



\$100,000,000
State of Connecticut
General Obligation Bonds (2001 Series A)
(Variable Rate Demand Bonds)

Dated: **Date Of Delivery**Due: **February 15, 2021**

The Bonds will be general obligations of the State of Connecticut (the "State") and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. See **THE BONDS - Nature of Obligation** herein. The Bonds will bear interest at a Weekly Rate or Flexible Rate or Rates as provided in the Bonds. Initially the Bonds will bear interest at the Weekly Rate as determined by the Remarketing Agent prior to delivery of the Bonds. See **THE BONDS - Additional Information Related to VRDBs** herein and **Appendix I-D** hereto. **The Bonds are subject to optional redemption, mandatory sinking fund redemption and mandatory tender for purchase prior to maturity as more fully described herein.**

While Bonds bear interest at a Weekly Rate, Bondowners will have the right to tender their Bonds for purchase at the times and subject to the conditions set forth in the Bonds, and will be required to tender their Bonds for purchase upon Conversion to a Flexible Rate Mode and upon expiration, substitution or termination, pursuant to a termination notice, of the Standby Bond Purchase Agreement as described herein and in the Bonds. While Bonds bear interest at a Flexible Rate or Rates, Bondowners will not have the right to tender their Bonds for purchase, and will be required to tender their Bonds for purchase upon Conversion to a Weekly Mode, and upon expiration, substitution or termination, pursuant to a termination notice, of the Standby Bond Purchase Agreement, as described herein and in the Bonds.

The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of \$5,000 or any integral multiple thereof. When issued, the Bonds will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form. Purchasers will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See **THE BONDS - Book-Entry-Only System** herein. Principal of and interest on the Bonds will be paid directly to DTC by State Street Bank and Trust Company of Connecticut, N.A., as Paying Agent, at its corporate trust office in Hartford, Connecticut, so long as DTC or its nominee, Cede & Co., is the Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

In connection with the delivery of the Bonds the State will execute a Standby Bond Purchase Agreement with Landesbank Hessen-Thüringen Girozentrale (the "Bank"), acting by and through its New York Branch, to provide funds for the purchase of Bonds tendered and not remarketed in an amount not to exceed the principal amount of the Bonds plus (while Bonds are in the Weekly Mode) accrued interest up to 35 days at an interest rate not exceeding 12% per annum. The Standby Bond Purchase Agreement may be terminated prior to its Stated Expiration Date upon the occurrence of certain Events of Default specified therein. Bondowners shall have **NO** right to tender Bonds, and the Bonds are **NOT** subject to mandatory tender for purchase as a result of such termination. See in **Appendix I-D** under the heading **Standby Bond Purchase Agreement** the paragraphs captioned **Events of Default** and **Remedies**. See **Appendix I-D** hereto for a summary of the terms of the Standby Bond Purchase Agreement and **Appendix I-E** hereto for information relating to the Bank.

*In the opinion of Bond Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, under existing law interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the alternative minimum tax, such interest is taken into account in computing the alternative minimum tax, as described under **TAX EXEMPTION** herein.*

In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Price: 100%

The Bonds are offered when, as and if issued and received by the Underwriters, subject to approval as to legality by Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel. Certain legal matters will be passed upon for the State by its Tax Counsel. Certain legal matters will be passed upon for the Underwriters by Underwriters' Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about February 22, 2001.

Honorable Denise L. Nappier
Treasurer of the State of Connecticut

Lehman Brothers

Dated: **February 14, 2001**

[INTENTIONALLY LEFT BLANK]

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. All quotations from and summaries and explanations of provisions of laws of the State contained in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof. All references to the Bonds and the resolutions and proceedings of the State Bond Commission relating thereto are qualified in their entirety by reference to the definitive forms of the Bonds and such resolutions. This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose, except as specifically authorized by the State. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
Introduction	(ii)	Part III - Annual Information Statement of the State of Connecticut Dated November 1, 2000, Modified January 29, 2001	
Part I - Information Concerning the Bonds		<i>Table of Contents to Part III</i>	III-2
<i>Table of Contents to Part I</i>	(ii)	Introduction	III-3
The Bonds	I-1	The State of Connecticut.....	III-4
Legality for Investment	I-9	Financial Procedures.....	III-5
Ratings	I-9	State General Fund.....	III-12
Tax Exemption.....	I-9	State Debt	III-28
Continuing Disclosure Agreement	I-11	Other Funds, Debt and Liabilities	III-41
Documents Accompanying Delivery of the Bonds	I-11	Pension and Retirement Systems	III-53
Financial Advisor.....	I-12	Litigation.....	III-57
Underwriting.....	I-12	Appendices	
Additional Information	I-12	<i>Index to Appendices</i>	III-59
Appendix I-A - Table of Statutory Authorizations ...	I-A-1	Appendix III-A - Governmental Organization and Services	III-A-1
Appendix I-B - Form of Bond Counsel Opinion	I-B-1	Appendix III-B - State Economy	III-B-1
Appendix I-C - Form of Continuing Disclosure Agreement	I-C-1	Appendix III-C – June 30, 2000 General Purpose (GAAP-Based) Financial Statements.....	III-C-1
Appendix I-D - Definitions and Summary of Certain Provisions of the Bonds Relating to Variable Rate Demand Bonds, the Standby Bond Purchase Agreement and the Remarketing Agreement.....	I-D-1	Appendix III-D - June 30, 1996 - June 30, 2000 Budgetary (Modified Cash Basis) General Fund Financial Statements.....	III-D-1
Appendix I-E - Information Relating to Landesbank Hessen-Thüringen Girozentrale	I-E-1	Appendix III-E - June 30, 2000 - June 30, 2001 Adopted Budgets, June 30, 2000 Actual Budget and June 30, 2001 Estimated Budget	III-E-1
Part II - Information Supplement to Annual Information Statement of the State of Connecticut Dated February 14, 2001	II-1		

OFFICIAL STATEMENT
STATE OF CONNECTICUT
\$100,000,000 General Obligation Bonds (2001 Series A)
(Variable Rate Demand Bonds)

INTRODUCTION

This Official Statement, including the cover and inside cover pages, this Introduction, Part I, Part II and Part III and the Appendices thereto, of the State of Connecticut (the “State”) is provided for the purpose of presenting certain information relating to the State in connection with the sale of \$100,000,000 aggregate principal amount of its General Obligation Bonds (2001 Series A) (Variable Rate Demand Bonds) (the “Bonds”).

Part I of this Official Statement, including the cover and inside front cover pages and the Appendices thereto, contains information relating to the Bonds. Part II of this Official Statement contains information which supplements as of its date certain information contained in the most recent Annual Information Statement of the State. Part III of this Official Statement, including the Appendices thereto, is the most recent Annual Information Statement of the State and contains certain information about the State as of its date. The cover page, inside cover page, this Introduction, and Parts I, II and III and the Appendices thereto should be read collectively and in their entirety.

PART I
INFORMATION CONCERNING THE BONDS
TABLE OF CONTENTS TO PART I

	<u>Page</u>
THE BONDS	I-1
Description of the Bonds	I-1
Additional Information Related to VRDBs.....	I-2
Optional Redemption.....	I-6
Sinking Fund Redemption	I-6
Notice of Redemption	I-6
Book-Entry-Only System.....	I-7
Nature of Obligation	I-8
Sources and Uses of Bond Proceeds.....	I-9
LEGALITY FOR INVESTMENT	I-9
RATINGS	I-9
TAX EXEMPTION	I-9
Opinion of Bond Counsel and Tax Counsel - Federal Tax Exemption.....	I-9
Other Federal Tax Matters	I-10
State Taxes.....	I-10
General.....	I-10
CONTINUING DISCLOSURE AGREEMENT.....	I-11
DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS	I-11
State Treasurer’s Certificate	I-11
Absence of Litigation.....	I-11
Approving Opinions of Bond Counsel, Opinions of Disclosure Counsel, Tax Counsel and Underwriters’ Counsel.....	I-11
FINANCIAL ADVISOR.....	I-12
UNDERWRITING	I-12
ADDITIONAL INFORMATION	I-12
Appendix I-A Table of Statutory Authorizations.....	I-A-1
Appendix I-B Form of Bond Counsel Opinion.....	I-B-1
Appendix I-C Form of Continuing Disclosure Agreement	I-C-1
Appendix I-D Definitions and Summary of Certain Provisions of the Bonds Relating to Variable Rate Demand Bonds, the Standby Bond Purchase Agreement and the Remarketing Agreement.....	I-D-1
Appendix I-E – Information Relating to Landesbank Hessen-Thüringen Girozentrale	I-E-1

PART I
INFORMATION CONCERNING THE BONDS

STATE OF CONNECTICUT
\$100,000,000 General Obligation Bonds (2001 Series A)
(Variable Rate Demand Bonds)

THE BONDS

Description of the Bonds

The State of Connecticut (the “State”) is issuing \$100,000,000 General Obligation Bonds (2001 Series A) (Variable Rate Demand Bonds) (the “Bonds”). The Bonds are comprised of the following issues:

\$49,585,000 General Obligation Bonds (2001 Series A-1)
\$ 6,790,000 General Obligation Bonds (2001 Series A-2)
\$43,625,000 General Obligation Bonds (2001 Series A-3)

The Bonds will be dated the date of delivery, and will bear interest initially at the Weekly Rate as determined by the Remarketing Agent prior to delivery of the Bonds, and thereafter at Weekly Rates or Flexible Rates payable on each Interest Payment Date until maturity or earlier redemption as described below under **Additional Information Related to VRDBs**.

Interest will be calculated on the basis of a 365 or 366-day year, as applicable, for the actual number of days elapsed and will be payable on each Interest Payment Date to the registered owner as of the close of business on the Business Day preceding the Interest Payment Date. The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of \$5,000 or any integral multiple thereof.

The Bonds will be general obligation bonds of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. The Bonds will be issued pursuant to the State general obligation bond procedure act (Section 3-20 of the General Statutes of Connecticut, as amended), resolutions adopted by the State Bond Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. See **Nature of Obligation** herein.

Principal of and interest on or Purchase Price of the Bonds will be paid directly to The Depository Trust Company (“DTC”) by State Street Bank and Trust Company of Connecticut, N.A., as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. See **Book-Entry-Only System** herein.

State Street Bank and Trust Company of Connecticut, N.A. is serving initially as Paying Agent and Tender Agent for the Bonds.

Lehman Brothers is serving initially as Remarketing Agent for the Bonds

The Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Bonds of each series will mature on February 15, 2021.

Additional Information Related to VRDBs

The Bonds shall be either in the Weekly Mode or the Flexible Rate Mode. Bonds in the Weekly Mode bear interest at a Weekly Rate. Bonds in the Flexible Rate Mode bear interest at a Flexible Rate or Rates. Depending on which mode is then in effect for the Bonds, the Interest Payment Dates, the dates interest rates are effective, the dates on which notices of tender are required to be given, the dates on which Bonds are to be tendered, the dates for notices of conversion to another mode, and provisions for mandatory tender for purchase applicable to the Bonds will vary. See the description below, the chart on page I-5 and **Appendix I-D** for further details.

The information regarding provisions for the tender and purchase of Bonds should be used in conjunction with the information set forth under **Book-Entry Bonds** below. As initially issued, the Bonds will be issued in book-entry-only form through the facilities of The Depository Trust Company, New York, New York ("DTC"), and the procedures and practices of DTC will govern the tender and purchase procedures applicable to owners of beneficial interests in the Bonds.

Interest. The Bonds will bear interest initially at the Weekly Rate as determined by the Remarketing Agent prior to delivery of the Bonds until and including the first Wednesday which is or follows the date the Bonds are issued. Thereafter Bonds shall bear interest at Weekly Rates or at Flexible Rates. Initially all Bonds will be in the Weekly Mode. Thereafter, the Bonds may be converted from time to time to the Flexible Rate Mode or the Weekly Mode as described below.

Interest on Bonds in the Weekly Mode is payable monthly on each Interest Payment Date. Interest on Bonds in the Flexible Rate Mode is payable on each Interest Payment Date upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent. For Bonds in the Weekly Mode, the Interest Payment Date is the first Business Day of each calendar month. For Bonds in the Flexible Rate Mode, the Interest Payment Date is the Business Day after the last day of each Flexible Rate Period. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date which is the Business Day immediately preceding an Interest Payment Date. As long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See **Book-Entry-Only System** herein and **Book-Entry Bonds** below.

Weekly Mode. For Bonds in a Weekly Mode the Weekly Rate shall be determined each week by the Remarketing Agent, by 4:00 P.M., Hartford Time, on the Business Day prior to the commencement of the Weekly Rate Period (the "Rate Determination Date") to which it relates. Weekly Rate Periods shall commence on a Thursday and end on Wednesday of the following week. The Weekly Rate for each Weekly Rate Period shall be determined by the Remarketing Agent as that rate of interest which would cause the Bonds to have a market value equal to the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of Weekly Rates shall be given by the Remarketing Agent to the Paying Agent by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine a Weekly Rate, the Bonds shall bear interest at the interest rate equal to the most recent Interest Index as of the Rate Determination Date for each Weekly Period until a new Weekly Rate is determined. No Weekly Rate on the Bonds may exceed the Maximum Rate. The Maximum Rate is 12% per annum. It may be adjusted upwards, but only under certain conditions.

Optional Tender for Purchase During Weekly Mode. Bonds in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written or telephonic notice (promptly confirmed in writing) of tender to the Tender Agent not later than 5:00 P.M., Hartford Time, on a Business Day not fewer than seven days prior to the Purchase Date. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode.

At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing or by telephone (and promptly confirmed in writing) to the Tender Agent at its corporate trust office by 5:00 P.M., Hartford Time, on a Business Day not fewer than seven days prior to the Purchase Date, which may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode, and be in a form satisfactory to the Tender Agent;

(ii) state, whether delivered in writing or by telephone, (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an authorized denomination and which leaves the retained portion of the Bond in an amount which is an authorized denomination, (C) the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the purchase date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder.

Flexible Rate Mode. The Bonds may be converted to a Flexible Rate Mode, bearing interest at Flexible Rates for Flexible Rate Periods, from time to time. The Flexible Rate for each Flexible Rate Period and each Flexible Rate Period applicable to the Bonds shall be determined by the Remarketing Agent by 12:45 P.M. Hartford Time on the first Business Day of each Flexible Rate Period, and shall take effect on the day following the last day of the preceding Flexible Rate Period or Weekly Rate Period, and be in effect to and including the last day of the Flexible Rate Period (the "Flexible Rate Period"). Each Flexible Rate and Flexible Rate Period for any Bonds shall be that rate of interest and period which would cause the Bonds to have a market value equal to the principal amount thereof (exclusive of accrued interest, if any), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of Flexible Rates and Flexible Rate Periods and the amount of Bonds bearing interest at each Flexible Rate and Flexible Rate Period shall be given by the Remarketing Agent to the Paying Agent by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine the Flexible Rate and Flexible Rate Period for any Bond in the Flexible Rate Mode, such Bond shall be deemed to have a Flexible Rate Period beginning on each Business Day and extending through the day preceding the next Business Day, and shall bear interest at a rate equal to the most recent Interest Index as of the Rate Determination Date for each Flexible Rate Period, until a new Flexible Rate Period and Flexible Rate is determined. No Flexible Rate on any Bond shall exceed the Maximum Rate. The Maximum Rate is 12% per annum. It may be adjusted upwards, but only under certain conditions.

Each Flexible Rate Period will commence on a Business Day and end on a Business Day. No Flexible Rate Period may be longer than 270 days, or be longer than the number of days remaining to a Conversion Date or scheduled Mandatory Sinking Fund Redemption of such Bond. Any Bond may bear interest at a Flexible Rate and for a Flexible Rate Period which is different from every other Bond.

Mandatory Tender Upon End of Each Flexible Rate Period. Each Bond in the Flexible Rate Mode is subject to mandatory tender for purchase on the Business Day following the last day of the Flexible Rate Period applicable to such Bond at a Purchase Price equal to 100% of the principal amount of such Bond plus accrued interest. No notice of such mandatory tender shall be given.

Mandatory Tender Upon Conversion Between Weekly Mode and Flexible Rate Mode. Bonds to be converted from the Weekly Mode to the Flexible Rate Mode, or from the Flexible Rate Mode to the Weekly Mode, are subject to mandatory tender for purchase as described below on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest.

If Bonds are to be converted, the State shall give written notice of such conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders of such Bonds by first class mail or at the State's option certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement.

The Bonds are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement or any Alternate Liquidity Facility; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement or any Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under the Standby Bond Purchase Agreement or Alternate Liquidity Facility. See in **Appendix I-D** under the heading **Standby Bond Purchase Agreement**, paragraph (a) under the caption **Events of Default** for a list of events of default for which the Bank may elect to give a termination notice. The Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the State, shall give written notice to the Bondholders at least 15 days prior to such mandatory tender date.

Delivery and Payment for Tendered Bonds. The Tender Agent, on behalf of the State, shall purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds. Delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 P.M., Hartford Time, on the Business Day which is the Purchase Date in order for tendering Bondholders to be paid in immediately available funds by 4:00 P.M., Hartford Time, on such day. If the Bonds are delivered after 1:00 P.M., Hartford Time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

Book-Entry Bonds. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the State, the Tender Agent, the Underwriters nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants. See **Book-Entry-Only System** herein.

Mode Table. The following Mode Table is provided for the convenience of the Bondholders. The information contained in the chart is not intended to be comprehensive. Reference is made to the above description, **Appendix I-D**, and the Bonds for a more complete description.

MODE TABLE

	<u>Weekly Mode</u>	<u>Flexible Rate Mode</u>
<u>Interest Period</u>	From and including a Thursday to and including the following Wednesday.	From and including first day of Flexible Rate Period to and including last day of such Period.
<u>Interest Payment Dates</u>	First Business Day of the month	Business Day after last day of each Flexible Rate Period
<u>Denominations</u>	Minimum of \$5,000, integral multiples of \$5,000 in excess thereof	Minimum of \$5,000, integral multiples of \$5,000 in excess thereof
<u>Record Date</u>	Business Day preceding Interest Payment Date	Business Day preceding Interest Payment Date
<u>Optional Purchase Dates</u>	Any Business Day at least seven days following Tender Notice	None
<u>Notice of Tender Required</u>	Telephonic, promptly confirmed in writing, or written by 5:00 P. M., Hartford Time, on a Business Day not fewer than 7 days prior to Purchase Date	None; Bondholders do not have the right to tender Bonds in the Flexible Rate Mode
<u>Mandatory Tender for Purchase</u>	Conversion to a Flexible Rate Mode; Expiration, Substitution or termination, pursuant to a termination notice, of Liquidity Facility	Business Day following last day of Flexible Rate Period; Conversion to a Weekly Mode; Expiration, Substitution or termination, pursuant to a termination notice, of Liquidity Facility
<u>Purchase Price</u>	100% of principal amount plus accrued interest	100% of principal amount plus accrued interest
<u>Method of Payment</u>	Immediately available funds	Immediately available funds

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. Lehman Brothers, Inc. will serve as the initial Remarketing Agent for the Bonds. See **Appendix I-D - Definitions and Summary of Certain Provisions of the Bonds Relating to Variable Rate Demand Bonds, the Standby Bond Purchase Agreement and the Remarketing Agreement.**

Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement provides that the Bank agrees to purchase any unremarketed tendered Bonds from time to time in an amount not to exceed the principal amount thereof plus accrued interest thereon in an amount up to 35 days at an interest rate not exceeding 12% per annum, subject to the terms and provisions set forth in the Standby Bond Purchase Agreement. See **Appendix I-D - Definitions and Summary of Certain Provisions of the Bonds Relating to Variable Rate Demand Bonds, the Standby Bond Purchase Agreement and the Remarketing Agreement** and **Appendix I-E - Information Relating to Landesbank Hessen-Thüringen Girozentrale.** All information concerning the Bank has been provided by the Bank, and the State is not responsible for its accuracy or completeness.

Interest Commitment of Standby Bond Purchase Agreement Limited to Weekly Mode. During any period that the Bonds are in the Flexible Rate Mode, the Interest Commitment of the Bank to pay accrued interest on tendered Bonds is reduced to zero. Interest on Flexible Rate Bonds will be paid when due from State funds. In the event that (1) the Bonds are converted from the Weekly Mode to the Flexible Rate Mode and (2) the State causes the commitment of the Bank to pay accrued interest with respect to any tender of the Bonds to be reduced to zero, the State will not cause the Bonds to be converted from the Flexible Rate Mode to the Weekly Mode unless and until such commitment of the Bank to pay accrued interest with respect to any tender of the Bonds has been reinstated.

