in the Agreement, including the covenant to complete the Revitalization Projects.

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**GENERAL EXPLANATION OF CAP RITES BONDS**

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## THE CAP RITES BONDS

### Definitions

The following definitions shall be applicable to the general explanation of the Cap RITES Bonds only.

"Authorized Denomination" means the authorized denominations of the 1993 Bonds, which in the case of the Cap RITES Bonds shall be \$100,000 or any integral multiple thereof during the period commencing on the Effective Date and ending on the earlier to occur of the Mandatory Conversion Date or the applicable Scheduled Conversion Date and shall be \$5,000 or any integral multiple thereof thereafter.

"Calculation Period" means each period from, and including, the first day of each calendar month to, but excluding, the first day of the next following calendar month, except that the initial Calculation Period will commence on and include the Effective Date and end on, but exclude, May 1, 1993.

"Cap RITES Bond" means any bond that bears interest (i) prior to the Scheduled Conversion Date at the applicable Cap RITES Rate, or if converted on an Optional Conversion Date at the applicable Converted Rate, and (ii) after the Scheduled Conversion Date at the applicable Constant Rate.

"Cap RITES Market Agent" means initially Merrill Lynch & Co., Inc. (Attention: Swap Group, World Financial Center, 250 Vesey Street, New York, New York 10281, Telex No. 6716341, Answerback: MLBSCTR, telephone: (212) 449-7358, or such other number as Merrill Lynch & Co., Inc. shall designate to the Authority), or any successor thereto, or any successor Cap RITES Market Agent appointed by the Authority.

"Cap RITES Rate" means, for the Cap RITES Bonds, a per annum rate equal to the applicable Set Rate plus the amount, if positive, obtained by subtracting three (3) times the applicable Level Rate from the Variable Rate.

"Constant Rate" means, for the Cap RITES Bonds, the interest rate on the Cap RITES Bonds on and after the earlier to occur of the Mandatory Conversion Date or the applicable Scheduled Conversion Date, as set forth on the inside cover page of this Official Statement.

"Conversion Date" means, for each Cap RITES Bond, the earliest to occur of (i) the applicable Scheduled Conversion Date, (ii) the Mandatory Conversion Date or (iii) the Optional Conversion Date, on which the interest rate on such Cap RITES Bond is converted to the applicable Constant Rate or the applicable Converted Rate, as the case may be.

"Converted Rate" means the interest rate on any Cap RITES Bonds converted on an Optional Conversion Date for the period beginning on the Interest Payment Date next preceding such Optional Conversion Date (or, (i) if the optional Conversion Date occurs prior to the Record Date immediately preceding the first Interest Payment Date, the Effective Date or (ii) if the Optional Conversion Date is an Interest Payment Date, such Interest Payment Date) and ending on, but not including, the Scheduled Conversion Date, which interest rate shall equal the applicable Constant Rate plus the Interest Rate Adjustment for such Cap RITES Bond.

"DTC" means The Depository Trust Company, New York, New York.

"Effective Date" means the first date from which the Cap RITES Bonds bear interest, which shall be the date of their respective original issuance and delivery.

"Factor" means 3, the multiplier applied as described herein with respect to the Cap RITES Bonds.

"Interest Payment Date" means each interest payment date on the Cap RITES Bonds.

"Interest Rate Adjustment" means, in respect of any Cap RITES Bond converted on an Optional Conversion Date to the Converted Rate, the fixed per annum rate, as determined by the RITES Market Agent, (A) if the related Series Rate Cap Transaction is in effect, applied to calculate the amount payable by MLCS to the Authority (a positive rate) or by the Authority to MLCS (a negative rate) on each payment date under the related Series Rate Cap Transaction in consideration of the reduction in the notional amount of the related Series Rate Cap Transaction as a result of such conversion or (B) if the related Series Rate Cap Transaction is not in effect, equal to the Market Quotation, or if the Market Quotation cannot be determined, the Authority's Loss.

"Kenny Index Rate" means, for any day, a per annum rate equal to:

(a) (i) If such day is a Reset Date, the index generally made available by Kenny Information Systems or any successor indexing agent hereunder (the "Indexing Agent"). The Kenny Index shall be based upon 30-day yield evaluations at par of bonds, the interest on which is excludable from gross income for Federal income tax purposes under the Internal Revenue Code, of not less than five "high grade" component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The bonds on which the index is based shall not include any bonds the interest on which is subject to any "minimum tax" or similar tax, unless all tax-exempt bonds are subject to such tax.

(ii) If the indexing Agent no longer publishes an Index satisfying the requirements of the preceding paragraph, the Cap RITES Market Agent shall be appointed as the successor Indexing Agent hereunder and shall determine the Kenny Index Rate on each Reset Date. The Kenny Index Rate so determined shall equal the prevailing rate determined by the Indexing Agent for bonds that are rated in the highest short-term rating category by Moody's Investors Service and Standard and Poor's Corporation in respect of issuers resembling the component issuers to have been selected by Kenny Information Systems pursuant to clause (i) above and that are subject to tender by holders thereof for purchase on not more than seven (7) days notice and the interest on which is (a) variable on a weekly basis, (b) excludable from gross income for Federal income tax purposes, and (c) not subject to a "minimum tax" or similar tax unless all tax-exempt bonds are subject to such tax.

(iii) If such day is not a Reset Date, the Kenny Index Rate determined pursuant to clauses (i) or (ii) above for the next preceding Reset Date.

(b) If the Indexing Agent fails or is unable to make available the Kenny Index Rate for any Reset Date or the Cap RITES Market Agent reasonably concludes that the Kenny Index

Rate will not be announced in a timely manner, the Cap RITES Market Agent shall determine the Kenny Index Rate for each day in the manner specified in clause (a) (ii) above until the Indexing Agent makes available the Kenny Index Rate.

"Level Rate" means for the Cap RITES Bonds, the rate per annum set forth on the inside cover page of this Official Statement.

"Loss" means, with respect to the Interest Rate Adjustment and the conversion on the Optional Conversion Date of the Cap RITES Bonds, that percentage which when multiplied by the principal amount of Cap RITES Bonds being converted equals an annual amount that the Authority reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with such conversion, including any loss of bargain, cost of funding or, at the election of the Authority but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the termination of the Optional Conversion Date. Loss does not include the Authority's legal fees and out-of-pocket expenses. The Authority will determine its Loss as of the Optional Conversion Date. The Authority may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"Mandatory Conversion Date" means any Business Day on which the interest rate payable on the Cap RITES Bonds is converted, at the option of the Authority following a Master Agreement Event of Default by MLCS, to the applicable Constant Rate.

"Market Quotation" means, with respect to that portion of a transaction supplement with the same terms as the related Series Rate Cap Transaction in a notional amount equal to the principal amount of the Cap RITES Bonds being converted (the "Terminated Portion") , an annual percentage determined on the basis of quotations from Reference Market-makers. Each quotation will be for a percentage equal to (i) the amount, if any, that would be paid semiannually on each Interest Payment Date on or prior to the Scheduled Conversion Date to the Authority (expressed as a negative number) or by the Authority (expressed as a positive number) in consideration of an agreement between the Authority and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for the Authority the economic equivalent of any payment by the parties under the Terminated Portion that would, but for the occurrence of such Optional Conversion Date have been required after that date, divided by (ii) the notional amount of the Terminated Portion. For this purpose, unpaid amounts in respect of the Terminated Portion are to be excluded but, without limitation, any payment or delivery that would, but for the Optional Conversion Date, have been required thereafter is to be included. The Replacement Transaction would be subject to such documentation as the Authority and the Reference Market-maker may, in good faith, agree. The Authority (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on the Optional Conversion Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the Authority. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, the

Market Quotation may, at the discretion of the Authority, be the arithmetic mean of the quotations provided, if two quotations are provided, or the quotation, if one quotation is provided.

"Master Agreement" means the Master Interest Exchange Agreement, dated as of April 16, 1993 between the Authority and MLCS.

"Maximum Cap RITES Rate" means, for the Cap RITES Bonds, the maximum rate payable on such Cap RITES Bonds, as set forth on the inside cover page of this Official Statement.

"MLCS" means Merrill Lynch Capital Services, Inc., a corporation duly organized and existing under the laws of the State of Delaware.

"Optional Conversion Date" means any Business Day prior to the applicable Scheduled Conversion Date on which the interest rate payable on any Cap RITES Bond is converted to the applicable Converted Rate.

"Owner" means the owner of a Cap RITES Bond, and for so long as a securities depository is the registered owner of the Cap RITES Bonds, the beneficial owner of a Cap RITES Bond.

"Participant" means direct participants in DTC and such securities brokers and dealers, banks, and trust companies that, either directly or indirectly, clear through or maintain a custodial relationship with such direct participants.

"Rate Cap Transaction" means any Series Rate Cap Transaction.

"Record Date" means the 15th day of the calendar month next preceding the Interest Payment Date.

"Reference Market-makers" means four leading dealers in the dollar rate swap market selected by the Authority determining a Market Quotation in good faith from among dealers having a credit standing which satisfies all the criteria that the Authority applies generally at the time in deciding whether to offer or to make an extension of credit.

"Reset Date" means each Tuesday (and, if the Effective Date is a day other than a Tuesday, the Tuesday next preceding the Effective Date) or, if any Tuesday is not a Business Day, the first succeeding Business Day. For purposes of this definition, "Business Day" means any day other than a Saturday, a Sunday, a day on which commercial banks in New York City are required to be closed or a day on which the New York City Stock Exchange is closed.

"Revenues" means those Revenues as defined in the Indenture and also any net swap payments received by the Authority under the Master Agreement.

"Scheduled Conversion Date" means the date as of which the Cap RITES Bonds, other than a Cap RITES Bond converted to the (i) Converted Rate on an Optional Conversion Date or (ii) the Constant Rate on a Mandatory Conversion Date, cease bearing interest at the applicable Cap RITES Rate and commence bearing interest at the applicable Constant Rate, as set forth on the inside cover page of this Official Statement.

"Series Rate Cap Transaction" means the interest rate cap transaction between the Authority and MLCS, dated April 16, 1993, entered into pursuant to the Master Agreement, allocated to the Cap RITES Bonds, with a notional amount equal to the principal amount of Cap RITES Bonds, pursuant to the terms of which the Authority is required to pay to MLCS, semiannually, the difference between the applicable Constant Rate and the applicable Set Rate, calculated monthly, and is entitled to receive from MLCS, semiannually, a variable rate equal to the amount by which the Variable Rate exceeds a specified fixed rate equal to three (3) times the applicable Level Rate (provided that such variable rate plus the applicable Set Rate shall not exceed the Maximum Cap RITES Rate), calculated monthly, for the period to the Scheduled Conversion Date of the Cap RITES Bonds.

"Set Rate" means for the Cap RITES Bonds, the rate per annum set forth on the inside cover page of this Official Statement.

"Variable Rate" means, in respect of any Calculation Period, a per annum rate equal to three (3) times the arithmetic mean of the Kenny Index Rate in effect for each day in that Calculation Period, calculated by multiplying three (3) times the Kenny Index Rate in effect for each day in that Calculation Period by the number of days such Kenny Index Rate is in effect, determining the sum of such products and dividing such sum by the number of days in the Calculation Period.

### **Cap RITES Bonds**

The Cap RITES Bonds will be executed and delivered as fully registered 1993 Bonds in Authorized Denominations of: (1) until the earlier to occur of the mandatory conversion thereof on the Mandatory Conversion Date described below under the caption "Mandatory Conversion of the Cap RITES Bonds" or the Scheduled Conversion Dates indicated on the inside cover page of this Official Statement, \$100,000 or any integral multiple thereof, and (2) thereafter, \$5,000 or any integral multiple thereof. Ownership interests may be acquired in book-entry form only. See "Book-Entry System."

Interest with respect to the Cap RITES Bonds will be payable in arrears on January 1 and July 1 of each year commencing July 1, 1993 to the Owners thereof as of the 15th day of the month preceding each January 1 and July 1. From the date of initial delivery of the Cap RITES Bonds through the day prior to the applicable Conversion Date, interest, calculated on the basis of a 360-day year consisting of twelve 30-day months, will accrue for the six (except in the case of the first Interest Payment Date, two) Calculation Periods immediately preceding each Interest Payment Date at a per annum rate equal to the applicable Set Rate indicated on the inside cover page of this Official Statement (each a "Set Rate"), calculated on the basis of a 360-day year of twelve 30-day months, plus the amount, if positive, obtained by subtracting three (3) times the applicable Level Rate indicated on the inside cover page of this Official Statement (each a "Level Rate") from the Variable Rate, computed using a year of 365 or 366 days and actual days elapsed, provided, that the rate so determined shall not be greater than the applicable Maximum Cap RITES Rate indicated on the inside cover page of this Official Statement (each a "Maximum Cap RITES Rate"). The accrual of such interest for the six (except in the case of the first Interest Payment Date, two) Calculation Periods immediately preceding each Interest Payment Date shall be determined by adding together the amount of Interest determined for each of such Calculation Periods. From and after the Interest Payment Date preceding the Optional Conversion Date through the Scheduled Conversion Date therefor, the interest rate on the Cap RITES Bonds will be the applicable Converted Rate, with interest calculated on the basis of a 360-day year consisting of twelve 30-day months. From and after the earlier to occur of the Mandatory Conversion Date or the applicable Scheduled Conversion Date, the interest rate with respect to the Cap RITES Bonds will be the applicable Constant Rate indicated

on the inside cover page of this Official Statement and will be computed using a year of 360 days comprised of twelve 30-day months.

Owners of the Cap RITES Bonds may elect prior to the applicable Scheduled Conversion Date to convert the interest on the Cap RITES Bonds to the applicable Converted Rate, as described below under the caption "Optional Conversion of the Cap RITES Bonds."

The Variable Rate for each Calculation Period shall be equal to three (3) times the weighted daily average of the Kenny Index, computed using a year of 365 or 366 days and actual days elapsed.

The Kenny Index Rate shall be the index generally made available each Tuesday by Kenny Information Systems or any successor indexing agent (the "Indexing Agent"). The Kenny Index Rate shall be based upon 30-day yield evaluations at par of bonds, the interest on which is exempt from federal income taxation, of not less than five "high grade" component issuers selected by the Indexing Agent which shall include, without limitation, issuers of general obligation bonds. The specific issuers included among the component issuers may be changed from time to time by the Indexing Agent in its discretion. The bonds on which the Kenny Index Rate is based shall not include any securities the interest on which is subject to a "minimum tax" or similar tax under the Internal Revenue Code, unless all tax-exempt securities are subject to such tax.

