

*In the opinion of Bond Counsel for the 2004B Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Authority, and subject to the conditions and limitations set forth herein under the caption "TAX MATTERS," interest on the 2004B Bonds is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the 2004B Bonds is exempt from Kentucky income tax and the 2004B Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.*

**\$41,510,000**  
**THE TURNPIKE AUTHORITY OF KENTUCKY**  
**Economic Development Road Revenue Refunding Bonds**  
**(Revitalization Projects)**  
**2004 Series B**

**Dated: Date of delivery**

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

The 2004B Bonds are being issued by The Turnpike Authority of Kentucky (the "Authority") pursuant to a Trust Indenture dated as of October 1, 1990, as supplemented by a First Supplemental Trust Indenture dated as of November 15, 2000 (collectively, the "Indenture") between the Authority and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as Trustee and Paying Agent, and a Series 2004 Resolution adopted on May 4, 2004, to refund certain of the Authority's outstanding bonds and pay certain costs of issuance of the 2004B Bonds.

The 2004B Bonds will be issued only as fully registered bonds without coupons in denominations of \$5,000 or any integral multiples thereof, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest on the 2004B Bonds will be payable on each January 1 and July 1, beginning January 1, 2005. Purchases will be made in book-entry form only, except as permitted by the Indenture. Purchasers of 2004B Bonds will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the 2004B Bonds, as nominee of DTC, interest together with the principal of the 2004B Bonds will be paid directly to DTC by the Trustee. See "DESCRIPTION OF 2004B BONDS — Book-Entry-Only System."

The 2004B Bonds are not subject to redemption prior to maturity.

| <u>Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price or Yield</u> |
|-----------------|-------------------------|----------------------|-----------------------|-----------------|-------------------------|----------------------|-----------------------|
| July 1, 2005    | \$615,000               | 2.00%                | 1.33%                 | July 1, 2012    | \$5,405,000             | 5.00%                | 3.46%                 |
| July 1, 2006    | 65,000                  | 2.00%                | 1.72%                 | July 1, 2013    | 1,165,000               | 3.60%                | 3.63%                 |
| July 1, 2007    | 65,000                  | 2.00%                | 2.09%                 | July 1, 2013    | 9,650,000               | 5.25%                | 3.63%                 |
| July 1, 2008    | 65,000                  | 2.40%                | 2.48%                 | July 1, 2014    | 995,000                 | 3.75%                | 100%                  |
| July 1, 2009    | 70,000                  | 2.75%                | 2.77%                 | July 1, 2014    | 9,105,000               | 5.25%                | 3.75%                 |
| July 1, 2010    | 70,000                  | 3.00%                | 3.02%                 | July 1, 2015    | 680,000                 | 3.80%                | 3.85%                 |
| July 1, 2011    | 75,000                  | 3.20%                | 3.22%                 | July 1, 2015    | 9,475,000               | 5.25%                | 3.85%                 |
| July 1, 2012    | 4,010,000               | 3.40%                | 3.46%                 |                 |                         |                      |                       |

The scheduled payment of principal of and interest on the 2004B Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2004B Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" herein.



THE 2004B BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, A DE JURE MUNICIPAL CORPORATION AND POLITICAL SUBDIVISION OF THE COMMONWEALTH OF KENTUCKY. THE 2004B 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 2004B BONDS DO NOT CONSTITUTE A DEBT OF THE COMMONWEALTH OF KENTUCKY AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF KENTUCKY OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON THE 2004B BONDS. THE AUTHORITY HAS NO TAXING POWER.

The 2004B 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 LLP, Covington, Kentucky, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Thompson Hine LLP, Cincinnati, Ohio. It is expected that the 2004B Bonds will be available for delivery through DTC in New York, New York on or about October 5, 2004.

**MORGAN STANLEY**

**J.J.B. Hilliard, W.L. Lyons, Inc.**

**Morgan Keegan & Company, Inc.**

**JPMorgan**

**NatCity Investments, Inc.**

**Ross, Sinclaire & Associates, Inc.**

**A.G. Edwards & Sons, Inc.**

**First Kentucky Securities Corp.**

**Edward D. Jones & Co., L.P.**

Dated: August 27, 2004

This Official Statement does not constitute an offer to sell the 2004B Bonds to any person, or the solicitation of an offer from any person to buy the 2004B Bonds, in any jurisdiction where such offer or such solicitation of an offer to buy would be unlawful. The information set forth herein is provided by the Commonwealth of Kentucky from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriters. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Commonwealth of Kentucky or the Underwriters. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any 2004B Bonds shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. The Official Statement is submitted in connection with the issuance of the 2004B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE 2004B BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix E – "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2004B Bonds; or (iii) the tax exempt status of the interest on the 2004B Bonds.

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**THE TURNPIKE AUTHORITY OF KENTUCKY**

702 Capitol Avenue, Suite 92  
Frankfort, Kentucky 40601  
Telephone (502) 564-2390

**MEMBERS OF THE AUTHORITY**

ERNIE FLETCHER

Governor

(Chairman of the Authority)

STEPHEN B. PENCE

Lieutenant Governor

(Vice Chairman of the Authority)

GREGORY D. STUMBO

Attorney General

R.B. RUDOLPH, JR.

Secretary

Finance and Administration Cabinet

MAXWELL C. BAILEY

Secretary

Transportation Cabinet

JAMES McFARLAND YOWELL

State Highway Engineer

MARVIN E. STRONG, JR.

Secretary

Cabinet for Economic Development

**EXECUTIVE DIRECTOR OF THE AUTHORITY**

BOBBY J. McKEE

**TREASURER OF THE AUTHORITY**

F. THOMAS HOWARD

**SECRETARY OF THE AUTHORITY**

LINDA W. MASTERS

**BOND COUNSEL**

Peck, Shaffer & Williams LLP

Covington, Kentucky

**TRUSTEE**

J.P. Morgan Trust Company, National Association

Louisville, Kentucky

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## OFFICIAL STATEMENT

**\$41,510,000**  
**The Turnpike Authority of Kentucky**  
**Economic Development Road Revenue Refunding Bonds**  
**(Revitalization Projects)**  
**2004 Series B**

### 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 \$41,510,000 aggregate principal amount of Economic Development Road Revenue Refunding Bonds (Revitalization Projects), 2004 Series B (the "2004B Bonds").

The 2004B Bonds are being issued pursuant to Chapter 175 of the Kentucky Revised Statutes, as amended (the "Act"), a resolution of the Authority adopted on May 4, 2004 (the "Series 2004 Resolution") and a Trust Indenture dated as of October 1, 1990, as supplemented by a First Supplemental Trust Indenture dated as of November 15, 2000 (collectively, the "Indenture"), between the Authority and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee (the "Trustee").

The 2004B Bonds are being issued to: (i) refund certain revenue bonds previously issued by the Authority to pay a portion of the costs of certain public highway projects (the "Revitalization Projects"), and (ii) pay certain costs of issuance of the 2004B Bonds. The Revitalization Projects comprise a portion of the economic development road system of the Commonwealth of Kentucky (the "Commonwealth"), 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" described under the Indenture (the "System"). For additional information, see "REFUNDING PLAN" and "THE AUTHORITY — Transportation Cabinet Projects Financed by the Authority — Economic Development Road Projects; Revitalization Projects."

Pursuant to an Economic Development Road Revenue (Revitalization Projects) Agreement dated as of October 1, 1990, between the Authority and the Transportation Cabinet, which has been supplemented by a First Supplemental Agreement, dated as of October 1, 1992; a Second Supplemental Agreement, dated as of April 1, 1993; a Third Supplemental Agreement, dated as of April 1, 1995; a Fourth Supplemental Agreement, dated as of April 1, 1999; a Fifth Supplemental Agreement, dated as of February 1, 2001; a Sixth Supplemental Agreement dated as of March 1, 2001; and a Seventh Supplemental Agreement dated as of May 1, 2004 (collectively, the "Agreement"), the Authority has agreed to lease the System to the Transportation Cabinet under an Economic Revenue (Revitalization Projects) Lease, dated as of October 1, 1990, which has been supplemented by a First Supplemental Lease, dated as of October 1, 1992; a Second Supplemental Lease, dated as of April 1, 1993; a Third Supplemental Lease, dated as of April 1, 1995; a Financing/Fourth Supplemental Lease Agreement dated as of October 1, 1999, which has been amended by a First Amendment to Financing/Fourth Supplemental Lease Agreement, dated as of November 15, 2000; a Fifth Supplemental Lease, dated as of February 1, 2001; a Sixth Supplemental Lease, dated as of March 1, 2001; and a Financing/Seventh Supplemental Lease Agreement dated as of May 1, 2004 (collectively, the "Lease") for a biennial period ending June 30, 2006, with biennial renewal options.

The Lease requires the Transportation Cabinet to make rental payments to the Authority at the times and in the amounts required by the Indenture to pay principal of and interest on the Economic Development Road Revenue Bonds (Revitalization Projects) to become due during the biennial period. The Lease also requires the Transportation Cabinet to pay any amounts that may become due under any Hedge Obligation, as hereinafter defined. See "SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS — Lease Payments" and APPENDIX B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Lease." Although the Lease has been renewed for the biennial period ending June 30, 2006, the Transportation Cabinet is under no obligation to renew the Lease for any subsequent biennial period. The Lease provides for automatic renewals for each ensuing biennial term unless the Authority receives written notice, as provided in the Lease, of the Transportation Cabinet's election not to renew the Lease. If the Lease is not renewed and the rentals thereunder are not received, the

Authority does not expect that it will have revenues sufficient to pay the principal of, and interest on, the Economic Development Road Revenue Bonds (Revitalization Projects), including the 2004B Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS — Payments if Lease is Not in Effect."