Risk of Termination of Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement may be terminated prior to its Stated Expiration Date immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required. In the event of such termination Bondowners have **NO** right to tender Bonds, and the Bonds are **NOT** subject to mandatory tender for purchase solely as a result of such termination. The Tender Agent shall give notice to the bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement. See in **Appendix I-D** under the heading **Standby Bond Purchase Agreement** the paragraphs captioned **Events of Default** and **Remedies** and paragraph (b) under **Events of Default** for a list of events of default for which no termination notice is required to be given.

Optional Redemption

The Bonds are subject to optional redemption prior to maturity at the election of the Treasurer, in whole or in part at any time, and in such amounts as the Treasurer may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed together with accrued and unpaid interest to the date fixed for redemption but without premium, provided that no such partial redemption will cause the outstanding principal amount of Bonds to be less than \$10,000,000 without the approval of the Remarketing Agent.

The State also has the right to redeem Bonds which are subject to optional or mandatory tender for purchase without notice on any optional or mandatory tender date. The State also has the right to redeem any Bonds held by or for the benefit of the Bank without notice and prior to other Bonds.

Sinking Fund Redemption

The Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to one hundred percent (100%) of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption on February 15 in each of the years set forth in the following table, in the principal amount specified in each of such years:

<u>Year</u>	<u>Sinking Fund Payment</u>
2018	\$25,000,000
2019	\$25,000,000
2020	\$25,000,000
2021	\$25,000,000 (<i>final maturity</i>)

The State, at its option, may credit against any mandatory sinking fund redemption Bonds which have been purchased and canceled by the State or which have been redeemed and not previously applied as a credit against any mandatory sinking fund redemption requirement.

To the extent there are Bonds held by or for the benefit of the Bank, such Bonds shall be first entitled to the benefits of any mandatory sinking fund redemption.

Notice of Redemption

Notice of redemption shall be mailed not less than fifteen (15) nor more than sixty (60) days prior to the redemption date to the registered owner of such Bond at such Bondowner’s address as it appears on the registration books of the State. However, no notice of redemption is required for Bonds to be redeemed on any optional or mandatory tender dates or for Bonds to be redeemed which are held by or for the benefit of the Bank. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to DTC.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee). One or more fully-registered bond certificates will be issued for each maturity of each issue of the Bonds, in the aggregate principal amount of such maturity of each issue, and will be deposited with DTC.

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

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

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

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

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

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State 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 on the Bonds will be made to DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held

for the accounts of customers in bearer form or registered in “street name” and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

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

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

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

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

Nature of Obligation

Each Bond when duly issued and paid for will constitute a contract between the State and the owner thereof.

The State general obligation bond procedure act pursuant to which the Bonds are issued provides that the Bonds shall be general obligations of the State and that the full faith and credit of the State are pledged for the payment of the principal of and interest on said Bonds as the same become due. Such act further provides that, as part of the contract of the State with the owners of said Bonds, appropriation of all amounts necessary for the punctual payment of such principal and interest is made, and the Treasurer shall pay such principal and interest as the same become due.

The doctrine of governmental immunity (the right of a state not to be sued without its consent) applies to the State but legislation gives jurisdiction to the Connecticut courts to enter judgment against the State founded upon any express contract between the State and the purchasers and subsequent owners and transferees of bonds and notes issued by the State, including the Bonds, reserving to the State all legal defenses except governmental immunity.

In the opinion of Bond Counsel, the above provisions impose a clear legal duty on the Treasurer to pay principal of and interest on the Bonds when due and, in the event of failure by the State to make such payment when due, a bondowner may sue the Treasurer to compel such payment from any monies available.

For the payment of principal of or interest on the Bonds, the State, acting through the General Assembly, has the power to levy ad valorem taxes on all taxable property in the State without limitation as to rate or amount. The State does not presently levy such a tax.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Sources and Uses of Bond Proceeds

Proceeds of the Bonds are to be applied as follows:

Sources:

Par Amount of Bonds	\$ 100,000,000.00
Other Funds	197,316.78
Total Sources	<u>\$ 100,197,316.78</u>

Uses:

Money Available to State	\$ 100,000,000.00
Underwriters' Fee	\$ <u>197,316.78</u>
Total Uses	<u>\$ 100,197,316.78</u>

LEGALITY FOR INVESTMENT

Under existing State law, the Bonds are legal investments for the State and for municipalities, regional school districts, fire districts, and any municipal corporation or authority authorized to issue bonds, notes or other obligations, State chartered or organized insurance companies, bank and trust companies, savings banks, savings and loan associations and credit unions, as well as executors, administrators, trustees and certain other fiduciaries. Subject to any contrary provisions in any agreement with noteholders or bondholders or other contract, the Bonds also are legal investments for virtually all public authorities in the State.

The Bonds may be accepted by the Comptroller as a substitution for amounts paid as retainage under any State contract or subcontract.

RATINGS

Upon the issuance of the Bonds, the State anticipates that Moody's Investors Service, Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. and Fitch, Inc. will assign their municipal bond ratings of Aa3/P-1, AA/A-1+, and AA/F-1+, respectively, to the Bonds. Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agency if in the judgment of such rating agency circumstances so warrant. A downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

TAX EXEMPTION

Opinion of Bond Counsel and Tax Counsel - Federal Tax Exemption

In the opinion of Bond Counsel and Tax Counsel, under existing law, interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax.

Bond Counsel's and Tax Counsel's opinions with respect to the Bonds will be rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Code establishes certain requirements which must be met at and subsequent to the issuance of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for federal income tax purposes. Failure to comply with the continuing requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs. In the

Tax Compliance Agreement and the Tax Certificate, which will be delivered concurrently with the issuance of the Bonds, the State will covenant to comply with certain provisions of the Code and will make certain representations designed to assure compliance with such requirements of the Code.

Pursuant to Section 3-20 of the General Statutes of the State, as amended, the State covenants that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

No other opinion is expressed by Bond Counsel or Tax Counsel regarding the federal tax consequences of the ownership of, or the receipt or accrual of interest on, the Bonds.

Other Federal Tax Matters

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, certain insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Legislation affecting the exclusion from gross income of interest on bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect upon the tax-exempt status or the market price of the Bonds.

State Taxes

In the opinion of Bond Counsel and Tax Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Owners of the Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Bonds and the disposition thereof.

General

The opinions of Bond Counsel and Tax Counsel are rendered as of their date and Bond Counsel and Tax Counsel assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may come to their attention or any changes in law that may occur after the date of their opinions.

The discussion above does not purport to deal with all aspects of federal or state or local taxation that may be relevant to a particular owner of a Bond. Prospective owners of the Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal, state and local tax consequences of owning and disposing of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The General Statutes of Connecticut give the State the specific authority to enter into continuing disclosure agreements in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12 (the “Rule”). The State will enter into a Continuing Disclosure Agreement with respect to the Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form attached as **Appendix I-C** to this Official Statement (the “Continuing Disclosure Agreement”), pursuant to which the State will agree to provide or cause to be provided, in accordance with the requirements of the Rule: (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds, and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement. The Underwriters’ obligation to purchase the Bonds shall be conditioned upon their receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement. The State has never defaulted in its obligation to provide annual financial information pursuant to a Continuing Disclosure Agreement executed by the State in connection with the sale of any other general obligation bonds.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

State Treasurer’s Certificate

Upon delivery of the Bonds, the State shall furnish a certificate of the Treasurer, dated the date of delivery of the Bonds, stating that the Official Statement, as of its date, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that there has been no material adverse change (other than in the ordinary course of the operations of the State) in the financial condition of the State from that set forth in or contemplated by the Official Statement. In providing such certificate, the Treasurer will state that she has not undertaken independently to verify information obtained or derived from various publications of agencies of the Federal government and presented in **Appendix III-B** to this Official Statement under the caption **STATE ECONOMY**.

Absence of Litigation

Upon delivery of the Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of monies to the payment of the Bonds. In addition, such certificate shall state that, except as disclosed in this Official Statement, there is no controversy or litigation of any nature now pending by or against the State which, in the opinion of the Attorney General, will be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially adversely affect its financial condition or the power of the State to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds.

Approving Opinions of Bond Counsel, Opinions of Disclosure Counsel, Tax Counsel and Underwriters’ Counsel

The State Treasurer, with the approval of the Attorney General of the State of Connecticut, has appointed the following firms to serve as Bond Counsel with respect to the Bonds, and delivery of the Bonds will be subject to the approving opinions of Bond Counsel as follows:

- (a) Day, Berry & Howard LLP with respect to the \$49,585,000 General Obligation Bonds (2001 Series A-1);
- (b) Nixon Peabody LLP with respect to the \$6,790,000 General Obligation Bonds (2001 Series A-2);
- (c) Law Offices of Joseph C. Reid, P.A. with respect to the \$43,625,000 General Obligation Bonds (2001 Series A-3).

The opinion of each Bond Counsel with respect to the series of the Bonds indicated above will be substantially in the form included as **Appendix I-B** to this Official Statement. Certain Bond Counsel have served as underwriters' counsel in connection with other State bond issues.

Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day, Berry & Howard LLP of Hartford, Connecticut.

Certain legal matters will be passed upon for the State by its Tax Counsel, Hunton & Williams, of Washington, D.C.

Certain legal matters will be passed upon for the Underwriters by their counsel, Brown, Rudnick, Freed & Gesmer of Hartford, Connecticut. Certain Bond Counsel have served as underwriter's counsel in other State of Connecticut bond issues.

FINANCIAL ADVISOR

The State has appointed P.G. Corbin & Company, Inc. to serve as financial advisor to assist the State in the issuance of the Bonds.

UNDERWRITING

The aggregate initial offering price of the Bonds to the public is \$100,000,000. The Underwriters have jointly and severally agreed, subject to certain conditions precedent to closing, to purchase the Bonds from the State at an aggregate purchase price of \$100,000,000 and receive payment of an underwriting fee of \$197,316.78. The Underwriters will be obligated to purchase all the Bonds, if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Bonds into investment trusts) at prices lower than such initial public offering price, and such initial public offering price may be changed, from time to time, by the Underwriters.

ADDITIONAL INFORMATION

It is the present policy of the State to make available, upon request from the Office of the State Treasurer, copies of this Official Statement or parts hereof and subsequent official statements or parts thereof relating to the issuance of its general obligation bonds.

Additional information may be obtained upon request from the Office of the State Treasurer, Denise L. Nappier, Attn: Catherine S. Boone, Assistant Treasurer, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3127.

STATE OF CONNECTICUT

Dated at Hartford
this 14th day of
February, 2001

Denise L. Nappier
State Treasurer

TABLE OF STATUTORY AUTHORIZATIONS

The new-money portion of each series of Bonds includes the following authorizations which have been consolidated for purposes of sale:

A.	\$ 49,585,000.00	General Obligation Bonds (2001 Series A-1)
1.	\$ 38,668,900.00	General State Purposes Bonds (1997 Act, Section 21(k), Series A) authorized by Sections 20 through 26 and more particularly subsection 21(k) of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 1997 Session, as amended.
2.	\$ 10,916,100.00	General State Purposes Bonds (1998 Act, Section 2(d), Series A) authorized by Sections 1 through 7 and more particularly subsection 2(d) of Special Act No. 98-9 of the General Assembly of the State of Connecticut, January 1998 Session, as amended.
B.	\$ 6,790,000.00	General Obligation Bonds (2001 Series A-2)
1.	\$ 6,790,000.00	General State Purposes Bonds (June 1997 Special Session Act, Section 21(l), Series D) authorized by Sections 20 through 26 and more particularly subsection 21(l) of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 1997 Special Session, as amended.
C.	\$ 43,625,000.00	General Obligation Bonds (2001 Series A-3)
1.	\$ 15,910,031.41	General State Purposes Bonds (June 1997 Special Session Act, Sections 21(a) through (i) and 21(m) through (n), Series D) authorized by Sections 20 through 26 and more particularly subsections 21(a) through (i) and 21(m) through (n) of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 1997 Special Session, as amended.
2.	\$ 27,714,968.59	General State Purposes Bonds (1998 Act, Sections 2(a) to (c) and 2(f), Series C) authorized by Sections 1 through 7 and more particularly subsection 2(a) through (c) and 2(f) of Special Act No. 98-9 of the General Assembly of the State of Connecticut, January 1998 Session, as amended.

[INTENTIONALLY LEFT BLANK]

FORM OF BOND COUNSEL OPINION

The opinion of each Bond Counsel with respect to the series of the Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Bonds and will be substantially in the following form:

Honorable Denise L. Nappier
Treasurer, State of Connecticut
Hartford, Connecticut

We have examined a record of proceedings relative to the issuance of \$ _____ General Obligation Bonds (2001 Series A-) (Variable Rate Demand Bonds) of the State of Connecticut (the "Bonds"). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut in the aggregate principal amount of \$100,000,000.

The Bonds are dated as of the date hereof, mature on February 15, 2021 and bear interest from their dated date, payable on each Interest Payment Date until maturity or earlier redemption, at the Weekly Rate or Flexible Rate as in effect from time to time as provided in the Bonds.

The Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to one hundred percent (100%) of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption, on February 15 in each of the years set forth in the following table, in the principal amount specified in each of such years:

<u>Year</u>	<u>Sinking Fund Payment</u>
	\$

The State, at its option, may credit against any mandatory sinking fund redemption bonds which have been purchased and canceled by the State or which have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

The Bonds are payable as to principal and redemption price, if any, at the office of State Street Bank and Trust Company of Connecticut, N.A., in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the Record Date by check mailed to such registered owner at such owner's address as shown on the registration books kept by the State or its designated agent.

The Bonds are subject to redemption and mandatory tender for purchase prior to maturity as therein provided.

The Bonds are comprised of the following issue[s] of bonds which were authorized by the following statutory provision[s] and have been consolidated as a single issue:

[HERE LIST COMPONENT BOND ISSUES WITH STATUTORY AUTHORIZATIONS]

The Bonds are issued under and pursuant to proceedings taken in accordance with Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended, resolutions adopted by the State Bond Commission, including a resolution adopted on September 29, 2000 and proceedings taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Certificate and a Tax Compliance Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof, not exceeding the aggregate principal amount of Bonds maturing in

any year. The Bonds are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company, for the purpose of effecting a book-entry system for the ownership and transfer of the Bonds.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement and certain matters which are the subject of a supplemental opinion provided by us to the State).

We are of the opinion that the Bonds, when duly certified by State Street Bank and Trust Company of Connecticut, N.A., will be valid and legally binding general obligations of the State of Connecticut for the payment of the principal of and interest on which the full faith and credit of the State are pledged, and that the State, acting through the General Assembly, has the power to levy ad valorem taxes upon all taxable property within the State without limitation as to rate or amount to pay the principal and interest thereof. We are further of the opinion that the Tax Compliance Agreement is a valid and binding agreement of the State and that the Tax Certificate and the Tax Compliance Agreement were duly authorized by the State.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate the State has made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

We are of the opinion that, under existing law, interest on the Bonds, (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax.

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) continuing compliance by the State with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance Agreement as to such matters. We also have relied upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of \$100,000,000 as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

We express no opinion regarding other federal or state tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Respectfully yours,

FORM OF CONTINUING DISCLOSURE AGREEMENT

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the State will agree, pursuant to a Continuing Disclosure Agreement for the Bonds to be executed by the State substantially in the following form, to provide, or cause to be provided, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for the Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement (“Agreement”) is made as of the ___ day of February by the State of Connecticut (the “State”) acting by its undersigned officer, duly authorized, in connection with the issuance of \$100,000,000 General Obligation Bonds, 2001 Series A (Variable Rate Demand Bonds), dated February __, 2001 (the “Bonds”), for the benefit of the beneficial owners from time to time of the Bonds.

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms shall have the following meanings:

“Final Official Statement” means the official statement of the State dated February __, 2001 prepared in connection with the Bonds.

“MSRB” means the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934 as amended, or any successor thereto.

“NRMSIR” means any nationally recognized municipal securities information repository recognized by the SEC from time to time. As of the date of this Agreement the NRMSIRs are:

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, NJ 08542-0840
(609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

Interactive Data
Attn: Repository
100 Williams Street
New York, NY 10038
(212) 771-6899
Fax: (212) 771-7390
Email: NRMSIR@interactivedata.com

Standard & Poor’s J. J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
(212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

“Rule” means rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

“SEC” means the Securities and Exchange Commission of the United States, or any successor thereto.
“SID” means any state information depository established or designated by the State of Connecticut and recognized by the SEC from time to time. As of the date of this Agreement, no SID has been established or designated by the State of Connecticut.

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2001) as follows:

(i) Financial statements of the State’s general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust and agency (fiduciary) funds and the general long-term debt account group for the prior fiscal year, which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. As of the date of this Agreement, the State is required to prepare financial statements of its various funds and accounts on a budgeted basis (i.e., on the basis of the modified cash method of accounting as described in Part III to the Final Official Statement, under the caption **FINANCIAL PROCEDURES - Accounting Procedures**). As of the date of this Agreement, the State also prepares its financial statements in accordance with generally accepted accounting principles but is not required to do so. The financial statements will be audited.

(ii) To the extent not included in the financial statements described in (i) above, the financial information and operating data within the meaning of the Rule described below (with references to the Final Official Statement); provided, however, that references to the Final Official Statement for the Bonds as a means of identifying such financial information and operating data shall not prevent the State from reorganizing such material in subsequent official statements or annual information reports:

1. Until such time as the State’s only method of presenting its financial statements is substantially in accordance with generally accepted accounting principles (“GAAP”):
 - a. General Fund - Summary of General Fund Operating Results - Budgetary (Modified Cash) Basis (for most recent fiscal year) (See Table 2 and Appendices III-D-8 and III-D-9).
 - b. General Fund - Summary of Operating Results - Budgetary (Modified Cash) Basis vs. GAAP Basis (for most recent fiscal year) (See Table 3).
 - c. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis as of the end of the most recent fiscal year) (See Table 4 and Appendices III-D-6 and III-D-7).
 - d. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis vs. GAAP Basis (as of the end of the recent fiscal year) (See Table 5).
2. Statutory Debt Limit (as of end of most recent fiscal year or a later date) (See Table 7).
3. Direct General Obligation Debt - Outstanding Principal Amount (as of end of most recent fiscal year or a later date) (See Table 8).
4. Summary of Principal, Mandatory Sinking Fund Payments and Interest on Long-Term Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 10).
5. Outstanding Long-Term Direct General Obligation Debt (as of end of most recent fiscal year) (See Table 11).
6. Authorized But Unissued Long-Term Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 12).
7. Statutory Bond Authorizations and Reductions (for recent fiscal years, if any legislative action) (See Table 13).

8. Bond Authorizations with Limited or Contingent Liability (as of end of most recent fiscal year or a later date) (See Table 16).

9. Funding status of the State Employees' Retirement Fund and the Teacher's Retirement Fund.

(b) The financial statements and other financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The State's fiscal year currently ends on June 30.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents previously provided to each NRMSIR, any SID, or the SEC. If the document to be cross-referenced is a final official statement, it must be available from the MSRB. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the State.

(d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from time to time; provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

The State agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (g) modifications to rights of holders of the Bonds;
- (h) Bond calls;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds; and
- (k) rating changes.

Section 4. Notice of Failure to Provide Annual Financial Information.

The State agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of any failure by the State to provide annual financial information as set forth in Section 2(a) hereof on or before the date set forth in Section 2(b) hereof.

Section 5. Use of Agents.

Annual financial information and operating data and notices to be provided pursuant to this Agreement may be provided by the State or by any agents which may be employed by the State for such purpose from time to time.

Section 6. Termination.

The obligations of the State under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Bonds, or (ii) such time as the State ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

Section 7. Enforcement.

The State acknowledges that its undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the State shall fail to perform its duties hereunder, the State shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the State's Assistant Treasurer for Debt Management, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Assistant Treasurer for Debt Management is 55 Elm Street, 6th Floor, Hartford, Connecticut 06106.

In the event the State does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The State expressly acknowledges and the beneficial owners are hereby deemed to expressly agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds.