In the event that the Indexing Agent no longer publishes an index satisfying the definition of the Kenny Index Rate or if Merrill Lynch & Co., Inc., the initial Cap RITES Market Agent, reasonably concludes that the Kenny Index Rate will not be announced in a timely manner, then the Cap RITES Market Agent shall announce a rate equal to the prevailing rate determined by the Cap RITES Market Agent for bonds rated in the highest short-term rating category by Moody's Investors Service and Standard and Poor's Corporation in respect of issuers resembling the component issuers selected by Kenny Information Systems that are subject to tender by holders thereof for purchase on not more than seven days notice and the interest on which is (a) variable on a weekly basis, (b) excludable from gross income for federal income tax purposes, and (c) not subject to a "minimum tax" or similar tax unless all tax-exempt bonds are subject to such tax.

**Prospective purchasers of Cap RITES Bonds should note that the interest rate with respect to the Cap RITES Bonds prior to the applicable Conversion Date will only exceed the applicable Set Rate if, and to the extent that the Variable Rate exceeds three (3) times the applicable Level Rate, subject to the applicable Maximum Cap RITES Rate.**

**Master Agreement.** Simultaneously with, and as a condition to, the delivery of the Cap RITES Bonds, the Authority will enter into the Master Agreement and pursuant thereto rate cap transactions, (each a "Rate Cap Transaction") with MLCS, an affiliate of the Cap RITES Market Agent, pursuant to the terms of which the Authority will pay to MLCS an amount equal to the difference between the applicable Constant Rate and the applicable Set Rate. MLCS is required to pay to the Authority a variable rate equal to the amount by which the variable Rate exceeds a specified fixed rate equal to three (3) times the Level Rate (provided that such variable rate plus the applicable Set Rate shall not exceed the Maximum Cap RITES Rate), in each case on a notional amount equal to the principal amount of Cap RITES Bonds, and in each case for the period to the Scheduled Conversion Date of each Series. Payments made under the interest rate cap to the Authority are included as Revenues under the Indenture, pursuant to the Series 1993 Resolution and required to be deposited and applied by the Authority with other Revenues of the Authority in the manner specified therein.

Prospective Owners of the Cap RITES Bonds should note that the prices at which leveraged instruments, such as the Cap RITES Bonds prior to the applicable Conversion Date, may trade in secondary markets can be expected to fluctuate more in relation to general changes in the interest rates for long-term fixed rate securities than prices of conventional interest bearing securities of comparable maturities. Thus increases or decreases in the general level of interest rates can be expected to result in greater movements in the prices of Cap RITES Bonds than in the prices of conventional securities.

#### **Merrill Lynch & Co., Inc.**

Merrill Lynch & Co., Inc. (the "Company") is a holding company that, through its subsidiaries and affiliates, provides investment, financing, insurance and related services. Its principal subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), is one of the largest securities firms in the world. MLPF&S is a broker in securities, options contracts, commodity and financial futures contracts and selected insurance products, a dealer in options and in corporate and municipal securities and an investment banking firm. Merrill Lynch Asset Management manages mutual funds and provides investment advisory services. Merrill Lynch Government Securities Inc. is a primary dealer in obligations issued by the U.S. Government or agencies thereof or guaranteed or insured by federal agencies. Other subsidiaries provide financial services outside the United States similar to those of MLPF&S and are engaged in such other activities as international banking, lending and providing other investment and financing services. The Company's insurance underwriting and marketing operations consist of the underwriting of life insurance and annuity products through subsidiaries of Merrill Lynch Insurance Group, Inc., and the sale of life insurance and annuities through Merrill Lynch Life Agency Inc. and other life insurance agencies associated with MLPF&S.

The principal executive office of the Company is located at World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281; its telephone number is (212) 449-1000.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Reports, proxy and information statements and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following regional offices of the Commission: Chicago Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, and New York Regional Office, 75 Park Place, New York, New York 10007. Copies of such material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Reports, proxy and information statements and other information concerning the Company may be inspected at the offices of the New York Stock Exchange, the American Stock Exchange, the Midwest Stock Exchange and the Pacific Stock Exchange.

#### **Mandatory Conversion of the Cap RITES Bonds**

The Authority and MLCS each has the option to cause an early termination of the Master Agreement upon a Master Agreement Event of Default by the other party.

The interest rate payable with respect to the Cap RITES Bonds shall convert, at the option of the Authority, from the applicable Cap RITES Rate or the applicable Converted Rate, as the case may be, to the applicable Constant Rate if an early termination of the Master Agreement is designated by the Authority following a Master Agreement Event of Default by MLCS (the "Mandatory Conversion Date"),

provided, that the Mandatory Conversion Date shall be the Interest Payment Date next preceding such early termination of the Master Agreement (or, (i) if the Mandatory Conversion Date occurs prior to the first Interest Payment Date, the Effective Date or (ii) if the Mandatory Conversion Date is an Interest Payment Date, the prior Interest Payment Date). The Authority may exercise its option to convert the interest rate payable on the Cap RITES Bonds to the applicable Constant Rate only if it is unable to timely obtain market quotations for, and execute, a replacement interest rate cap transaction. The Authority is not required to enter into any such replacement transaction that would require the Authority to pay to the counterparty an amount in excess of the amount actually paid to the Authority by MLCS in respect of the termination of the Master Agreement.

No amounts shall be payable by the Authority to the Owner, or by the Owner to the Authority, in respect of the conversion of the Cap RITES Bonds on any Mandatory Conversion Date; provided, however, that if the Authority receives from MLCS any amount in respect of the early termination by the Authority of the Master Agreement following a Master Agreement Event of Default by MLCS, the Authority shall, as soon as practicable, pay to each Owner such Owner's ratable share of such amount, determined by calculating the ratio that the principal amount each such Owner's Cap RITES Bonds bear to the total principal amount of Cap RITES Bonds then outstanding. Owners of the Cap RITES Bonds should consult their tax advisors regarding the tax treatment of any such payments.

In the event that the interest on any Cap RITES Bonds is converted to the applicable Constant Rate due to a Master Agreement Event of Default by MLCS, the interest rate on such Cap RITES Bonds may increase or decrease from the Cap RITES Rate in effect prior to such conversion depending on conditions in the market for interest rate exchange transactions based on tax-exempt market rates at the time of conversion. **Upon such conversion, the Constant Rate shall apply from the Mandatory Conversion Date to the maturity of the Bonds.**

The Master Agreement Events of Default in respect of MLCS are defined in the Master Agreement as follows: (i) MLCS or Merrill Lynch & Co., Inc. fail to make any payment due under the Master Agreement; (ii) any representation or warranty made by MLCS proves to have been false or misleading in any material respect; (iii) MLCS fails to perform or observe any other covenant or agreement under the Master Agreement; (iv) MLCS or Merrill Lynch & Co., Inc. becomes insolvent; (v) a default by MLCS under any swap transactions with the Authority; and (vi) MLCS merges with an entity not affiliated with Merrill Lynch & Co., Inc. which does not assume the obligations of MLCS under the Master Agreement.

In addition, prospective purchasers of the Cap RITES Bonds should note that it cannot be determined whether the Authority will be able to timely arrange with a substitute counterparty for the replacement of the Master Agreement.

#### **Optional Conversion of the Cap RITES Bonds**

On any Business Day prior to the earlier to occur of the Mandatory Conversion Date or the applicable Scheduled Conversion Date, the Owner of Cap RITES Bonds may elect to convert the interest rate payable on not less than \$500,000 principal amount of such Cap RITES Bonds to the applicable Converted Rate.

Such election shall be made by delivery by the Owner of such Cap RITES Bonds of notice, which notice may be in writing or telephonically communicated, to the Cap RITES Market Agent by 11:00 A.M., New York City time, on the Business Day prior to the proposed Optional Conversion Date (the

"Notice Date") specifying (i) the principal amount of Cap RITES Bonds to be converted, (ii) the proposed Optional Conversion Date, (iii) the method by which the Cap RITES Market Agent will be able to contact such Owner between 11:00 A.M. and 2:00 P.M., New York City time, on the Notice Date and (iv) evidence satisfactory to the Cap RITES Market Agent that such Owner is the Owner of the Cap RITES Bonds being converted.

Prior to 2:00 P.M., New York City time on the Notice Date, the Cap RITES Market Agent shall determine (i) whether the Cap RITES Bonds will be converted, (ii) the Optional Conversion Date and (iii) the applicable Converted Rate, and shall make reasonable efforts to advise the Owner using the method specified in the notice, as to such determinations. Any determination made by the Cap RITES Market Agent pursuant to this paragraph shall be binding, until 3:00 P.M., New York City time, on the Notice Date, provided there shall have been no material adverse change in the market for interest rate exchange agreements based on tax-exempt market interest rates prior to such time. If, in the exclusive judgment of the Cap RITES Market Agent, such material adverse change shall have occurred, the Cap RITES Market Agent shall rescind such determination by not providing the telephonic confirmation referred to in the following paragraph.

The Owner shall provide telephonic notice to the Cap RITES Market Agent of its offer to convert its Cap RITES Bonds to the Converted Rate so determined not later than 3:00 P.M., New York City time, on the Notice Date. Such notice shall be irrevocable; provided that, the conversion shall be effective only if the Cap RITES Market Agent shall, by telephone, confirm its acceptance of the Converted Rate. Immediately following such confirmation, the Owner shall, in the event that the Cap RITES Bonds are registered in the name of Cede & Co., as nominee for DTC, provide the Participant through which such Owner holds such Cap RITES Bonds, irrevocable written notice to convert the interest on such Cap RITES Bonds.

Not later than 5:00 P.M., New York City time, on the Notice Date, the Owner shall provide to the Authority, the Trustee and the Cap RITES Market Agent irrevocable written notice (i) specifying the converted Cap RITES Bonds, (ii) acknowledging that such Cap RITES Bonds bear interest at the Converted Rate, and (iii) providing evidence satisfactory to the Cap RITES Market Agent (x) that such Owner is the Owner of the converted Cap RITES Bonds and (y) in the event that the Cap RITES Bonds are registered in the name of Cede & Co., as nominee for DTC, that there shall have been provided to the Participant through which such Owner holds such Cap RITES Bonds, irrevocable written notice to convert the interest rate on such Cap RITES Bonds or authorizing the Cap RITES Market Agent, to provide such notice, or in any other event, that the Owner shall surrender for conversion its Cap RITES Bonds. Failure by the owner to deliver the notice described in the preceding sentence shall not affect the conversion made in the telephonic notice provided by the Owner in the next preceding paragraph.

Notwithstanding anything to the contrary contained under this caption "Optional Conversion of the Cap RITES Bonds," the Optional Conversion Date for any Cap RITES Bonds for which the Owner has provided notice of conversion (as described in the fourth preceding paragraph) during the period beginning on the Record Date and ending on the next succeeding Interest Payment Date shall be a date not earlier than such next succeeding Interest Payment Date.

Notwithstanding anything contained under this caption "Optional Conversion of the Cap RITES Bonds," no Cap RITES Bonds shall be converted to the applicable Converted Rate at the election of the Owner thereof if (i) the Interest Rate Adjustment cannot be determined because (A) in the event that the related Series Rate Cap Transaction is in effect, the Authority and MLCS fail to agree to the termination of a ratable portion of the related Series Rate Cap Transaction or (B) in the event that the related Series

Rate Cap Transaction is not in effect, the Authority is unable to determine the Market Quotation or the Loss or (ii) prior to such conversion there shall have occurred the enactment, promulgation, execution or ratification of, or any change in or amendment to, any, law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) as a result of which the Authority shall be in receipt of an opinion of nationally recognized bond counsel to the effect that a conversion of any Cap RITES Bonds would cause the interest payable on any of the 1993 Bonds to cease to be excludable from gross income for Federal income tax purposes.

The Internal Revenue Service has issued proposed regulations, which were published in the Federal Register on December 2, 1992, that may, if adopted in their current form, restrict the right of holders to convert any Cap RITES Bonds in certain circumstances. The regulations, if adopted, would apply only to conversions occurring 30 days or more after publication of the regulations as final. Under the proposed regulations, significant alterations to any debt instrument may cause it to be treated as a reissued debt instrument for Federal income tax purposes. Although it is not clear, it is possible that the exercise of the option to convert a Cap RITES Bond may cause it to be treated as reissued under the proposed regulations. If the converted Cap RITES Bond were considered to be reissued, the holder would recognize gain or loss measured by the market value of the converted Cap RITES Bond. In addition, if the treatment of the converted Cap RITES Bond as a reissued obligation would cause interest on the 1993 Bonds to be includable in gross income for Federal income tax purposes, e.g., if the converted Cap RITES Bonds had a lower yield than the yield on the 1993 Bonds or if there were a change in law adversely affecting the reissuance of the Bonds, the conversion would not be permitted.

In no event shall the rate of interest on the Cap RITES Bonds exceed the applicable usury limit per annum under the laws of the Commonwealth of Kentucky.

The Authority and MLCS have agreed, pursuant to the Master Agreement, to terminate each Series Rate Cap Transaction in a notional principal amount corresponding to the face amount of the Cap RITES Bonds being converted. Any such termination of such portion of each such Series Rate Cap Transaction is expressly conditioned on the following:

- (a) MLCS is actively involved in the business of executing interest rate swap transactions on the basis of tax-exempt market interest rates;
- (b) the credit standing of the Authority in the view of MLCS has not materially deteriorated from its credit standing on the date that each such Series Rate Cap Transaction was entered into;
- (c) MLCS arranges, in light of then current market conditions, terms for such termination financially and otherwise acceptable to the Authority and MLCS, and the Authority consents to such terms, which consent shall not be unreasonably withheld; and
- (d) such other factors as affect MLCS's willingness to enter into Series Rate Cap Transactions.

There can be no assurance that any substitute master agreement will contain the same conditions as the Master Agreement, that the Authority will be able to obtain any quotations from Reference Market-makers to determine the Market Quotation or that the Authority will be able to determine its Loss.

Prospective Owners of the Cap RITES Bonds should note that it is not possible to determine at this time the amount of the Converted Rate or the Interest Rate Adjustment. Both are subject to conditions in the market for interest rate exchange transactions based on tax-exempt market interest rates at the time of conversion. The Interest Rate Adjustment is expected, however, to approximate the replacement cost for MLCS and the Authority of the notional amount of the Series Rate Cap Transaction being terminated in conjunction with such conversion. Such replacement cost is expected to be approximately equal to the cost of preserving for MLCS and the Authority the economic equivalent of the payment obligations of MLCS and the Authority following the Optional Conversion Date. If an Interest Rate Adjustment is positive, the Converted Rate will be in excess of the Constant Rate, however, if the Interest Rate Adjustment is negative, the Converted Rate will be less than the Constant Rate.