Additional Bonds may be issued on a parity with the 2004B Bonds upon compliance with restrictions contained in the Indenture and the Lease. See "SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS — Restrictions on Future Financings".

Payment of the principal of and interest on the 2004B Bonds when due will be insured by a municipal bond insurance policy to be issued by Financial Security Assurance Inc. (the "Insurer"), simultaneously with the delivery of the 2004B Bonds.

Descriptions of the 2004B Bonds, the security therefor, the Indenture, the Lease and the Agreement are included in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to such agreements and documents are qualified in their entirety by reference thereto. Terms not defined herein shall have the meanings given them in APPENDIX B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Certain Definitions."

### REFUNDING PLAN

Except for amounts used to pay certain costs of issuance of the 2004B Bonds, the proceeds of the 2004B Bonds will be deposited in an escrow fund (the "Escrow Fund") established pursuant to an Escrow Agreement dated as of October 1, 2004 (the "Escrow Agreement") between the Authority and J.P. Morgan Trust Company, National Association, as escrow agent, and used to purchase certain direct obligations of the United States of America which will mature at times and in amounts which will be sufficient to redeem, on January 1, 2011 (the "Redemption Date"), \$40,620,000 of the Authority's Economic Development Road Revenue Bonds (Revitalization Projects), Series 2000 maturing on July 1, 2012 through 2015, inclusive (the "Refunded Bonds"), at a redemption price equal to the principal amount thereof plus accrued interest thereon and to pay interest on the Refunded Bonds, when due, through the Redemption Date.

### ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2004B Bonds and the implementation of the Refunding Plan described above.

Sources:

|                           |                        |
|---------------------------|------------------------|
| Par Amount of 2004B Bonds | \$41,510,000.00        |
| Net Bond Premium          | <u>3,964,694.75</u>    |
| <b>TOTAL SOURCES</b>      | <b>\$45,474,694.75</b> |

Uses:

|   |                        |
|---|------------------------|
| Deposit to Escrow Fund  | \$45,016,405.57        |
| Costs of Issuance (including Underwriters' Discount and Insurance Policy premium) | <u>458,289.18</u>      |
| <b>TOTAL USES</b>   | <b>\$45,474,694.75</b> |



## DESCRIPTION OF 2004B BONDS

### General

The 2004B Bonds will be dated their date of delivery, 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 rate, payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date"), commencing January 1, 2005, and will mature on the date and in the amount set forth on the cover of this Official Statement. The 2004B Bonds will be initially registered in the name of and held by Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the 2004B Bonds will be made in book-entry-only form (without certificates). So long as DTC or its nominee is the registered owner of the 2004B Bonds, payment of the principal of and interest on the 2004B Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the 2004B Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See "Book-Entry-Only System" under this caption and "APPENDIX C – Book-Entry-Only System."

If the book-entry-only system through DTC is discontinued, principal of the 2004B 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 2004B Bonds will be made on each Interest Payment Date to the person appearing on the registration books of the Trustee as the registered owner thereof at the close of business on the fifteenth day of the month preceding the Interest Payment Date by check or draft mailed to such registered owner at the owner's address as it appears on such registration books. Upon request to the Trustee by a registered owner of not less than \$1,000,000 in aggregate principal amount of 2004B 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.

### Redemption Provisions

The 2004B Bonds are not subject to redemption prior to maturity.

### Transfer and Exchange

The 2004B Bonds may be transferred only upon the registration books of the Trustee upon surrender thereof to the Trustee together with an assignment duly executed by the registered owner or the owner's attorney or legal representative in form satisfactory to the Trustee. Upon any such registration of transfer, new 2004B 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 2004B Bonds being transferred, of the same maturity and bearing interest at the same rate.

The 2004B Bonds, upon surrender thereof at the Payment Office, together with an assignment duly executed by the registered owner or the owner's attorney or legal representative in form satisfactory to the Trustee, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of 2004B 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 2004B Bonds surrendered for exchange.

### Book-Entry-Only System

The 2004B Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of 2004B Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the 2004B Bonds under the Indenture and Series 2004 Resolution. For additional information

about DTC and the book-entry-only system see "APPENDIX C – Book-Entry-Only System." DTC will act as securities depository for the 2004B Bonds. The 2004B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 2004B Bond certificate will be issued for each maturity of the 2004B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

## **SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS**

### **General**

Subject only to the provisions of the Indenture permitting the application of such money for the purposes and on the terms and conditions set forth therein, pursuant to the Indenture, the Authority pledges for the payment of principal of and interest on the 2004B Bonds, the Revenues of the System and all funds and accounts established pursuant to the Indenture. "Revenues" means all rental, monies and other revenues derived from the Lease and, during such times as the Lease is not in effect, motor fuel taxes and surtaxes derived from motor fuels consumed on the System not directed by law or previous binding contract to be applied to uses other than payment of the principal of and interest on the 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 2004B Bonds during any period that the Lease is not renewed. Further, the General Assembly of Kentucky is free to alter or repeal any or all of such motor fuel taxes. The Transportation Cabinet has also entered into leases with the State Property and Buildings Commission (the "SPBC") requiring payments from the Commonwealth's Road Fund, having terms that are similar to the Lease, but without any pledge of revenues derived from the System.

### **Bond Insurance**

Concurrently with the issuance of the 2004B Bonds, the Insurer will issue its Municipal Bond Insurance Policy (the "Policy") to insure the payment, when scheduled, of principal and interest on the 2004B Bonds. See "BOND INSURANCE."

### **Lease Payments**

The Transportation Cabinet is required under the Lease to make rental payments to the Authority at the times and in the amounts required by the Indenture for deposit in the Bond Service Account of the Bond Fund created under the Indenture (other than by reason of a declaration of acceleration of the Economic Development Road Revenue Bonds (Revitalization Projects)). Pursuant to the Indenture, monies in the Bond Service Account are to be applied solely to pay principal of and interest on the Economic Development Road Revenue Bonds (Revitalization Projects), including the 2004B 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 System, for maintenance, operation, repair, renewal or replacement of the System or any portion thereof, or to redeem Economic Development Road Revenue Bonds (Revitalization Projects). See APPENDIX B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Lease."

In addition, if the Kentucky Asset/Liability Commission (the "Asset/Liability Commission") enters into any arrangement in order to convert the interest rate on a series of Authority refunding bonds from a variable rate to a fixed rate, amounts (a "Hedge Obligation") may be payable with respect thereto as continuing payments or a termination payment, whether or not such Bonds are issued. An amount equal to each Hedge Obligation shall be due and payable from the Transportation Cabinet to the Authority and from the Authority to the Asset/Liability Commission on the dates and in the amounts that payments are due from the Asset/Liability Commission. Each Hedge Obligation constitutes a separate and distinct obligation of the Transportation Cabinet and the Authority under the Lease which is in addition to and does not constitute rentals under the Lease and shall not constitute Revenues and shall not be applied to the payment of any Bonds.

The current term of the Lease ends June 30, 2006. While the Lease has been renewed for the biennial period ending June 30, 2006, 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 System, but also from any other funds of the Transportation Cabinet not required by law or previous binding contract to be devoted to other purposes. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet" and "THE TRANSPORTATION CABINET — Claims on Certain Transportation Cabinet Revenues." Such other funds of the Transportation Cabinet are derived primarily from funds deposited in the Road Fund which are required by the Constitution of the Commonwealth to be devoted only to highway purposes, and are described in the Constitution as "excise or license taxation relating to gasoline and other motor fuels" and "fees, excise or license taxation relating to registration, operation or use of vehicles on public highways." See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet."

*The Transportation Cabinet is under no obligation to renew the Lease for future biennial periods after the biennial period ending June 30, 2006. If the Lease is not renewed, the Authority does not expect that Revenues will be sufficient to pay the debt service on the Economic Development Road Revenue Bonds (Revitalization Projects), including the 2004B Bonds. The Economic Development Road Revenue Bonds (Revitalization Projects), including the 2004B Bonds, are payable solely from and secured by a pledge of rental payments under the Lease and are not secured by any lien on, or interest in, the projects constituting the System. See "Payments if Lease is Not in Effect" below. Further, in order to balance the budget of the Commonwealth, the Governor may limit spending by Commonwealth departments, including the Transportation Cabinet, and reduce appropriations previously made by the Kentucky General Assembly, including appropriations for rental payments under the Lease. Failure of the Transportation Cabinet to receive such appropriations could have an adverse effect on or preclude the Authority's ability to pay the principal of and interest on the 2004B Bonds. **To date, no Executive Branch Budget has been adopted for the Commonwealth for the biennial period beginning July 1, 2004 and accordingly no appropriation for rental payments under the Lease has been made for that period.** See "THE COMMONWEALTH – Current Developments Regarding Biennial Budget."*

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

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

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

### **Flow of Funds**

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

(a) To the Bond Service Account of the Bond Fund, first, an amount, if any, which, when added to any amount on deposit therein and available for such purpose, will equal the amount required for interest on the Outstanding Bonds, including the 2004B 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 2004B Bonds, maturing on the next Interest Payment Date and the Amortization Requirement, less certain credits described in the Indenture; and

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

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

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

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

Amounts on deposit in the Bond Service Account of the Bond Fund will be applied solely to pay principal of (including the Amortization Requirement, if any) and interest on the Bonds; amounts on deposit in the Redemption Account will be used to optionally redeem or purchase Bonds (see "Description of the 2004B 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 B — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Indenture." With respect to the 2004B Bonds, no amounts will be deposited in the Capitalized Interest Account of the Bond Fund for purposes of paying interest on the 2004B Bonds.