Section 8. Miscellaneous.

(a) The State shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided however, nothing in this Agreement shall be construed as prohibiting the State from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the State elects to provide any such additional information, data or notices, the State shall have no obligation under this Agreement to update or continue to provide further additional information, data or notices of the type so provided.

(b) This Agreement shall be governed by the laws of the State of Connecticut.

(c) Notwithstanding any other provision of this Agreement, the State may amend this Agreement, and any provision of this Agreement may be waived, if (i) such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the State, (ii) the Agreement as so amended or waived would have complied with the requirements of the Rule as of the date of the Agreement, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, and (iii) such amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds or an approving vote by the holders of not less than 60% of the aggregate principal amount of the Bonds then outstanding. A copy of any such amendment or waiver will be filed in a timely manner with (i) each NRMSIR or the MSRB and (ii) any SID. The annual financial information provided on the first date following adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

STATE OF CONNECTICUT

By _____
Denise L. Nappier
Treasurer

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS
OF THE BONDS RELATING TO VARIABLE RATE DEMAND BONDS,
THE STANDBY BOND PURCHASE AGREEMENT AND THE REMARKETING AGREEMENT**

The following is a summary of certain provisions of the Bonds relating to Variable Rate Demand Bonds and the Standby Bond Purchase Agreement. The summary is not to be regarded as a full statement of the terms of the Bonds or the Standby Bond Purchase Agreement and, accordingly, is qualified by reference to the Bonds and the Standby Bond Purchase Agreement and is subject to the full text thereof.

See also **The Bonds - Additional Information Related to VRDBs** in the Official Statement for a description of certain other provisions relating to Variable Rate Demand Bonds.

Pursuant to the Bonds, the Paying Agent, the Tender Agent and the State are entitled to treat the Owner of each Bond (including Cede & Co. or any other nominee of DTC as to any such Bond registered in the name thereof) as the owner of such Bond, for all purposes. Neither the Paying Agent, the Tender Agent nor the State shall have any duty or responsibility to recognize the beneficial ownership interest of a Beneficial Owner who has acquired such an interest in Bonds registered in the name of Cede & Co. or any other nominee of DTC. The procedures established by DTC, the Paying Agent, the Tender Agent and the Remarketing Agent for trading, exchanging and registering beneficial ownership interests in Bonds shall be implemented by such persons consistent with the terms of the relevant agreements.

DEFINITIONS

“Agreement Default” means any condition or event which constitutes an event of default under a Standby Bond Purchase Agreement, or which, with the giving of notice of lapse of time or both, would, unless cured or waived, become an event of default under a Standby Bond Purchase Agreement.

“Agreement Expiration Date” means the stated expiration date set forth in a Standby Bond Purchase Agreement, initially 5:00 p.m. Hartford Time on February 22, 2008 or the preceding Business Day.

“Agreement Termination Event” means an event set forth in a Standby Bond Purchase Agreement which would result in the immediate termination of the Standby Bond Purchase Agreement prior to the Agreement Expiration Date without at least thirty days’ prior notice from the Bank to the Tender Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

“Alternate Liquidity Facility” means any liquidity facility, insurance policy, line of credit, standby bond purchase agreement or other liquidity support or mechanism obtained, delivered, made, entered into or otherwise obtained for the purpose of securing the purchase of tendered Bonds and as a replacement for or in substitution of a Standby Bond Purchase Agreement.

“Authorized Denominations” means \$5,000 or any integral multiple of \$5,000 in excess thereof.

“Bank” means the issuer of a Standby Bond Purchase Agreement or Alternate Liquidity Facility pursuant to which the issuer thereof agrees to purchase Bonds tendered for purchase in accordance with the optional or mandatory tender provisions thereof, but not remarketed, initially Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, its successors or assigns.

“Bank Bonds” means Bonds which are purchased and held by or for the benefit of the Bank pursuant to a Standby Bond Purchase Agreement.

“Bank Base Rate” means the base rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially for any day, an interest rate per annum equal to the higher of (i) the prime rate announced from time to time by the Bank, or (ii) the sum of 0.50% plus the Federal Funds Rate for such date.

“*Bank Default Rate*” means the default rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially the Bank Base Rate plus 2.00%.

“*Bank Rate*” means the rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially equal to (i) for Bonds held from the Purchase Date to 90 days following the Purchase Date, the Bank Base Rate; and (ii) for Bonds held 91 or more days following the Purchase Date, the Bank Base Rate plus 1.00%; provided, however, any amount due under the Standby Bond Purchase Agreement which is not paid in full when due shall bear interest at the Bank Default Rate; and further provided, in no event shall the Bank Rate exceed 22% per annum.

“*Bondholder*” or “*Bondowner*” means a registered owner of any of the Bonds.

“*Bonds*” means any of the \$100,000,000 State of Connecticut General Obligation Bonds (2001 Series A)(Variable Rate Demand Bonds).

“*Business Day*” means any date except Saturday, Sunday, any holiday or other day on which the business offices of the State are closed, any other day on which commercial banks located in New York, New York or Hartford, Connecticut are required or authorized to close or on which the New York Stock Exchange is closed.

“*Conversion*” means the conversion of the interest rate on the Bonds from the Weekly Mode to the Flexible Rate Mode or from the Flexible Rate Mode to the Weekly Mode as provided in the Bonds.

“*Conversion Date*” means for any Bond the date upon which Conversion of the interest rate on such Bond takes effect.

“*Delivery Date*” means the date of initial delivery of the Bonds.

“*DTC*” means The Depository Trust Company or any substitute securities depository appointed by the State.

“*Federal Funds Rate*” means for any date, (i) the rate per annum rounded upwards, if necessary, to the nearest one-hundredth of one percent, equal to the weighted average of the rates of overnight federal funds transactions with members of the Federal Reserve System arranged by federal fund brokers as published for such day (or if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York; or (ii) if such rate is not so published for any Business Day, such rate as set forth in a Standby Bond Purchase Agreement.

“*Flexible Rate*” means, for or on any Bond in a Flexible Rate Mode, the rate of interest thereon determined for each Flexible Rate Period in accordance with the provisions of the Bonds.

“*Flexible Rate Mode*” means the period during which the Bonds bear interest at a Flexible Rate.

“*Flexible Rate Period*” means for any Bond the period of time during which such Bond bears interest at the same Flexible Rate, determined in accordance with the provisions of the Bonds.

“*Initial Period*” means the period beginning on the Delivery Date and ending on the first Wednesday which is or follows the Delivery Date.

“*Interest Index*” means (a) the BMA Municipal Swap Index, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “BMA Municipal Swap Index”) or (b) if the BMA Municipal Swap Index is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “Kenny Index”) or (c) if neither of the BMA Municipal Swap Index nor the Kenny Index are published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bonds Market Association to determine the BMA Municipal Swap Index. The Tender Agent shall make the determinations

required by this definition, upon notification from the State, if there is no Remarketing Agent or if the Remarketing Agent fails to make any such determination.

“Interest Payment Date” means (i) with respect to Bonds bearing interest at a Weekly Rate, the first Business Day of each calendar month following any month during which interest has accrued at a Weekly Rate; and (ii) with respect to Bonds bearing interest at a Flexible Rate, the Business Day after the last day of the Flexible Rate Period applicable thereto.

“Maximum Rate” initially means 12% per annum. The State may, in order to ensure the remarketing of the Bonds at par value, increase the Maximum Rate for the Bonds and any applicable maximum Bank Rate by delivering to the Remarketing Agent (i) a notice from the State Treasurer stating the amount of the adjusted Maximum Rate and any applicable maximum Bank Rate (ii) an opinion of Bond Counsel, to the effect that such increase in the Maximum Rate will not adversely affect (A) the exclusion of the interest payable on the Bonds from the gross income of the owners of the Bonds for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and (B) the exemption of the interest on the Bonds for purposes of the Connecticut income tax on individuals, trusts and estates, (iii) an amendment to the existing liquidity facility providing that the amount that can be drawn or otherwise made available under the liquidity facility for the payment of interest on the Bonds is equal to 35 days’ interest on the Bonds, in the case of the Bonds during a Weekly Rate Period calculated at the Maximum Rate after giving effect to such increase, (iv) written confirmation from each Rating Agency then rating the Bonds that such increase in the Maximum Rate and any applicable maximum Bank Rate will not, in and of itself, result in a reduction or withdrawal of the ratings on the Bonds. The Remarketing Agent shall give written notice to the State, the Bank, the Tender Agent and the Paying Agent of any increase in the Maximum Rate, promptly upon its receipt of the items referred to in this definition.

“Paying Agent” means the bank or banks, if any, designated by the State to receive and disburse the principal of and interest on the Bonds, initially State Street Bank and Trust Company of Connecticut, N.A., its successors and assigns.

“Purchase Date” means, for any Bond required to be purchased pursuant to the terms thereof, the date on which the Purchase Price is required to be paid pursuant to the Bonds.

“Purchase Price” means, for any Bond required to be purchased pursuant to the terms thereof, an amount equal to 100% of the principal amount thereof, plus accrued interest, if any, thereon, to the Purchase Date.

“Rate Determination Date” means (i) for Bonds bearing interest at a Weekly Rate, each Wednesday, or the preceding Business Day if any such Wednesday is not a Business Day; and (ii) for Bonds bearing interest at a Flexible Rate, the first Business Day of each Flexible Rate Period.

“Record Date” means 5:00 p.m. Hartford time on the Business Day preceding each Interest Payment Date.

“Remarketing Agent” means any firm or firms designated by the State to remarket tendered Bonds pursuant to a Remarketing Agreement, initially Lehman Brothers, Inc., its successors and assigns.

“Remarketing Agreement” means an agreement entered into by the State and a Remarketing Agent setting forth the provisions pursuant to which tendered Bonds are to be remarketed, as the same may be amended from time to time.

“Standby Bond Purchase Agreement” means the Standby Bond Purchase Agreement between the State and Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, which secures the purchase of tendered Bonds, and any Alternate Liquidity Facility.

“State” means the State of Connecticut.

“Tender Agent” means the bank or banks, if any, designated by the State to perform the duties of tender agent pursuant to the Bonds, initially State Street Bank and Trust Company of Connecticut, N.A., its successors or assigns.

“*Weekly Rate*” means, for or on any Bond in a Weekly Mode, the rate of interest thereon determined weekly in accordance with the provisions of the Bonds.

“*Weekly Mode*” means the period during which the Bonds bear interest at a Weekly Rate.

PROVISIONS OF THE BONDS

Interest Rates

Initial Period - Interest Rate Modes

The Bonds shall bear interest initially at the Weekly Rate as determined by the Remarketing Agent prior to delivery of the bonds. Thereafter, Bonds shall be either in the Weekly Mode or the Flexible Rate Mode. Bonds in the Weekly Mode shall bear interest until maturity or earlier redemption or Conversion to a Flexible Rate Mode at a Weekly Rate. Bonds in the Flexible Rate Mode shall bear interest until maturity or earlier redemption or Conversion to a Weekly Mode at a Flexible Rate or Rates. Initially, all Bonds will be in the Weekly Mode. Thereafter the Bonds may be converted from time to time to the Flexible Rate Mode or the Weekly Mode.

Weekly Mode

Determination of Rate. Bonds in the Weekly Mode bear interest at the Weekly Rate payable monthly on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date. The Weekly Rate shall be determined each week by the Remarketing Agent by 4:00 p.m. Hartford Time on each Rate Determination Date and shall take effect on each Thursday following such Rate Determination Date, regardless of whether any such Thursday is a Business Day, and be in effect to and including the following Wednesday, regardless of whether such Wednesday is a Business Day (the “Weekly Rate Period”). The Weekly Rate for each Weekly Rate Period shall be that interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Weekly Rate exceed the Maximum Rate.

In the event the Remarketing Agent fails to determine a Weekly Rate for Bonds in the Weekly Mode, the Bonds shall bear interest at the interest rate equal to the most recent Interest Index as of the Rate Determination Date for each Weekly Period, until a new Weekly Rate is determined by the Remarketing Agent.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Weekly Rate to the Paying Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, electronically or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Paying Agent shall promptly notify the State, the Tender Agent and the Bank of each Weekly Rate.

Flexible Rate Mode

Determination of Flexible Rate and Flexible Rate Period. Bonds in the Flexible Rate Mode bear interest at a Flexible Rate or Rates payable on each Interest Payment Date upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date. The Flexible Rate for each Flexible Rate Period and each Flexible Rate Period applicable to the Bonds shall be determined by the Remarketing Agent by 12:45 p.m. Hartford Time on the first Business Day of each Flexible Rate Period, and shall take effect on the day following the last day of the preceding Flexible Rate Period or Weekly Rate Period, and be in effect to and including the last day of the Flexible Rate Period, (the “Flexible Rate Period”). Each Flexible Rate and Flexible Rate Period for any Bonds shall be that interest rate and period which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market

value equal to 100% of the principal amount thereof (exclusive of accrued interest, if any), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall any Flexible Rate on any Bond exceed the Maximum Rate.

Each Flexible Rate Period shall commence on a Business Day and end on a Business Day. No Flexible Rate Period may be longer than 270 days or be longer than the number of days remaining to a Conversion Date or scheduled Mandatory Sinking Fund Redemption of such Bond. Any Bond may bear interest at a Flexible Rate and for a Flexible Rate Period which is different from every other Bond.

In the event the Remarketing Agent fails to determine a Flexible Rate and a Flexible Rate Period for Bonds in the Flexible Rate Mode, the Flexible Rate Periods for the Bonds shall begin on each Business Day and extend through the day preceding the next Business Day, and the Bonds shall bear interest at a rate equal to the most recent Interest Index as of the Rate Determination Date for each Flexible Rate Period, until a new Flexible Rate Period and Flexible Rate is determined by the Remarketing Agent.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Flexible Rate and Flexible Rate Period and the amount of Bonds bearing interest at each Flexible Rate and Flexible Rate Period to the Paying Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, electronically or by telephone; provided that telephonic notice shall be promptly confirmed in writing. The Paying Agent shall promptly notify the State, the Tender Agent and the Bank of each Flexible Rate and Flexible Rate Period and the amount of Bonds bearing interest at each Flexible Rate and Flexible Rate Period.

Binding Effect. Each determination of the interest rate for the Bonds, the terms of each Flexible Rate Period and the amount of Bonds bearing the same Flexible Rate for the same Flexible Rate Period shall be conclusive and binding upon the Bondholders, the State, the Remarketing Agent, the Tender Agent, and the Paying Agent. Upon telephonic request to the Remarketing Agent from the State, the Tender Agent, the Paying Agent or any Bondholder, the Remarketing Agent shall inform such person of the interest rate or rates, the terms of any Flexible Rate Period and the amount of Bonds bearing the same Flexible Rate for the same Flexible Rate Period, then in effect on the Bonds. Failure of the Remarketing Agent to give any of the notices described in the Bonds, or any defect therein, shall not affect the interest rate or rates to be borne by any Bond nor in any way change the rights or obligations of Bondholders to tender their Bonds for purchase in accordance with the Bonds.

Optional Tender

Weekly Mode

Bonds in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written or telephonic notice (promptly confirmed in writing) of tender to the Tender Agent not later than 5:00 P.M., Hartford Time, on a Business Day not fewer than seven days prior to the Purchase Date. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode.

Notice of Tender. At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing or by telephone (and promptly confirmed in writing) to the Tender Agent at its corporate trust office by 5:00 P.M., Hartford Time, on a Business Day not fewer than seven days prior to the Purchase Date, which may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode, and be in a form satisfactory to the Tender Agent;

(ii) state, whether delivered in writing or by telephone, (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an Authorized Denomination and which leaves the retained portion of the Bond in an amount

which is an Authorized Denomination, (C) the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder. The Tender Agent shall promptly notify the State and the Remarketing Agent upon receipt of a notice of tender.

Tender of Portions of Bonds. In the event a Bondholder files with the Tender Agent a tender notice with respect to a portion of a Bond in an Authorized Denomination, such Bondholder shall be required to deliver such Bond to the Tender Agent along with the tender notice. The Tender Agent shall pay the Purchase Price for such portion as provided herein and the Paying Agent shall issue in the name of such Bondholder a new Bond in the amount not so purchased, which Bond the Tender Agent shall forward to such Bondholder. Notwithstanding anything to the contrary contained herein, no Bondholder shall be entitled to tender a portion of such Bond for purchase unless the portion of such Bond not to be so purchased shall be in an Authorized Denomination.

Flexible Rate Mode

Bonds bearing interest at Flexible Rates may **not** be tendered for purchase at the option of the Holders.

Conversion

The Bonds may be converted from the Weekly Mode to the Flexible Rate Mode or from the Flexible Rate Mode to the Weekly Mode. Any Conversion Date shall be a Business Day.

The State shall give written notice of Conversion at least thirty (30) days prior to the Conversion Date to the Tender Agent, the Paying Agent and the Remarketing Agent, which notice shall specify the proposed Conversion Date and the conditions to conversion, if any, and shall request the Tender Agent to give written notice of such Conversion to Bondholders as described below under “Mandatory Tender Upon Conversion to Flexible Rate Mode” or “Mandatory Tender Upon Conversion to Weekly Mode”, as appropriate.

In the event that (1) the Bonds are converted from the Weekly Mode to the Flexible Rate Mode and (2) the State causes the commitment of the Bank to pay accrued interest with respect to any tender of the Bonds to be reduced to zero, the State will not cause the Bonds to be converted from the Flexible Rate Mode to the Weekly Mode unless and until such commitment of the Bank to pay accrued interest with respect to any tender of the Bonds has been reinstated.

Mandatory Tender

Agreement to Tender Bonds

Any Bondholder, by its acceptance of the Bonds, agrees to tender its Bonds to the Tender Agent for purchase on dates on which such Bonds are subject to mandatory tender, and upon such transfer, to surrender such Bonds, properly endorsed for transfer in blank.

Any notice mailed as provided in this section shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice, and the failure of such Bondholder to receive any such notice shall not affect the validity of the action described in such notice.

Weekly Mode

Bonds bearing interest at a Weekly Rate are subject to mandatory tender for purchase upon conversion to a Flexible Rate Mode and upon the expiration, substitution or termination, pursuant to a termination notice, of a Standby Bond Purchase Agreement or Alternate Liquidity Facility. Bonds are **not** subject to mandatory tender solely as a result of the occurrence of an Agreement Termination Event resulting in the termination of a Standby Bond Purchase Agreement or Alternate Liquidity Facility prior to the Agreement Expiration Date. The Tender Agent shall give notice to the Bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement.

Mandatory Tender Upon Conversion to Flexible Rate Mode. If Bonds are to be converted from the Weekly Mode to a Flexible Rate Mode, Bonds to be so converted are subject to mandatory tender for purchase on the Conversion Date at a Purchase Price equal to 100 percent of the principal amount of the Bonds, plus accrued interest. The State shall give written notice of such Conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders by first class mail or at the State's option certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. The Bonds are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement or any Alternate Liquidity Facility; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement or any Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under the Standby Bond Purchase Agreement or Alternate Liquidity Facility. The Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100 percent of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the State, shall give written notice to Bondholders at least fifteen (15) days prior to such mandatory tender date.

Flexible Rate Mode

Each Bond bearing interest at a Flexible Rate is subject to mandatory tender for purchase on the Business Day following the last day of each Flexible Rate Period applicable to such Bond, upon Conversion to a Weekly Mode, and upon the expiration, substitution or termination, pursuant to a termination notice, of a Standby Bond Purchase Agreement or Alternate Liquidity Facility. Bonds are **not** subject to mandatory tender solely as a result of the occurrence of an Agreement Termination Event resulting in the termination of a Standby Bond Purchase Agreement or Alternate Liquidity Facility prior to the Agreement Expiration Date. The Tender Agent shall give notice to the Bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement.

Mandatory Tender Upon End of Each Flexible Rate Period. Each Bond in the Flexible Rate Mode is subject to mandatory tender for purchase on the Business Day following the last day of the Flexible Rate Period applicable to such Bond at a Purchase Price equal to 100 percent of the principal amount of such Bond plus accrued interest. No notice of such mandatory tender shall be given.