Generally, upon the conversion of a Cap RITES Bond, (i) the Converted Rate will exceed the applicable Constant Rate if cap rates for the related Series Rate Cap Transaction in the market for interest rate exchange transactions based on tax-exempt market interest rates exceed the applicable Constant Rate minus the applicable Set Rate and (ii) the Converted Rate will be less than the applicable Constant Rate if cap rates for the related Series Rate Cap Transaction in the market for interest rate exchange transactions based on tax-exempt market interest rates are less than the applicable Constant Rate minus the applicable Set Rate; provided, however, that the other market factors will affect the Interest Rate Adjustment in respect of a Cap RITES Bond.

**In addition, Prospective Owners of the Cap RITES Bonds should note that:**

**(i) pursuant to the Master Agreement, MLCS and the Authority have agreed that if the conditions specified above with respect to the termination of any Series Rate Cap Transactions are satisfied, they will arrange for such termination on a best efforts basis;**

**(ii) although the Interest Rate Adjustment applicable upon an Optional Conversion of any Cap RITES Bond to the applicable Converted Rate cannot be determined at this time, such adjustment could, under certain market conditions described above, be substantial; and**

**(iii) Cap RITES Bonds which have been converted to the applicable Converted Rate are subject to mandatory conversion prior to the Scheduled Conversion Date at the option of the Authority, as described above under the caption, "Mandatory Conversion of the Cap RITES Bonds."**

Prospective Owners of the Cap RITES Bonds should consult their financial advisors regarding the consequences of conversion.

#### **Redemption of the Cap RITES Bonds.**

The Cap RITES Bonds are subject to optional redemption prior to maturity, as set forth below.

*Optional Redemption.* The Cap RITES Bonds are subject to optional redemption on and after July 1, 2003, as a whole at any time or in part on any Interest Payment Date, at the following redemption prices expressed as percentages of principal amount together with accrued interest to the redemption date:

| <b><u>Redemption Period</u></b><br><b><u>(both dates inclusive)</u></b> | <b><u>Redemption</u></b><br><b><u>Price</u></b> |
|---|---|
| July 1, 2003 to June 30, 2004   | 102%  |
| July 1, 2004 to June 30, 2005   | 101   |
| July 1, 2005 and thereafter   | 100   |

*Selection of Bonds.* If less than all of the Cap RITES Bonds of a maturity are called for redemption, the particular Cap RITES Bonds so called to be redeemed will be selected by the Trustee at the direction of the Authority in such manner as the Authority in its discretion may deem proper.

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

*Effect of Redemption.* In case part but not all of a Cap RITES Bond is selected for redemption, the registered owner thereof or his attorney or legal representative must present and surrender such Cap RITES Bond to the Trustee for payment of the principal amount thereof called for redemption, and the Authority will execute and the Trustee will authenticate and deliver upon the order of such registered owner or his attorney or legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Cap RITES Bond so surrendered Cap RITES Bonds of any denomination authorized by the Indenture, of the same maturity and bearing interest at the same rate.

The Cap RITES Bonds and portions thereof which have been called for redemption, or with respect to which irrevocable instructions have been given to the Trustee in form satisfactory to it to call Cap RITES Bonds or portions thereof for redemption at the earliest redemption date, and for the payment of the redemption price of which monies are held in separate accounts by the Trustee in trust for the registered owners of the Cap RITES Bonds, or portions thereof to be redeemed, all as provided in the Indenture, will not thereafter be deemed to be Outstanding under the Indenture and will not be entitled to any security under the Indenture except the right to receive the redemption price for such Cap RITES Bonds or portions thereof.

**GENERAL EXPLANATION OF FLOAT/RITES**

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## SUMMARY STATEMENT

### General

The 1993 Bonds maturing June 6, 2012 are being issued as Floating Auction Tax-Exempts ("FLOATs") and Residual Interest Tax-Exempt Securities ("RITES" and, together with the FLOATs, "FLOAT/RITES"), which will be available in denominations of \$50,000 or any multiple thereof, all of which will be dated and will mature in the years and amounts, as set forth on the inside cover page of this Official Statement.

This Summary of the FLOATs and RITES is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Appendix F. Terms used in this Summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Appendix F. See "Certain Definitions" herein.

### Global Bonds; Securities Depository

The FLOAT and RITES will be issued in the form of a single fully registered certificate for each of the FLOATs and RITES, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, as the Securities Depository. Unless DTC resigns without the appointment of a successor, the Securities Depository or its nominee will be the holder of record of all issued and outstanding FLOATs and RITES and Beneficial Owners may not obtain physical possession of the FLOATs and RITES beneficially owned by them.

### Interest

Interest with respect to the FLOATs and the RITES is payable on Thursday, April 29, 1993, Friday, May 7, 1993, and on each successive fourth Friday thereafter, subject to certain exceptions. Although the Preliminary Interest Period and the Initial Interest Period for the FLOATs and the RITES will be for a shorter period, each Subsequent Interest Period for the FLOATs will generally be a period of 28 days.

### Interest with respect to the FLOATs

The interest rate with respect to the FLOATs for the Preliminary Interest Period will be 2.775%, which will be paid to the Owners of the FLOATs and the interest rate with respect to the FLOATs for the Initial Interest Period will be 2.775%, consisting of 2.50% which is paid to the Owners of the FLOATs and the Service Charge Rate of .275 of 1% which will be paid by the Trustee to the Auction Agent and the Broker-Dealers. For each Subsequent Interest Period, the Applicable FLOATs Rate will equal the sum of:

(i) the rate (the "Auction Rate") that the Auction Agent (Bankers Trust Company or any successor) advises the Trustee resulted from an Auction for the FLOATs held on the Business Day immediately preceding the first day of such Subsequent Interest Period; and

(ii) the Service Charge Rate (initially .275 of 1%),

unless certain events, including a Payment Default, have occurred under the Series 1993 Resolution. Auctions will generally be held every fourth Thursday. Whenever the Service Charge Rate is a

component of the Applicable FLOATs Rate, the Service Charge will be paid to the Auction Agent and the Broker-Dealers and, accordingly, will not be received by the FLOATs Owners.

The Auction Rate determined by an Auction for any subsequent Interest Period may not be less than the Minimum Rate and may not exceed the Maximum Rate for such Subsequent Interest Period as determined on the Auction Date thereof. See "Auction Procedures."

The Minimum Rate on any date of determination shall be the interest rate per annum equal to 90% (as such percentage may be adjusted as described under "Adjustment in Percentages Used to Determine Maximum, Minimum and Non-Payment Rates") of the lesser on such date of:

(i) the Index, defined as the tax-exempt money market rate index for 30-day variable rate obligations prepared by Merrill, Lynch, Pierce, Fenner & Smith Incorporated published on The BLOOMBERG provided through Bloomberg Financial Markets of Bloomberg L.P., or on Dalcomp Systems on such date of determination or, if such Index is not published by 9:00 a.m., New York City time, on such date of determination, the interest index selected by the Market Agent in accordance with the provisions of the Series 1993 Resolution, and

(ii) the After-Tax Equivalent Rate, defined as the product of the "AA" Composite Commercial Paper Rate and 1.00 minus the lower of the Statutory Corporate Tax Rate and the Statutory Personal Tax Rate (as such terms are defined herein under "Interest," and "Certain Definitions");

provided that in no event shall the Minimum Rate be more than the Maximum Rate.

The Maximum Rate on any date of determination shall be the interest rate per annum equal to the lesser on such date of:

(i) the Applicable Percentage specified below multiplied by the higher of (A) the After-Tax Equivalent Rate and (B) the Index; and

(ii) 11.109% per annum minus the Service Charge Rate;

provided, that if the ownership of the FLOATs is no longer maintained in book-entry form, the Maximum Rate shall be the lesser of (x) the Applicable Percentage multiplied by the higher of (1) the After-Tax Equivalent Rate and (2) the Index and (y) 11.109% per annum; and provided, further, the Maximum Rate may not exceed the maximum rate permitted by law.

The Applicable Percentage on any date of determination shall be the percentage determined as set forth below based on the lower of the credit ratings of the FLOATs in effect at the close of business on the Business Day immediately preceding such date as follows:

| <u>Credit Rating</u> |                  | <u>Applicable Percentage</u> |
|----------------------|------------------|------------------------------|
| <u>Moody's</u>       | <u>S&amp;P</u>   |                              |
| "Aaa"                | "AAA"            | 175%                         |
| "Aa" to "Aa1"        | "AA-" to "AA+"   | 175                          |
| "A" to "A1"          | "A-" to "A+"     | 175                          |
| "Baa" to "Baa1"      | "BBB-" to "BBB+" | 200                          |
| Below "Baa"          | Below "BBB-"     | 265                          |

The Applicable Percentage, the percentage used in determining the Minimum Rate and the percentage of the Index used in determining the Non-Payment Rate (defined below) may be adjusted by the Market Agent to reflect a Change of Preference Law.

If an Auction for any Subsequent Interest Period is not held for any reason (other than the occurrence and continuance of a Payment Default under the Series 1993 Resolution, or because all of the FLOATs are Fixed (as described below) or are no longer represented by a global bond registered in the name of the Securities Depository or its nominee), the Applicable FLOATs Rate for the immediately succeeding Subsequent Interest Period will equal the sum of:

- (i) the Maximum Rate on the Auction Date for such Interest Period; and
- (ii) the Service Charge Rate.

An Auction will not be held on an Auction Date, among other things, if a Payment Default occurs (as described below) or if the Auction Agent has resigned and no successor has been appointed. See "Auction Procedures."

Owners of FLOATs which are Fixed at the close of business on the Regular Record Date immediately preceding an Auction Date will not be obligated to pay the Service Charge to the Auction Agent and the Broker-Dealers in respect of the Auction held on such Auction Date and, therefore, will be entitled to receive interest on such FLOATs for the immediately succeeding Subsequent Interest Period at a rate per annum equal to the sum of:

- (i) the Auction Rate or Maximum Rate, as the case may be; and
- (ii) the Service Charge Rate.

The Service Charge Rate for each Auction Date will equal the sum of the rates per annum at which the Auction Agent Fee (initially .025 of 1%) and the Broker-Dealer Fee (initially .250 of 1%) accrue on such Auction Date. See "The Auction Agent" and "Broker-Dealers" for a description of the circumstances under which the rate at which the Auction Agent Fee or the Broker-Dealer Fee accrues may be increased.

If all of the FLOATs are Fixed at the close of business on the Regular Record Date immediately preceding any Subsequent Interest Period, the Applicable FLOATs Rate for such Subsequent Interest Period will equal the Minimum Rate on the Business Day immediately preceding the first day of such Subsequent Interest Period.

If a Payment Default occurs, Auctions will be suspended and the Applicable FLOATs Rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the "Non-Payment Rate," provided that if an Auction occurred on the Business Day immediately preceding any such Interest Period, the Applicable FLOATs Rate shall be the Non-Payment Rate plus the Service Charge Rate. The Non-Payment Rate is defined as the lesser of:

- (i) 265% of the Index on the date of determination; and

(ii) 11.109% per annum;

provided, that in the event that an Auction was held on the Business Day immediately preceding the first day of an Interest Period during which the FLOATs are to bear interest at the NonPayment Rate, the Non-Payment Rate as determined pursuant to (i) or (ii) above shall be reduced by an amount equal to the Service Charge Rate on such date of determination.

If the FLOATs are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, Auctions will be suspended and the Applicable FLOATs Rate for each Subsequent Interest Period thereafter will equal the Maximum Rate on the Business Day immediately preceding the first day of such Subsequent Interest Period. See "Discontinuance of Book-Entry System" for a description of the circumstances under which the FLOATs may no longer be represented by a global certificate.

Interest with respect to the FLOATs shall be computed on the basis of a 360-day year for the number of days actually elapsed.

#### **Interest with respect to the RITES**

The interest rate with respect to the RITES for the Preliminary Interest Period and the Initial Interest Period will be 8.45% per annum. The interest rate on the RITES for each Subsequent Interest Period will be equal to the excess, if any, taken (without rounding) to the nearest one-thousandth (.001) of 1% of:

- (i) two times the Fixed Rate of 5.632% per annum (or 11.264% per annum)  
minus
- (ii) the product of (a) the Applicable FLOATs Rate for such Subsequent Interest Period times (b) 365/360.

To determine the interest rate on the RITES, the Applicable FLOATs Rate is multiplied by 365/360 in order to adjust such rate, which is calculated on the basis of a 360-day year, to a rate per annum calculated on the basis of a 365-day year. Interest with respect to the RITES shall be computed on the basis of a 365-day year for the number of days actually elapsed.

#### **Auction Procedures**

On each Auction Date for the FLOATs on which an Auction is conducted, each Existing Holder (which term excludes a beneficial owner of Fixed FLOATs) may submit Orders through a Broker-Dealer to the Auction Agent as follows:

- Hold Order - indicating such Existing Holder's desire to hold without regard to the Auction Rate for the next Interest Period.
- Bid - indicating such Existing Holder's desire to sell if the Auction Rate for the next Interest Period is less than the rate specified in such Bid.
- Sell Order - indicating such Existing Holder's desire to sell without regard to the Auction Rate for the next Interest Period.

An Order may be submitted only in a principal amount of \$50,000 or any integral multiple thereof.

An Existing Holder may submit different types of Orders in an Auction. An Existing Holder that offers to purchase additional FLOATs is, for purposes of such offer, treated as a Potential Holder as described below. Bids by Existing Holders specifying rates higher than the Maximum Rate on the Auction Date will be treated as Sell Orders. Bids by Existing Holders or Potential Holders specifying rates lower than the Minimum Rate on the Auction Date will be treated as Bids specifying the Minimum Rate. A Hold Order will be deemed to have been submitted on behalf of an Existing Holder if an Order is not submitted on behalf of such Existing Holder for any reason, including the failure of a Broker-Dealer to submit such Existing Holder's Order to the Auction Agent.

Potential Holders of FLOATs may submit Bids in which they offer to purchase FLOATs if the Auction Rate for the next Interest Period is not less than the rate specified in such Bid. A Bid by a Potential Holder specifying a rate higher than the Maximum Rate on the Auction Date will not be accepted.