### **Restrictions on Future Financings**

*Restrictions in the Lease.* The Lease imposes a restriction on any future financings by the Transportation Cabinet of road projects under the Act, including toll road, resource recovery road and economic development road projects, including Revitalization Projects. The Transportation Cabinet covenants in the Lease not to enter into leases with respect to such future financings unless there is filed with the Trustee a certificate of the chief accounting officer of the Transportation Cabinet stating that "Adjusted Revenues" (as defined below) are at least 2.0 times "Maximum Annual Debt Service" (as defined below). Similar covenants are contained in agreements and leases relating to the Authority's Resource Recovery Road Revenue Bonds, Toll Road Revenue Bonds and other Economic Development Road Bonds 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 2004B Bonds and other Bonds previously issued on a parity with the 2004B 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 June 30, 2004 (unaudited) and assuming (i) issuance of the 2004B Bonds at the interest rate and with the maturities set forth on the cover page of this Official Statement and (ii) payment of the 2004B Bonds and the Refunded Bonds as described above under "REFUNDING PLAN," the ratio of Adjusted Revenues to Maximum Annual Debt Service is estimated to be 6.62 (based on an estimated Maximum Annual Debt Service of \$134,600,000, which includes payments by the Transportation Cabinet to the Authority and SPBC under leases).

## **BOND INSURANCE**

Financial Security Assurance Inc. has supplied the following information for inclusion in this Official Statement. No representation is made by the issuer or the underwriter as to the accuracy or completeness of this information.

### **Bond Insurance Policy**

Concurrently with the issuance of the 2004B Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the 2004B Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.



The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2004, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,212,545,000 and its total unearned premium reserve was approximately \$1,501,280,000 in accordance with statutory accounting practices. At June 30, 2004, Financial Security's total shareholders' equity was approximately \$2,438,206,000 and its total net unearned premium reserve was approximately \$1,255,708,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the 2004B Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the 2004B Bonds or the advisability of investing in the 2004B Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

## **THE AUTHORITY**

### **General**

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

|   |                        |
|---|------------------------|
| Governor                                      | Ernie Fletcher         |
| Lieutenant Governor                           | Stephen B.Pence        |
| Attorney General                              | Gregory D. Stumbo      |
| Secretary, Finance and Administration Cabinet | R.B. Rudolph, Jr.      |
| Secretary, Transportation Cabinet             | Maxwell C. Bailey      |
| State Highway Engineer                        | James McFarland Yowell |
| Secretary, Cabinet for Economic Development   | Marvin E. Strong, Jr.  |

The Executive Director of the Authority is Bobby J. McKee, the Treasurer of the Authority is F. Thomas Howard, 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 projects, resource recovery road projects and economic development road projects, to lease such projects to the Transportation Cabinet, to issue revenue bonds to finance such projects and to refund such revenue bonds. The Authority is also empowered to issue revenue notes and revenue bond anticipation notes.

### **Transportation Cabinet Projects Financed by the Authority**

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

*Turnpike Projects.* Commencing in 1960, the Transportation Cabinet initiated the construction of a system of toll roads (turnpikes) designed to relieve congested traffic conditions and to facilitate vehicular travel within the Commonwealth. The toll road projects which have been financed by the Authority, constructed by the Transportation Cabinet on behalf of the Authority, and leased to the Transportation Cabinet include the Eastern Kentucky Toll Road, the Eastern Kentucky Extension, the Western Kentucky Toll Road, the Central Kentucky Toll Road, the Jackson Purchase Parkway, the Pennyrile Parkway and Western Extension, the Audubon Parkway, the William H. Natcher (Green River) Parkway, the Louie B. Nunn (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. In 2003, federal funds were provided to retire the debt on the Daniel Boone Parkway and the Louie B. Nunn Parkway. A portion of the bonds issued to construct the Audubon Parkway and the William H. Natcher (Green River) Parkway remain outstanding and the lease for those projects remains in effect. The Authority continues to impose and collect tolls on the remaining two parkways. All other toll road bonds have been paid.

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

*Economic Development Road Projects; Revitalization Projects.* In 1980, the Kentucky General Assembly amended the Act to empower the Authority to issue obligations to finance economic development road projects which are currently defined in the Act to mean the construction, reconstruction or relocation of any highway, road or thoroughfare, or such part or parts thereof, as designated by the Transportation Cabinet as a part of the economic development road system of the Commonwealth. The Kentucky General Assembly found that "in many cases, highways, roads and thoroughfares which are vital economic links between various sections of the Commonwealth have become, by reason of age and continued usage, obsolete and are no longer capable of affording the services required in a modern industrial society," and authorized the Authority to issue economic development road revenue bonds to correct such conditions. In its 1998 Budget Act, the Kentucky General Assembly authorized the issuance of up to \$200,000,000 of bonds during the 1998-2000 biennium for Revitalization Projects. All of these bonds have been issued and, except for any other refunding bonds, the issuance of additional bonds for Revitalization Projects must be authorized by the Kentucky General Assembly.

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 remaining after the completion of those Revitalization Projects must be transferred to the Bond Service Account. See "SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS — Flow of Funds."

## Outstanding Obligations of the Authority and the Transportation Cabinet

The outstanding bond obligations of the Authority and the SPBC that constitute obligations of the Transportation Cabinet as of October 5, 2004 (assuming the issuance of the 2004B Bonds and the defeasance of the Refunded Bonds) are as follows:

| <u>Name of Revenue Bond Issue</u>   | <u>Date Issued</u> | <u>Final Maturity</u> | <u>Original Principal Amount Issued</u> | <u>Par Amount Outstanding</u> |
|---|--------------------|-----------------------|---|-------------------------------|
| <b><u>Bonds Issued by the Authority</u></b>   |                    |                       |   |                               |
| Toll Road Revenue Refunding Bonds <sup>(1)</sup>  |                    |                       |   |                               |
| 1986 Series A   | 7/1/86             | 7/1/2007              | \$226,385,000                           | \$38,725,000                  |
| Resource Recovery Road Revenue Refunding Bonds <sup>(2)</sup>                           |                    |                       |   |                               |
| 1985 Series A   | 7/1/85             | 7/1/2009              | 309,961,261                             | 95,004,319 <sup>(3)</sup>     |
| 1987 Series A   | 5/1/87             | 7/1/2006              | 257,989,380                             | 44,187,265 <sup>(3)</sup>     |
| Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects) |                    |                       |   |                               |
| Series 1992   | 10/1/92            | 1/1/2010              | 250,493,658                             | 84,980,000 <sup>(3)</sup>     |
| Series 1993   | 4/1/93             | 7/1/2010              | 570,540,000                             | 181,205,000                   |
| Series 1995   | 4/1/95             | 7/1/2015              | 237,890,000                             | 118,115,000 <sup>(4)</sup>    |
| Series 2000   | 11/15/00           | 7/1/2015              | 179,825,000                             | 50,185,000 <sup>(5)</sup>     |
| Series 2001A  | 2/1/01             | 7/1/2015              | 152,960,000                             | 152,960,000                   |
| Series 2001B  | 3/1/01             | 7/1/2019              | 60,475,000                              | 60,475,000                    |
| Series 2004A  | 6/10/04            | 7/1/2010              | 16,180,000                              | 16,180,000                    |
| Series 2004B  | 10/5/04            | 7/1/2015              | 41,510,000                              | 41,510,000                    |
| Total Outstanding Bonds of the Authority  |                    |                       |   | <u>\$883,526,584</u>          |
| <b><u>Bonds Issued by the SPBC</u></b>  |                    |                       |   |                               |
| Road Fund Revenue and Revenue Refunding Bonds   |                    |                       |   |                               |
| Project No. 73  | 11/1/01            | 11/1/2014             | 90,240,000                              | \$43,495,000                  |
| Project No. 73 (Second Series) <sup>(6)</sup>   | 4/1/02             | 11/1/2021             | 41,270,000                              | 41,270,000                    |
| Total Outstanding Bonds of the SPBC   |                    |                       |   | <u>\$84,765,000</u>           |
| TOTAL TRANSPORTATION CABINET BOND OBLIGATIONS   |                    |                       |   | <u>\$968,291,584</u>          |

Source: Turnpike Authority of Kentucky and Transportation Cabinet

- (1) 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.
- (2) 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.
- (3) Par Amount Outstanding includes the amount payable at maturity of any capital appreciation bonds and bond income growth securities.
- (4) The Kentucky Asset/Liability Commission has entered into a floating to fixed rate interest rate swap on behalf of the Authority with respect to the Series 1995 Bonds maturing July 1, 2006 and July 1, 2009 through July 1, 2015. That



interest rate swap has a starting date of July 1, 2005. The Authority may issue floating rate refunding Bonds to redeem such Series 1995 Bonds on July 1, 2005 or terminate the swap.

- (5) Reflecting the defeasance on October 5, 2004 of the portion of the Series 2000 Bonds constituting the Refunded Bonds.
- (6) These bonds refunded a portion of the Project No. 73 Bonds.

## **THE TRANSPORTATION CABINET**

### **General**

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

The Transportation Cabinet is responsible for the construction, reconstruction and maintenance of the Commonwealth's primary road system, which carries an estimated 85% of the Commonwealth's motor vehicle traffic. This represents nearly 41 billion vehicle miles of travel. The system consists of some 27,400 miles of toll roads, interstate highways, resource recovery roads, the economic development road system, primary roads, secondary roads, rural secondary roads and supplemental roads, and includes more than 9,000 bridges.