Mandatory Tender Upon Conversion to Weekly Mode. If Bonds are to be converted from the Flexible Rate Mode to the Weekly Mode, Bonds to be so converted are subject to mandatory tender for purchase on the Conversion Date at a Purchase Price equal to 100 percent of the principal amount of the Bonds, plus accrued

interest. The State shall give written notice of such Conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders by first class mail or at the State's option certified mail, return receipt requested, at least fifteen (15) days prior to the Conversion Date, setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. The Bonds are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement or any Alternate Liquidity Facility; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement or any Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under the Standby Bond Purchase Agreement or Alternate Liquidity Facility. The Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100 percent of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the State, shall give written notice to Bondholders at least fifteen (15) days prior to such mandatory tender date.

Delivery and Payment for Tendered Bonds

The Tender Agent, on behalf of the State, shall purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds.

Delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 P.M., Hartford Time, on the Business Date which is the Purchase Date in order for tendering Bondholders to be paid in immediately available funds by 4:00 P.M., Hartford Time, on such day. If the Bonds are delivered after 1:00 P.M., Hartford Time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

On any date when Bank Bonds are released to the Tender Agent by the Bank, the Purchase Price of such Bonds released to the Tender Agent shall be paid by wire transfer to the Bank at the wire transfer address specified in the Standby Bond Purchase Agreement.

Book-Entry Bonds

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the State, the Tender Agent, the Underwriters nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., Inc. as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC in accordance with any Letter of Representation with DTC.

Remarketing of Tendered Bonds; Bank Bonds

Lehman Brothers, Inc., New York, New York is appointed the initial Remarketing Agent for the Bonds. The Remarketing Agent shall accept the duties and obligations thereof by execution and delivery of an agreement with the State under which the Remarketing Agent will agree, among other things, to perform the duties of Remarketing Agent as provided in the Bonds, to keep records regarding the remarketing of Bonds and determining the interest rates on the Bonds and to make such records available for inspection by the State at all reasonable times.

The Remarketing Agent shall be authorized by law to perform all the duties imposed upon it by the Bonds. The Remarketing Agent may resign or may be removed at any time upon at least thirty (30) days' written notice. The Remarketing Agent may terminate its duties in certain circumstances upon notice to the State as provided in the Remarketing Agreement.

If the Remarketing Agent resigns or is removed, the State shall have the power to appoint another Remarketing Agent, and the former Remarketing Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity, other than Bonds held for its own account, to its successor.

The Paying Agent, the Tender Agent, the Bank, any Standby Bond Purchase Agreement issuer or the Remarketing Agent, each in its individual capacity, may in good faith and to the extent otherwise permitted by law, buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any Bondholder of the Bonds may be entitled to take with like effect as if it did not act in any capacity hereunder. The Paying Agent, the Bank, each Standby Bond Purchase Agreement issuer, the Tender Agent or the Remarketing Agent, each in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the State, and may act as depository, trustee, or agent for any committee or body of Bondholders of any Bonds secured hereby or other obligations of the State as freely as if it did not act in any capacity hereunder or under the Standby Bond Purchase Agreement.

The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. In the event the Remarketing Agent is unable to remarket tendered Bonds, the Standby Bond Purchase Agreement provides that the Bank agrees to purchase any such Bonds from time to time in an amount not to exceed the principal amount thereof plus (for Bonds in the Weekly Mode) accrued interest up to 35 days at an interest rate not exceeding 12% per annum, subject to the terms and provisions set forth in the Standby Bond Purchase Agreement. Bank Bonds shall bear interest at the Bank Rate and may have such terms as are set forth in a Standby Bond Purchase Agreement. To the extent there are Bank Bonds such Bank Bonds shall be first entitled to the benefits of any mandatory sinking fund redemption or any optional redemption.

In the event that (1) the Bonds are converted from the Weekly Mode to the Flexible Rate Mode and (2) the State causes the commitment of the Bank to pay accrued interest with respect to any tender of the Bonds to be reduced to zero, the State will not cause the Bonds to be converted from the Flexible Rate Mode to the Weekly Mode unless and until such commitment of the Bank to pay accrued interest with respect to any tender of the Bonds has been reinstated.

Alternate Liquidity Facility

A Standby Bond Purchase Agreement may be replaced or substituted with an Alternate Liquidity Facility at the option of the State in accordance with the terms of the Standby Bond Purchase Agreement. Any Alternate Liquidity Facility may contain such terms as the State and the Bank may determine, and the Bonds may be amended

without consent of the Bondholders to reflect the terms of an Alternate Liquidity Facility which are applicable to Bank Bonds.

If, at any time, in accordance with the Standby Bond Purchase Agreement, the State obtains an Alternate Liquidity Facility, then the Tender Agent shall give prompt notice to the Bondholders that the State has obtained an Alternate Liquidity Facility and that the Standby Bond Purchase Agreement will terminate pursuant to the terms of the Standby Bond Purchase Agreement. The notice shall state: (a) the principal terms of the Alternate Liquidity Facility; and (b) that the Bonds shall be subject to mandatory tender on the substitution date, and explaining the terms of such mandatory tender.

Any Alternate Liquidity Facility shall meet the following criteria:

(a) Any Alternate Liquidity Facility shall provide that funds may be advanced for the purposes, in the amounts and at the times provided in the Bonds and shall contain administrative provisions satisfactory to the Tender Agent.

(b) Any Alternate Liquidity Facility shall have a term of not less than the remaining term of the Standby Bond Purchase Agreement which such Alternate Liquidity Facility is replacing.

(c) At least five (5) Business Days prior to the delivery to the State of the Alternate Liquidity Facility as provided in the preceding paragraph, the State shall have received an irrevocable commitment to issue or enter into such Alternate Liquidity Facility and on the substitution date the State shall have received an opinion of counsel for the provider or providers of the Alternate Liquidity Facility that the Alternate Liquidity Facility and any documents related to it constitute legal, valid and binding obligation(s) of such provider of the Alternate Liquidity Facility enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, moratorium or insolvency or by equitable principles.

(d) No Alternate Liquidity Facility shall be effective unless the provider of an Alternate Liquidity Facility shall purchase all Bonds held by or for the account of the Bank on the substitution date, and all Bonds held by the Bank shall be paid in full on or prior to the Substitution Date.

If at any time thirty (30) days remain until the Agreement Expiration Date and the Standby Bond Purchase Agreement has not been renewed or replaced or the State has not obtained a written commitment for such renewal or replacement, the Tender Agent shall promptly give notice to the Bondholders that (i) the Standby Bond Purchase Agreement is scheduled to expire and stating the date of such expiration; (ii) the State has not obtained an Alternate Liquidity Facility; and (iii) the Bonds shall be subject to mandatory tender and explaining the terms of such mandatory tender.

Tender Agent

Tender Agent Custody. The Tender Agent shall hold all Bonds (or portions thereof in Authorized Denominations) delivered to it for purchase for the benefit of the respective Bondholder thereof until moneys representing the Purchase Price or redemption price of such Bonds (or portions thereof in Authorized Denominations), as the case may be, shall have been delivered to or for the account of or to the order of the Bondholders thereof.

Procedure for Purchase of Bonds. On the date any Bonds are to be purchased, the Tender Agent shall purchase, but only from the funds and in the order of priority listed below, such Bonds at the Purchase Price thereof:

- (a) Moneys derived from the remarketing of Bonds; and
- (b) Any amounts derived from a draw against the Standby Bond Purchase Agreement; and
- (c) Amounts on deposit in the General Fund of the State appropriated and available therefor.

Any amounts held pursuant to paragraph (a) or (b) above shall be held uninvested until applied as provided herein.

By the close of business (Hartford Time) on the Business Day following the date on which Bondholders of Bonds in a Weekly Mode have delivered a tender notice to the Tender Agent, the Tender Agent shall provide to the Bank and the Remarketing Agent a notice from the Tender Agent specifying the applicable Purchase Date and the aggregate principal amount of Bonds to be purchased on such Purchase Date.

By 3:00 P.M. (Hartford Time) on the Business Day prior to the Purchase Date, the Remarketing Agent shall provide to the Bank and the Tender Agent a notice from the Remarketing Agent setting forth the principal amount of Bonds that have not been remarketed by the Remarketing Agent.

By 5:00 P.M. (Hartford Time) on the Business Day prior to the Purchase Date, the Tender Agent shall provide to the Bank a notice from the Tender Agent as to the Purchase Price expected to be required to be paid by the Bank on the Purchase Date.

By 11:00 A.M. (Hartford Time) on the Purchase Date, the Tender Agent shall provide to the Bank a notice from the Tender Agent indicating the exact amounts that will be required to be paid by the Bank, in order to pay the Purchase Price of all tendered Bonds that have not been remarketed at or prior to such time; and

By 11:00 A.M. (Hartford Time) on each Purchase Date the Tender Agent shall promptly take all action in accordance with the Standby Bond Purchase Agreement necessary to draw under the Standby Bond Purchase Agreement an amount sufficient to pay the Purchase Price of the Bonds on the Purchase Date for which the Tender Agent has not received moneys from the Remarketing Agent from remarketed Bonds.

On the Purchase Date, the Tender Agent shall make provision for the account of the Bank at The Depository Trust Company to be credited such that the Bank becomes the beneficial owner of the tendered Bonds that have not been remarketed and have been purchased by the Bank, in accordance with the standing procedures of DTC.

Notice to Rating Agencies. The Tender Agent shall give notice to Moody's Investors Service, Standard & Poor's Rating Services and Fitch IBCA, Inc. at the addresses set forth below of (i) any change to the Standby Bond Purchase Agreement or the Bonds; or (ii) the termination, substitution, expiration or extension of the Standby Bond Purchase Agreement or (iii) any redemption of Bonds.

Moody's Investors Service
Public Finance Group
99 Church Street, 9th Floor
New York, New York 10007

Standard & Poor's Rating Services
55 Water Street
New York, New York 10004

Fitch, Inc.
One State Street Plaza, 33rd Floor
New York, New York 10004

Non-Delivery of Bonds. In the event that any Bonds required to be tendered or with respect to which a tender notice has been sent are not delivered to the Tender Agent at the time, in the manner and at the place required, the undelivered Bonds will be deemed to have been tendered and purchased by the Tender Agent, and interest accruing on such Bonds on and after the applicable Purchase Date shall no longer be payable to the prior Bondholders thereof. Such prior Bondholders shall have recourse solely to the funds held by the Tender Agent for the purchase of the undelivered Bonds, and the Tender Agent and Paying Agent shall not recognize any further transfer of such undelivered Bonds by such prior Bondholders. The Paying Agent or Tender Agent, as the case may

be, shall register the transfer of such Bonds to the purchaser thereof and shall issue a new Bond or Bonds and deliver the same pursuant to the Bonds, notwithstanding such non-delivery.

The Tender Agent shall at the end of the fifth Business Day after each date upon which Bonds are deemed tendered, deposit with the Paying Agent all funds then held by the Tender Agent by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the provisions thereof. The Paying Agent shall set aside such amount on its books and hold the same in trust for the payment to the prior Bondholders of such Bonds of the Purchase Price thereof. Any such moneys which remain unclaimed for two years after the date such moneys were so deposited with the Paying Agent shall at the written request of the State be paid by the Paying Agent to the State as its absolute property and free from trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the prior Bondholders of such Bonds shall look only to the State for the payment of the Purchase Price of such Bonds.

Other Duties. Any unremarketed Bonds purchased by the Bank by funds advanced to the Tender Agent under the Standby Bond Purchase Agreement shall be registered in the name of the Bank or its designee (as specified in writing by Bank) and shall be delivered to the Bank or its designee on the applicable Purchase Date. At any time the Bonds are registered in the name of a securities depository, the Bonds shall be deemed purchased under the Standby Bond Purchase Agreement upon the making of appropriate entries on the books of the securities depository showing such Bonds entered in the account of the Bank or its nominee maintained at such securities depository.

The State hereby authorizes the Tender Agent to agree to hold such unremarketed Bonds as custodian for the account of the Bank as Bank Bonds, and to deliver such Bank Bonds to or at the direction of the Bank. With respect to such Bank Bonds the Remarketing Agent shall be required, subject to the provisions of the Remarketing Agreement, to offer for sale, and use its best efforts to sell, such Bank Bonds, at the principal amount thereof. The Remarketing Agent may not, however, sell any such Bank Bonds at a discount or a premium. The Remarketing Agent shall remarket such Bank Bonds as if such Bank Bonds were in the same interest Mode, bearing interest at the same interest rate as Bonds not held by the Bank. No Bank Bonds purchased with proceeds from the Standby Bond Purchase Agreement shall be sold unless the commitment of the Bank to purchase Bonds as provided in the Standby Bond Purchase Agreement is immediately reinstated upon each sale. The proceeds received from the purchaser of any Bank Bonds so remarketed and resold pursuant to the foregoing sentence shall be paid to the Bank.

In the event of a redemption of any Bank Bonds, the Paying Agent shall remit to the Bank the Redemption Price of such Bank Bonds.

The Tender Agent agrees to:

- (a) hold all Bonds properly tendered to it for purchase as agent and bailee of, and in escrow for the benefit of, the respective Bondholders which shall have so tendered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders;
- (b) hold all moneys delivered to it for the purchase of Bonds as agent and bailee of, and in escrow for the benefit of, the purchaser which shall have so delivered such moneys, until the Bonds purchased with such moneys shall have been delivered to or for the account of such purchaser;
- (c) keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the other parties;
- (d) hold all Bank Bonds delivered to it in trust for the benefit of the Bank on behalf of the Bank in accordance with the Standby Bond Purchase Agreement until such Bonds are released by the Bank upon payment therefor or until such Bonds are deemed tendered;

(e) provide to the Paying Agent as soon as practicable after the close of business on each Record Date, but in no case later than 1:00 P.M., Hartford Time, on the applicable Interest Payment Date, a list of the names and addresses of the Bondholders as of such Record Date; and

(f) give notices as required at the times and in the manner specified in the Bonds.

Upon receipt by the Tender Agent of any tender notice or upon receipt by the Tender Agent of any Bonds delivered pursuant to such tender notice for purchase, the Tender Agent shall, upon request, deliver to the party delivering the tender notice and the Bonds, written evidence of the Tender Agent's receipt of such tender notice or Bonds. The Tender Agent shall promptly return any tender notice (together with the Bonds submitted in connection therewith) that is incomplete or improperly completed or not delivered by the date and time required hereunder to the party submitting such notice upon surrender of the receipt, if any, issued therefor. The Tender Agent's determination of whether a tender notice is properly completed or delivered on a timely basis shall be binding on the State and the Bondholder of the Bonds submitted therewith.

The Tender Agent shall initially be State Street Bank and Trust Company of Connecticut, N.A.. Any successor Tender Agent shall be a commercial bank having trust powers or a trust company or a national banking association, having a capital and surplus aggregating at least \$50,000,000 and authorized by law to perform all the duties imposed upon it hereby and shall be rated Baa 3 or higher by Moody's. The Tender Agent may at any time resign and be discharged of the duties and obligations created hereby by giving at least sixty (60) days' notice to the State. The Tender Agent may be removed at any time by the State upon at least seven (7) days' notice. No such resignation or removal shall take effect until the appointment of, and the acceptance of such appointment by, a successor Tender Agent. Successor Tender Agents may be appointed from time to time by the State. Upon the resignation or removal of the Tender Agent, the Tender Agent shall deliver any Bonds and moneys held by it in such capacity to its successor.

The Tender Agent upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Bonds shall examine such instrument to determine whether it conforms to the requirements hereof and shall, in the absence of negligence or willful misconduct on the part of the Tender Agent, be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Tender Agent may consult with counsel and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever the Tender Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the State, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof upon the faith thereof; but in its discretion the Tender Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

In the event that the Tender Agent is required to act pursuant to the terms hereof upon the receipt of telephonic notice, such notice shall be promptly confirmed in writing. If such notice shall not be so confirmed, the Tender Agent shall be entitled to rely upon such telephonic notice for all purposes whatsoever.

In receiving Bonds hereunder, the Tender Agent shall be acting as a conduit and shall not be purchasing such Bonds for its own account.

STANDBY BOND PURCHASE AGREEMENT

The initial Standby Bond Purchase Agreement is between the **State of Connecticut** (the "Borrower"), and **Landesbank Hessen- Thüringen Girozentrale** (the "Bank"), acting through its New York Branch.

In addition to the definitions above, the following definitions apply to the Standby Bond Purchase Agreement:

“Act” means Section 3-20 of the Connecticut General Statutes, Revision of 1958, as amended to date.

“Agreement” means the Standby Bond Purchase Agreement.

“Authorized Principal Sum” means \$5,000 or any integral multiple of \$5,000 in excess thereof.

“Available Commitment” as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day.

“Available Interest Commitment” initially means \$1,150,685 and, upon any change in the amount of the Available Principal Commitment hereunder, means an amount equal to thirty-five (35) days accrued interest at twelve percent (12%) per annum (computed on the basis of a year of 365 days for the actual number of days elapsed) on the Available Principal Commitment then in effect; provided, however, in the event the Available Interest Commitment is reduced as provided in the Agreement upon the conversion of the Bonds to the Flexible Rate Mode, the Available Interest Commitment shall be zero.

“Available Principal Commitment” initially means \$100,000,000 and thereafter means such initial amount as adjusted from time to time pursuant to the Agreement.

“Bank Obligations” means Bank Bonds, all fees relating to the Agreement, and all other obligations, indebtedness, and liabilities of the Borrower to the Bank, now or hereafter arising under or in connection with the Agreement.

“Bond Documents” means the Resolutions, the Bonds, the Remarketing Agreement, the Agreement and the Tender and Paying Agent Agreement.

“Default” means any condition or event which constitutes an Event of Default or which, with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Default Rate” means a fluctuating per annum rate of interest, computed on the basis of the actual number of days elapsed and a 365/366-day year, as applicable, equal to the Base Rate plus two percent (2%).

“Effective Date” means February 22, 2001.

“Event of Default” has the meaning set forth in the Agreement.

“Excluded Bonds” means Bonds which are (i) Bank Bonds, or (ii) owned by or held for the benefit of the Borrower.

“Expiration Date” means the earliest to occur of (a) the Stated Expiration Date, (b) the first Business Day upon which no Bonds remain Outstanding, (c) the Termination Date, or (d) the Business Day on which an Alternate Liquidity Facility becomes effective.

“Fitch” means Fitch Inc., a corporation organized and existing under the laws of Delaware, its successors and assigns and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency then rating the Bonds; provided, however, such other nationally recognized securities rating agency shall be acceptable to Bank.

“Governmental Authority” means any nation or government, any state or political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government.

“Highest Rate” means, with respect to the Agreement or the transactions contemplated thereunder, twenty-two percent (22%) per annum.

“Letter Agreement” means the Letter Agreement dated February 22, 2001 between the Borrower and the Bank.

“Material Indebtedness” means any payment obligation of the Borrower constituting a general obligation of the Borrower to which its full faith and credit is pledged issued or incurred pursuant to the Act.

“Moody’s” means Moody’s Investors Service, its successors and assigns and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other national recognized securities rating agency then rating the Bonds; provided, however, such other nationally recognized securities rating agency shall be acceptable to the Bank.

“Notice of Bank Purchase” means the notice in the form of Exhibit A to the Agreement given by the Tender Agent to the Bank in connection with the purchase of Tendered Bonds by the Bank pursuant to the Agreement.

“Outstanding” means Bonds which have been issued but not repaid or defeased.

“Owner” means the registered owner of any Bond.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, a limited liability company or any other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

“Purchase Period” means the period from the Effective Date to and including the Expiration Date; provided, that if the Expiration Date is not a Business Day, the Purchase Period shall end on the preceding Business Day.

“Purchase Price” means, with respect to any Tendered Bond, the unpaid principal amount thereof and interest accrued thereon from the prior Interest Payment Date to but excluding the Purchase Date in each case without premium; provided that the portion of the Purchase Price for any Tendered Bond consisting of principal shall not exceed the Available Principal Commitment and the portion consisting of interest shall not exceed the Available Interest Commitment; and provided, further, if the Purchase Date for any Tendered Bond is also an Interest Payment Date, the Purchase Price shall not include any interest accrued on the Tendered Bond.

“Rating Agency” means Moody’s, S&P or Fitch, collectively or individually, as applicable.

“S&P” means Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency then rating the Bonds; provided, however, such other nationally recognized securities ratings agency shall be acceptable to the Bank.

“Standby Bond Purchase Agreement” means the Standby Bond Purchase Agreement between the State and the Bank.