If Sufficient Clearing Bids exist (that is, if the aggregate principal amount of FLOATs subject to Bids by Potential Holders with rates equal to or lower than the Maximum Rate exceeds or is equal to the aggregate principal amount of FLOATs subject to Sell orders by Existing Holders or to Bids submitted by Existing Holders specifying a rate higher than the Maximum Rate), the Auction Rate will be the "Winning Bid Rate" which is defined as the lowest rate (not lower than the Minimum Rate) specified in the Submitted Bids which, taking into account such rate and all lower rates bid by Existing Holders and Potential Holders, would result in Existing Holders and Potential Holders owning all FLOATs available for purchase in the Auction. If Sufficient Clearing Bids do not exist (except in the case of all FLOATs being subject to Hold Orders), the Auction Rate will be the Maximum Rate on the Auction Date and, in such event, Existing Holders that have submitted Sell Orders or Bids specifying a rate higher than the Maximum Rate may not be able to sell in such Auction all FLOATs subject to such Sell Orders or Bids. If all of the FLOATs are subject to Submitted Hold Orders or if all of the FLOATs either were Fixed Option Bonds at the close of business on the immediately preceding Regular Record Date or are subject to Submitted Hold Orders, the Auction Rate will be the Minimum Rate on the Auction Date.

The Auction Procedures provide in certain circumstances for a pro rata allocation of FLOATs for purchase and sale, which may result in an Existing Holder's continuing to hold or selling, or a Potential Holder's purchasing, a principal amount of FLOATs that is less than the principal amount of FLOATs specified in its Order. Such a result might also occur if an Existing Holder fails to deliver FLOATs sold in an Auction.

A Bid placed by an Existing Holder specifying a rate greater than the Winning Bid Rate determined in the Auction or a Sell Order shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto, in each case at a price of 100% of their principal amount. A Bid placed by a Potential Holder shall constitute an irrevocable offer to purchase the principal amount of FLOATs subject thereto at a price of 100% of their principal amount if the rate specified in such Bid is less than or equal to the Winning Bid Rate determined in the Auction.

## **Settlement After Auctions**

Settlement of purchases and sales of FLOATs in Auctions will be made on the Business Day (also an Interest Payment Date) after the Auction Date. Purchasers will make payments through their Agent Members in same day funds to the Securities Depository against delivery to their respective Agent Members. The Securities Depository will make payment to the sellers' Agent Members in accordance with the Securities Depository's normal procedures, which currently provide for payment against delivery by their Agent members in same-day funds.

## **Fixed Option Bonds**

**Fixing FLOATs and RITES.** Fixed RITES and FLOATs are herein referred to as "Fixed Option Bonds." The semiannual bond equivalent yield to an Owner of Fixed Option Bonds which were Fixed at the close of business on the Regular Record Date immediately preceding an Interest Period ("Regular Fixed Option Bonds") will be 5.70% per annum for such Interest Period, and the interest attributable to the Service Charge Rate will not be deducted from the interest paid on such FLOATs for such Interest Period.

The semiannual bond equivalent yield of 5.70% per annum on Fixed Option Bonds is based on a blended interest rate on such Fixed Option Bonds of 5.632% per annum for an Interest Period of 28 days. Assuming the reinvestment of interest payments every 28 days at 5.632% per annum, a semiannual bond equivalent yield of 5.70% per annum paid semiannually is economically the same as an interest rate of 5.632% per annum paid every 28 days.

A Beneficial Owner of RITES or FLOATS may fix the interest rate ("Fix") on such RITES or FLOATs by purchasing an equal principal amount of FLOATs or RITES, as the case may be, and requesting its Broker-Dealer to deliver a Fixing Request to the Auction Agent, and taking such other action as its Broker-Dealer instructs.

However, the RITES and the FLOATs may not be Fixed during the period (the "Closed Period"): (i) commencing at 11:00 a.m., New York City time, on the third Business Day immediately preceding any Interest Payment Date therefor and ending immediately prior to the opening of business on such Interest Payment Date; or (ii) commencing at 11:00 a.m., New York City time, on any Redemption Record Date and ending on the related redemption date.

A Fixing Request which is submitted to the Auction Agent by 12:00 noon, New York City time, on a Business Day should, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the RITES and the FLOATs subject to such Fixing Request becoming Fixed Option Bonds under a single CUSIP number immediately prior to the close of business on the next Business Day.

Beneficial owners of FLOATs which were Fixed at the close of business on the Regular Record Date immediately preceding any Auction Date may not participate (with respect to such FLOATs) in the Auction for the FLOATs held on such Auction Date.

RITES and FLOATs which constitute Fixed Option Bonds may only be transferred together as a unit in minimum denominations of \$100,000 (\$50,000 principal amount of RITES and \$50,000 principal amount of FLOATs) and integral multiples thereof.

The settlement of purchases and sales in the secondary market of Fixed Option Bonds will be made in accordance with the Securities Depository's normal procedures, which now provide for payment in next-day funds against delivery by the respective Agent Members.

If the FLOAT/RITES are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, the FLOATs and the RITES may not be Fixed. See "Discontinuation of Book-Entry System" in this Official Statement for a description of the circumstances under which the FLOATs or the RITES may no longer be represented by a global certificate.

**Separating RITES and FLOATs.** A Beneficial Owner of Fixed Option Bonds may Separate the applicable RITES and FLOATs at any time, other than during a Closed Period, by requesting its Broker-Dealer to deliver a Request to Separate to the Auction Agent and taking such other action as its Broker-Dealer instructs.

A Request to Separate which is submitted to the Auction Agent by 12:00 noon, New York City time, on a Business Day should, under procedures to be used by the Auction Agent and Securities Depository, normally result in the Separation of the applicable RITES and FLOATs immediately prior to the close of business on the next Business Day.

#### **CUSIP Numbers**

For information concerning CUSIP numbers, see "CUSIP Numbers."

#### **Redemption**

Notwithstanding any other provision in the Series 1993 Resolution: (i) no FLOATs shall be redeemed or delivered to the Trustee for cancellation on any date, unless an equal aggregate principal amount of RITES is redeemed or delivered to the Trustee for cancellation on the same date; and (ii) no RITES shall be redeemed or delivered to the Trustee for cancellation on any date, unless an equal aggregate principal amount of FLOATs is redeemed or delivered to the Trustee for cancellation on the same date.

**Mandatory Redemption.** The FLOATs and the RITES are subject to mandatory sinking fund redemption prior to maturity at a redemption price equal to the principal amount thereof plus accrued but unpaid interest to the Redemption Date, without premium, in the years and amounts indicated within. See "Redemption," herein.

**Optional Redemption.** The FLOATs are subject to optional redemption prior to maturity on any Regular Record Date therefor, as a whole or in part in multiples of \$50,000, at a redemption price equal to the principal amount therefor to be redeemed, plus accrued but unpaid interest to the Redemption Date, without premium.

The RITES are subject to optional redemption prior to maturity on any Regular Record Date on or after July 1, 2003, as a whole or in part in multiples of \$50,000, at the redemption prices set forth below (expressed as a percentage of the principal amount of the RITES to be redeemed) together with accrued but unpaid interest thereon to the Redemption Date:

| Redemption Period<br>(Dates Inclusive) | Redemption<br>Price |
|--|---------------------|
| July 1, 2003 through June 30, 2004     | 104%                |
| July 1, 2004 through June 30, 2005     | 102                 |
| July 1, 2005 and thereafter            | 100                 |

**Selection for Redemption.** The FLOAT/RITES shall be selected for redemption as described under the caption "Redemption" herein.

In the event of a redemption in part, the aggregate amount of the FLOAT/RITES to be redeemed will be selected from FLOAT/RITES which are Fixed and from FLOAT/RITES which are not Fixed proportionally in accordance with the relative amounts of the FLOAT/RITES which are and are not Fixed.

#### **Mandatory Tender of FLOATs**

Any owner of RITES may, at any time and from time to time, notify a Broker-Dealer that (i) such owner intends to submit a Bid for a specified amount of FLOATs on the next succeeding Auction Date in order to Fix the same with all or a portion of such RITES, and (ii) if such Bid is unsuccessful, in whole or in part, such owner requires that FLOATs (which are not Fixed) in an aggregate principal amount equal to the unsuccessful portion of such Bid be tendered to such owner for purchase on a specified Business Day prior to the Auction Date following the Auction in which such Bid proved unsuccessful (a "Tender Date") at a price equal to the principal amount of FLOATs being purchased plus accrued but unpaid interest to the Tender Date less an amount equal to the Service Charge, if any, applicable to any such FLOATs multiplied by a fraction, the numerator of which is the number of days from and including the immediately preceding Interest Payment Date for such FLOATs to but not including the Tender Date and the denominator of which is the number of days in the Interest Period in which such Tender Date occurs (the "Tender Price").

FLOATs subject to mandatory tender as a result of demands made by or on behalf of holders of RITES (each a "Tender Demand") shall be selected by lot, and notice of such mandatory tender (a "Tender Notice") shall be given to the Agent Member of each Existing Holder whose FLOATs have been so selected. Such Tender Notice having been given, the Existing Holder or Existing Holders of such FLOATs shall be required to tender the FLOATs specified therein for purchase by such RITES holder on the Tender Date and at the Tender Price therefor.

#### **Special Factors Affecting the RITES**

The magnitude of the increases and decreases in market value of the RITES may be approximately twice as large as a comparable change in market value of an equal principal amount of 5.70% fixed rate bonds having similar credit quality, redemption provisions and maturity (excluding in such comparison any potential premium paid or received for the RITES beyond that which would be paid for 5.70% fixed rate bonds having similar credit quality, redemption provisions and maturity).

Except for those who may have collateral tax consequences, beneficial ownership of \$50,000 of the RITES is similar from an economic perspective (assuming the reinvestment of interest payments on the RITES when received every 28 days at the same rate as the rate paid on the RITES on such date) to paying \$100,000 for \$100,000 of fixed rate bonds paying interest semiannually at 5.70% and having a similar credit quality, redemption provisions and maturity and borrowing \$50,000 of the purchase price at an interest rate equal to the Applicable FLOATs Rate from time to time.

Because the interest rate on the RITES will be determined by subtracting the Applicable FLOATs Rate from a fixed amount, the interest rate on the RITES will decrease as the Applicable FLOATs Rate increases, and increase as the Applicable FLOATs Rate decreases. **As a result, the interest rate on the RITES will equal zero if the Applicable FLOATs Rate is equal to 11.109% per annum.**

In order to Fix RITES or FLOATs, a Beneficial Owner of RITES or FLOATs must also have purchased a like principal amount of FLOATs or RITES, as the case may be. See "Fixing RITES AND FLOATs - Forming Fixed Option Bonds." There is no obligation to provide FLOATs to a Beneficial Owner who desires to Fix RITES or to provide RITES to a Beneficial Owner who desires to Fix FLOATs. A Beneficial Owner of the RITES may be able to acquire FLOATs that are not Fixed by bidding in an Auction (normally held every 28 days), provided that the Existing Holders of such FLOATs do not submit Hold Orders covering all such FLOATs in the Auction. In such event, no FLOATs would be available for purchase at any rate bid by such Beneficial Owner of RITES in that Auction. See "Auction Procedures." A Beneficial Owner of RITES may, however, cause a mandatory tender of FLOATs for purposes of Fixing RITES to the extent they cannot acquire FLOATs in an Auction. See "Mandatory Tender of FLOATs." In addition, a Beneficial Owner of RITES might be able to purchase FLOATs in the secondary market, outside of Auctions, through a Broker-Dealer; however, an active secondary market for the FLOATs is not expected to develop, other than in Auctions. A Beneficial Owner of FLOATs might be able to purchase RITES in the secondary market; however, an active secondary market may or may not develop for such RITES.

No assurance can be given that an active secondary market will exist for the RITES or, outside Auctions, the FLOATs. Merrill Lynch & Co. and Stifel, Nicolaus & Co., Inc., as Broker-Dealers, retain the right to make a secondary market although they have no obligation to do so.

### **Special Factors Affecting FLOATs**

Existing Holders of FLOATs may be required to tender FLOATs to a beneficial owner of RITES before the completion of an Interest Period in the event such beneficial owner of RITES exercises its right to require such a tender. See "Mandatory Tender of FLOATs".

## THE FLOAT/RITES

### General

A portion of the 1993 Bonds may be issued as FLOATs and RITES. The FLOAT/RITES shall be dated the date of original delivery thereof and shall mature on June 6, 2012. Certain capitalized terms in this Appendix are defined in "Certain Definitions." below.

The Depository Trust Company, New York, New York ("DTC", together with any successor securities depository, the "Securities Depository") will serve as securities depository under a book-entry system for the FLOAT/RITES, as described under "Book-Entry System" in the Official Statement. Unless such system is discontinued, the provisions described under "Book-Entry System" in the Official Statement (including provisions regarding payments to and transfers by the owners of beneficial interests ("Beneficial Owners") in the FLOAT/RITES will be applicable to the FLOAT/RITES and purchases of beneficial interests in the FLOAT/RITES may be made in denominations of \$50,000 or any multiple thereof. If such system is discontinued, the provisions described under "Discontinuation of Book-Entry Only System" in the Official Statement will be applicable.

### Interest

Interest Payment Date. Interest on the FLOAT/RITES shall accrue for each Interest Period and shall be payable in arrears on April 29, 1993 (the "Preliminary Interest Payment Date"), on May 7, 1993 (the "Initial Interest Payment Date"), on each succeeding fourth Friday after the Initial Interest Payment Date and at maturity, provided that, if such Friday is not a Business Day, interest otherwise payable on such Friday will be payable on the Business Day immediately preceding such Friday. Each date on which interest on the FLOAT/RITES is so payable is herein referred to as an "Interest Payment Date".

Interest payments are to be made by the Trustee to the Securities Depository, as the registered owner of the FLOAT/RITES, as of the second Business Day preceding each Interest Payment Date (the "Regular Record Date"). See "Book-Entry System" in the Preliminary Official Statement for a description of how the Securities Depository, as owner, is expected to disburse such payments to Beneficial Owners.