The Transportation Cabinet also regulates the operation of motor vehicles upon Kentucky's public highways and registers approximately 3.3 million vehicles and licenses 2.6 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, in order to increase efficiencies and improve internal lines of communication, underwent a partial reorganization in July 2004. Two departments were eliminated and a new Department of Aviation was created. The Cabinet is now organized into four major operating departments: Highways, Administrative Services, Vehicle Regulation, and Aviation. Eight offices perform staff functions: Office of the Secretary, Budget and Fiscal Management, Legal Services, Legislative and Intergovernmental Affairs, Business and Occupational Development, Transportation Delivery, Inspector General, and Public Affairs. The Transportation Cabinet employs approximately 5,400 people on a full-time basis.

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

### **Operations and Maintenance**

The Transportation Cabinet provides transportation services to the 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 12 regional district offices, and highway maintenance facilities in each of the 120 counties.

The Transportation Cabinet relies on automated systems for tracking and assessing the activities in virtually all functional areas. The Transportation Cabinet uses a sophisticated automated maintenance management system 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 the Transportation Cabinet has valued at more than \$14.7 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 has made an effort over the past decade to restrain growth in government employment levels. The Kentucky Transportation Cabinet has been among the most successful state agencies in actually reducing personnel levels. Second, the Transportation Cabinet has sought to use private contractors to perform maintenance and other functions where economies can and have been realized. Finally, the Transportation Cabinet's enhanced program of resurfacing and major road construction and reconstruction has reduced the need for day-to-day maintenance on many routes.

### **Capital Planning For Highways**

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

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

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

*Highway Plan Development.* Beginning with an unconstrained list of potential projects, the planning process, utilizing input from local citizens and officials, Area Development District Public Involvement Committees, Metropolitan Planning Organization Committees, and Transportation Cabinet staff, sets priorities and establishes a 20-year program based on future funding levels. Highway projects identified for the first six years and approved by the Kentucky Legislature every two years, represent the highest priority projects and constitute the Six-Year Plan. The remaining projects are prioritized and selected every four years for the Statewide Transportation Plan and for possible inclusion in later Six-Year Plans. This plan consists of over 307 major roadway projects which are eligible for state and federal funding. Each project has been evaluated, based on its relative contribution toward the satisfaction of four goal-oriented criteria. These goals focus on: (1) preservation and management of the existing transportation system, (2) providing system connectivity of the individual modes to promote economic development, (3) coordination and cooperation among a wide variety of interests in the transportation planning process, and (4) enhancement of transportation system safety and convenience for the benefit of its many users.

*Needs Identification.* To assist in the identification of highway needs across the Commonwealth, the Transportation Cabinet conducts an on-going roadway inventory program. The data gathered through the inventory process is wide-ranging and includes such criteria as traffic volumes, physical roadway features (pavement width,

pavement condition, bridge conditions, etc.), accident statistics, and average travel speeds. This information is analyzed to arrive at a relative assessment of the service provided by each roadway section.

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

*Implementation of the Six Year Plan.* Kentucky's Six Year Highway Plan is funded through the use of Commonwealth and federal highway dollars. Commonwealth funds are generally derived from fuel and motor vehicle excise taxes and other revenues to the Road Fund, plus the proceeds from road bonds issued by the Authority. Commonwealth funds are allocated to the Transportation Cabinet on a biennial basis and are used to finance state-funded projects or to match federal aid funds at various participation ratios dictated by the federal government. The majority of Kentucky's federal-aid highway funds are appropriated annually from the Federal Highway Trust Fund operated by the U.S. Department of Transportation. The annual federal-aid highway fund appropriation is governed by a multi-year federal authorization act. The most recent authorization act, TEA-21, was enacted in 1998. Congress is currently considering reauthorization of federal transportation programs in order to keep Federal Highway Trust Fund proceeds flowing to the states. These federal-aid monies are generated by federal excise taxes and are made available in specific dollar amounts for specific types of improvements (i.e., national highway system, surface transportation program, bridge replacement projects, etc.). As an Appalachian state, the Commonwealth also receives an annual apportionment of Appalachian highway funds from the Federal Highway Trust Fund. Regardless of origin, all federal dollars must be spent within the appropriate funding category and cannot be transferred for use in other federal-aid categories except as specifically permitted by federal legislation.

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

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

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

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

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

*Motor Vehicle Usage Tax.* Motor vehicle usage taxes make up the largest portion of the Road Fund, representing more than 48 percent of the total of monies deposited and available to pay debt service, excluding those monies which are dedicated by statute to specific use. See "TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Lease Rentals" herein. A usage tax is currently imposed on the sale or transfer of new or used motor vehicles at the rate of 6 percent of the vehicle's value. The value on which the tax is assessed on new cars is a percentage of the manufacturer's suggested retail price, and for used cars and trucks is based on a notarized affidavit, prepared by both the buyer and seller, attesting to the actual cash consideration paid for the vehicle. If a notarized affidavit is not available, the retail price of the vehicle shall be the average trade-in value of the vehicle as prescribed by the reference guide established by the Revenue Cabinet. A similar assessment, known as the motor vehicle rental usage tax, is charged on the value of contracts for leased and rented vehicles.

*Motor Fuel Taxes.* These taxes are levied on gasoline, liquefied petroleum gas and special fuels (predominantly diesel fuel) sold for use in motor vehicles operated on public highways. These taxes make up approximately 26 percent of the Road Fund that is available to pay debt service on Turnpike Authority bonds. See "TRANSPORTATION CABINET — Historical Available Road Fund Revenues, Expenses and Lease Rentals."

Motor fuel tax rates are set by statute. The law provides for a variable tax rate equal to 9 percent of the average wholesale price of gasoline, which is subject to a floor of \$1.11 per gallon for both gasoline and special fuels (primarily diesel) and shall be rounded to the third decimal. The average wholesale price is calculated by the Transportation Cabinet for a calendar quarter using the average wholesale price from the first month of the previous quarter. The law further limits the average wholesale price increase to ten percent from one fiscal year to the next, effectively capping the increase to 1 cent per year. This formula results in a minimum tax rate of 10 cents per gallon for both gasoline and special fuels. In addition to the variable tax, the law provides for a supplemental highway-user motor fuel tax that is a fixed rate of 5 cents per gallon for gasoline and 2 cents per gallon for special fuels. The combined minimum motor fuels tax is 15 cents per gallon for gasoline and 12 cents for special fuels.

The motor fuel tax rate applicable through June 30, 2004 was equal to the minimum tax rate of 15 cents per gallon for gasoline and 12 cents per gallon for special fuels. Based upon the average wholesale price of gasoline in April 2004, the variable tax rate for the calendar quarter beginning July 1, 2004 was increased from 10 cents per gallon to 11 cents per gallon. The combined motor fuel tax increased from 15 cents to 16 cents for gasoline and from 12 cents to 13 cents for special fuels. The Consensus Forecasting Group has estimated that the penny tax increase will remain in effect for the first half of Fiscal Year 2005 and a partial increase of 0.4 cents will be applicable for the third quarter of Fiscal Year 2005.

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

*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 \$12.00 annually for each vehicle registered and commercial trucks are assessed a

per vehicle registration fee from \$24 to \$1,410 annually, based on the gross weight of the vehicle. A vehicle operator's license currently costs \$8.00 for a four-year basic license.

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

A portion of the licenses, fees and permits resulting from the issuance or renewal of operator licenses and those relating to the extended weight coal haul system and the coal haul cooperative agreements are restricted. See "Claims on Certain Transportation Cabinet 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 two parkways on which tolls are collected.

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

The 2003 General Assembly enacted legislation which exempted trucks over 44,000 lbs from motor vehicle usage tax. This tax exemption was partially offset with an increase in registration fees for the same classes of large trucks. The net effect was an estimated reduction of Road Fund revenues of \$1 million in Fiscal Year 2004 and \$2.7 million in Fiscal Year 2005 once fully implemented.

Pursuant to legislation enacted by the 2000 General Assembly, purchasers of special fuels used for non-highway purposes are exempt from paying the motor fuels tax. Before this statutory change, the tax was paid "up front" and taxpayers were required to file for a refund. This change is therefore estimated to result in a one time loss to the Road Fund of approximately \$5 million to \$7 million in total motor fuel tax receipts during Fiscal Year 2001 as previously collected taxes are refunded. There will be no loss of motor fuel tax revenues in future Fiscal Years.

On January 3, 2001, Jefferson County Circuit Court ruled, as unconstitutional under the Commerce Clause of the United States Constitution, the Kentucky statute that allows a trade-in credit against the motor vehicle usage tax imposed on used motor vehicles purchased in Kentucky, but denies the trade-in credit for used motor vehicles purchased out of state. The court further ordered the Commonwealth to grant the trade-in credit on all purchases of used motor vehicles when another used motor vehicle is traded as part of the same transaction. The change in calculating the tax for out of state vehicle purchases became effective January 5, 2001. The estimated loss in motor vehicle usage tax revenue was estimated at \$3.5 million in Fiscal Year 2001 and approximately \$7.0 million in future Fiscal Years.

Effective July 1, 2004, Indiana began imposing a sales tax on non-resident automobile purchases within the state. It is Kentucky's practice to grant a motor vehicle usage tax credit to Kentucky residents for tax paid to any other state that imposed a tax on Kentucky residents at the time of purchase. The fiscal impact to the Road Fund motor vehicle usage tax for Fiscal Year 2005 has been estimated at \$8.0 million.