“Stated Expiration Date” means 5:00 p.m. (Hartford, Connecticut time) on February 22, 2008 or if such day is not a Business Day, the immediately preceding day that is a Business Day, or any extension thereof by the Bank pursuant to the Agreement.

“Tender and Paying Agent Agreement” means the Tender and Paying Agent Agreement dated as of the date of issue of the Bonds by and among between the Borrower, the Paying Agent and the Tender Agent, initially State Street Bank and Trust Company of Connecticut, N.A., and any other Tender and Paying Agent Agreement executed by the Borrower, a Tender Agent and a Paying Agent with respect to the Bonds.

“Tendered Bonds” means Bonds which have been tendered or which are deemed to be tendered pursuant to the optional or mandatory tender provisions of the Bonds; provided, however, that any Bonds which are Excluded Bonds shall not be Tendered Bonds.

Commitment to Purchase Bonds. Subject to the terms and conditions of the Agreement, the Bank agrees to purchase unremarketed Tendered Bonds from time to time on a Purchase Date during the Purchase Period at the Purchase Price; provided, however, that (a) the aggregate principal amount of any unremarketed Tendered Bonds purchased on any Purchase Date shall be in an Authorized Principal Sum, (b) the aggregate principal amount of all unremarketed Tendered Bonds purchased on any Purchase Date shall not exceed the Available Principal Commitment on such date and (c) the aggregate amount of accrued interest paid as a part of the Purchase Price of such Tendered Bonds shall not exceed the Available Interest Commitment on such date. Notwithstanding anything to the contrary contained in the Agreement, only unremarketed Tendered Bonds shall be entitled to the benefits of the Agreement.

Bank’s Rights as Bond Owner. During such time as the Bank holds any Bank Bond, the Bank shall have all rights granted to Owners under the Bonds as well as any additional rights as may be granted to the Bank under the Agreement or under any of the Bond Documents. Bank Bonds shall bear interest at the Bank Rate or the Default Rate, as applicable, and shall be due and payable as provided under the Agreement and in the Bonds.

Bank Bonds. The Borrower agrees to pay the outstanding principal of and accrued and unpaid interest on each Bank Bond as follows:

(a) The Borrower shall pay to the Bank an amount equal to the portion of the Purchase Price paid constituting the principal of Tendered Bonds no later than the Expiration Date; provided, however, if, while Bank Bonds are outstanding, Bonds are called for redemption, the Borrower agrees to redeem Bank Bonds prior to redeeming other Bonds.

(b) Interest at the Bank Rate shall be payable on the Purchase Price (i) monthly on the first Business Day of each calendar month, (ii) upon purchase pursuant to subsection (e) below (to the extent of interest accrued on the amount being purchased), (iii) upon the sale of any Bank Bond to the Remarketing Agent or any Person designated by the Remarketing Agent, as provided in the Agreement, (iv) upon redemption, (v) at maturity, and (vi) after maturity on demand (each such date a “Bank Bond Interest Payment Date”). The portion of the Purchase Price constituting interest on any Tendered Bond purchased by the Bank shall be due and payable on the first Bank Bond Interest Payment Date following the Purchase Date of such Tendered Bond together with interest accrued thereon at the Bank Rate. Thereafter interest at the Bank Rate shall be payable on the portion of the Purchase Price constituting the principal of the Tendered Bonds purchased by the Bank.

(c) In the event any Bank Bond is remarketed or otherwise transferred by the Bank before payment in full of funds provided by the Bank under the Agreement with respect thereto, together with interest thereon at the Bank Rate, the provisions of this section shall continue to apply to such indebtedness until all sums owing for all periods during which the same was a Bank Bond shall be paid.

(d) Upon delivery of any Alternate Liquidity Facility all unrepaid Purchase Price plus accrued but unpaid interest thereon shall be due and payable in full.

(e) The Borrower may, at its election, purchase any Bank Bond by payment to the Bank of a purchase price therefor equal to the principal amount thereof plus accrued but unpaid interest thereon at the Bank Rate.

Fees and Default Interest.

(a) The Borrower hereby agrees to pay to the Bank all fees and amounts set forth in the Letter Agreement.

(b) The Borrower shall pay to the Bank, on demand, interest on the outstanding balance of any amounts due and unpaid under the Agreement from and after the earlier of the date such amounts are due and unpaid and the occurrence of an Event of Default at a rate equal to the Default Rate.

Termination, Reduction, and Reinstatement of the Available Commitment.

(a) The amount of the Available Principal Commitment shall be reduced by an amount equal to (i) the principal amount of any Bonds purchased which have not been resold pursuant to the Agreement, and (ii) any redemption, prepayment or other payment of all or any portion of the principal amount of the Bonds by reason of redemption, prepayment, maturity, acceleration, defeasance or otherwise. In addition, the Available Commitment shall terminate on the last day of the Purchase Period.

(b) During the Purchase Period, concurrently with the resale of each Bank Bond and the receipt by the Bank, of an amount equal to the principal amount of such Bank Bond plus accrued interest to the date of such resale, the Available Principal Commitment shall automatically and immediately increase by an amount equal to the principal amount of such Bank Bond. Any amounts received by the Paying Agent from the Bank pursuant to the terms of the Agreement and not used to pay the Purchase Price of Tendered Bonds shall be returned to the Bank and the Available Commitment shall automatically increase by an amount equal to the amount so returned to, and received by, the Bank.

(c) The Borrower may notify the Bank, in writing, to reduce the Available Interest Commitment to zero when the Bonds are converted to the Flexible Rate Mode (as defined in the Bonds). If such reduction occurs the Available Interest Commitment will remain at zero unless the Agreement is modified or amended by agreement of the Bank with respect to the Available Interest Commitment.

Termination by Alternate Liquidity Facility. In the event the Borrower replaces the Agreement with an Alternate Liquidity Facility (a) thirty (30) days prior to the termination of the Agreement by such replacement, the Borrower shall provide written notice of such termination to the Bank, (b) on or before the day on which such Alternate Liquidity Facility becomes effective, the Borrower shall cause the provider of the Alternate Liquidity Facility to purchase from the Bank all Bank Bonds at a purchase price equal to the principal amount thereof plus unpaid accrued interest thereon at the Bank Rate to the date of purchase from the Bank, and (c) on or before the date any such Alternate Liquidity Facility becomes effective, the Borrower shall satisfy and discharge in full all of the Bank Obligations to the Bank under the Agreement and the Bond Documents.

Extension of Commitment. No earlier than one hundred fifty (150) days and no later than ninety (90) days prior to the Stated Expiration Date, the Borrower may, by written notice to the Bank, request that the Stated Expiration Date be extended on substantially the same terms and conditions set forth in the Agreement to a date which is one (1) or more years following the then effective Stated Expiration Date (the "Extension Date"), provided, however, if such date is not a Business Day, the Purchase Period shall terminate on the preceding Business Day. The Bank shall notify the Borrower of its decision within thirty (30) days of receipt of such written notice from the Borrower, it being understood and agreed that the failure of the Bank to notify the Borrower of any decision within such period shall be deemed to be a rejection of such request by the Bank and that the Bank shall not incur any liability or responsibility whatsoever by reason of the Bank's failure to notify the Borrower of its decision within such period. If the Bank rejects (or is deemed to reject) any such request, the Stated Expiration Date shall not be extended pursuant to such request. Any extension of the Stated Expiration Date shall be at the sole and absolute discretion of the Bank.

Conditions Precedent to Each Purchase of Tendered Bonds. The obligation of the Bank to purchase Tendered Bonds under the Agreement is subject to the following conditions precedent:

- (a) the Bank shall have received a timely Notice of Bank Purchase in accordance with the Agreement;
- (b) the Tendered Bonds are required to be purchased pursuant to the optional or mandatory tender provisions of the Bonds;
- (c) the Tendered Bonds to be so purchased are not Excluded Bonds; and

(d) an Event of Default described in subsection (b) of “Events of Default” below shall not have occurred.

Events of Default. Upon the occurrence of any of the following events of default (each an “Event of Default”):

(a) (i) the Borrower shall fail to pay when due any amount payable hereunder or under the Letter Agreement within five (5) days of the Borrower’s receipt of notice thereof or under any Bond Document beyond any period of grace granted thereunder;

(ii) the Borrower shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in the Agreement (other than those covered by clause (a)(i) above) or any Bond Document to which it is a party for thirty (30) days after written notice thereof has been given to it by the Bank; or

(iii) any representation, warranty, certification or statement made by the Borrower in (or incorporated by reference in) the Agreement or any Bond Document to which the Borrower is a party or in any certificate, financial statement or other document delivered by the Borrower pursuant to the Agreement or any Bond Document shall prove to have been incorrect in any material respect when made (or deemed made);

(b) (i) the failure to pay when due any installment of principal of or interest on, after giving effect to any applicable grace period, any Material Indebtedness;

(ii) the Borrower shall either (A) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or a substantial part of its assets, (B) consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (C) make a general assignment for the benefit of creditors, (D) fail generally to pay its debts as they become due, or (E) take any corporate action to authorize any of the foregoing;

(iii) any of the following shall occur with respect to: (A) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its assets, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of ninety (90) days; or (B) an order for relief shall be entered against the Borrower under the federal bankruptcy laws as now or hereafter in effect which, if pursuant to an involuntary case, shall remain undismissed and unstayed for a period of ninety (90) days;

(iv) the Agreement or the Bonds in their entirety for any reason ceases to be valid and binding as the result of a final judgment or other action by a Governmental Authority on the Borrower in accordance with its terms or is declared, pursuant to a final nonappealable judgement, to be null and void; or the validity or enforceability of the Agreement or the Bonds is repudiated, rejected or contested through legal proceedings by the Borrower or a proceeding is commenced by the Borrower seeking to establish the invalidity or unenforceability of the Agreement or the Bonds;

(v) a moratorium on the payment of any Material Indebtedness of the Borrower shall have been declared in writing by an appropriate Governmental Authority;

(vi) any Material Indebtedness shall have been found to have been illegally issued or unenforceable by a final and non-appealable judgment of a court of competent jurisdiction; or

(vii) the long term rating assigned by the Rating Agencies then rating the Bonds or any other Material Indebtedness of the Borrower then rated by such Rating Agencies shall be withdrawn or suspended for credit-related issues, or reduced below “Baa3” by Moody’s, “BBB-” by S&P and “BBB-” by Fitch, as the case may be;

Then, and in any such event, the Bank may take any one or more of the actions described in “Remedies”.

Remedies.

(a) Upon the occurrence of an Event of Default under subsection (b) of “Events of Default” above, the Available Commitment shall immediately be reduced to zero, in which case the obligations of the Bank to purchase Tendered Bonds under Article II of the Agreement shall immediately terminate and expire without the requirement of notice by the Bank. After such termination or expiration, the Bank shall deliver, within a reasonable time period, to the Borrower, the Remarketing Agent and the Tender Agent written notice of such termination or expiration; provided, however, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration. Upon the occurrence of an Event of Default (whether under subsection (a) or (b) of “Events of Default” above, the Bank shall have all other remedies provided at law or equity, including, without limitation and if available, specific performance; and in addition, the Bank, in its sole discretion, may do one or more of the following: (i) deliver to the Borrower, the Remarketing Agent and the Tender Agent written notice that an Event of Default has been declared under the Agreement, which notice shall be a Termination Notice, and the Purchase Period shall thereafter terminate on the date which is thirty (30) days following receipt by the Tender Agent of such notice; (ii) exercise any right or remedy available to it under any provision of the Agreement; or (iii) exercise any other rights or remedies available under any Bond Document, any other agreement or at law or in equity.

(b) In addition to the foregoing remedies, if at the time of the occurrence of an Event of Default any Person holding any Material Indebtedness issued or incurred by the Borrower has the right to accelerate the obligation of the Borrower to repay such Material Indebtedness, the Bank, in its sole discretion, may declare the Bank Obligations to be due and payable, and the same shall become due and payable without demand, presentment, protest, notice of intent to accelerate, notice of acceleration or further notice of any kind, all of which are newly expressly waived.

The rights and remedies of the Bank specified herein are for the sole and exclusive benefit, use and protection of the Bank, and the Bank is entitled, but shall have no duty or obligation to the Borrower, the Tender Agent, the Paying Agent, the Owners of the Bonds or otherwise, (i) to exercise or to refrain from exercising any right or remedy reserved to the Bank under the Agreement or (ii) to cause the Tender Agent, the Paying Agent, or any other party to exercise or to refrain from exercising any right or remedy available to it under any of the Bond Documents.

Highest Rate. If the effective rate or amount of interest that would be payable on amounts owed under the Agreement or with respect to Bank Bonds would exceed the Highest Rate, the amount of interest payable on the amounts owed under the Agreement or with respect to Bank Bonds to the Bank shall be paid at the Highest Rate. If the amount of interest which would have been payable under the Agreement, but for the application of this section, is reduced by reason of this section then, if the interest payable under the Agreement, in any subsequent period would be at a rate less than the Highest Rate, the interest rate used in such subsequent period shall be the Highest Rate until the Bank is paid an amount equal to all interest which would have been paid but for the application of this section. All amounts paid or agreed to be paid in connection with this transaction that would under applicable law be deemed “interest” shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full term of the Agreement.

[INTENTIONALLY LEFT BLANK]

INFORMATION RELATING TO LANDESBANK HESSEN-THÜRINGEN GIROZENTRALE, NEW YORK BRANCH

The following information relating to Landesbank Hessen-Thüringen Girozentrale, New York Branch has been furnished by Landesbank Hessen-Thüringen Girozentrale, New York Branch.

The Liquidity Provider is the New York Branch of Landesbank Hessen-Thüringen Girozentrale ("Helaba"). With effect from July 1, 1992, Helaba was renamed "Landesbank Hessen-Thüringen." At that date, the Treaty on the Formation of a Joint Savings Banks Organization between the federal states Hesse and Thuringia came into force. The former Hessische Landesbank was formed in 1953 by the merger of Hessische Landesbank Darmstadt (founded 1940), Nassauische Landesbank Wiesbaden (founded 1840) as well as of Landeskreditkasse zu Kassel (founded 1832).

Helaba is a legal entity under public law. The owner and guarantor of Helaba is the Savings Banks and Giro Association Hesse-Thuringia (Sparkassen-und Giroverband Hessen-Thüringen-SGVHT), a joint institution of the municipal savings banks and their guarantors in Hesse and Thuringia in their capacity as general supervisory authority for the savings banks. Executive bodies of Helaba are the Board of Guarantors, the Supervisory Board and the Board of Managing Directors.

In accordance with its Charter, Helaba exercises the function of a central bank for the Hessian and Thuringian savings banks. For the savings banks, Helaba represents a considerable asset. It therefore has the duty to provide a benefit in addition to the payment of an annual dividend by intensifying cooperation.

Headquartered in Frankfurt/Main and Erfurt, Helaba concentrates on wholesale financial services offering comprehensive banking facilities for multinational corporations, central banks, public sector entities, and other financial institutions. Helaba has branch offices in London, New York and Grand Cayman and wholly owned subsidiaries in Luxembourg, Dublin, Amsterdam and Zurich. Representative offices are being maintained in Warsaw, Madrid, Paris and Hong Kong.

In fiscal 1999, the operating result before risk provisions of the Helaba group was €344.9 million, 11.1% below the previous year. Operating results after risk provisions (FY1999: €229.5 million) down by 20.8% or €60.3 million. This decrease is due primarily to loan loss provisions including allocations for general banking risks. Net risk provisions for FY99 (which also valued securities linked to asset swap combinations for the first time) totaled €115.4 million.

Administrative expenses were virtually stable at €491.8 million (up 1.9% from FY1998: €482.8 million). While administrative expenses were stable, there were increases for personnel expenses (up €14.0 million or 6%), pension obligations and reserves (up €9.8 million or 31.4%), as well as higher wages and social security obligations (up €4.2 million or 2.1%). Total staff in FY1999 was 3,194 (FY1998: 3,099).

Despite FY99's lower profit on ordinary activities of €191 million (FY1998: €289 million), the net income for 1999 was €86.5 million (FY1998: €80.6 million). The Group's consolidated profit was €28.6 million of which €26.3 million was set aside as a drawing on other earnings.

The consolidated balance sheet total of the Helaba group amounted to €114.7 billion at the end of 1999, up 8.6% over the previous year's figure. Business volume increased 11.3% to €120.4 billion, helped in large part by the strong growth in the USA, the marked loss in value of the euro vis-à-vis the yen, dollar and pound sterling as well as the resurgence of the European economies.

The New York Branch of Helaba, licensed under New York law, provides a full range of wholesale commercial banking services in the New York City metropolitan area and throughout the United States. Upon written request, Helaba will provide without charge a copy of its most recent Annual Report. Requests should be

directed to the following: Landesbank Hessen-Thüringen Girozentrale, New York Branch, 420 Fifth Avenue, 24th Floor, New York, NY 10018, Tel: (212) 703-5200, Fax: (212) 703-5256.

Helaba currently has a long-term credit rating of “Aaa” from Moody’s Investors Service, Inc., it is rated “AAA,” by Standard & Poor’s Rating Group and Fitch, Inc. has assigned it an “AAA” rating. Helaba’s short-term ratings are “P-1” from Moody’s, “A-1+” from Standard & Poor’s and “F1+” by Fitch. On December 7, 1999, Helaba’s credit ratings were placed on “CreditWatch Negative” by Standard & Poor’s. On December 23, 1999, Standard & Poor’s affirmed Helaba’s short-term ratings and removed them from “CreditWatch Negative.” On June 6, 2000, Standard and Poor’s removed Helaba’s long-term ratings from “CreditWatch Negative” and affirmed both the short-term and long-term ratings.

On May 19, 2000, the owners and the chairmen of Helaba and BayernLB announced a strategic cooperation agreement between the two Landesbanks, focusing on selected business activities. On May 25, 2000, the Land of Hesse and the Free State of Thüringia announced they will take an ownership stake in Helaba of 10% and 5% respectively. Copies of the releases may be obtained as described above.

Helaba has supplied information relating to it in the previous paragraphs. Helaba does not accept any responsibility for any information contained in this Official Statement other than the information relating to Helaba.

NOTE: The official (FOREX fixing) exchange rate on December 30, 1999, the last trading day in 1999, €1.0028 = US \$1.00

PART II
INFORMATION SUPPLEMENT
OF THE STATE OF CONNECTICUT

February 14, 2001

The Annual Information Statement of the State of Connecticut (the "State"), dated November 1, 2000, *modified January 29, 2001* appears in this Official Statement as **Part III** and contains information through November 1, 2000, *modified January 29, 2001* to include June 30, 2000 audited financial statements of the State prepared on a GAAP basis and a modified cash basis as **Appendices III-C** and **III-D**, respectively, to delete June 30, 1999 audited financial statements of the State which previously appeared as **Appendix III-C**, to correct references thereto and to reflect information contained therein, including revisions to **Table 3**, **Table 5** and **Table 6**, and to make minor corrections.

The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as **Part II** of future Official Statements of the State.

FORMER TREASURER

On September 23, 1999 former State Treasurer Paul J. Silvester pleaded guilty in Federal District Court of Connecticut to charges of racketeering, bribery and money laundering. The guilty pleas related to solicitations, for himself and others, of bribes and rewards in return for directing investments of State pension funds. The office of the United States Attorney for Connecticut has stated that the investigation by his office is continuing. Representatives of the Internal Revenue Service and the Securities and Exchange Commission are also investigating. The Office of the Treasurer is cooperating with all investigations. In April 2000 former Assistant Treasurer George M. Gomes pleaded guilty to a mail fraud charge related to the matters under investigation. In response to concerns about the activities of the former Treasurer, Treasurer Denise L. Nappier proposed, and the General Assembly passed, legislation under Public Act No. 00-43 which requires additional oversight by the Investment Advisory Council over pension fund investments and increases public disclosure by firms providing investment services to the Treasurer's office.