Applicable FLOATs Rate. The rate of interest on FLOATs shall be 2.775% per annum during the period commencing on and including the date of original delivery of the FLOATs and ending on but excluding the Preliminary Interest Payment Date (the "Preliminary Interest Period"), and for the period commencing on the Preliminary Interest Payment Date and ending on but excluding the Initial Interest Payment Date (the "Initial Interest Period"). Commencing on and including the Initial Interest Payment Date, the rate of interest on the FLOATs for each subsequent Interest Period for FLOAT/RITES (hereinafter referred to as a "Subsequent Interest Period"), which shall commence on the Interest Payment Date for the preceding Interest Period and shall end on but exclude the next succeeding Interest Payment Date for FLOAT/RITES, shall be equal to the sum of the rate of interest per annum that results from implementation of the Auction Procedures described below (the "Auction Rate") and the Service Charge Rate (defined below) provided that:

(i) if a notice of an adjustment in the percentage used to determine the Maximum Rate, the Minimum Rate and the Non-Payment Rate (in each case, defined below) shall have been given by the Market Agent and because of a failure to satisfy either of the conditions set forth in clauses (ii) and (iii) under "Adjustment of Percentages Used to Determine Maximum, Minimum and Non-Payment Rates", below such adjustment shall not have taken effect, then an Auction shall not be held on the Auction Date (defined below) immediately preceding the next succeeding Subsequent Interest Period and the rate of interest for such Subsequent Interest Period shall equal the sum of the Maximum Rate on such Auction Date and the Service Charge Rate on such Auction Date;

(ii) if, at the close of business on the Regular Record Date immediately preceding any Subsequent Interest Period, all Outstanding FLOATs are Fixed, then an Auction shall not be held with respect to such Subsequent Interest Period and the rate of interest for such Subsequent Interest Period shall equal the Minimum Rate (defined below) on the Business Day immediately preceding the first day of such Subsequent Interest Period; and

(iii) if, on any Auction Date, an Auction is not held for any other reason, the rate of interest for the next succeeding Subsequent Interest Period shall equal the sum of the Maximum Rate on such Auction Date and the Service Charge Rate on such Auction Date.

Notwithstanding the foregoing if:

(A) the ownership of the FLOATs is no longer maintained in book-entry form by DTC (or a successor Securities Depository), the rate of interest for any Subsequent Interest Period commencing after the delivery of certificates representing FLOATs pursuant to the Series 1993 Resolution shall equal the Maximum Rate on the Business Day immediately preceding the first day of such Subsequent Interest Period; or

(B) a Payment Default occurs, Auctions will be suspended and the rate of interest on the FLOATs for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Non-Payment Rate, provided that if an Auction occurred on the Business Day immediately preceding any such Interest Period, the rate of interest for such Subsequent Interest Period shall be the Non-Payment Rate plus the Service Charge Rate.

The rate per annum at which interest is payable on the FLOATs for the Preliminary Interest Period, the Initial Interest Period or any Subsequent Interest Period (each an "Interest Period") is hereinafter referred to as the "Applicable FLOATs Rate". Interest on the FLOATs shall be computed on the basis of a 360-day year for the number of days actually elapsed.

**Applicable RITES Rate.** The rate of interest on the RITES shall be 8.45% per annum during the Preliminary Interest Period and the Initial Interest Period. The rate of interest on the RITES for each Subsequent Interest Period shall be equal to the result, if any, taken (without rounding) to one thousandth (.001)

(i) two times the "Fixed Rate" of 5.632% per annum (or 11.264% per annum),  
minus

(ii) the product of (a) the Applicable FLOATs Rate for such Subsequent Interest Period, times (b) 365/360.

The rate per annum at which interest is payable on the RITES for any Interest Period is hereinafter referred to as the "Applicable RITES Rate". To determine the interest rate on the RITES, the Applicable FLOATs Rate is multiplied by 365/360 in order to adjust such rate, which is calculated on the basis of a 360-day year, to a rate per annum calculated on the basis of a 365-day year. Interest on the RITES shall be computed on the basis of a 365-day year for the number of days actually elapsed.

**No interest on RITES will be payable for any Subsequent Interest Period in which the Applicable FLOATs Rate is 11.109% per annum.**

**Service Charge.** The following amount (the "Service Charge") will be deducted from the interest payment on each \$50,000 principal amount of the FLOATs for each Interest Period following an Auction Date and paid to the Auction Agent and the Broker-Dealers in respect of the Auction Agent Fee and the Broker-Dealer

Fee, unless such FLOATs were Fixed at the close of business on the Regular Record Date immediately preceding such Auction Date: the product of (i) a fraction, the numerator of which is the number of days in such Interest Period and the denominator of which is 360 days, times (ii) the sum of the rate per annum at which the Auction Agent Fee (initially .025 of 1%) accrues and the rate per annum at which the Broker-Dealer Fee (initially .250 of 1%) accrues (the "Service Charge Rate," initially .275 of 1%) times (iii) \$50,000.

See "The Auction Agent" and "Broker-Dealers" below for a description of the circumstances under which the rate at which the Auction Agent Fee or the Broker-Dealer Fee accrues may be increased. A comparable amount will be deducted from the interest payment on the FLOATs for the Initial Interest Period (but not for the Preliminary Interest Period) and paid to the Auction Agent and the Broker-Dealers in connection with the initial issuance of the FLOATs.

### **Certain Definitions**

**"Maximum Rate,"** on any date of determination, means the interest rate per annum equal to the lesser of:

(i) the Applicable Percentage (as defined below) multiplied by the higher of (A) the After-Tax Equivalent Rate (as defined below) on such date and (B) the Index (as defined below) on such date; and

(ii) 11.109% per annum minus the Service Charge Rate on such date;

provided that, if the ownership of the FLOATs is no longer maintained in book-entry form by DTC or a successor Securities Depository, the Maximum Rate, on any date of determination, shall equal the lesser of (x) the Applicable Percentage of the higher of (1) the After-Tax Equivalent Rate on such date and (2) the Index on such date and (y) 11.109% per annum and, provided further, that in no event shall the Maximum Rate be more than the maximum rate permitted by law. There is currently no maximum rate applicable to the FLOAT/RITES under Kentucky law.

**"Minimum Rate,"** on any date of determination, means the rate per annum equal to 90% (as such percentage may be adjusted as described below under "Adjustment in Percentage Used to Determine Maximum, Minimum and Non-Payment Rates") of the lesser of:

(i) the After-Tax Equivalent Rate on such date; and

(ii) the Index on such date;

provided that in no event shall the Minimum Rate be more than the Maximum Rate.

**"Non-Payment Rate,"** on any date of determination, means the interest rate per annum equal to the lesser of:

(i) 265% of the Index on such date (as such percentage may be adjusted as described below under "Adjustment in Percentages Used to Determine Maximum, Minimum and Non-Payment Rates"); and

(ii) 11.109% per annum;

provided that in the event that an Auction was held on the Business Day immediately preceding the first day of an Interest Period during which the FLOATs are to bear interest at the NonPayment Rate, the Non-Payment Rate as determined pursuant to (i) or (ii) above shall be reduced by an amount equal to the Service Charge Rate on such date of determination and provided further that in no event shall the Non-Payment Rate be more than the maximum rate permitted by law.

**"Payment Default"** means (i) the default by the Authority in the due and punctual payment of any installment of interest with respect to the FLOATs or the RITES or (ii) the default by the Authority in the due and punctual payment of any interest, principal or premium, if any, with respect to the FLOATs or the RITES at their maturity or pursuant to a mandatory redemption, which, in either case, is followed by failure of the Bond Insurer to make due and punctual payments to the Owners of the FLOATs and the RITES under the (Bond Insurance Policy) of such installments or payments described in clauses (i) and (ii).

**"After-Tax Equivalent Rate,"** on any date of determination, means the interest rate per annum equal to the product of (i) and (ii) below.

(i) The "'AA' Composite Commercial Paper Rate" on such date, which on any date of determination, shall mean: (A) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P or another nationally recognized securities rating agency, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination; or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the Commercial Paper Dealers, for the close of business on the Business Day immediately preceding such date of determination. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Composite Commercial Paper Rate, the "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Authority to provide such quotation or quotations not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Authority does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given days' maturity shall be equal to the product of (A) 100 times (B) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1% of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360; and

(ii) 1.00 minus the lower of:

(A) the "Statutory Corporate Tax Rate" on such date, which shall mean, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of every corporation as set forth in Section 11 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, and which on the date hereof is 0.34; and

(B) the "Statutory Personal Tax Rate" on such date, which shall mean, as of any date of determination, the highest tax rate bracket (expressed in decimals) now or hereafter applicable in each taxable year on the taxable income of a natural person as set forth in Section 1 of the Code or any successor section without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year, and which on the date hereof is 0.31.

For the purposes of this definition: (1) "**Commercial Paper Dealers**" means Merrill Lynch, Pierce, Fenner & Smith Incorporated and such other commercial paper dealer or dealers as the Authority may from time to time appoint, or, in lieu of any thereof, their respective affiliates or successors; and (2) "**Substitute Commercial Paper Dealer**" shall mean The First Boston Corporation or Morgan Stanley & Co. Incorporated and such other commercial paper dealer or dealers as the Authority may from time to time appoint, or their respective affiliates or successors, if such person is a commercial paper dealer, provided that neither such person nor any of its affiliates or successors shall be a Commercial Paper Dealer.

"**Applicable Percentage**", on any date of determination, means the percentage determined below (as such percentage may be adjusted as described below under "Adjustment of Percentage Used in Determining Maximum, Minimum and Non-Payment Rates") based on the lower of the credit ratings of FLOATs in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

| <u>Moody's</u>  | <u>Credit Rating</u><br><u>S&amp;P</u> | <u>Applicable</u><br><u>Percentage</u> |
|-----------------|--|--|
| "Aaa"           | "AAA"                                  | 175%                                   |
| "Aa" to "Aa1"   | "AA-" to "AA+"                         | 175%                                   |
| "A" to "A1"     | "A-" to "A+"                           | 175%                                   |
| "Baa" to "Baa1" | "BBB-" to "BBB+"                       | 200%                                   |
| Below "Baa"     | Below "BBB-"                           | 265%                                   |

provided, that, in the event that the FLOATs are not rated by a nationally recognized securities rating agency, the Applicable Percentage shall be 265%. For purposes of this definition, S&P's rating categories of "AAA," if "AA," "A" and "BBB," and Moody's rating categories of "Aaa," "Aa," "A" and "Baa," refer to and include the respective rating categories correlative thereto if either or both of such ratings agencies have changed or modified their generic rating categories or if Moody's or S&P no longer rate the FLOATs or have been replaced.

"**Index**", on any date of determination, means (i) the tax-exempt money market rate index for 30-day variable rate obligations prepared by Merrill Lynch, Pierce, Fenner & Smith Incorporated published on The BLOOMBERG provided through Bloomberg Financial Markets of Bloomberg L. P., or on Dalcomp Systems on such date of determination or, (ii) if such rate is not published by 9:00 a.m., New York City time, on such date of determination, the interest index selected by the Market Agent, representing the weighted average of the yield on tax-exempt commercial paper, or tax-exempt bonds bearing interest at a commercial paper rate or pursuant to a commercial paper mode, having a range of maturities or mandatory purchase dates between 25 and 36 days traded during the immediately preceding five Business Days.

#### **Auction Participants**

**Existing Holders and Potential Holders.** Participants in each Auction will include: (1) "Existing Holders," which shall mean any person who is listed as the owner of FLOATs in the records of the Auction Agent (defined below,) which are not Fixed, at the close of business on the Business Day prior to such Auction; and (ii) "Potential Holders," which shall mean any person, including any Existing Holder, who may be interested in acquiring FLOATs (or, in the case of an Existing Holder, an additional principal amount of FLOATs). Beneficial

Owners of FLOATs which were Fixed at the close of business on the Regular Record Date immediately preceding any Auction Date are not Existing Holders for purposes of the Auction Procedures, whether or not listed as the owner thereof on the records of the Auction Agent, and, with respect to such FLOATs, may not participate in the Auction held on such Auction Date. Such Fixed FLOATs will not be included in the aggregate principal amount of FLOATs held by such Existing Holder for the purposes of the Auction Procedures.

By purchasing FLOATs which are not Fixed, whether in an Auction or otherwise, each prospective purchaser of FLOATs or its Broker-Dealer must agree and will be deemed to have agreed:

- (a) to participate in Auctions on the terms described below;
- (b) so long as the beneficial ownership of the FLOATs is maintained in book-entry form by DTC (or a successor Securities Depository), to sell, transfer or otherwise dispose of FLOATs which are not Fixed only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of FLOATs so transferred, its Agent Member or its Broker-Dealer advises the Auction Agent of such transfer;
- (c) to have its beneficial ownership of FLOATs maintained at all times in book-entry form by DTC (or a successor Securities Depository) for the account of its Agent Member of the Securities Depository, which in turn will maintain records of such beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request;
- (d) that a Sell Order (as defined below) placed by an Existing Holder shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto;
- (e) that a Bid (as defined below) placed by an Existing Holders shall constitute an irrevocable offer to sell the principal amount of FLOATs subject thereto if the rate specified in such Bid is greater than, or in some cases equal to, the Auction Rate determined in the Auction;
- (f) that a Bid placed by a Potential Holder shall constitute an irrevocable offer to purchase the principal amount of FLOATs subject thereto if the rate specified in such Bid is less than or equal to the Auction Rate determined in the Auction; and
- (g) to tender its FLOATs for sale at 100% of the principal amount thereof, plus accrued but unpaid interest, if required as described below under "Mandatory Tender of FLOATs."

The principal amount of FLOATs purchased or sold may be subject to proration procedures. See "Auction Procedures" and "Acceptance and Rejection of Orders" below. Each purchase or sale of FLOATs shall be made for settlement on the first Business Day following the Auction Date at a price equal to 100% of the principal amount thereof. See "Auction Procedures" and "Settlement Procedures" below. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

**Auction Agent.** The "Auction Agent" is Bankers Trust Company and, as used herein, such term shall include any successor Auction Agent appointed pursuant to the Series 1993 Resolution.

**Broker-Dealers.** Existing Holders and Potential Holders may participate in Auctions only by submitting Orders (in the manner described below) through a "Broker-Dealer", including Merrill Lynch, Pierce, Fenner & Smith Incorporated, Stifel, Nicolaus & Co., Inc. or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions

required of a Broker-Dealer set forth below which (i) is an "Agent Member" (i.e. a member of, or participant in DTC or any successor Securities Depository) or an affiliate of an Agent Member, (ii) has been selected by the Authority and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

**Market Agent.** The "Market Agent," initially Merrill Lynch, Pierce, Fenner & Smith Incorporated, is responsible under the terms of a Market Agent Agreement with the Authority, for determination of the Index and for determination of any changes to be made in the percentages used in determining the Maximum Rate, the Minimum Rate and the Non-Payment Rate. See "Adjustment of Percentages Used in Determining Maximum, Minimum and Non-Payment Rates."

**Successor Auction Agents, Broker-Dealers and Market Agents.** Successor Auction Agents, Market Agents and Broker-Dealers are selected by the Authority from institutions meeting the qualifying conditions under the documents.

### **Auction Procedures**

Auctions to establish the Applicable FLOATs Rate will be held on each Auction Date, except as described above under "Interest -Applicable FLOATs Rate", by application of the Auction Procedures described herein.