### **Claims on Certain Transportation Cabinet Revenues**

*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 state rural secondary roads. Chapter 177 of the Kentucky Revised Statutes requires that 22.2% of these motor fuels tax receipts be expended by the Transportation Cabinet on the rural secondary road system. Chapter 177 also directs that 7.7% and 18.3% of the motor fuels tax be distributed, based on statutory formula, to municipal and county governments, respectively, for use on urban roads and streets and county roads and bridges. Finally, the statutes require that .1% of the motor fuels tax collections, up to a maximum of \$190,000, be set aside for the Kentucky Transportation Center. See "*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 percent of which are to be distributed to the counties for the purpose of maintaining county roads on this system. In addition, Kentucky law provides for cooperative agreements between the Transportation Cabinet and transporters of coal, through which coal transporters may share in the maintenance of roads over which extended weights are hauled. Road Funds collected through these agreements are restricted to expenditures on roads covered by the agreements.

A portion of the receipts to the Road Fund resulting from the issuance or renewal of operator's licenses are also statutorily restricted (see "*Licenses, Fees and Permits*" above). Chapter 186 of the Kentucky Revised Statutes requires that 50 cents for each four-year original or renewal operator's license be dedicated to expansion of the Kentucky driver education program. For each original or renewal motorcycle operator's license and each instruction permit, \$4 must be dedicated for the purpose of a motorcycle safety education program. Additionally, Chapter 186 provides that \$1 from each operator's license fee is to be set aside exclusively to cover the cost of issuing a photo license.

### **Historical Available Road Fund Revenues, Expenses and Lease Rentals**

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

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**Transportation Cabinet's  
Historical Available Road Fund Revenues,  
Expenses and Lease Rentals<sup>(1)</sup>**

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

|                                     | <u>2000</u>      | <u>2001</u>      | <u>2002</u>      | <u>2003</u>      | <u>2004</u><br><u>(unaudited)</u> |
|-------------------------------------|------------------|------------------|------------------|------------------|-----------------------------------|
| TOTAL AVAILABLE ROAD FUND REVENUES: |                  |                  |                  |                  |                                   |
| TAXES:                              |                  |                  |                  |                  |                                   |
| Motor Fuels <sup>(2)</sup>          | \$227,626        | \$219,771        | \$229,956        | \$234,930        | \$238,048                         |
| Vehicle Usage <sup>(3)</sup>        | 409,396          | 396,740          | 429,242          | 432,837          | 429,201                           |
| Other                               | 78,548           | 78,815           | 79,691           | 83,707           | 84,594                            |
| LICENSE, FEES AND PERMITS           | 109,447          | 99,667           | 106,990          | 98,987           | 116,917                           |
| CHARGES FOR SERVICES <sup>(4)</sup> | 20,904           | 21,211           | 22,796           | 21,826           | 15,670                            |
| FINES AND FORFEITS                  | 21               | 2                | 2                | 2                | 2                                 |
| INTEREST INCOME                     | <u>29,436</u>    | <u>40,187</u>    | <u>32,952</u>    | <u>29,170</u>    | <u>7,546</u>                      |
| TOTAL AVAILABLE ROAD FUND REVENUES: | <u>\$875,378</u> | <u>\$856,393</u> | <u>\$901,629</u> | <u>\$901,459</u> | <u>\$891,978</u>                  |
| OPERATING & MAINTENANCE EXPENSES:   |                  |                  |                  |                  |                                   |
| Personnel Cost                      | \$148,512        | \$155,285        | \$162,532        | \$164,356        | \$178,928                         |
| Personal Service                    | 3,634            | 4,267            | 4,744            | 5,640            | 5,914                             |
| Operating Expense                   | 86,675           | 116,028          | 116,766          | 111,165          | 116,812                           |
| Grants                              | 4                | 42               | 26               | 84               | 34                                |
| Capital Outlay                      | 837              | 322              | 299              | 560              | 226                               |
| Capital Construction                | 2,140            | 1,717            | 1,578            | 2,125            | 1,592                             |
| Highway Materials                   | 32,932           | 26,419           | 24,936           | 22,934           | 34,370                            |
| Other Agency Cost <sup>(5)</sup>    | <u>31,622</u>    | <u>31,753</u>    | <u>31,741</u>    | <u>40,369</u>    | <u>40,344</u>                     |
| TOTAL OPERATION & MAINTENANCE:      | <u>\$306,356</u> | <u>\$335,833</u> | <u>\$342,622</u> | <u>\$347,233</u> | <u>\$378,220</u>                  |
| NET AVAILABLE ROAD FUND REVENUES:   | \$569,022        | \$520,560        | \$559,007        | \$554,226        | \$513,758                         |
| LEASE RENTALS <sup>(6)</sup> :      |                  |                  |                  |                  |                                   |
| The Authority                       |                  |                  |                  |                  |                                   |
| Toll Road Project                   | 3,494            | 586              | 617              | 614              | 112                               |
| Economic Development Road Project   | 111,492          | 117,703          | 159,958          | 140,400          | 117,211                           |
| Resource Recovery Road Project      | 53,512           | 36,025           | 12,288           | 26,286           | 35,972                            |
| SPBC                                | <u>0</u>         | <u>0</u>         | <u>1,963</u>     | <u>7,136</u>     | <u>2,734</u>                      |
| TOTAL LEASE RENTALS:                | \$168,498        | \$154,314        | \$174,826        | \$174,436        | \$156,029                         |
| GROSS COVERAGE <sup>(7)</sup>       | 5.1952           | 5.5497           | 5.1573           | 5.1678           | 5.7167                            |
| NET COVERAGE <sup>(7)</sup>         | 3.3770           | 3.3734           | 3.1975           | 3.1772           | 3.2927                            |

NOTES:

- (1) This schedule displays detailed information relating to the Commonwealth of Kentucky's Road Fund that can be used to calculate the coverage of available revenues compared to lease rental payments. Total Available Road Fund Revenues represent total revenues available to the Road Fund exclusive of taxes, fees, and miscellaneous revenues which are dedicated for other uses and not available to make lease rental payments to the Authority or the SPBC. Operating and Maintenance Expenses include certain non-construction maintenance, operating, regulatory and administrative expenses related to the public highways. Net Available Road Fund Revenues represent Total Available Revenues less Operating and Maintenance Expenses.
- (2) Beginning with Fiscal Year 2001, purchasers of special fuels used for non-highway purposes are exempt from paying the motor fuels tax. Prior to this change the tax was paid "up front" and taxpayers were required to file for a refund. This change resulted in a one time reduction of approximately \$3 to \$4 million during Fiscal Year 2001 in nondedicated motor fuels tax revenues available to pay lease rentals as previously collected taxes are refunded. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet — *Recent Changes to Road Fund Receipts*."
- (3) Beginning January 5, 2001, the calculation of the motor vehicle usage tax on out of state motor vehicle purchases was changed to allow a trade-in credit on all purchases of used motor vehicles when another used motor vehicle is traded as part of the same transaction. The estimated loss in motor vehicle usage tax revenue was estimated to be \$3.5 million in Fiscal Year 2001 and \$7.0 million in future Fiscal Years. See "THE TRANSPORTATION CABINET — Revenue Sources of the Transportation Cabinet — *Recent Changes to Road Fund Receipts*".

- (4) In 2003, federal funds were provided to retire the debt on the Daniel Boone Parkway and the Louie B. Nunn Parkway. Tolls were removed from these Parkways effective May 2003, and as a result, it is estimated that Road Fund receipts will be reduced beginning in Fiscal Year 2004, by approximately \$7.50 to \$8.0 million annually.
- (5) The Kentucky General Assembly routinely appropriates Road Fund revenues to agencies outside of the Transportation Cabinet to fund the costs of enforcement of traffic laws, the collection of Road Fund tax revenues and other administrative support functions related to the Cabinet.
- (6) Lease Rentals paid by the Transportation Cabinet to the Authority include amounts representing the following: principal and interest requirements on Authority Bonds, net of Debt Service Reserve Fund investment earnings and amounts required by the Authority for administrative and other expenses; and any amounts for deposit into the Redemption Account. Amounts paid to the SPBC include principal and interest requirements on bonds issued to finance the construction of a new office building for the Transportation Cabinet.
- (7) Gross Coverage equals Total Available Road Fund Revenues divided by Total Lease Rentals. Net Coverage equals Net Available Road Fund Revenues divided by Total Lease Rentals.

### **Fiscal Year Road Fund Revenues**

Fiscal Year 2004 Road Fund revenues were \$1,116.7 million, a 0.6% decrease over the prior year receipts and just short of the \$1,122.6 million official Consensus Forecasting Estimate. The Road Fund average daily cash balance for Fiscal Year 2004 was \$184 million compared to \$426 million for the prior fiscal year. The Fiscal Year 2005 official Consensus Forecasting Estimate for Road Fund revenues is \$1,149.3 million.

### **Basis of Accounting**

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

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

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

### **Cash Management**

Beginning with the enactment of the 2000-2002 Biennial Budget, the General Assembly established the Prefinancing Road Projects Program (the "Program") authorizing the Transportation Cabinet to develop and implement a program to accelerate projects contained in the Biennial Highway Construction Plan. The Program permitted the Transportation Cabinet to initiate work on highway projects in excess of available budget authority by



employing a cash flow financing program. In accordance with the General Assembly's on-going authorization for the Program, the Transportation Cabinet has used the Road Fund cash balance to accelerate highway projects.

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

Using the cash flow financing approach, the Transportation Cabinet has used the Road Fund cash balance to expedite the start and completion of highway projects. Before the start of the Program in July 2000, the Road Fund cash balance was approximately \$690 million. The Road Fund cash balance has been reduced to \$163 million as of June 30, 2004.