STATE GENERAL FUND

Page III-23. The subsection *Fiscal Year 2000-2001 Operations* is revised as follows:

Fiscal Year 2000-2001 Operations

The adopted budget for fiscal 2000-2001 anticipated General Fund revenues of \$11,281.3 million and General Fund expenditures of \$11,280.8 million resulting in a projected surplus of \$0.5 million. Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares revenues already received and the expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. **Appendix III-E** to this **Part II** shows estimated revenues and expenditures for the 2000-2001 fiscal year as of December 31, 2000, but modified to reflect the estimates contained in the Governor's budget proposal submitted February 7, 2001. This report estimates 2000-2001 fiscal year General Fund revenues of \$11,918.1 million, General Fund expenditures of \$11,417.1 million and an estimated operating surplus of \$501.0 million, as a result of an increase in estimated revenue that more than offset the increase in estimated expenditures. Estimated revenues have been revised upward by \$636.8 million from the enacted budget plan, mostly from Personal Income Tax, Federal Grants, Sales and Use Tax, and Corporation Tax.

The information in **Appendix III-E** of this **Part II** and in the Comptroller's monthly reports contains only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2000-2001 operations of the General Fund.

Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to five percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. After transferring the amount which is required to meet the five percent rule of the Connecticut General Statutes, the balance will be used pursuant to Article XXVIII of the Amendments to the Constitution of Connecticut to reduce bonded indebtedness or for other purposes permitted by Article XXVIII.

On February 7, 2001, the Governor introduced his proposed budget for the upcoming fiscal 2001-03 biennium. Contained within that proposal are numerous initiatives to spend down the surplus. Of the \$501.0 million projected surplus for fiscal 2000-2001, \$28.9 million is proposed to be set aside to maintain the 5% statutory requirement on the budget reserve fund. This will increase the budget reserve fund from \$564.0 million to \$592.9 million. In addition, the Governor is proposing to use \$292.5 million of this year's surplus for debt avoidance or retiring other obligations. The Governor is proposing that the remaining \$179.6 million will be used for other one-time expenditures that seek to improve the economic well being of the State and improve citizens' quality of life. These proposed changes will exceed the limits imposed by the expenditure cap, thereby requiring a three-fifths vote of each house of the General Assembly for enactment.

Page III-23. The following section is added after *Fiscal Year 2000-2001 Operations*:

Governor's Recommended Budget Fiscal Years 2001-2002 and 2002-2003

Pursuant to Section 4-71 of the General Statutes, the Governor submitted his proposed budget document to the legislature on February 7, 2001. In accordance with Section 4-71, the budget document included a proposed General Fund budget for fiscal year 2001-2002 and fiscal year 2002-2003. The proposed budget anticipates General Fund revenues of \$11,858.2 million and \$12,400.3 million in fiscal 2001-2002 and fiscal 2002-2003 respectively. General Fund appropriations total \$11,858.0 million and \$12,400.1 million in fiscal 2001-2002 and fiscal 2002-2003 respectively. For fiscal 2001-2002, General Fund appropriations would increase by 4.0% over estimated expenditures for fiscal 2000-2001 and would increase by 4.6% in the second year of the biennium. Based upon these levels of appropriations, the proposed budget would remain within the strictures of the State's Constitutional expenditure cap, a full \$91.5 million below the fiscal 2001-2002 expenditure cap and \$80.7 million below the fiscal 2002-2003 cap.

The proposed budget makes several modest modifications to the state's tax law. The most significant change is the repeal of the 5.75% sales tax on hospital services. This will reduce revenues by \$111.4 million in fiscal 2001-2002 and \$114.8 million in fiscal 2002-2003. The Governor is also proposing to raise the exemption on articles of clothing and footwear from \$75 to \$125 per item. This will reduce general fund revenues by \$32.9 million in fiscal 2001-2002 and \$34.5 million in fiscal 2002-03. Finally, several smaller tax changes are being proposed totaling \$7.2 million in each year of the biennium.

The proposed budget anticipates significant expenditure changes in several areas. The most significant change contained in the budget is the elimination of the disproportionate share appropriation related to uncompensated care provided by hospitals in the state. This expenditure savings of \$207 million is being partially offset by an increase of approximately \$100 million in Medicaid, General Assistance, and Department of Mental Health and Addiction Services reimbursements to hospitals. Also within the Department of Social Services is the annualization of the HUSKY Adult program totaling \$25.6 million in the first year of the biennium and \$31.6 million in the second year of the biennium. Reflecting the Governor's emphasis on state support of community-based services in the mental health area, the recommended budget expands support for private providers by adding funds for a cost of living increase. In addition, funds are being made available for enhanced community services. These changes, when combined with an interagency transfer of responsibility, would increase the Department of Mental Health and Addiction Services' budget by \$103.3 million in fiscal 2002-03 over the current fiscal year. The state's largest support for local education is through the Education Cost Sharing (ECS) formula. The recommended budget would increase this grant by \$73.5 million by the second year of the biennium over fiscal 2000-2001 estimated expenditures. This increase is due solely to funding for enrollment growth. In addition, in order to accelerate the phase out of the formula cap, which had previously limited the growth the formula provided to wealthier towns, the Governor's budget proposes to reallocate \$25 million in fiscal 2001-2002 and \$50 million in fiscal 2002-2003 from the Mashantucket Pequot and Mohegan grant to the ECS grant. The cap is expected to be fully phased-out by fiscal 2003-2004. Due to the projected increase in incarcerated individuals in the state's prison system, the state's

Department of Corrections budget is recommended to expand by almost \$58 million by fiscal 2002-2003 over fiscal 2000-2001. With the expansion of the Connecticut Community KidCare program within the Department of Children and Families, expenditures will rise \$15.0 million in the first year of the biennium and \$23.7 million in the second year of the biennium. In anticipation of new court house openings, the incorporation of the county sheriffs system within the general fund and the expansion of the alternative incarceration program, the Judicial Department will see its expenditures increase by \$57.7 million between fiscal 2000-2001 and fiscal 2002-2003.

The Governor's proposed budget also includes an increase in general obligation bond authorizations of \$1,020 million to take effect in fiscal 2001-2002 and \$1,172 million to take effect in fiscal 2002-2003. These increases are in addition to \$146 million and \$100 million in existing authorizations which take effect in such fiscal years. Recommended revenue bond authorizations would increase \$81 million in fiscal 2001-2002 and \$158 million in 2002-2003, and special transportation bond authorizations would increase \$196 million in each fiscal year.

Deliberations on the Governor's budget recommendation are expected to continue throughout the legislative session with an expected adjournment date of June 6, 2001.

See **Appendix III-E** of this **Part II** for more information regarding the Governor's Recommended Budget for fiscal years 2001-2002 and 2002-2003.

STATE DEBT

Pages III-30 - TABLE 7, III-34 - TABLE 8 and III-36 - TABLE 10.

On December 20, 2000 the State issued \$80,000,000 Taxable General Obligation Bonds (2000 Series A). The principal of the bonds is payable on December 1 in various amounts in the years 2001 through 2004 respectively and interest rates range from 6.45% to 6.50%. On December 21, 2000 the State issued \$400,000,000 General Obligation Bonds (2000 Series C). The principal of the bonds is payable on December 15 in various amounts in the years 2001 through 2016 and interest rates range from 4.20% to 5.375% per annum.

Page III-38. The following information is added to the section entitled *Future Issuance of Direct General Obligation Debt*:

The State is planning to issue in the near future approximately \$18,555,000 Certificates of Participation for the Connecticut Juvenile Training School Energy Center Project. The University of Connecticut is planning to issue in the near future approximately \$100,000,000 of its general obligation bonds secured by the State's debt service commitment.

PENSION AND RETIREMENT SYSTEMS

Page III-54. The following information is added to the section **PENSION AND RETIREMENT SYSTEMS - Teacher's Retirement Fund**:

The most recent actuarial valuation, dated January 9, 2001, indicated that as of June 30, 2000 the Teachers' Retirement Fund, inclusive of the excess earnings account, had an actuarial accrued liability of \$13,361,062,324 and had assets with an actuarial value of \$11,169,434,208. This resulted in an unfunded accrued liability of \$2,191,628,116 as of June 30, 2000. According to the actuarial report, at June 30, 2000 the market value of the fund's investment assets was \$11,940,222,779, which amount exceeded the actuarial value by \$770,788,571.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 11.51% on investment assets over the past ten years (fiscal year 1990-1991 through

fiscal year 1999-2000) and an annualized net return of 14.92% over the past five years (fiscal year 1995-1996 through fiscal year 1999-2000).

LITIGATION

Page III-57. The following information is added to the section entitled *Sheff v. O'Neill*.

The plaintiffs filed a motion on December 28, 2000 seeking to have the Superior Court, once again, monitor the State's compliance with the State Supreme Court's 1996 decision.

Page III-57. The following information is added to the section entitled *Donald P. Karp, Administrator of the Estate of Leslie J. Karp v. State of Connecticut*.

A stipulated judgment was entered on October 23, 2000 in the amount of \$1.5 million. It was further provided that each side would pay its own costs and attorney's fees. This case is now closed.

APPENDIX III-E is revised as follows:

GENERAL FUND REVENUES AND EXPENDITURES
ADOPTED MIDTERM ADJUSTED BUDGET FOR 2000-01
ESTIMATED BUDGET FOR 2000-01
GOVERNOR'S RECOMMENDED BUDGETS FOR 2001-02 AND 2002-03
(In Millions)

	Adopted Midterm Budget Adjustments <u>2000-01</u>^(a)	Estimated Budget <u>2000-01</u>^(h)	Governor's Recommended Budget <u>2001-02</u>	Governor's Recommended Budget <u>2002-03</u>
Revenues				
<u>Taxes</u>				
Personal Income Tax ^(b)	\$4,218.0	\$4,681.0	\$4,876.6	\$5,110.3
Sales & Use	3,116.7	3,191.0	3,178.3 ^(m)	3,303.7 ^(m)
Corporation ^(c)	512.9	580.0	530.7	562.7
Public Service	173.0	165.3	165.6	167.4
Inheritance & Estate	241.4	220.0	210.0	202.0
Insurance Companies	198.4	205.7	209.7	213.7
Cigarettes	116.2	119.0	116.6	114.3
Real Estate Conveyance	112.2	112.0	105.0	105.0
Oil Companies ^(d)	39.2	48.0	36.9 ⁽ⁿ⁾	32.2 ⁽ⁿ⁾
Alcoholic Beverages	40.0	41.4	41.8	42.2
Admissions, Dues, Cabaret	24.0	24.9	24.7	26.9
Miscellaneous	42.7	40.1	39.5	36.6
Total Taxes	\$ 8,834.7	\$9,428.4	\$9,535.4	\$9,917.0
Less Refunds	(729.8)	(793.1)	(846.4)	(868.6)
Net Taxes	\$ 8,104.9	\$8,635.3	\$8,689.0	\$9,048.4
<u>Other Revenues</u>				
Transfers- Special Revenues	265.2	260.0	265.2	270.5
Indian Gaming Payments	336.0	335.0	351.8	369.4
Licenses, Permits, Fees	121.8	124.0	126.5	124.5
Sales of Commodities & Services	32.0	18.6 ^(k)	18.2 ^(k)	18.2 ^(k)
Rents, Fines & Escheats	41.1	43.3	44.7	45.3
Investment Income	68.0	68.2	62.7	61.2
Miscellaneous	133.6	129.7	127.9	136.2
Total Other Revenue	\$ 997.7	\$ 978.8	\$997.0	\$1,025.3
<u>Other Sources</u>				
Federal Grants	2,122.3	2,250.1	2,160.4	2,288.5
Transfers from Tobacco Settlement Funds ^(e)	138.8	138.8	121.8	123.1
Transfers to Other Funds ^(f)	(82.4)	(84.9)	(110.0) ^(o)	(85.0) ^(o)
Total Other Sources	\$ 2,178.7	\$ 2,304.0	\$ 2,172.2	\$ 2,326.6
Total Unrestricted Revenues	\$11,281.3	\$11,918.1	\$11,858.2	\$12,400.3
Restricted Federal & Other Grants	750.0	1,234.5	750.0	750.0
Total Revenue	\$12,031.3	\$13,152.6	\$12,608.2	\$13,150.3
Appropriations/Expenditures				
Legislative	\$ 59.0	\$ 59.0	\$ 64.6	\$ 66.9
General Government	456.5	446.0	454.7	464.4
Regulation & Protection	213.7	209.6	226.3	233.2
Conservation & Development	78.5	78.6	70.1	74.8
Health & Hospitals	1,096.4 ⁽ⁱ⁾	1,102.6 ⁽ⁱ⁾	1,216.0	1,272.8

	Adopted Midterm Budget Adjustments 2000-01^(a)	Estimated Budget 2000-01^(h)	Governor's Recommended Budget 2001-02	Governor's Recommended Budget 2002-03
Transportation ^(g)	35.0	35.0	35.0	35.0
Human Services	3,423.6	3,505.5	3,504.5	3,647.9
Education, Libraries & Museums	2,651.7	2,655.1	2,737.8	2,865.3
Corrections	1,006.8	1,005.7	1,080.2	1,138.9
Judicial	324.1	339.3	385.6	400.9
Non- Functional				
Debt Service	1,015.1	979.5	1,042.0	1,080.2
Miscellaneous	<u>1,040.4</u>	<u>1,024.1</u>	<u>1,148.6</u>	<u>1,229.1</u>
Subtotal	\$11,400.8	\$11,440.0	\$11,965.2	\$12,509.5
Unallocated Lapse	<u>(120.0)</u>	<u>(9.8)</u>	<u>(107.3)</u>	<u>(109.3)</u>
Net Appropriations/Expenditures	\$11,280.8	\$11,430.2	\$11,858.0	\$12,400.1
Surplus (or Deficit) from Operations	\$ 0.5	\$ 487.9	\$ 0.2	\$ 0.2
Miscellaneous Adjustments	<u>0.0</u>	<u>13.1</u>	<u>0.0</u>	<u>0.0</u>
Balance ^(j)	\$ 0.5	\$ 501.0 ^(l)	\$ 0.2	\$ 0.2

NOTE: Columns may not add due to rounding.

- (a) Per Special Act No. 00-13 and Public Act No. 00-170, the adopted Midterm Budget Adjustment.
- (b) Per Public Act No. 99-173, increases the maximum property tax credit against the Personal Income Tax to an eventual \$500, effective January 1, 2000.
- (c) Per Public Act No. 95-160, the corporate income tax rate is reduced to 7.5% by January 1, 2000.
- (d) Per Public Act No. 00-170, reflects the transfer of revenue earmarked for the Special Transportation Fund.
- (e) Per Special Act No. 99-10 and Public Act No. 00-216, includes funds from the Master Tobacco Settlement Agreement.
- (f) Transfer to Mashantucket Pequot and Mohegan Fund for Grants to towns.
- (g) Per Section 1 of Special Act No. 00-13, transfers the Town Aid Road Grant from Special Transportation Fund for fiscal 2000-01 and after.
- (h) Per the Comptroller's monthly report for the period ending December 31, 2000, modified to reflect the Governor's February 7, 2001 budget proposal, which estimated additional income tax revenue, lower unallocated lapses and other miscellaneous adjustments. The line item expenditures exclude expenditures of appropriations carried over from the prior fiscal year and include expenditures of appropriations carried over to the next fiscal year, as determined by the Office of Policy and Management.
- (i) Includes the HUSKY adult expansion, expanding home care eligibility, and establishing a work incentive program for the disabled.
- (j) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to five percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund.
- (k) Revenues have been reduced to offset expenditures made by Riverview Hospital.
- (l) The Governor's budget proposal assumes that \$28.9 million of the projected \$501.0 million surplus will be deposited into the Budget Reserve Fund. Of the remaining amounts, \$292.5 million will be used for debt avoidance and \$179.6 million will be used for various projects.
- (m) The Governor's budget proposal would, among other changes: 1) eliminate the tax on hospital related services, and 2) raise the clothing exemption to \$125 and an additional sales tax free week.
- (n) Per the Governor's recommended budget, intercepts funds for the Emergency Spill Response Fund.
- (o) Per the Governor's recommended budget, redeploys a portion of the Indian Gaming payments to the Education Cost Sharing formula.

NOTE: The information in **Appendix III-E** contains only projections and no assurances can be given that subsequent projections will not indicate changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

**PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT**

NOVEMBER 1, 2000

Modified January 29, 2001

This Annual Information Statement of the State of Connecticut (the "State") contains information through November 1, 2000, *modified January 29, 2001* to include June 30, 2000 audited financial statements of the State prepared on a GAAP basis and a modified cash basis as **Appendices III-C and III-D**, respectively, to delete June 30, 1999 audited financial statements of the State which previously appeared as **Appendix III-C**, to correct references thereto and to reflect information contained therein, including revisions to **Table 3 and Table 5**, and to make minor corrections. For information about the State after November 1, 2000, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

The State expects to revise this Annual Information Statement each year and expects to modify Annual Information Statements each year following the release of the State's audited financial statements. The State expects generally to prepare Information Supplements from time to time for the purpose of updating certain information contained in this Annual Information Statement. Such Information Supplements are expected to include certain interim financial information prepared on a modified cash basis, but are not expected to include interim financial information prepared in accordance with generally accepted accounting principles.

The Annual Information Statement and the most recent Information Supplement, if any, may be obtained, when prepared, by contacting the Office of the State Treasurer, Attn.: Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3137.

Constitutional Elected Officers

* Governor	John G. Rowland
Lieutenant Governor	M. Jodi Rell
Secretary of the State	Susan Bysiewicz
* Treasurer	Denise L. Nappier
* Comptroller	Nancy S. Wyman
* Attorney General	Richard Blumenthal

Executive Branch Officers

* Secretary of the Office of Policy and Management	Marc S. Ryan
* Commissioner of Public Works	Theodore R. Anson
Commissioner of Transportation	James F. Sullivan

Legislative Branch Officers

President Pro Tempore of the Senate	Sen. Kevin B. Sullivan
Speaker of the House of Representatives	Rep. Moira K. Lyons
* Co-chairpersons of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. Martin M. Looney Rep. Anne B. McDonald
* Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. William H. Nickerson Rep. Richard O. Belden
Auditors of Public Accounts	Kevin P. Johnston Robert G. Jaekle

* Denotes member of the State Bond Commission

PART III
NOVEMBER 1, 2000
Modified January 29, 2001
ANNUAL INFORMATION STATEMENT OF THE
STATE OF CONNECTICUT

TABLE OF CONTENTS

Introduction	III-3	Authorized But Unissued Direct General Obligation Debt.....	III-38
The State of Connecticut	III-4	Bond Authorizations and Reductions	III-38
Governmental Organization and Services.....	III-4	Purposes of Recent Bond Authorizations	III-39
State Economy	III-4	Other Funds, Debt and Liabilities	III-41
Financial Procedures	III-5	Transportation Fund and Debt.....	III-41
The Budgetary Process	III-5	Other Special Revenue Funds and Debt	III-43
Financial Controls.....	III-6	Bradley Airport	III-43
Accounting Procedures.....	III-8	Clean Water Fund	III-43
Investment and Cash Management	III-9	Unemployment Compensation	III-43
State General Fund	III-12	Second Injury Fund.....	III-44
General Fund Revenues.....	III-12	Contingent Liability Debt.....	III-45
Forecasted, Adopted and Historical Revenues.....	III-12	Special Capital Reserve Funds	III-45
Components of Revenue.....	III-15	Quasi Public Agencies	III-45
General Fund Expenditures	III-16	Assistance to Municipalities	III-48
Appropriated and Historical Expenditures.....	III-16	State Treasurer's Role.....	III-49
Components of Expenditures	III-19	Outstanding Contingent Debt.....	III-50
Expenditures by Type	III-20	School Construction Grant Commitments....	III-50
Adopted Budget 1999-2000 and 2000-2001	III-22	Child Care Facilities Debt Service Commitments	III-51
Fiscal Year 1999-2000 Operating Results	III-22	Other Contingent Liabilities	III-52
Fiscal Year 2000-2001 Operations	III-23	Pension and Retirement Systems	III-53
General Fund Budget History	III-24	State Employees' Retirement Fund.....	III-53
Year 2000 Readiness	III-27	Teachers' Retirement Fund	III-54
State Debt	III-28	Other Retirement Systems	III-55
Constitutional Provisions.....	III-28	Social Security and Other Post-Employment Benefits	III-56
Types of State Debt.....	III-28	Additional Information	III-56
State Direct General Obligation Debt.....	III-28	Litigation	III-57
General	III-28	Appendices	
Statutory Authorization and Security Provisions	III-28	Index to Appendices to Annual Information	
Statutory Debt Limit	III-28	Statement	III-59
State Bond Commission	III-30	Appendix III-A Governmental Organization and Services	III-A-1
Types of Direct General Obligation Debt.....	III-31	Appendix III-B State Economy	III-B-1
Bond Acts.....	III-31	Appendix III-C June 30, 2000 General Purpose (GAAP-Based) Financial Statements.....	III-C-1
UConn 2000 Financing.....	III-31	Appendix III-D June 30, 1996 - June 30, 2000 Budgetary (Modified Cash Basis) General Fund Financial Statements.....	III-D-1
Lease Financing	III-32	Appendix III-E June 30, 2000 - June 30, 2001 Adopted Budgets, and June 30, 1999 Actual Budget and June 30, 2000 Estimated Budget	III-E-1
Tax Increment Financing.....	III-32		
Certain Short-Term Borrowings	III-33		
Forms of Debt	III-33		
Derivatives.....	III-33		
Debt Statement.....	III-34		
Debt Ratios.....	III-35		
Debt Service Schedule	III-35		
Outstanding Long-Term Direct General Obligation Debt.....	III-37		
Future Issuance of Direct General Obligation Debt.....	III-38		

INTRODUCTION

This Annual Information Statement of the State of Connecticut (the “State”) contains certain information which a potential investor might consider material in reaching a decision to invest in securities of the State. All quotations from and summaries and explanations of provisions of laws of the State contained in this Annual Information Statement do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

The information included in this Annual Information Statement is organized as follows:

The State of Connecticut comprises a brief introductory summary of the governmental organization of the State and the services it provides, as well as an historical overview of the State’s economic performance. A more detailed discussion of these topics, including additional information, is contained in **Appendices III-A** and **III-B** to this Annual Information Statement.