**Auction Dates.** Except as described above under "Interest -Applicable FLOATs Rate", Auctions shall be held on each "Auction Date", which is defined as the Business Day immediately preceding the first day of each Interest Period, if there is an Auction Agent, other than:

- (i) an Interest Period which is immediately preceded by a Regular Record Date at the close of business on which all of the Outstanding FLOATs were Fixed;
- (ii) each Interest Period commencing after the ownership of the FLOATs is no longer maintained in book-entry form by the Securities Depository;
- (iii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- (iv) any Interest Period commencing less than two Business Days after the cure of a Payment Default.

**Submission of Orders.** Prior to the Submission Deadline (defined as 1:00 P.M., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Auction Date:

- (a) each Existing Holder of FLOATs may submit to a Broker-Dealer an "Order," consisting of information as to:
  - (i) the principal amount of Outstanding FLOATs, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period (a "Hold Order");

(ii) the principal amount of Outstanding FLOATs, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or

(iii) the principal amount of Outstanding FLOATs, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period (a "Sell Order"); and

(b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of FLOATs which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Holder (a "Bid").

Each Existing Holder and each Potential Holder placing an order is herein referred to as a "Bidder."

Subject to the provisions described below under "Validity of Orders," a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(i) the principal amount of Outstanding FLOATs specified in such Bid if the Auction Rate shall be less than the Rate specified in such Bid; or

(ii) such principal amount or a lesser principal amount of Outstanding FLOATs to be determined as set forth in subparagraph (1) (d) under "Acceptance and Rejection of Orders" below, if the Auction Rate shall be equal to the rate specified in such Bid; or

(iii) such principal amount or a lesser principal amount of Outstanding FLOATs to be determined as set forth in subparagraph (2) (c) under "Acceptance and Rejection of Orders" below, if the rate specified therein shall be higher than the Maximum Rate and Sufficient Clearing Bids (as defined below) have not been made.

Subject to the provisions described below under "Validity of Orders," a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(i) the principal amount of Outstanding FLOATs specified in such Sell Order; or

(ii) such principal amount or a lesser principal amount of Outstanding FLOATs as set forth in subparagraph (2) (c) under "Acceptance and Rejection of Orders" below, if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under "Validity of Orders," a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(i) the principal amount of Outstanding FLOATs specified in such Bid if the Auction Rate shall be higher than the rate specified in such Bid;

(ii) such principal amount or a lesser principal amount of Outstanding FLOATs as set forth in subparagraph (1) (e) under "Acceptance and Rejection of Orders" below, if the Auction Rate shall be equal to the rate specified in such Bid

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

If an Order or Orders covering all Outstanding FLOATs held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding FLOATs held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

**None of the Authority, the Trustee or the Auction Agent, shall be responsible for any failure of a Broker-Dealer to submit an order to the Auction Agent on behalf of any Existing Holder or Potential Holder, nor shall any such party be responsible for failure by DTC, as securities Depository, to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.**

If a Broker-Dealer submits an order for its own account in any Auction, it might have an advantage over other Bidders because it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers, if any, in the Auction.

An Existing Holder may submit different types of Orders in an Auction with respect to FLOATs then held by such Existing Holder. An Existing Holder that offers to purchase additional FLOATs is, for purposes of such offer, treated as a Potential Holder. For information concerning the priority given to different types of Orders placed by Existing Holders, see "Validity of Orders" below.

The Maximum Rate is the maximum rate per annum that can result from an Auction. Any Bid specifying a rate higher than the Maximum Rate will (i) be treated as a Sell Order if submitted by an Existing Holder and (ii) not be accepted if submitted by a Potential Holder. The Minimum Rate is the minimum rate per annum which can result from an Auction. Any Bid specifying a rate lower than the Minimum Rate will be treated as a Bid specifying the Minimum Rate. See "Validity of Orders," "Determination of Sufficient Clearing Bids and Winning Bids Rates" and "Acceptance or Rejection of Orders" below.

**Validity of Orders.** If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding FLOATs held by such Existing Holder, such Orders shall be considered valid as follows and in the order of priority set forth below.

(a) **Hold Orders.** All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of FLOATs held by such Existing Holder, and if the aggregate principal amount of FLOATs subject to such Hold Orders exceeds the aggregate principal amount of FLOATs held by such Existing Holder, the aggregate principal amount of FLOATs subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding FLOATs held by such Existing Holder.

(b) **Bids.**

(i) Any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding FLOATs held by such Existing Holder over the aggregate principal amount of FLOATs subject to any Hold Orders referred to in paragraph (a) above.

(ii) Subject to subparagraph (i) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding FLOATs subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess.

(iii) Subject to subparagraphs (i) and (ii) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order

of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess.

(iv) In any event, the aggregate principal amount of Outstanding FLOATs, if any, subject to Bids not valid under this paragraph (b) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

(c) **Sell Orders.** All Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding FLOATs held by such Existing Holder over the aggregate principal amount of FLOATs subject to Hold Orders referred to in paragraph (a) above and valid Bids referred to in paragraph (b) above.

If more than one Bid for FLOATs is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of FLOATs not equal to \$50,000 or any multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of FLOATs not equal to \$50,000 or any multiple thereof shall be rejected. Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the Minimum Rate shall be treated as a Bid specifying the Minimum Rate. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

A Hold Order, Bid or Sell Order that has been determined valid pursuant to the foregoing procedures is herein referred to as a "Submitted Hold Order," a "Submitted Bid" and a "Submitted Sell order," respectively, and collectively as, "Submitted Orders".

**Determination of Sufficient Clearing Bids and Winning Bid Rate.** Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Submitted Orders and shall determine:

(a) the excess of the total principal amount of Outstanding FLOATs over the sum of the aggregate principal amount of Outstanding FLOATs subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available FLOATs"); and

(b) from such Submitted Orders whether:

(i) the aggregate principal amount of Outstanding FLOATs subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate;

exceeds or is equal to the sum of:

(ii) the aggregate principal amount of Outstanding FLOATs subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate; and

(iii) the aggregate principal amount of Outstanding FLOATs subject to Submitted Sell orders.

(In the event such excess or such equality exists, other than because the sum of the principal amounts of FLOATs in subparagraphs (ii) and (iii) above is zero because all of the Outstanding FLOATs are subject to Submitted Hold Orders, such Submitted Bids in subparagraph (i) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate"), such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of FLOATs subject to such Submitted Bids) and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates, were accepted.

the result would be that such Existing Holders described in subparagraph (i) above would continue to hold an aggregate principal amount of Outstanding FLOATs which, when added to the aggregate principal amount of Outstanding FLOATs to be purchased by such Potential Holders described in subparagraph (ii) above, would equal not less than the Available FLOATs.

### **Notice of Auction Rate**

Promptly after the Auction Agent has made the determinations described above, the Auction Agent shall advise the Authority and the Trustee of the Maximum Rate and the Minimum Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

(a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

(b) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding FLOATs are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum Rate; or

(c) if all Outstanding FLOATs are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the Minimum Rate.

### **Acceptance and Rejection of Orders**

Existing Holders shall continue to hold the principal amount of FLOATs that are subject to Submitted Hold Orders. Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(1) **Sufficient Clearing Bids.** If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (4) below, Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of FLOATs subject to such Submitted Bids;

(b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bids;

(c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted;

(d) each Existing Holders' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bid, unless the aggregate principal amount of Outstanding FLOATs subject to all such Submitted Bids shall be greater than the principal amount of FLOATs (the "remaining principal amount") equal to the excess of the Available FLOATs over the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of FLOATs subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of FLOATs obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Outstanding FLOATs held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding FLOATs subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(e) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of FLOATs obtained by multiplying the excess of the aggregate principal amount of Available FLOATs over the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding FLOATs subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding FLOATs subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(2) Insufficient Clearing Bids. If Sufficient Clearing Bids have not been made (other than because all of the Outstanding FLOATs are subject to Submitted Hold Orders), subject to the provisions of paragraph (4) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of FLOATs subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate shall be accepted; and

(c) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the FLOATs subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of FLOATs obtained by multiplying the aggregate principal amount of FLOATs subject to Submitted Bids described in subparagraph (b) above by a fraction, the numerator of which shall be the aggregate principal amount of Outstanding FLOATs held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding FLOATs subject to all such Submitted Bids and Submitted Sell Orders.

(3) All Hold Orders. If all Outstanding FLOATs are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(4) **\$50,000 Requirement.** If, as a result of the procedures described in paragraph (1) or (2) above, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of FLOATs that is not equal to \$50,000 or any multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of FLOATs to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of FLOATs purchased or sold by each Existing Holder or Potential Holder shall be equal to \$50,000 or any multiple thereof, even if such allocation results in one or more of such Potential Holders not purchasing any FLOATs.

Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of FLOATs to be purchased and the aggregate principal amount of FLOATs to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of FLOATs to be sold differs from such aggregate principal amount of FLOATs to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, FLOATs.

#### **Settlement Procedures**

The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of the Auction Rate for the next Interest Period and, if such order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on the Auction Date. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Auction Rate for the next Interest Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling FLOATs as a result of the Auction and advise each Bidder purchasing or selling FLOATs as a result of the Auction to give instructions to its Agent Member of the Securities Depository to pay the purchase price against delivery of such FLOATs or to deliver such FLOATs against payment therefor as appropriate. The Auction Agent will record each transfer of FLOATs on the registry of Existing Holders to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the Business Day after the Auction Date, the transactions described above will be executed through DTC, so long as DTC is the Securities Depository, and the accounts of the respective Agent Members at DTC will be debited and credited and FLOATs delivered as necessary to effect the purchases and sales of FLOATs as determined in the Auction. Purchasers are required to make payment through their Agent Members in same-day funds to DTC against delivery through their Agent Members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Agent Members in same-day funds.

If any Existing Holder selling FLOATs in an Auction fails to deliver such FLOATs, the Broker-Dealer of any person that was to have purchased FLOATs in such Auction may deliver to such person a principal amount of FLOATs that is less than the principal amount of FLOATs that otherwise was to be purchased by such person but in any event equal to \$50,000 or any multiple thereof. In such event, the principal amount of FLOATs to be delivered shall be determined by such Broker-Dealer. Delivery of such lesser principal amount of FLOATs shall constitute good delivery. For a further description of the Settlement Procedures, see "Settlement Procedures" below.

### **Adjustment in Percentages Used to Determine Maximum, Minimum and Non-Payment Rates**

The Market Agent shall adjust the percentage used in determining the Minimum Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law such that FLOATs paying the Maximum Rate, the Minimum Rate or the Non-Payment Rate in each case shall have substantially equal market values before and after such Change of Preference Law. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law, into account: (i) short-term taxable and tax-exempt market rates and indices of such short-term rates; (ii) the market supply and demand for short-term tax-exempt securities; (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the FLOAT/RITES; (iv) general economic conditions; and (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the FLOAT/RITES.

As used herein, "Change of Preference Law" shall mean, with respect to any owner of FLOATs or RITES, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any owner of bonds the interest on which is excluded from federal gross income under Section 103 of the Code.

The Market Agent shall communicate its determination to adjust the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate, and the Applicable Percentages used in determining the Maximum Rate, by means of a written notice delivered at least 10 days prior to the Auction Date on which the Market Agent desires to effect the change to the Authority, the Trustee and the Auction Agent. Such notice shall be effective only if it is accompanied by an opinion of Bond Counsel to the effect that such adjustment is authorized by the Series 1993 Resolution, is permitted under the Act and will not have an adverse effect on the exclusion of interest on the FLOAT/RITES from gross income for federal income tax purposes.

An adjustment in the respective percentages used to determine the Minimum Rate, the Maximum Rate and the Non-Payment Rate shall take effect on an Auction Date only if:

(i) the Trustee and the Auction Agent receive, by 11:00 A.M., New York City time, on the Business Day immediately preceding such Auction Date, a certificate from the Market Agent by telecopy or similar means, in substantially the form required under the Series 1993 Resolution authorizing the adjustment of the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate which shall be specified in such authorization, and confirming that Bond Counsel expects to be able to give an opinion on or prior to such Auction Date to the effect that the adjustment in the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate, is authorized by the Series 1993 Resolution, is permitted under the Act, and will not have an adverse effect on the exclusion of interest on the FLOAT/RITES from gross income for federal income tax purposes;

(ii) the Trustee shall not have delivered to the Auction Agent by 12:15 P.M., New York City time, on such Auction Date, notice that a Payment Default has occurred; and

(iii) the Trustee and the Auction Agent receive by 9:30 A.M., New York City time, on such Auction Date, an opinion of Bond Counsel to the effect that the adjustment in the percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate are authorized by the Series 1993 Resolution, are permitted under the Act and will not have an adverse effect on the exclusion of interest on the FLOAT/RITES from gross income for federal income tax purposes.

If any of the conditions referred to in (i) above is not met, the existing percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate shall remain in effect and the rate of interest on FLOATs for the next succeeding Interest Period shall be determined in accordance with the Auction Procedures. If any of the conditions referred to in (ii) or (iii) above is not met, the existing percentage used in determining the Minimum Rate, the percentage of the Index used in determining the Non-Payment Rate and the Applicable Percentages used in determining the Maximum Rate shall remain in effect and the rate of interest for the next succeeding Interest Period shall equal the sum of the Maximum Rate on the Auction Date and the Service Charge Rate.

### **The Auction Agent**

Bankers Trust Company is the initial Auction Agent. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agent Agreement, and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining the pertinent facts.

The Auction Agent may terminate the Auction Agent Agreement upon notice to the Trustee, the Authority and the Market Agent on a date not earlier than 90 days after such notice. If the Auction Agent should resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court for any reason, the Trustee is obligated to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agent Agreement. The Trustee acting at the direction of (1) the Authority on behalf of the Owners or (ii) the Owners of 66-2/3% of the aggregate principal amount of the FLOAT/RITES, may remove the Auction Agent.

On the Interest Payment Date for each Interest Period immediately following an Auction Date, the Auction Agent will be entitled to receive a fee for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of .025 of 1% of the aggregate principal amount of the FLOATs which were not Fixed at the close of business on the Regular Record Date immediately preceding such Auction Date (the "Auction Agent Fee"). In addition, the Auction Agent will be entitled to receive on the Initial Interest Payment Date the Auction Agent Fee calculated for the Initial Interest Period on the initial aggregate principal amount of the FLOATs for all services rendered by it in connection with the original issuance of the FLOATs.