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

### **Budget Process**

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

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

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

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

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

### **Other Road Fund Obligations of the Transportation Cabinet**

General obligation bonds of the Commonwealth payable from Road Fund revenues and receipts may be issued, pursuant to the Constitution of Kentucky, only upon approval by the electorate. The Transportation Cabinet, pursuant to law, may request that bonds or certain other obligations payable from Road Fund revenues and receipts

be issued on its behalf by the Authority or SPBC. Unless such obligations are to be used to finance projects which will produce revenues which will fully meet required debt service, their issuance is conditioned, pursuant to existing law, upon approval by the Kentucky General Assembly. Issuance of such bonds or other obligations also requires the approval of the Office of Financial Management in the Finance and Administration Cabinet. See also "SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS - Restrictions on Future Financings".

The Transportation Cabinet and the SPBC entered into a Lease dated as of November 1, 2001 (the "SPBC Lease") relating to the issuance by the SPBC of its Road Fund Revenue Bonds, Project No. 73 and Road Fund Revenue Refunding Bonds, Project No. 73 (Second Series) (collectively, the "SPBC Bonds"). The proceeds of the SPBC Bonds were used to finance and refinance the construction of a building to house the main administrative offices of the Transportation Cabinet in Frankfort. The SPBC Lease requires that the Transportation Cabinet pay the debt service on the SPBC Bonds with amounts appropriated from the Road Fund. The SPBC Lease restricts future financings for the Transportation Cabinet by the SPBC in the same manner as described under "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2004B BONDS – Restrictions on Future Financings" herein for Bonds issued by the Authority. Revenues of the System are not pledged to the payment of amounts due under the SPBC Lease.

## **THE COMMONWEALTH**

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

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

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

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

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

*The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2003 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year

2003 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12;

- (i) Bloomberg Municipal Repositories  
100 Business Park Drive  
Skillman, New Jersey 08558  
Tel: (609) 279-3225  
Fax: (609) 279-5962  
E-mail: [munis@bloomberg.com](mailto:munis@bloomberg.com)  
Website: [http://www.bloomberg.com/markets/muni\\_contactinfo.html](http://www.bloomberg.com/markets/muni_contactinfo.html)
- (ii) DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Tel: (201) 346-0701  
Fax: (201) 947-0107  
E-mail: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)  
Website: <http://www.dpcdata.com>
- (iii) Standard & Poor's Securities Evaluations, Inc.  
55 Water Street, 45th Floor  
New York, New York 10041  
Tel: (212) 438-4595  
Fax: (212) 438-3975  
E-mail: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)  
Website: [http://jjkenny.com/jjkenny/pser\\_descrip\\_data\\_rep.html](http://jjkenny.com/jjkenny/pser_descrip_data_rep.html)
- (iv) FT Interactive Data  
Attn: NRMSIR  
100 William Street  
New York, New York 10038  
Tel: (212) 771-6899  
Fax: (212) 771-7390  
E-mail: [NRMSIR@FTID.com](mailto:NRMSIR@FTID.com)  
Website: <http://www.InteractiveData.com>

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2003, including financial statements of the Transportation Cabinet and the Authority set forth as part of the report's supplemental information, may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601, (502) 564-2924.

Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2003 may be found on the Internet at:

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

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

The Authority will enter into a Continuing Disclosure Agreement in order to enable the purchaser of the 2004B Bonds to comply with the provisions of Rule 15c2-12, See "CONTINUING DISCLOSURE." In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and

*Supplemental Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

### **Current Developments Regarding Biennial Budget**

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1. Governor Fletcher submitted a proposed State Budget, for the two-year period that begins July 1, 2004, during the regularly scheduled legislative session that began in January 2004. The regular legislative session of the General Assembly adjourned on April 13, 2004 without adoption of a State Budget.

The General Assembly did not adopt a State Budget prior to the start of the new fiscal year on July 1, 2004 and there is no requirement that the Governor call a Special Session to consider the budget. The Governor has indicated that he will not call a Special Session unless the General Assembly has assured him that they have reached an agreement for the adoption of a State Budget. On June 28, 2004, the Governor signed Executive Order 2004-650 authorizing the Secretary of the Finance and Administration Cabinet to issue warrants for the payment of all claims as may be made by the Executive Branch of government in accordance with a Public Services Continuation Plan providing for the continued operation of state government in the absence of a legislatively adopted State Budget for the first quarter of the Fiscal Year 2005 (the "Continuation Plan"). Although the Continuation Plan expressly addresses the period from July 1, 2004 through September 30, 2004, the Continuation Plan provides full spending authority for the total debt service payments due for the entirety of the Fiscal Year 2005 (the only expenditure item to receive such treatment). The Continuation Plan will expire on the earlier of September 30, 2004 or on the date on which a legislatively adopted State Budget becomes effective. If no legislatively adopted State Budget is enacted by September 30, 2004, the Governor has indicated that he will issue a Public Services Continuation Plan for the quarter ending December 31, 2004.

Kentucky courts have previously held that the Executive Branch has certain authority to expend funds where a legislative budget appropriation is inadequate. The nature and extent of a governor's power to authorize expenditures by Executive Order in lieu of an enacted State Budget has not been addressed by the Kentucky judicial system. The 2003-2004 biennium (which commenced on July 1, 2002), began without a legislatively enacted State Budget for the Executive Branch of government. The Commonwealth operated under an Executive Spending Plan implemented by an Executive Order of the Governor. A suit was filed by the State Treasurer in 2002 seeking a determination of the validity of the Executive Order that established the Executive Spending Plan (the "Litigation"). In the General Assembly's 2003 Regular Session, which concluded on March 25, 2003, the legislature enacted House Bill 269, which included a budget for the Executive Branch of government for the remainder of the 2003-2004 biennium. The General Assembly also passed legislation that effectively ratified all amounts previously spent under the Executive Spending Plan. With the passage of these measures, all parties agreed to dismissal of the Litigation as moot.

The Attorney General of the Commonwealth filed a lawsuit on May 27, 2004 in Franklin County, Kentucky Circuit Court requesting a determination of the Governor's authority, through a Public Services Continuation Plan implemented by Executive Order, to suspend statutory laws which have traditionally been suspended by enactment of a State Budget. The lawsuit, in its present form, does not question the Governor's ability to authorize the payment of debt service on the Bonds by Executive Order. The suit names the Governor, the Treasurer, the Secretary of the Finance and Administration Cabinet as well as the President of the Senate and the Speaker of the House of Representatives as defendants. The Circuit Court heard initial arguments in the lawsuit on June 30, 2004 and issued an order finding that "the Governor's Public Services Continuation Plan must be implemented to continue essential state services for the first quarter of Fiscal Year 2004-2005." The order, however, places limits on the implementation of the plan, stating that "pending the final disposition of the litigation," (i) no funds shall be expended on capital projects not previously authorized by the General Assembly and (ii) no funds shall be expended on any new program not previously authorized by the General Assembly. On July 15, 2004 the Court issued a second order clarifying the original order. The July 15, 2004 order stated that

"expenditures for programs and projects in fiscal year 2004-2005 (under the Continuation Plan) could not exceed the amounts appropriated by the Legislature for fiscal year 2003-2004".

A number of separate petitions were filed by various parties seeking permission from the Court to join the suit and questioning among other things the Governor's ability to spend money in the absence of an enacted budget. The request to enjoin spending was also accompanied by a request that the Court direct the Governor to call a Special Session of the General Assembly for purposes of negotiating a budget. The Court rejected the motion to enjoin all spending in absence of a legislatively enacted budget and the request to direct the Governor to call a Special Session of the General Assembly. The petitioners appealed the Court's ruling dismissing the motion to direct the Governor to call a Special Session to the Kentucky Court of Appeals, which has yet to review the request.

In the event any officials of the Commonwealth are prevented, by judicial determination or otherwise, from expending funds in the absence of a legislative budget appropriation, including all or a portion of expenditures authorized pursuant to executive order, there is a significant risk of disruption of the Commonwealth's governmental functions. **This may impact the ability of the Authority to pay principal and interest when due on the 2004B Bonds.**

### **Debt Issuing Authorities of the Commonwealth**

Information regarding debt issuing authorities of the Commonwealth is included in APPENDIX A — "DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY."

## **INVESTMENT POLICY**

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

At June 30, 2004, the Commonwealth's operating portfolio was approximately \$2.84 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (13%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (42%); repurchase agreements collateralized by the aforementioned (26%); municipal securities (6%); and corporate and asset backed securities, including money market securities (13%). The portfolio had a current yield of 2.26% and an effective duration of 1.19 years.

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

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

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. Most of these transactions involve the purchase and sale of over-the-



counter put and call options on treasury securities. The State Investment Commission limits the total option commitment to no more than twenty percent of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible Collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth. At the present time the Commonwealth has entered into an agent agreement that has a guarantee of 10 basis points of the average market value of securities in the program.

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a \$200 million notional amount to a net market value approach, the absolute value of which cannot exceed \$50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income.

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional investment securities with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, including sovereign and supranatural governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset backed securities rated in the highest category by a nationally recognized rating agency.

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

## **TAX MATTERS**

### **General**

In the opinion of Bond Counsel for the 2004B Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 2004B Bonds is excludable from gross income for Federal income tax purposes and interest on the 2004B Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the 2004B Bonds is of the opinion that interest on the 2004B Bonds is exempt from income taxation by the Commonwealth and the 2004B Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the 2004B Bonds is set forth in APPENDIX D —"FORM OF OPINION OF BOND COUNSEL."