Financial Procedures discusses the legal and administrative processes, procedures and policies that generally apply to all State funds.

State General Fund discusses the State’s General Fund which is the source of financing for most operating activity of the State. The discussion includes both prospective and historic information on the General Fund. Additional information regarding General Fund activity is included in **Appendices III-C, III-D** and **III-E** to this Annual Information Statement.

State Debt describes the procedures for the authorization of the State to incur debt and the various mechanisms available to the State to undertake borrowings to finance State functions. This section provides both current and historical information about the State’s borrowing practices and State indebtedness.

Other Funds, Debt and Liabilities provides an overview of certain activities of the State which are not accounted for in the General Fund. These include the budget and debt of the Special Transportation Fund, certain special revenue funds and debt, contingent liability debt, grant commitments, guaranties and annuities. Certain additional information regarding other funds, debt and liabilities of the State is included in **Appendix III-C** to this Annual Information Statement.

Pension and Retirement Systems describes the major pension and retirement systems of the State. Additional information regarding these systems is included in **Appendix III-C** to this Annual Information Statement.

Litigation comprises a summary of pending legal actions in which the fiscal impact of an adverse decision may not be determined at this time and the Attorney General is unable to opine that a final judgment against the State in such suits would not materially adversely affect the State’s financial position.

Appendices III-A through III-E to this Annual Information Statement contain detailed information relating to the information summarized in the Annual Information Statement and should be read in their entirety with the other information contained therein.

This Annual Information Statement will constitute Part III to Official Statements of the State prepared in connection with the offering of certain bonds of the State and should be read in its entirety together with Part I and Part II, if any, of such Official Statement. The Annual Information Statement speaks only as of its date. For more current information, potential investors should read Part II - Information Supplement, if any, or should contact the State directly as described in Part I - Information Concerning the Bonds, under the caption **ADDITIONAL INFORMATION**.

THE STATE OF CONNECTICUT

Governmental Organization and Services

The State Constitution divides the functions and powers of State government into three distinct branches, referred to in the Constitution as “departments”. The State government’s legislative, executive and judicial functions and powers are vested in the legislative department, the executive department and the judicial department, respectively.

In addition to the State government, a number of other governmental bodies exist in Connecticut. These bodies include: State-wide and regional special purpose authorities, districts and similar bodies, 169 cities and towns, and numerous local special purpose authorities, districts and similar bodies. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within these cities and towns. In certain instances, regional bodies perform governmental functions that would otherwise be performed at the local level.

Services provided by the State or financed through State appropriations are classified under one of ten major government function headings or are classified as “non-functional”. The major function headings are: Human Services; Education, Libraries and Museums; Transportation; Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection; Conservation and Development; and Legislative. These function headings apply to the General Fund as well as to other funds of the State which are used to account for appropriated moneys. For budgetary purposes, State agencies, boards, commissions and other bodies are each assigned to one of the function headings.

A detailed discussion of the organization of State government, including information on state employees, as well as services provided at the various levels of government in the State, is included as **Appendix III-A** to this Annual Information Statement.

State Economy

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and approximately 60% of the Canadian population live within 500 miles of the State. The State’s population grew at a rate which exceeded the United States’ rate of population growth during the period 1940 to 1970, and slowed substantially during later decades. The State has extensive transportation and utility services to support its economy.

Connecticut’s economic performance is measured by personal income which has been and is expected to remain among the highest in the nation; gross state product (the market value of all final goods and services produced by labor and property located within the State) which demonstrated stronger output growth than the nation in general during the 1980s, slower growth for a few years in the early 1990s, and steadily increasing growth during the rest of the 1990s; employment which fell during the early 1990s but has risen steadily during the rest of the decade to the levels achieved in the late 1980s; and the unemployment rate, which is the lowest in a decade and lower than the regional and national rate.

A detailed summary of economic resources including population information and services, and economic performance indicators, including personal income, gross state product and employment in the State is included as **Appendix III-B** to this Annual Information Statement.

FINANCIAL PROCEDURES

The Budgetary Process

Balanced Budget Requirement. In November 1992, electors approved an amendment to the State Constitution providing that the amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year. This amendment also provides a framework for a cap on budget expenditures. The General Assembly is precluded from authorizing an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation, unless the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. The constitutional limitation on general budget expenditures does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There is no statutory or constitutional prohibition against bonding for general budget expenditures.

The Supreme Court has ruled that the provisions of the constitutional budget cap require the passage of additional legislation by a three-fifths majority in each house of the General Assembly, which has not yet occurred. In the interim, the General Assembly has been following a provision of the General Statutes, which contains the same budget cap as the constitutional amendment. In addition to the exclusion of debt service from the budget cap, this statute also excludes statutory grants to distressed municipalities, expenditures to implement federal mandates and court orders in the first fiscal year in which such expenditures are authorized, and payments from surplus for certain debt retirement and additional state employee pension contributions.

Biennium Budget. The State's fiscal year begins on July 1 and ends June 30. The General Statutes require that the budgetary process be on a biennium basis. The Governor is required to transmit a budget document in February of each odd-numbered year setting forth the financial program for the ensuing biennium with a separate budget for each of the two fiscal years and a report which sets forth estimated revenues and expenditures for the three fiscal years after the biennium to which the budget document relates. In each even-numbered year, the Governor must prepare a report on the status of the budget enacted in the previous year with any recommendations for adjustments and revisions, and a report, with revisions, if any, which sets forth estimated revenues and expenditures for the three fiscal years after the biennium in progress.

Budget Document. By statute, the budget document consists of four parts. Part I is the Governor's budget message, and contains his program for meeting the expenditure needs of the State as well as financial statements detailing the condition of State debt, the financial position of all major State operating funds, recommended appropriations and State revenues on an actual basis for the last completed fiscal year and on an estimated basis for the fiscal year in progress and the fiscal years to which the budget relates. If a budget deficit or surplus is projected, the Governor will recommend the manner in which the deficit will be met or surplus used. The Governor's recommended appropriations from the General Fund and all special and agency funds comprise Part II of the budget document. Appropriations are set forth for meeting the cost of each major function and program. An accounting of federal funds and recommendations for the capital program are also included. Part III of the budget document consists of drafts of appropriations and revenue bills to carry out the Governor's budget recommendations. In Part IV of the budget, the Governor makes recommendations concerning the State's economy and analyzes the impact on the economy of the proposed spending and revenue programs.

Preparation of the Budget. Formulation of the budget commences with the preparation of estimates of expenditure requirements for each fiscal year of the next biennium by the administrative head of each budgeted agency. These estimates are submitted on or before September 1 of each even-numbered year to the Office of Policy and Management (the "OPM") and to the joint legislative standing committee on

appropriations and the committee having cognizance of matters relating to such budgeted agency. In odd-numbered years, each agency submits its recommended adjustments or revisions of such estimates. A detailed statement showing revenue and estimated revenue for the current fiscal year and estimated revenue for the next fiscal year, and in the even-numbered year, for the next biennium, must also be submitted by such agency heads to the OPM on or before September 1 and the joint legislative standing committee on finance on or before November 15. Upon receipt of such agency reports, it is the OPM's practice to prepare a preliminary budget report.

Adoption of the Budget. The budget document, as finally developed by the Governor with the assistance of the OPM, is published and transmitted to the General Assembly in February of each odd-numbered year. A report summarizing recommended adjustments or revisions is submitted by the Governor to the General Assembly in even-numbered years. The Governor or a representative then appears before the appropriate committee of the General Assembly to explain and address questions concerning the budget document or reports. Prior to June 30 of each odd-numbered year, the General Assembly generally enacts one bill making all appropriations for the next two fiscal years and setting forth revenue estimates for those years. Subsequent appropriations or revenue bills are occasionally passed.

Line Item Veto. Under the State Constitution, the Governor has the power to veto any line of any itemized appropriations bill while at the same time approving the remainder of the bill. A statement identifying the items so disapproved and explaining the reasons therefor must be transmitted with the bill to the Secretary of the State and, when in session, the General Assembly. The General Assembly may separately reconsider and repass such disapproved appropriation items by a two-thirds vote of each house.

Financial Controls

Expenditures. The financial control procedures utilized by the State in the expenditure of State funds are described below and may be generally summarized as follows: initially, the legislature appropriates funds for a particular purpose; such funds must then be allotted for such purpose by the Governor; and thereafter such funds are encumbered by the Comptroller upon the request of the responsible State agency. Once this appropriation, allotment and encumbrance procedure (which may be modified as described below) has been completed, State funds are paid by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. Certain receivables from the federal government or other sources do not require allotment by the Governor.

Governor's Role. Before an appropriation for a budgeted agency becomes available for expenditure the agency must submit to the Governor through the Secretary of the OPM, not less than 20 days before the beginning of the fiscal year for which the appropriation is made, a requisition for the allotment of funds needed for each quarter of the fiscal year. Appropriations for capital outlays may be allotted in any manner the Governor deems advisable. The Governor may reduce the budget allotment request by not more than three percent of the total appropriation from any fund or not more than five percent of any appropriation under certain circumstances. Such allotments are subject to further modification by the Governor throughout the course of the fiscal year if conditions warrant. The Governor is not authorized to reduce allotment requisitions or allotments in force concerning aid to municipalities.

Comptroller's Role. The Comptroller is responsible for keeping an account in connection with each appropriation. No warrant, draft or order may be issued by the Comptroller in excess of the available balance of the applicable account unless the General Assembly has passed a deficiency bill for the purpose or unless such appropriation has been increased by the Governor in the limited circumstances of emergency expenditures or allotment modifications as authorized by statute. The Comptroller is required to issue cumulative monthly financial reports concerning the State General Fund.

Treasurer's Role. Each warrant, draft or order upon the Treasurer must specify the particular appropriation against which it is drawn, and no money may be paid by the Treasurer absent such specification.

The Treasurer is required to honor all warrants, drafts and orders properly drawn by the Comptroller. The Treasurer also has primary responsibility for the investment of State funds and the issuance of debt of the State.

By statute, the Treasurer may not pay compensation, expenses or fees or otherwise enter into contractual arrangements with any firm providing legal services, investment banking services, investment advisory services, underwriting services, financial advisory services or brokerage firm services if such firm, through its political committee or certain managerial level officers or employees, makes or solicits contributions after October 1, 1995 to any committee established by a candidate for nomination or election to the Office of Treasurer of the State. The statute also prohibits the making or solicitation of contributions by such firms. The statute was extended in May 2000 so it applies to contributions to other elected State officials including the Governor and the Attorney General.

Use of Appropriations. No appropriation or part thereof may be used for any purpose other than for the purpose for which it was made, except with respect to certain transfers and revisions of appropriations permitted to be made by the Governor with the concurrence of the Finance Advisory Committee, composed of members of the executive and legislative departments. Civil sanctions may be imposed pursuant to statute upon persons who willfully expend or authorize the expenditure of State funds for any purpose in excess of the amount specifically appropriated for such purpose.

Unexpended Appropriations. All unexpended balances of appropriations for each fiscal year lapse on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except for certain continuing appropriations. Such continuing appropriations include those continued for a one-month period in the case of programs which were not renewed the succeeding year, those continued for the entire succeeding year in the case of highway and other capital construction projects, and limited amounts for certain special programs.

Unappropriated Surplus. The State Constitution provides that any resulting unappropriated surplus shall be used to fund a budget reserve fund, to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. The General Statutes provide that the Treasurer shall transfer any unappropriated surplus in the General Fund to a budget reserve fund, unless otherwise directed by law. When the amount in the budget reserve fund in any fiscal year equals 5% of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2000, the balance in the budget reserve fund was \$529.1 million. After the transfer of \$34.9 million from the June 30, 2000 surplus, the balance in the budget reserve fund is \$564.0 million. Surplus moneys in excess of amounts transferred to the budget reserve fund have been held or applied to provide for the retirement of outstanding indebtedness or for debt avoidance.

Revenues. The Treasurer superintends the collection and receipt of all taxes and revenues belonging to the State, and is authorized to deposit the same in any qualified public depository as defined by statute. Each State department, institution, board, commission or other State agency and any official or employee thereof that receives any money for revenue of the State must, within 24 hours of its receipt or within seven days of receipt for amounts less than \$500, account for and pay the same to the Treasurer or, with the approval of the Treasurer and the Comptroller, deposit the same in an account in a qualified public depository in the name of the State or in the name of the public official as such official. The Treasurer is authorized to make exceptions to the limitations on amounts and timing of payments or deposits of receipts provided the Treasurer files a written statement of such exception with the Comptroller and the Auditors of Public Accounts. Any public official who deposits funds or moneys in an account in the name of the State or in such official's name must submit a list of all such accounts as of the preceding June 30 to the Treasurer and the Comptroller not later than September 1 of each year.

Accounting Procedures

Financial statements of the State are prepared annually on a modified cash basis of accounting for all civil list funds. The Comptroller prepares the statements for submission to the Governor by September 1 of each year, unless extended by State law. The State's Auditors of Public Accounts must audit the books and accounts of the Treasurer and the Comptroller at least annually and have discretion to audit them at more frequent intervals.

At the present time the State is not required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP") and does not prepare GAAP statements on an interim basis. However, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by the Governmental Accounting Standards Board ("GASB"). These reports include audited annual financial statements prepared in accordance with GAAP. A 1993 statute authorized the OPM to implement the use of GAAP with respect to the preparation of the annual budget effective with the fiscal year commencing July 1, 1995, and provided for the amortization of the GAAP-based deficit commencing with the fiscal year ending June 30, 1997. Subsequent legislation has extended the implementation date to July 1, 2003 and the amortization date to June 30, 2005.

As specifically permitted by statute, the only present modifications from the cash basis in recording revenues under the modified cash method are: (1) the accrual of the sales and use taxes to be received for the calendar quarter ending at the close of such fiscal year as estimated by the Secretary of the OPM; (2) the accrual of cigarette tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (3) the accrual of alcoholic beverage tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (4) the accrual of the motor fuels tax revenue and the motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and which tax is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (5) the accrual of utility company tax revenue and tax revenue on gross earnings from the sale of petroleum products which is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (6) the accrual of corporation business tax revenue which is received by the Department of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (7) the accrual of income tax revenue which is received by the Commissioner of Revenue Services from employers no later than the last day of July immediately following the end of such fiscal year; (8) the accrual of hospital tax revenue which is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (9) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, which is received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; and (10) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal government or other parties.

Expenditures are recorded on a cash basis in the fiscal year in which they are made. Such expenditures are so recorded by the Comptroller when he draws and serves a warrant on the Treasurer. Those instances in which warrants are drawn at the close of a fiscal year can, because of required processing time, result in disbursements made after the beginning of the following fiscal year. Certain appropriations which have not lapsed are reflected in the balance sheet through a reserve for continuing appropriations.

The modified cash basis of accounting used for statutory financial reporting and the modified accrual basis used for GAAP financial reporting are different and, as a result, often produce varying financial results, primarily because of differences in the recognition of revenues and expenditures. For example, for statutory reporting purposes, the State's bi-weekly payroll expenditures are recognized in the fiscal year in which employees are paid, while for GAAP purposes they are recognized in the fiscal year in which the services are performed, resulting in GAAP accrual of expenditures for work performed through June 30 but not paid until the following fiscal year. Similarly, the modified accrual basis used for GAAP financial reporting recognizes

additional federal and other grant moneys as revenues which are not so recognized in the modified cash basis of accounting.

The Treasurer is required to submit to the Governor and the Investment Advisory Council, by October 15 of each year, audited financial statements of the State's combined investment funds, and financial statements of the Short Term Investment Fund, the Second Injury Fund, and the Tax Exempt Proceeds Fund.

Investment and Cash Management

Treasurer's Role. The Treasurer has the investment responsibility for all funds of the State and functions as the trustee of all State pension, retirement and trust funds. The Treasurer is authorized to invest or reinvest funds under the control of the Treasurer in United States government or agency obligations, shares or interests in an investment company or trust registered under the Investment Company Act of 1940, whose portfolio is limited to obligations of the United States, its agencies or instrumentalities, or repurchase agreements fully collateralized by such obligations, United States postal service obligations, certificates of deposit, commercial paper, savings accounts and bank acceptances. The Treasurer may also invest funds, excluding civil list funds, in the sale or acquisition of securities or obligations which the Treasurer is authorized to sell or acquire for purposes of any combined investment fund, subject to repurchase agreements with any securities dealer or bank included in the list of primary dealers prepared by the Federal Reserve Bank of New York. The Treasurer is also authorized to invest all or any part of any sinking fund in bonds in which savings banks may legally invest, provided such bonds mature prior to maturity of the bonds of the State which are outstanding. The Treasurer is required to report by October 15 annually to the Governor and the Investment Advisory Council as to the activities of the Office of the Treasurer for the preceding fiscal year.

Investment Advisory Council. All trust fund investments by the Treasurer are reviewed by the Investment Advisory Council, comprised of the Treasurer and the Secretary of the OPM as ex officio members, five members of the public with experience in investment matters, three representatives of the teachers' union and two representatives of the State employees' unions. The Treasurer, with the approval of the Council, adopts an investment policy statement for trust funds. The Governor may direct the Treasurer to change any investments when in the judgment of the Council such action is in the best interest of the State. At the close of each fiscal year a report is submitted to the Governor on the value of all security investments of the State.

Short Term Investment Fund. Cash management and the investment by the Treasurer of all State monies is based on the concept of a common cash pool. The Short Term Investment Fund ("STIF") is a combined investment pool of high quality, short term money market instruments which is the primary investment vehicle for the temporarily surplus cash of all funds of which the Treasurer is custodian and/or trustee, except certain bond funds, State pension funds and selected trust funds. All agencies, instrumentalities and political subdivisions of the State are permitted to invest in STIF. The State is responsible to these governmental entities to manage their deposits and accumulated earnings in a prudent manner. Individual participants in STIF can add or withdraw monies on a daily basis with interest earned from date of deposit to date of withdrawal. The primary investment objectives of STIF are the preservation of principal and the provision of liquidity to meet participants' daily cash flow needs, while seeking to earn competitive yields. STIF is managed in accordance with the investment guidelines established by the Treasurer. These investment guidelines prohibit investment in derivative securities other than floating rate securities which vary in the same direction as individual short term money market indices, and limit the ability to enter into reverse repurchase agreements to amounts not to exceed five percent (5%) of the STIF's net assets at the time of execution. Shares of the Short Term Investment Fund are rated "AAAm" by Standard & Poor's.

Medium Term Investment Fund. A 1997 statute created the Medium-Term Investment Fund. The Treasurer may purchase participation units of the fund for all trusts and other funds for which the Treasurer has investment responsibility. The Treasurer may sell participation units in the Medium-Term Investment Fund to all agencies, authorities, instrumentalities and political subdivisions of the state. Such participation units are

legal investments for all agencies, authorities, instrumentalities and political subdivisions of the state. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers' acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. The Treasurer may adopt regulations specifying the terms and conditions of the purchase and sale of participation units, the payment of interest, investment policies, and accounting practices.