The Auction Agent Agreement provides that the rate at which the Auction Agent Fee accrues will be such that the Auction Agent receives as compensation for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements an amount comparable to that received by the Auction Agent and other institutions performing similar functions for rendering comparable services to others and which at least reflects the actual costs to the Auction Agent of rendering such services, including the amount of any fees payable by the Auction Agent to the Market Agent. The Auction Agent may, with the consent of the Trustee, change the Auction Agent Fee Rate from time to time, provided, however, prior to such change the Auction Agent shall certify to

the Trustee that the new Auction Agent Fee Rate shall be such that the Auction Agent receives as compensation for all services rendered by it under the Auction Agent Agreement and the Broker-Dealer Agreements an amount comparable to that received by the Auction Agent for rendering comparable services to others and which at least reflects the actual costs to the Auction Agent of rendering such services, including the amount of compensation, if any, payable by the Auction Agent to the Market Agent. The Trustee shall consent to such change in the Auction Agent Fee upon receipt of such certificate of the Auction Agent. If the rate at which the Auction Agent Fee is to accrue increases, the Auction Agent is required to give notice thereof to all Existing Holders within two Business Days of such change and the Trustee is required to mail a notice thereof to all Existing Holders of FLOAT/RITES within two Business Days of such change. See "Interest-Service Charge" above for a description of the manner in which the Auction Agent Fee will be paid.

### **Broker-Dealers**

On the second Interest Payment Date following each Auction Date, each Broker-Dealer will be entitled to receive a service charge with respect to the Auction held on such Auction Date in an amount initially equal to an annualized rate of .250 of 1% of the aggregate purchase price of the FLOATs placed by such Broker-Dealer at such Auction (all such fees are collectively referred to herein as the "Broker-Dealer Fee"). For purposes of the preceding sentence, FLOATs will be deemed to have been placed by a Broker-Dealer in an Auction if such FLOATs were (i) the subject of Hold Orders deemed to have been placed by a Broker-Dealer in an Auction if such by, such Existing Holder through such Broker-Dealer or (ii) the subject of an Order submitted by such Broker-Dealer that is (A) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such FLOATs as a result of the Auction, (B) a Submitted Bid of a Potential Holder that resulted in such Potential Holder purchasing such FLOATs as a result of the Auction or (C) a valid Hold Order. In addition, if an Auction is for any reason not held on an Auction Date, FLOATs will be deemed to have been placed by a Broker-Dealer in such Auction if such FLOATs were acquired by an Existing Holder through such Broker-Dealer. Each Broker-Dealer will also be entitled to receive the Broker-Dealer Fee on the Initial Interest Payment Date calculated for the Initial Interest Period on the aggregate principal amount of the FLOATs initially sold by such Broker-Dealer or an affiliate thereof as an underwriter in the initial offering of the FLOATs.

The Auction Agent Agreement provides that the rate at which the Broker-Dealer Fee accrues will be the prevailing rate received by broker-dealers for rendering comparable services to others. The Auction Agent has agreed to certify to the Trustee, at least annually, its view of the then-current prevailing rate received by broker-dealers for rendering comparable services to others. If the then-current Broker-Dealer Fee Rate is not, in the opinion of the Auction Agent, the prevailing rate, the Broker-Dealer Fee Rate shall be changed so that it equals such prevailing rate. If the rate at which the Broker-Dealer Fee accrues increases, the Auction Agent is required to give notice thereof to the Existing Holders within two Business Days of such change and the Trustee is required to mail a notice thereof to the Owners of the FLOAT/RITES within two Business Days of such change. See "Interest-Service Charge" above for a description of the manner in which the Broker-Dealer Fee will be paid.

### **Fixing FLOATs and RITES - Forming Fixed Option Bonds**

A beneficial owner of RITES or FLOATs may fix the interest rate ("Fix") on such RITES or FLOATs by purchasing an equal principal amount of FLOATs or RITES, as the case may be, and requesting its Broker-Dealer to deliver a request for Fixing (a "Fixing Request") to the Auction Agent (a form of which notice is attached as an exhibit to the Broker-Dealer Agreements") and taking such other action as its Broker-Dealer requests.

**However, the RITES and the FLOATs may not be Fixed during the "Closed Period": (i) commencing at 11:00 a.m., New York City time, on the third Business Day immediately preceding any Interest Payment Date and ending immediately prior to the opening of business on such Interest Payment Date; or (ii) commencing at 11:00 a.m., New York City time, on any Redemption Record Date and ending on the related redemption date.**

**Accordingly, as described below, in order to Fix FLOATs and RITES prior to an Interest Payment Date for the FLOAT/RITES, a Fixing Request therefor must be received by the Auction Agent no later than 12:00 Noon, New York City time, on the fourth Business Day prior to such Interest Payment Date.**

A Fixing Request which is submitted to the Auction Agent by 12:00 noon, New York City time, on a Business Day will, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the Fixing of the RITES and the FLOATs subject to such Fixing Request under a single CUSIP number immediately prior to the close of business on the next Business Day.

Beneficial owners of FLOATs which were Fixed at the close of business on the Regular Record Date immediately preceding any Auction Date may not participate in the Auction held on such Auction Date.

The semiannual bond equivalent yield to an Owner of FLOATs and RITES which were Fixed at the close of business on the Regular Record Date immediately preceding an Interest Period ("Regular Fixed Option Bonds") will be 5.70% per annum for such Interest Period, since no Service Charge will be payable in connection with such Fixed Option Bonds for such Interest Period. Such Owner will, in effect, receive interest on its Regular Fixed Option Bonds at a blended rate of interest equal to 5.632% per annum on the aggregate principal amount thereof. Assuming the reinvestment of interest payments every 28 days at a rate equal to 5.632%, a semiannual bond equivalent yield of 5.70% per annum paid semiannually is economically the same as an interest rate of 5.632% per annum paid every 28 days.

The semiannual bond equivalent yield to an Owner of FLOATs and RITES (other than Newly Separated FLOATs, as defined below) which became Fixed during an Interest Period ("Newly Fixed Option Bonds") will be 5.556% per annum for such Interest Period. Since such Owner is obligated to pay the Service Charge for the Auction immediately preceding the Fixing of its FLOATs and RITES, it will, in effect, receive interest on its Newly Fixed Option Bonds at a blended rate of interest equal to 5.492% per annum on the aggregate principal amount thereof.

FLOATs and RITES which are Fixed may only be transferred together in minimum denominations of \$100,000 (\$50,000 principal amount of RITES and \$50,000 principal amount of FLOATs) and any multiples thereof.

A purchaser of Fixed Option Bonds in the secondary market will make payment of the purchase price thereof in accordance with the Securities Depository's normal procedures, which now provide for payment in next-day funds against delivery to its Agent member of such Fixed Option Bonds.

If the FLOAT/RITES are no longer represented by a global certificate registered in the name of the Securities Depository or its nominee, the FLOATs and RITES may not be Fixed. See "Discontinuation of Book-Entry Only System" in the Official Statement for a description of the circumstances under which the FLOATs or the RITES may no longer be represented by a global certificate.

### **Separating FLOATs and RITES**

A Beneficial owner of Fixed Option Bonds which have become Fixed may "Separate" the applicable FLOATs and RITES at any time, other than during a closed Period, by requesting its Broker-Dealer to deliver a request to Separate (a "Request To Separate") the applicable Fixed Option Bonds to the Auction Agent (a form of which request is attached as an Exhibit to the Broker-Dealer Agreement), and taking such action as its Broker-Dealer requires.

The owner of FLOATs which are not Fixed but which were Fixed at the close of business on the Regular Record Date immediately preceding an Interest Period ("Newly Separated FLOATs") will receive interest on such FLOATs at a rate per annum equal to the sum of (i) the Auction Rate or Maximum Rate, as the case may be, applicable to such Interest Period and (ii) the Service Charge Rate (or, in certain circumstances, at the Non-Payment Rate).

A Request To Separate which is submitted to the Auction Agent by 12:00, New York City time, on a Business Day will, under procedures to be used by the Auction Agent and the Securities Depository, normally result in the redelivery of Separated FLOATs and RITES, under separate CUSIP numbers immediately prior to the close of business on the next Business Day.

**CUSIP Numbers**

The CUSIP numbers for the different classes of FLOATs and RITES are as follows:

|                            | <u>CUSIP Number</u> |
|----------------------------|---------------------|
| Regular RITES*             | 491552GZ2           |
| Regular FLOATs*            | 491552GX7           |
| Newly Separated FLOATs*†   | 491552GW9           |
| Regular Fixed Option Bonds | 491552GY5           |
| Newly Fixed Option Bonds†  | 491552GV1           |

\* Regular RITES, Regular FLOATs and Newly Separated FLOATs are RITES or FLOATs which are not fixed.

† All Newly Separated FLOATs and Newly Fixed Option Bonds will automatically become Regular FLOATs and Regular Fixed Option Bonds, respectively, on each Auction Date.

**Redemption**

The FLOAT/RITES may not be called for redemption by the Authority except as provided below.

**Notwithstanding any other provision in the Series 1993 Resolution:** (i) no FLOATs shall be redeemed or delivered to the Trustee for cancellation on any date, unless an equal aggregate principal amount of RITES is redeemed or delivered to the Trustee for cancellation on the same date; and (ii) no RITES shall be redeemed or delivered to the Trustee for cancellation on any date, unless an equal aggregate principal amount of FLOATs is redeemed or delivered to the Trustee for cancellation on the same date.

Optional Redemption

**FLOATs.** The FLOATs are subject to optional redemption prior to maturity on any Regular Record Date therefor, as a whole or in part in multiples of \$50,000, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued but unpaid interest to the Redemption Date, without premium.

**RITES.** The RITES are subject to optional redemption prior to maturity on any Regular Record Date on or after July 1, 2003, as a whole or in part in multiples of \$50,000, at the redemption prices set forth below (expressed as a percentage of the principal amount of the RITES to be redeemed) together with accrued but unpaid interest thereon to the Redemption Date:

| <u>Redemption Dates</u>             | <u>Redemption Prices</u> |
|-------------------------------------|--------------------------|
| July 1, 2003, through June 30, 2004 | 104%                     |
| July 1, 2004, through June 30, 2005 | 102                      |
| July 1, 2005, and thereafter        | 100                      |

**Mandatory Redemption.** The FLOATs and the RITES will be subject to mandatory sinking fund redemption on the first Regular Record Date on or before July 1 of the years set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. The principal amount of such FLOATs and RITES to be so redeemed in the below listed years shall be as indicated on the following table:

| <u>Year</u> | <u>Principal Amount</u> |              |
|-------------|-------------------------|--------------|
|             | <u>FLOATs</u>           | <u>RITES</u> |
| 2011        | \$10,000,000            | \$10,000,000 |
| 2012*       | 5,000,000               | 5,000,000    |

\*Maturity

**Selection of FLOATs/RITES to be Redeemed.** The FLOAT/RITES shall be redeemed in minimum denominations of \$50,000 or any multiples thereof. So long as the ownership of the FLOATs and the RITES is maintained in book-entry form by the Securities Depository, the FLOATs and RITES to be redeemed in part on any Redemption Date shall be selected from the Outstanding FLOAT/RITES as described in the following sentence. An amount equal to the Fixed Percentage (as defined below) of the aggregate principal amount of the FLOATs and the RITES of each maturity to be redeemed on such Redemption Date shall be selected from Regular Fixed Option Bonds and Newly Fixed Option Bonds (on a pro rata basis in accordance with the relative principal amounts thereof) the remaining amount of RITES to be redeemed shall be selected from Regular RITES and the remaining amount of FLOATs to be redeemed shall be selected from Regular FLOATs and Newly Separated FLOATs (on a pro rata basis in accordance with the relative principal amounts thereof); provided, that if any principal amount of the FLOATs and the RITES selected as provided above is not equal to \$50,000 or any multiple thereof, the Trustee shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amounts so determined. The Trustee shall give the Securities Depository at least two Business Days' notice of the record date selected by it for the purpose of a redemption (each a "Redemption Record Date") and obtain from the Securities Depository a position listing showing at the close of business as of such Redemption Record Date the aggregate principal amounts of Regular FLOATs, Newly Separated FLOATs, Regular RITES, Regular Fixed Option Bonds and Newly Fixed Option Bonds, respectively. On the basis of such position listing, the Trustee shall calculate the Fixed Percentage as of the Redemption Record Date and determine therefrom the principal amounts to be redeemed and Redemption Prices (plus accrued and unpaid interest thereon to the Redemption Date) of: Regular FLOATs, Newly Separated FLOATs, Regular RITES, Regular Fixed Options Bonds and Newly Fixed Option Bonds, respectively.

As used herein, "Fixed Percentage," as of any Redemption Record Date, shall mean the percentage obtained by dividing the aggregate principal amount of Outstanding FLOATs and RITES which are Fixed on such Redemption Record Date by the aggregate principal amount of Outstanding FLOATs and RITES on such Redemption Record Date.

If the ownership of the FLOATs and RITES is no longer maintained in book-entry form by the Securities Depository, the FLOATs and RITES to be redeemed will be selected in accordance with the Series 1993 Resolution by the Trustee by lot.

**Redemption Notice.** The Trustee shall cause a notice of any redemption of FLOATs or RITES to be mailed, postage paid, to all Owners owning FLOAT/RITES to be redeemed in whole or in part at least 20 days before, but not earlier than, the Interest Payment Date immediately preceding the Redemption Date. Such notice shall be mailed a second time to any owner owning FLOATs and RITES that have been called for redemption if such Owner has not presented such FLOATs or RITES for payment of the Redemption Price within sixty (60) days after the Redemption Date. Failure to mail any such notice to any Owner or any defect in any notice so mailed shall not affect the validity of the proceedings for the redemption of the FLOATs and RITES of any other Owners. Notwithstanding the foregoing, so long as the registered Owner of all of the FLOATs and RITES is the Securities Depository, notice of redemption need only be sent to the Securities Depository.

The Trustee shall also take the following actions with respect to such notice of redemption:

(a) At least two (2) Business Days before the date of publication required by paragraph (b) below such notice shall be given to The Depository Trust Company, Midwest Securities Trust Company and Philadelphia Depository Trust Company and to at least two (2) of the following services selected by the Trustee: (1) Financial Information, Inc's Financial Daily Called Bond Service; (2) Kenny Information Service's Called Bond Service; (3) Moody's Investors Service, Inc. Municipal and Government and (4) Standard & Poor's Corporation Called Bond Record;

Neither failure to publish any such notice nor any defect in such notice so published shall affect the sufficiency of the proceedings for the redemption of such FLOATs and RITES. Failure by the Trustee to give notice pursuant to paragraph (a) or (b) above to any one (1) or more of the securities depositories or information services named therein shall not affect the sufficiency of the proceedings for redemption. Failure of the Trustee to give notice to an Owner or any defect in such notice shall not affect the validity of the proceedings for redemption of any other FLOATs and RITES.