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the 2004B Bonds. The Authority has covenanted to comply with certain restrictions designed to ensure that interest on the 2004B Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the 2004B Bonds being includable in gross income for Federal income tax purposes and such inclusion

could be required retroactively to the date of issuance of the 2004B Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2004B Bonds may adversely affect the tax status of the interest on the 2004B Bonds.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2004B Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2004B Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the 2004B Bonds has rendered an opinion that interest on the 2004B Bonds is excludable from gross income for Federal income tax purposes and that interest on the 2004B Bonds is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2004B Bonds may otherwise affect a Bondholder's federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the 2004B Bonds on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the 2004B Bonds may result in other collateral federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the Federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the Federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the Federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the Federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any 2004B Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 256 of the Code. Finally, residence of the holder of 2004B Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the 2004B Bonds.

The Authority has not designated the 2004B Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

### **Premium**

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. Certain of the 2004B Bonds (the "Premium Bonds") are being initially offered and sold to the public at an Acquisition Premium. For Federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for Federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining Bondholder's taxable income for Federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the 2004B Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original Bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any 2004B Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Prior to the delivery of the Bonds, The Arbitrage Group will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them by the Underwriters. These computations will relate to (i) the adequacy of the moneys and maturing principal amounts of the Defeasance Obligations held in the Escrow Fund for the payment of the interest on the Refunded Bonds on payment dates through the Redemption Date, and payment of the Redemption Price on the Refunded Bonds on the Redemption Date, as provided in the Escrow Agreement, and (ii) the computations of arbitrage yields relied upon by Peck, Shaffer & Williams, LLP, Bond Counsel, to support its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes as described under "TAX MATTERS".

### **ENFORCEABILITY OF REMEDIES**

The remedies available to the Trustee and the owners of the 2004B 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 2004B Bonds and such documents will be qualified to the extent that the enforceability of certain legal rights related to the 2004B 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 2004B Bonds or which would adversely affect the application of the revenues of the Transportation Cabinet to the payment of the 2004B Bonds. There is no litigation pending or, to the knowledge of the Authority, threatened against the Authority or any of its assets or revenues that would materially adversely affect the Authority or its operations.

### **CERTAIN LEGAL MATTERS**

Certain legal matters incident to the authorization and issuance of the 2004B Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. The proposed form of such opinion is attached hereto as APPENDIX D. Certain legal matters concerning the Transportation Cabinet will be passed upon by Geri Grigsby, Executive Director, Office of General Counsel Legal Affairs, Transportation Cabinet; certain legal matters concerning the Authority will be passed upon by Gary Bale, Attorney, Office of Legal and Legislative Services, Finance and Administration Cabinet; and certain legal matters will be passed upon for the Underwriter by their counsel, Thompson Hine LLP, Cincinnati, Ohio.

Under Kentucky law, issuance of 2004B Bonds by the Authority requires the approval of the Office of Financial Management in the Finance and Administration Cabinet, which approval will be obtained prior to issuance of the 2004B Bonds.



## **RATINGS**

Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("Standard & Poor's"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Ratings. ("Fitch") have each assigned their municipal bond ratings of "AAA", "Aaa" and "AAA", respectively, to the 2004B Bonds, with the understanding that upon delivery of the 2004B Bonds the Policy insuring the payment when due of principal and interest on the 2004B Bonds will be issued by the Bond Insurer. Such ratings reflect only the views of Standard & Poor's, Moody's and Fitch and an explanation of the significance of such ratings may be obtained from Standard & Poor's at 55 Water Street, New York, New York 10041, (212) 438-2124, from Moody's at 99 Church Street, New York, New York 10007, (212) 553-0300, and from Fitch at One State Street Plaza, New York, New York 10004, (212) 908-0500. 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 2004B 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 2004B Bonds.

## **UNDERWRITING**

The 2004B Bonds are to be purchased by a syndicate managed by Morgan Stanley & Co. Incorporated as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the managers and any other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the 2004B Bonds at an aggregate purchase price of \$45,254,856.55 (which is equal to the principal amount of the 2004B Bonds plus bond premium of \$3,964,694.75 and less underwriting discount of \$219,838.20). A portion of the purchase price will be paid by the Underwriters paying the bond insurance premium directly to the Insurer on behalf of the Authority. The Underwriters will be obligated to purchase all of the 2004B Bonds if any are purchased. The Underwriters have advised the Authority that they intend to make a public offering of the 2004B Bonds at the initial public offering prices or yields set forth on the cover page hereof, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the 2004B Bonds.

## **CONTINUING DISCLOSURE**

The Authority will comply with the requirements of the Securities and Exchange Authority regarding secondary market disclosure as set forth in Rule 15c2-12 (the "Rule"), as amended, under the Securities Exchange Act of 1934. Specifically, the Authority will enter into a Continuing Disclosure Agreement in which it will covenant to provide notice in a timely manner to each nationally recognized municipal securities depository or the Municipal Securities Rulemaking Board, and the appropriate state information depository, if any, of any of the following types of events with respect to the 2004B Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale or property securing repayment of the securities; and (xi) rating changes. The Commonwealth is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities.

## **MISCELLANEOUS**

All quotations from, and summaries and explanations of, the Act, the Indenture, the Lease, the Agreement, the Bonds and the 2004B 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 2004B Bonds upon request directed to the Authority, 702 Capitol Avenue, Suite 92, Frankfort, Kentucky 40601, or the Underwriters, Morgan Stanley & Co. Incorporated, 1221 Avenue of the Americas, 30th Floor, New York, NY 10020.

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 2004B Bonds.

THE TURNPIKE AUTHORITY OF KENTUCKY

By: /s/ F. Thomas Howard  
Treasurer, The Turnpike Authority of Kentucky

THE TRANSPORTATION CABINET OF THE  
COMMONWEALTH OF KENTUCKY

By: /s/ Maxwell C. Bailey  
Secretary, Transportation Cabinet

## APPENDIX A

### DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

#### COMMONWEALTH DEBT MANAGEMENT

##### **Management**

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

##### **Structure**

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

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

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

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

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

##### **Default Record**

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

**TABLE I  
ACTIVE DEBT ISSUING ENTITIES**

| ENTITY  | STATUTORY AUTHORITY/<br>PURPOSE  | DEBT<br>LIMITATIONS   | RATING*          |
|---|--|---|------------------|
| State Property and Buildings Commission                       | <b>KRS 56.450</b> Provide financing for capital construction projects and financing programs approved by the General Assembly.   | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.   | Aa3/A+/AA-       |
| Kentucky Asset/Liability Commission                           | <b>KRS 56.860</b> Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state.   | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.                                     | Varies           |
| Turnpike Authority of Kentucky                                | <b>KRS 175.410-175.990</b> Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads  | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.   | Aa3/A+/AA-       |
| The State Universities (consisting of nine)                   | <b>KRS 56.495</b> Construct educational buildings and housing and dining facilities.   | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.   | Varies           |
| Kentucky Housing Corporation                                  | <b>KRS 198A</b> Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.  | Limited to \$2.5 billion of debt outstanding  | Aaa/AAA          |
| Kentucky Infrastructure Authority                             | <b>KRS 224A</b> Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.  | Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million. | Aa3/A+/AA-       |
| Kentucky Higher Education Student Loan Corporation            | <b>KRS 164A</b> Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.   | Limited to \$1.95 billion of debt outstanding.  | Aaa/AA-          |
| School Facilities Construction Commission                     | <b>KRS 157.800-157.895</b> Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.   | Cannot incur debt without appropriation of debt service by General Assembly.  | Aa3/A+/A         |
| Kentucky Economic Development Finance Authority               | <b>KRS 154</b> Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state. | None.   | Varies           |
| Kentucky Local Correctional Facilities Construction Authority | <b>KRS 441.605-441.695</b> Provide an alternative method of constructing, improving, repairing and financing local jails.  | Limited to the level of debt service supported by court fees pledged as repayment for the bonds.  | AAA<br>(Insured) |

\* Ratings, where applicable, include Moody's, Standard & Poor's and Fitch. Standard & Poor's rates the Kentucky Infrastructure Authority's moral obligation bonds AA. Certain State Property and Buildings Commission Agency Fund Revenue Bonds may have ratings different than those identified above.

## APPENDIX B

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Indenture, the Lease and the Agreement relating to the 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 2004B 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 2004B 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 2004B Bonds.

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

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

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

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

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

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

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

"Defeased Municipal Obligations" means obligations of state or local governments or obligations of public authorities or agencies which are rated in the highest rating category by 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.

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

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

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

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

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

"First 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.

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

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

"Interest Payment Date" means, with respect to the 2004B Bonds, January 1 and July 1 of each year, commencing January 1, 2005.

"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 2004B BONDS — Restrictions on Future Financings" in this Official Statement.

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

- (a) those cancelled at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation;
- (b) those deemed to be paid under the Indenture;
- (c) those deemed to be purchased in accordance with any agreement with a Tender Agent or Remarketing Agent; and
- (d) those in lieu of or in exchange or substitution for which other Bonds have been authenticated and delivered under the Indenture.

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



be secured by such obligations with a market value at least equal to the repurchase amount; and (h) any other investment permitted by Kentucky Revised Statute 42.500, as amended from time to time.

"Revenue Fund" means the Kentucky Economic Development Road Revenue Fund (Revitalization Projects) established by the Indenture, described under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS -- Flow of Funds" in this Official Statement.

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

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

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

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

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

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

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

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

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

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

"SPBC" means the State Property and Buildings Commission.

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

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

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

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



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

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

"Trustee" means J.P. Morgan Trust Company, National Association, as trustee under the Indenture, and any successor Trustee appointed pursuant to the Indenture.