### **Mandatory Tender of FLOATs**

Any holders of RITES may, at any time and from time to time, notify a Broker-Dealer that (i) such holder intends to submit a Bid for a specified principal amount of FLOATs on the next succeeding Auction Date in order to Fix the same with all or a portion of such RITES, and (ii) if such Bid is unsuccessful, in whole or in part, such holder requires that FLOATs (which are not Fixed) in an aggregate principal amount equal to the unsuccessful portion of such Bid be tendered to such holder for purchase on the seventh Business Day prior to the Auction Date following the Auction in which such Bid proved unsuccessful (a "Tender Date") at a price equal to the principal amount of FLOATs being purchased plus accrued but unpaid interest to the Tender Date less an amount equal to the Service Charge, if any, applicable to any such FLOATs multiplied by a fraction, the numerator of which is the number of days from and including the immediately preceding Interest Payment Date for such FLOATs to but not including the Tender Date and the denominator of which is the number of days in the Interest Period in which such Tender Date occurs (the "Tender Price").

FLOATs subject to mandatory tender as a result of demands made by or on behalf of holders of RITES (each a "Tender Demand") shall be selected by lot, and notice of such mandatory tender (a "Tender Notice") shall be given to the Agent Member of each Existing Holder whose FLOATs have been so selected. Such Tender Notice having been given, the Existing Holder or Existing Holders of such FLOATs shall be required to tender the FLOATs specified therein for purchase by such RITES owner on the Tender Date and at the Tender Price therefor.

In the event that any owner of RITES that has submitted a Tender Demand fails to provide the Tender Price for the purchase of the principal amount of FLOATs specified therein on the Tender Date therefor, the purchase of such principal amount of FLOATs may not take place on such Tender Date, and in such event such principal amount of FLOATs shall be deemed to be subject to a Submitted Sell Order for purposes of the next succeeding Auction. The foregoing provisions shall not, however, be deemed to limit the obligations of an owner of RITES to pay the Tender Price specified in any Tender Demand given by or on behalf of such owner or to reimburse any Broker-Dealer or other person on account of the payment of such Tender Price.

The giving of a Tender Notice with respect to a FLOAT shall supersede any Order given by the Existing Holder of such FLOATs with respect to the Auction occurring on the Auction Date following the Tender Date specified in such Tender Notice.

Each Existing Holder of FLOATs agrees that if such owner should receive any payment in connection with any tender transaction to which it is not entitled (as a result of failure of an owner of RITES to provide the Tender Price or otherwise), such owner will take such actions (including return of funds and repayment of interest to any party who provided funds to such holder which such party was not obligated to provide) so that all interested parties (including any Broker-Dealer) are restored to the positions which would have obtained if the tender transaction were effected, or not effected, as the case may be, in accordance with the provisions described above.

### **Special Factors Affecting the RITES**

The magnitude of the increases and decreases in market value of the RITES may be approximately twice as large as a comparable change in market value of an equal principal amount of 5.70% fixed rate bonds having similar credit quality, redemption provisions and maturity (excluding in such comparison any potential premium paid or received for the RITES beyond that which would be paid for 5.70% fixed rate bonds having similar credit quality, redemption provisions and maturity).

Because the interest rate with respect to the RITES will be determined by subtracting the Applicable FLOATs Rate from a fixed amount, the interest rate with respect to the RITES will decrease as the Applicable FLOATs Rate increases, and increase as the Applicable FLOATs Rate decreases. **As a result, the interest rate with respect to the RITES will equal zero if the Applicable FLOATs Rate is equal to 11.109% per annum.**

An increase in the amount of FLOATs which are not Fixed could result in a higher Applicable FLOATs Rate and, therefore, a lower interest rate with respect to the RITES.

Under certain circumstances, discussed above under "Interest - Applicable FLOATs Rate", the FLOATs could bear interest at the Maximum Rate or the Non-Payment Rate. In any such case, the interest rate with respect to the RITES could be significantly reduced or reduced to zero.

The interest rate applicable to the RITES may also be decreased in the event the Auction Agent Fee or Broker-Dealer Fee is increased because such Fees are components of the Service Charge Rate and of the Applicable FLOATs Rate which is deducted from 11.264% per annum to determine the Applicable RITES Rate.

In order to Fix RITES or FLOATs, a beneficial owner of RITES or FLOATs must also have purchased a like principal amount of FLOATs or RITES, as the case may be. See "Fixing RITES and FLOATs - Forming Fixed Option Bonds" above. There is no obligation to provide FLOATs to be beneficial owner of RITES who desires to Fix such RITES nor to provide RITES to a beneficial owner of FLOATs who desires to Fix FLOATs. A beneficial owner of the RITES may be able to acquire FLOATs that are not Fixed by bidding in an Auction (normally held every 28 days), provided, that the Existing Holders of such FLOATs do not submit Hold Orders covering all such FLOATs in the Auction. In such event, no FLOATs would be available for purchase at any

rate bid by such beneficial owner of RITES in that Auction. See "Auction Procedures". A beneficial owner of RITES may, however, cause a mandatory tender of FLOATs for purposes of Fixing RITES to the extent it cannot acquire FLOATs in an Auction. See "Mandatory Tender of FLOATs" above. A beneficial owner of FLOATs might be able to purchase RITES in the secondary market; however, an active secondary market may or may not develop for such RITES.

No assurance can be given that an active secondary market will exist for the RITES or, outside Auctions, the FLOATs. Merrill Lynch & Co. and Stifel, Nicolaus & Co., Inc., as Broker-Dealers, retain the right to make a secondary market although they have no obligation to do so

### **Special Considerations Affecting FLOATs**

Existing Holders of FLOATs may be required to tender FLOATs to a beneficial owner of RITES before the completion of an Interest Period in the event such beneficial owner of RITES exercises its rights to require such a tender. See "Mandatory Tender of FLOATs above."

## **SETTLEMENT PROCEDURES**

Capitalized terms used herein shall have the respective meanings specified in the Series 1993 Resolution. See also "Certain Definitions" above.

(a) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the next Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of FLOATs, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of FLOATs, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of FLOATs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of FLOATs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of FLOATs and the principal amount of FLOATs to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;
- (vi) if the principal amount of FLOATs to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the principal amount of FLOATs to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or

more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of FLOATs and the principal amount of FLOATs to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

(i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of FLOATs to be purchased pursuant to such Bid against receipt of such FLOATs;

(iii) in the case of Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of FLOATs to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) on the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b) (ii) above, and any FLOATs received by it in connection with such Auction pursuant to paragraph (b) (iii) above among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an order in the Auction on such Auction Date shall instruct its Agent Member as provided in (b)(ii) or (ii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to the Agent Member of the Existing Holder delivering FLOATs to such Broker-Dealer following such Auction pursuant to (b) (iii) above the amount necessary to purchase such FLOATs against receipt of such FLOATs, and (B) deliver such FLOATs through the Securities Depository to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Agent Member of the Securities Depository shall instruct its Agent Member to (A) pay through the Securities Depository to a Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to (a)(vi) above the amount necessary to purchase the FLOATs to be purchased pursuant to (b)(ii) above against receipt of such FLOATs, and (B) deliver such FLOATs through the Securities Depository to the Agent Member of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Agent Member for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct the Securities Depository to execute the transactions described under (b)(ii) or (iii) above for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (d)(ii) above for such Auction, and the Securities Depository shall execute such transactions, and

(iii) each Buyer's Broker-Dealer or its Agent Member shall instruct the Securities Depository to execute the transactions described in (d) (iii) above for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Holder selling FLOATs in an Auction fails to deliver such FLOATs (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of FLOATs that is less than the principal amount of FLOATs that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of FLOATs to be delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of FLOATs shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of FLOATs which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements.

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**FORM OF OPINION OF BOND COUNSEL**

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[Date of Delivery]

The Turnpike Authority of Kentucky  
Frankfort, Kentucky

Re: The Turnpike Authority of Kentucky Economic Development Road  
Revenue and Revenue Refunding Bonds (Revitalization Projects),  
Series 1993

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"), has issued its special obligations (the "Bonds"), consisting of Current Interest Bonds (the "Current Interest Bonds"), Cap RITES Bonds (the "Cap RITES Bonds"), Floating Auction Tax-Exempts (the "FLOATs") and Residual Interest Tax-Exempt Securities (the "RITES"). The Bonds are issued as fully registered bonds without coupons with the denominations being in integral multiples of \$5,000 for the Current Interest Bonds, \$100,000 for the Cap RITES Bonds (\$5,000 upon conversion) and \$50,000 for the FLOATs and RITES and will bear interest at the rates or approximate yields set forth in the Series 1993 Resolution adopted by the Authority on April 16, 1993 (the "Series Resolution"). Interest on the Current Interest Bonds and the Cap RITES Bonds will be payable on each July 1 and January 1, beginning July 1, 1993. Interest on the FLOATs and RITES will be payable on May 7, 1993, and each fourth Friday thereafter.

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

The Bonds are issued under the authority of the Constitution and statutes of the Commonwealth of Kentucky, including particularly Chapter 175 of the Kentucky Revised Statutes, as amended, and under and pursuant to a resolution of the Authority duly adopted on August 28, 1990 and the Series Resolution (collectively, the "Resolution") and the Trust 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 and a Second Supplemental Agreement dated as of April 1, 1993 (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 Kentucky

[Date of Delivery]

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Economic Development Road Revenue Bond System (as defined in the Indenture) (the "System"), 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 and a Second Supplemental Lease dated as of April 1, 1993 (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, 1994, and pursuant to which the Cabinet has the exclusive option to renew the Lease for the next biennial term and for successive biennial terms thereafter until all bonds issued under the Indenture have been retired.

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

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

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

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

3. The Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, constitutes a valid obligation of the Authority, and the Indenture creates a valid pledge of the Revenues (as defined in the Indenture) and all funds and accounts held under the Indenture in favor of the Trustee for the payment of the Bonds in accordance with the terms 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 Bonds are special and limited obligations of the Authority payable solely and only from the Revenues and the funds and accounts held under the Indenture and the Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth, the Authority, the Cabinet or any other agency or political subdivision of the Commonwealth.

[Date of Delivery]  
Page Three

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

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

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

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

Very truly yours,

PECK, SHAFFER & WILLIAMS

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**SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY**



# Municipal Bond Insurance Policy

AMBAC Indemnity Corporation  
c/o CT Corporation Systems  
44 East Mifflin St., Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, NY 10004  
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

## AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

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

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

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

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

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

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

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

  
President



  
Secretary

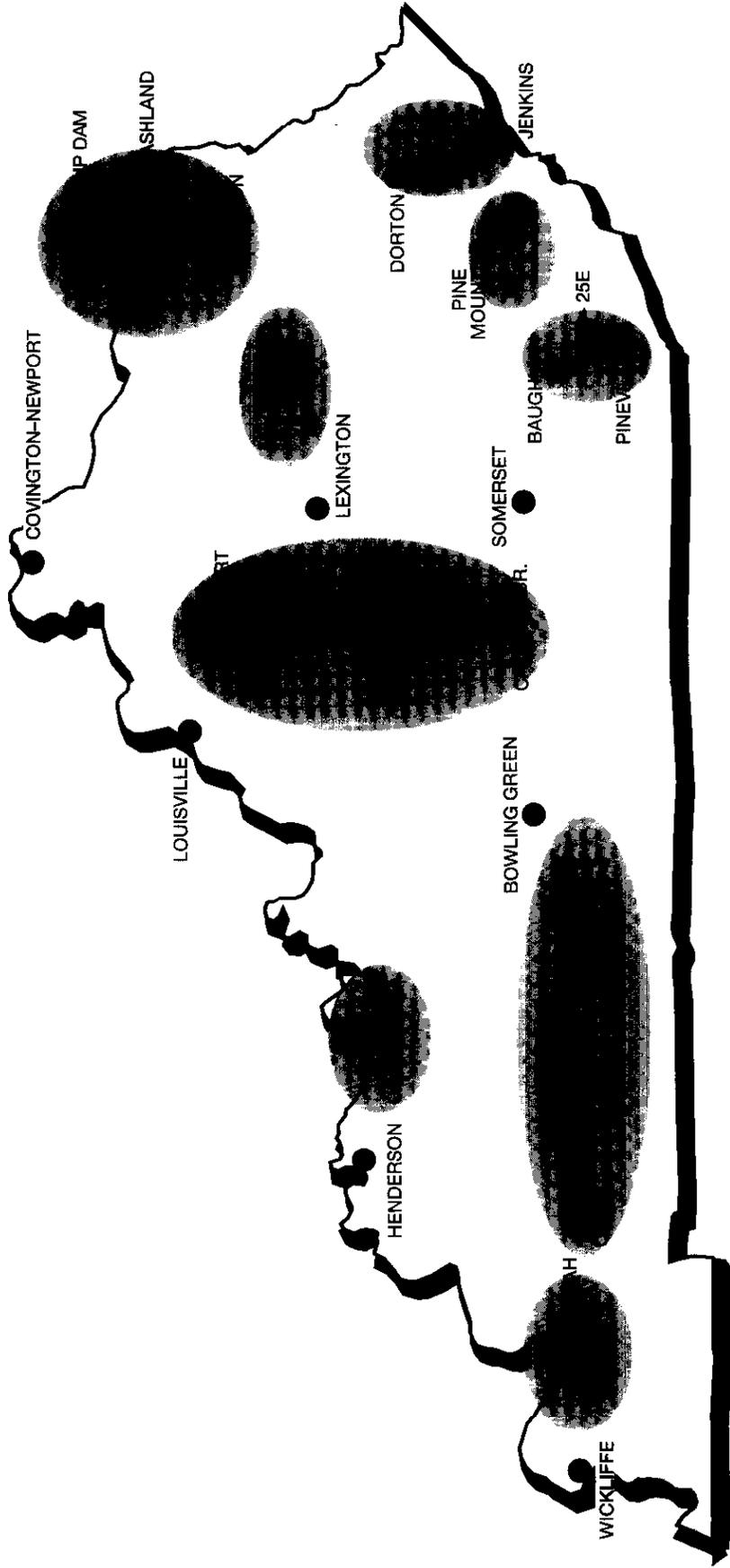
Effective Date:

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

Authorized Representative

  
Authorized Officer

# TURNPIKE AUTHORITY OF KENTUCKY ECONOMIC DEVELOPMENT ROAD REVENUE BONDS (REVITALIZATION PROJECTS)



Note: Representations of highway projects are approximate.