## **THE TRUST INDENTURE**

### **Ownership of Bonds**

Any registered owner of any Bond is granted power to transfer absolute title thereto, by assignment thereof before maturity of such Bond, to a bona fide purchaser, for value (present or antecedent) without notice of prior defeasances or equities or claims of ownership enforceable against his assignor or any person in the chain of title. Every prior holder or owner of any Bond will be deemed to have waived and renounced all its right therein in favor of every such bona fide purchaser, and every such bona fide purchaser will acquire absolute title thereto and to all rights represented thereby. Registration of transfer of ownership of 2004B Bonds is accomplished as described under the caption "DESCRIPTION OF 2004B BONDS — Transfer and Exchange" in this Official Statement.

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

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

### **Credits Against Amortization Requirements**

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

### **Construction Fund**

All payment of costs of the Revitalization Projects are to be made from the Construction Fund established under the Indenture. When any payment of the cost of Revitalization Projects is made from the Construction Fund, the Authority is required to file with the State Treasurer, with a copy to the Trustee, a warrant in the form required by the Indenture. The Indenture provides for the creation of a fund to be used by the Authority for the payment of items of cost and expenses in connection with the construction of the Revitalization Projects which cannot conveniently be paid upon requisition. The fund is deemed a part of the Construction Fund and will be reimbursed

from other monies in the Construction Fund upon requisition of the Authority. No amounts are to be paid from the Construction Fund during the time the Lease is not in effect.

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

### **Revenue Fund**

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

If and so long as the Lease shall be in effect, the Trustee shall make withdrawals from the Revenue Fund to the extent monies are available therein and, not later than the Interest Payment Date, shall make deposits to the credit of the accounts described under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE 2004B BONDS — Flow of Funds" in this Official Statement.

### **Bond Fund**

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

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

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

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

(b) The Trustee will call for redemption on each date on which Bonds are subject to redemption from monies in the Redemption Account such amount of Bonds or portions of Bonds then subject to redemption; provided that not less than \$100,000 principal amount of Bonds may be called for redemption at any one time unless the Authority otherwise directs; and provided further that any monies in the Redemption Account 15 days prior to any redemption date which are not to be used to redeem Bonds on the following redemption date will be transferred to the Bond Service Account to be applied to the payment of principal of and interest on Bonds on the next Interest Payment Date. Any monies in the Redemption Account on the second Interest Payment Date following the deposit of such monies thereto which are not to be used to redeem Bonds on such date will be transferred to the Bond Service Account and applied to pay principal and interest on Bonds payable on such date.

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

## **Depository**

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

## **Investments**

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

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

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

## **Arbitrage Covenant**

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

## **Other Covenants of the Authority**

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

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

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

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

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

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

### **Arrearages**

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

### **Events of Default**

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

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

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

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

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

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

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

(g) if any proceeding is instituted by the Authority pursuant to the federal bankruptcy code or any federal or state statute for the purpose of adjusting the claims of creditors of the Authority or of entities such as the

Authority, if claims of the Authority's creditors are under any circumstances payable from the revenues of the System; or

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

### **Acceleration**

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

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

### **Enforcement of Remedies**

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

### **Majority of Bondholders May Control Proceedings**

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

## **Restrictions Upon Actions by Individual Bondholders**

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

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

## **The Trustee**

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

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

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

## **Modification of the Indenture**

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

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



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

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

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

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

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

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

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

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

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

## **Defeasance**

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

soon as practicable, notice to holders of such Bonds that the deposit described in (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which money is to be available for the payment of the principal and the interest and the premium, if any, so due and payable on said Bonds.

## **THE LEASE**

### **Initial Term; Renewal**

The initial term of the Lease was from October 1, 1990 to and including June 30, 1992 and it has been renewed for succeeding biennial terms, currently ending June 30, 2006. The Lease is renewable for successive biennial terms at the option of the Transportation Cabinet. The option to renew will be deemed to have been automatically exercised for each succeeding biennial term, effective on the first day thereof, unless the Authority shall receive written notice of the Transportation Cabinet's election not to renew the Lease prior to the close of business on the last working day in April immediately preceding the beginning of such succeeding biennial term. The Lease is renewable for successive biennial terms, one at a time, until all Bonds have been paid or deemed to have been paid in accordance with the Indenture.

### **Rentals**

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

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

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

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

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

### **Amendments**

The Authority and the Transportation Cabinet may amend or modify the Lease to cure any ambiguity or formal defect or omission, or to modify the rentals payable thereunder by reason of the issuance of another Series of

Bonds. The Lease may be modified, altered, amended, added to or rescinded in any particular from time to time with the consent of the holders of not less than two-thirds of the aggregate principal amount of the Bonds Outstanding.

### **First, Second and Third Supplemental Leases, Financing/Fourth Supplemental Lease Agreement, Fifth, Sixth and Financing/Seventh Supplemental Leases**

The Lease has been amended by the First Supplemental Lease, the Second Supplemental Lease, the Third Supplemental Lease, the Financing/Fourth Supplemental Lease Agreement, the Fifth Supplemental Lease, the Sixth Supplemental Lease and the Financing/Seventh Supplemental Lease, as permitted by the Lease. The First Supplemental Lease, Second Supplemental Lease, Third Supplemental Lease, Financing/Fourth Supplemental Lease Agreement, including the First Amendment to Financing/Fourth Supplemental Lease Agreement, Fifth Supplemental Lease, Sixth Supplemental Lease and Financing/Seventh Supplemental Lease, transfer certain economic development road projects to the Lease and modify the rental payments to provide for payments that are adequate to pay the interest on and principal of the Bonds Outstanding, including the 2004B Bonds, and to pay any Hedge Obligations.

## **THE AGREEMENT**

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

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

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

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

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

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

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

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

### **Amendments**

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

### **First, Second, Third, Fourth, Fifth, Sixth and Seventh Supplemental Agreements**

The Agreement has been amended by the First Supplemental Agreement, Second Supplemental Agreement, Third Supplemental Agreement, Fourth Supplemental Agreement, Fifth Supplemental Agreement, Sixth

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

## APPENDIX C

### BOOK-ENTRY-ONLY SYSTEM

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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2004B Bonds. The 2004B Bonds will be issued only as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as shall be requested by an authorized representative of DTC. One fully-registered 2004B Bond certificate will be issued for each maturity of the 2004B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and Non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and securities transactions in deposited securities in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchase of the 2004B Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 2004B Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004B Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2004B Bonds, except in the event that use of the book-entry-only system for the 2004B Bonds is discontinued.

To facilitate subsequent transfers, all 2004B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2004B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004B Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Beneficial Owners of Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2004B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments, redemption proceeds and distributions on the 2004B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect 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 Direct Participant or Indirect Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2004B Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

DTC may discontinue providing its services as securities depository with respect to the 2004B Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2004B Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2004B Bonds certificates will be printed and delivered.

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



## APPENDIX D

### FORM OF OPINION OF BOND COUNSEL

October \_\_\_, 2004

The Turnpike Authority of Kentucky  
Frankfort, Kentucky

Re: The Turnpike Authority of Kentucky Economic Development Road Revenue Refunding Bonds  
(Revitalization Projects), 2004 Series B

Ladies and Gentlemen:

The Turnpike Authority of Kentucky (the "Authority"), a de jure municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), on the date hereof, has issued the above-captioned bonds (the "Bonds"). The Bonds are issued as fully registered bonds without coupons in denominations of \$5,000 or integral multiples thereof, and will bear interest at the rates or approximate yields set forth in the 2004 Series Resolution adopted by the Authority on May 4, 2004 (the "Series Resolution") pursuant to the Trust Indenture, dated as of October 1, 1990, by and between the Authority and Citizens Fidelity Bank and Trust Company, Louisville, Kentucky (predecessor to Chase Manhattan Trust Company, National Association as succeeded by JP Morgan Trust Company, National Association), as trustee (the "Trustee"), as amended and supplemented by a First Supplemental Trust Indenture, dated as of November 15, 2000, by and between the Authority and the Trustee (collectively the "Indenture"). Interest on the Bonds will be payable on each January 1, and July 1, beginning January 1, 2005.

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 (together, the "Resolution") and the Indenture. The Authority and the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet") have entered into an Agreement, dated as of October 1, 1990, a First Supplemental Agreement, dated as of October 1, 1992, a Second Supplemental Agreement, dated as of April 1, 1993, a Third Supplemental Agreement, dated as of April 1, 1995, a Fourth Supplemental Agreement, dated as of April 1, 1999, a Fifth Supplemental Agreement, dated as of February 1, 2001, a Sixth Supplemental Agreement, dated as of March 1, 2001 and a Seventh Supplemental Agreement, dated as of May 1, 2004 (collectively the "Agreement") under which the Cabinet agrees to continuously bear, except to the extent such cost is included in rentals under the Lease (hereinafter defined), the cost of maintaining, repairing and operating the System (as defined in the Indenture), for the entire period of years until all bonds issued under the Indenture have been retired. The Authority and the Cabinet have entered into a Lease, dated as of October 1, 1990, a First Supplemental Lease, dated as of October 1, 1992, a Second Supplemental Lease, dated as of April 1, 1993, a Third Supplemental Lease, dated as of April 1, 1995, a Financing/Fourth Supplemental Lease Agreement, dated as of October 1, 1999, which has been amended by a First Amendment to Financing/Fourth Supplemental Lease Agreement, dated as of November 15, 2000, a Fifth Supplemental Lease, dated as of February 1, 2001, a Sixth Supplemental Lease, dated as of March 1, 2001 and a Financing/Seventh Supplemental Lease Agreement, dated as of May 1, 2004 (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, 2006, 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.

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

7. The 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 Series 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,

**APPENDIX E**

**SPECIMEN MUNICIPAL  
BOND INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the



United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)







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