Tax Exempt Proceeds Fund. Under the terms of the General Statutes, the Treasurer has facilitated the establishment of the Tax Exempt Proceeds Fund, Inc. ("TEPF"), a diversified, open-end management investment company, registered under the Investment Company Act of 1940, whose investment objectives are to provide its investors with high current interest income exempt from federal income taxes, preservation of capital and maintenance of liquidity. TEPF will only invest in securities that qualify as an investment in "tax exempt bonds" as defined in Section 150(a)(6) of the Internal Revenue Code of 1986, as amended (the "Code") and amplified in Treasury Department Regulations. Therefore, shareholders of TEPF that are tax exempt bond issuers are expected to be exempt from the arbitrage rebate provisions of the Code. TEPF seeks to achieve its objectives by investing primarily in a liquid money market portfolio of short-term, high quality, tax exempt, fixed rate and variable rate obligations issued by states, municipal governments and by public authorities, and in participation interests therein issued by banks, insurance companies or other financial institutions that meet this federal income tax definition. The TEPF seeks to maintain a constant net asset value of \$1.00 per share. TEPF's investment policies were developed for the particular federal income tax needs of entities that are issuers of tax exempt state and local bonds, such as states and municipalities and their authorities, agencies, instrumentalities and subdivisions. All recipients of any grant or loan monies of the State funded from Connecticut tax exempt bond proceeds must invest such monies in TEPF, unless the Treasurer waives this requirement upon a determination that a waiver will not adversely affect the tax exempt status of State bonds, notes or other evidences of indebtedness. The State may, from time to time, deposit bond proceeds of the State in TEPF. Reich & Tang Asset Management L.P. acts as investment manager of TEPF and a Board of Directors is responsible for TEPF's overall management and supervision.

Investment of Pension Funds. Seven investment funds serve as the investment medium for the various pension, retirement and trust funds of which the Treasurer is the trustee. They are the Cash Reserve Account, the Mutual Equity Fund, the Mutual Fixed Income Fund, the Commercial Mortgage Fund, the Real Estate Fund, the International Stock Fund and the Private Investment Fund. Such funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the funds. By statute no more than 55% of any of the State's trust funds may be invested in common stocks. After January 1, 2001 no more than 60% of any of the State's trust funds may be invested in common stock and if market fluctuations cause this limit to be exceeded, after six months no more than 65% of the State's trust funds may remain invested in common stock. Other than these limits, the statutes of the State permit investment in securities under the "Prudent Investor" rule. See also **PENSION AND RETIREMENT SYSTEMS** herein.

Investment of Bond Proceeds. Proceeds of bonds are accounted for in various general obligation bond funds. All invested assets of the bond funds are invested in STIF or TEPF. Bond proceeds are expended in accordance with the authorization and allotment procedure of the State Bond Commission and the Governor, respectively. Assets of the bond funds may from time to time be released temporarily to the common cash pool in accordance with the State's overall cash flow needs. Under the State's accounting system, release of the assets of the bond funds to the common cash pool is reflected in the accounts of the bond funds as an uninvested cash balance. That accounting balance can be reduced only when an approved payment for an expenditure is charged to the bond funds. In no case does the release of bond fund assets to the common cash pool alter the timing or the extent of expenditures for the purposes for which the bonds were issued.

Cash Management. It is the practice of the State to treat all civil list funds (including monies in the General Fund, various bond funds, and the Special Transportation Fund) as common cash, with amounts released from the various funds to the common cash pool in accordance with the State's overall cash flow

needs. In addition, the State has established a program of temporary note issuances to cover periodic cash flow requirements with the maximum volume of cash flow borrowing determined based upon the State's actual cash needs on a daily basis. All banks holding major account balances for the State Treasury report these balances daily, enabling the Treasurer to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested.

Interest Rate Risk Management. The Treasurer, with the authorization of the State Bond Commission, has the power to enter into reimbursement and similar agreements in connection with liquidity or credit facilities and to pledge the full faith and credit of the State or other collateral to secure the State's payment obligations under any such agreement. The Treasurer, with the authorization of the State Bond Commission, has the power to enter into contracts to place the obligation of the State as represented by bonds or notes of the State, on such interest rate or cashflow basis, including swap agreements and other arrangements to manage interest rate risk. The unsecured long-term obligations of the counter party to any arrangement must be rated the same or higher than the underlying rating of the State on the applicable bonds. The State Bond Commission may authorize the Treasurer to pledge the full faith and credit of the State and any other collateral pledged to secure the applicable bonds to also secure the State's payment obligations under any such contract.

STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). For an explanation of the differences between the budgetary-basis and GAAP based accounting, see **FINANCIAL PROCEDURES — Accounting Procedures** herein. The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. GAAP based audited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2000 are included as **Appendix III-C** to this Modified Annual Information Statement. The State gives no assurance that it will continue to prepare GAAP based financial statements in the future. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 1996 through June 30, 2000 are included in **Appendix III-D** to this Modified Annual Information Statement. The adopted budgets for the fiscal years ending June 30, 2000 and June 30, 2001, the actual budgetary-basis results for the fiscal year ending June 30, 2000 and the estimated (as of September 30, 2000) budgetary-basis results for the fiscal year ending June 30, 2001 are included as **Appendix III-E** to this Modified Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

General Fund Revenues

Forecasted, Adopted and Historical Revenues

Procedure For Forecasting Revenues. Revenue forecasting in Connecticut incorporates a blend of econometric modeling and economic advice obtained from an array of expert sources. Some of these major sources include: "Blue Chip Economic Indicators" which is a compilation of the consensus forecast for major national economic indicators from the top 50 economic and financial institutions; the WEFA Group, a nationally recognized econometric forecasting firm; the Connecticut Economic Conference Board which was created to provide economic advice to the Governor and the General Assembly; and "The Connecticut Economy," a University of Connecticut quarterly review written and edited by widely known State economists.

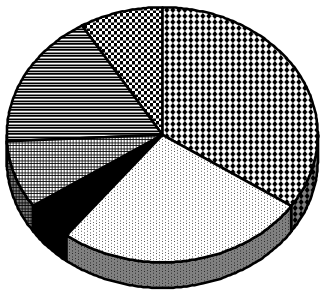
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a consensus interpretation of all available data. Annual revenue estimates from the beginning of each year attempt to account for possible variations in economic activity during the year. Periodic economic data, such as seasonal adjustments to estimated personal income growth, or a monthly drop in employment, are analyzed on an on-going basis. Adjustments are made when the aggregate values of such changes deviate beyond tolerable levels from aggregate and historical estimates. Overall, the process followed in developing Connecticut's revenue forecast is consistent with approaches taken in many other states.







Fiscal 2000 and 2001 Adopted Revenues. General Fund revenues as forecasted at the adoption of the budgets for the fiscal years ending June 30, 2000 and 2001 ("Adopted Revenues") are reflected in **Appendix III-E** to this Modified Annual Information Statement. The State, as of the forecast date, expected to derive over seventy percent of its General Fund revenues from taxes during each of the 1999-2000 and 2000-01 fiscal years. Fiscal year 1999-2000 actual revenues, based on information contained in the Comptroller's December 29, 2000 annual report for the fiscal year ending June 30, 2000, and fiscal year 2000-2001 revenue forecasts based on information contained in the Comptroller's monthly report for the period ending September 30, 2000, are also reflected in **Appendix III-E** to this Modified Annual Information Statement.

General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources for the fiscal years ending June 30, 2000 as forecasted at the time of adoption of the biennial budget, and June 30, 2001, as forecasted at the time of adoption of the mid term budget adjustments, are set forth below:

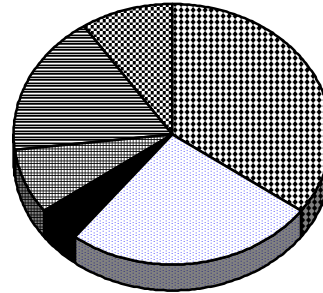
Adopted General Fund Revenues (In Millions)







Adopted Revenues 1999-2000
\$10,646.0^(a)



	Personal Income Tax	\$3,974.6	34.4%
	Sales and Use Tax	3,028.6	26.2%
	Corporate Business Tax	573.3	5.0%
	Other Taxes ^(b)	990.8	8.6%
	Unrestricted Federal Grants	1,989.5	17.2%
	Other Non-Tax Revenues ^(c)	1,010.7	8.7%

Adopted Revenues 2000-2001
\$11,281.3^(a)



	Personal Income Tax	\$4,218.0	34.9%
	Sales and Use Tax	3,116.7	25.8%
	Corporate Business Tax	512.9	4.2%
	Other Taxes ^(b)	987.1	8.2%
	Unrestricted Federal Grants	2,122.3	17.5%
	Other Non-Tax Revenues ^(c)	1,136.5	9.4%

(a) The pie charts reflect the total of the listed tax and revenue amounts of \$11,567.5 million for 1999-2000 and \$12,093.5 million for 2000-2001 and do not reflect tax refunds and transfers to other funds of \$921.5 million for 1999-2000 and \$812.2 million for 2000-2001. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.

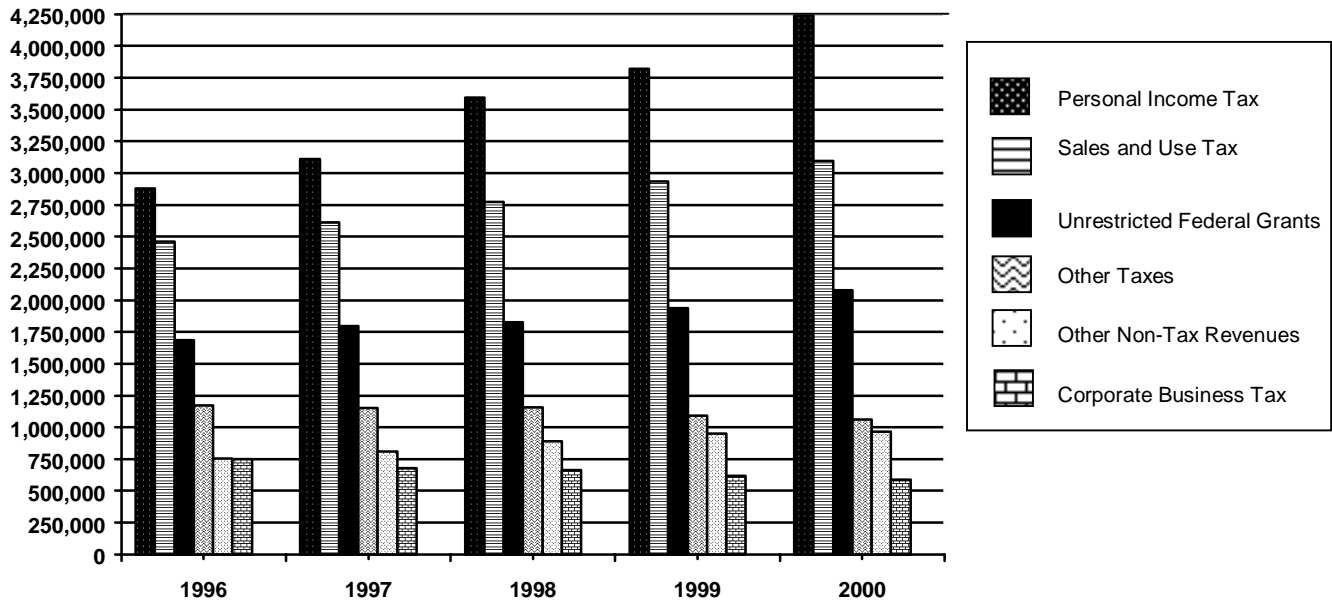
(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of hospitals until April 1, 2000 and public service corporations, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and other miscellaneous taxes. See **Appendix III-E**.

(c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income, other miscellaneous revenues and designated Tobacco Settlement Revenues. See **Appendix III-E**.

SOURCE: Special Act No. 99-10, as amended by Special Act No. 00-13 and Public Act No. 00-170.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years 1996 through 2000 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

General Fund Revenues^(a)
Fiscal Year Ending June 30
(In Thousands)



	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Taxes:					
Personal Income Tax	\$ 2,879,379	\$ 3,110,868	\$ 3,596,225	\$ 3,820,837	\$ 4,238,228
Sales Tax	2,460,133	2,611,456	2,772,109	2,932,191	3,096,780
Corporate Business Tax	748,064	677,883	663,672	619,539	587,756
Other Taxes ^(b)	<u>1,173,299</u>	<u>1,150,245</u>	<u>1,158,738</u>	<u>1,089,738</u>	<u>1,063,543</u>
Subtotal	7,260,875	7,550,452	8,190,744	8,462,305	8,986,307
Transfer to Economic Recovery Fund	(92,190)	0	0	0	0
Refunds of Taxes.....	<u>(410,500)</u>	<u>(490,548)</u>	<u>(580,830)</u>	<u>(645,000)</u>	<u>(713,359)</u>
Total Net Taxes	\$ 6,758,185	\$ 7,059,904	\$ 7,609,914	\$ 7,817,305	\$ 8,272,948
Other Revenue:					
Federal Grants (Unrestricted)	1,684,030	1,795,514	1,824,595	1,938,271	2,078,914
Other Non-Tax Revenues (Unrestricted) ^(c)	751,592	811,658	887,732	950,813	963,784
Transfers to Other Funds	(85,000)	(85,000)	(180,000)	(90,000)	(180,000)
Transfers from Other Funds.....	<u>2,329</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>78,000</u>
Total Other Revenues	<u>\$ 2,352,951</u>	<u>\$ 2,522,172</u>	<u>\$ 2,532,327</u>	<u>\$ 2,799,084</u>	<u>\$ 2,940,698</u>
Total Revenues	\$ 9,111,136	\$ 9,582,076	\$ 10,142,241	\$ 10,616,389	\$ 11,213,646

- (a) The bar graph reflects the total of the listed tax and revenue amounts and does not reflect the listed adjustments for tax refunds, transfers to or from other funds or transfers to the Economic Recovery Fund. See **Appendix III-D** for adjustments to revenues.
- (b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of hospitals (until April 1, 2000) and public service corporations, net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and cabarets and other miscellaneous taxes.
- (c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income and other miscellaneous revenues.

SOURCE: 1996, 1997, 1998, 1999 and 2000 Annual Reports of the State Comptroller

Components of Revenue

Personal Income Tax. The State imposes a personal income tax on the income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The tax imposed is at the maximum rate of 4.5% on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from \$12,000 to \$24,000 in taxable year 2001 with the lower end of the range increasing annually to \$15,000 by taxable year 2007 for certain taxpayers. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at certain higher income levels. Neither the personal exemption nor the tax credit described above is available to trusts or estates. Legislation enacted in 1995 effected a graduated rate structure beginning in tax year 1996. Under this revised structure, the top rate remains at 4.5% with a rate of 3% applicable to taxable income up to certain amounts. Subsequent legislation has increased the amount of taxable income subject to the 3% rate. By tax year 1999 and thereafter, the first \$20,000 of taxable income for a joint filer and the first \$10,000 of taxable income for a single filer is taxed at the 3% rate. In addition, an income tax credit for property taxes paid has been increased to a maximum of \$500 per filer. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

Sales and Use Taxes. The Sales Tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the State, including (a) sales at retail of tangible personal property, (b) the rendering of certain services, (c) the leasing or rental of tangible personal property, (d) the production, fabrication, processing, printing, or imprinting of tangible personal property to special order or with materials furnished by the consumer, (e) the furnishing, preparation or serving of food, meals, or drinks, and (f) the transfer of occupancy of hotel or lodging house rooms for a period not exceeding thirty consecutive calendar days. The Use Tax is imposed, with certain exceptions, on the consideration paid for certain services or purchases or rentals of tangible personal property used within the State pursuant to a transaction not subject to the Sales Tax. A separate rate of 12% is charged on the occupancy of hotel rooms. The tax rate for the Sales and Use Taxes is 6%. Various exemptions from the Sales and Use Taxes are provided, based on the nature, use or price of the property or services involved or the identity of the purchaser. Tax returns and accompanying payments with respect to revenues from these taxes are generally due monthly on or before the last day of the month next succeeding the taxable month.

Corporation Business Tax. The Corporation Business Tax is imposed on any corporation, joint stock company or association, any dissolved corporation that continues to conduct business, any electric distribution company or fiduciary of any of the foregoing which carries on or has the right to carry on business within the State or owns or leases property or maintains an office within the State or is a general partner in a partnership or a limited partner in a limited partnership, except an investment partnership, that does business, owns or leases property or maintains an office within the State. Certain financial services companies are exempt from this tax. For taxable years commencing on or after January 1, 1999, this exemption extends to domestic insurance companies. The Corporation Business Tax provides for three methods of computation. The taxpayer's liability is the greatest amount computed under any of the three methods.

The first method of computation is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income with limited variations less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. The Income-Base Tax had been levied at the rate of 10.75% in 1996 and was phased down over subsequent years to 7.5% for taxable years commencing on and after January 1, 2000. The second method of computing the Corporation Business Tax, from which domestic insurance companies are exempted, is an alternative tax on capital. This alternative tax is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or in part to its capital stock and balance sheet surplus, profit and deficit. The third method of computing the Corporation Business Tax is the minimum tax which is a flat \$250.

Corporations must compute their tax liability under all three methods, determine which calculation produces the greatest tax, and pay that amount to the State.

Other Taxes. Other tax revenues are derived from inheritance taxes, taxes on gross receipts of hospitals until April 1, 2000, taxes on public service companies, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarette and alcoholic beverage excise taxes, real estate conveyance taxes, taxes on admissions and dues and other miscellaneous tax sources.

Federal Grants. Federal grants in aid are normally conditioned to some degree, depending upon the particular program being funded, on resources provided by the State. More than 99% of unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal 2000 were made for the purposes of providing medical assistance payments to the indigent and temporary assistance to needy families. The State also receives certain restricted federal grants which are not reflected in annual appropriations but which nonetheless are accounted for in the General Fund. In addition, the State receives certain federal grants which are not accounted for in the General Fund but are allocated to the Transportation Fund, various Capital Project Funds and other funds.

Other Non-Tax Revenues. Other non-tax revenues are derived from special revenue transfers; Indian gaming payments; licenses, permits and fees; sales of commodities and services; rents, fines and escheats; investment income; other miscellaneous revenue sources; and designated Tobacco Settlement Revenues.

General Fund Expenditures

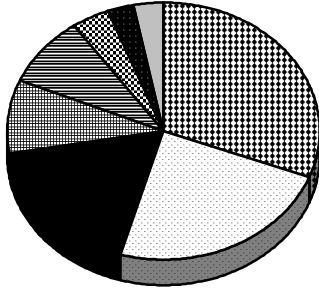
Appropriated and Historical Expenditures

Fiscal 2000 and 2001 Appropriated Expenditures. State expenditures are categorized for budget and appropriation purposes under ten functional headings, with expenditures by agency generally shown as subheadings in the following functional categories, listed in order of magnitude of expenditure for the current budget biennium: Human Services; Education, Libraries and Museums; Non-Functional (debt service and miscellaneous expenditures including fringe benefits); Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection of Persons and Property; Conservation and Development; and Legislative. State expenditures for Department of Transportation functions are paid from the Transportation Fund, not the General Fund.

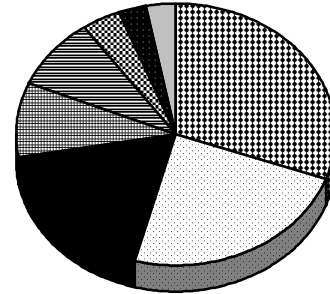
Appropriated expenditures included in adopted budgets for fiscal years ending June 30, 2000 and June 30, 2001, actual expenditures for the fiscal year ending June 30, 2000, and estimated expenditures for the fiscal year ending June 30, 2001 based on information contained in the Comptroller's monthly report for the period ending September 30, 2000 are set forth in **Appendix III-E** to this Modified Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2000 and June 30, 2001 is set forth below.

















Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 1999-2000
\$10,581.6 ^(a)



Appropriated Expenditures 2000-2001
\$11,280.8 ^(b)



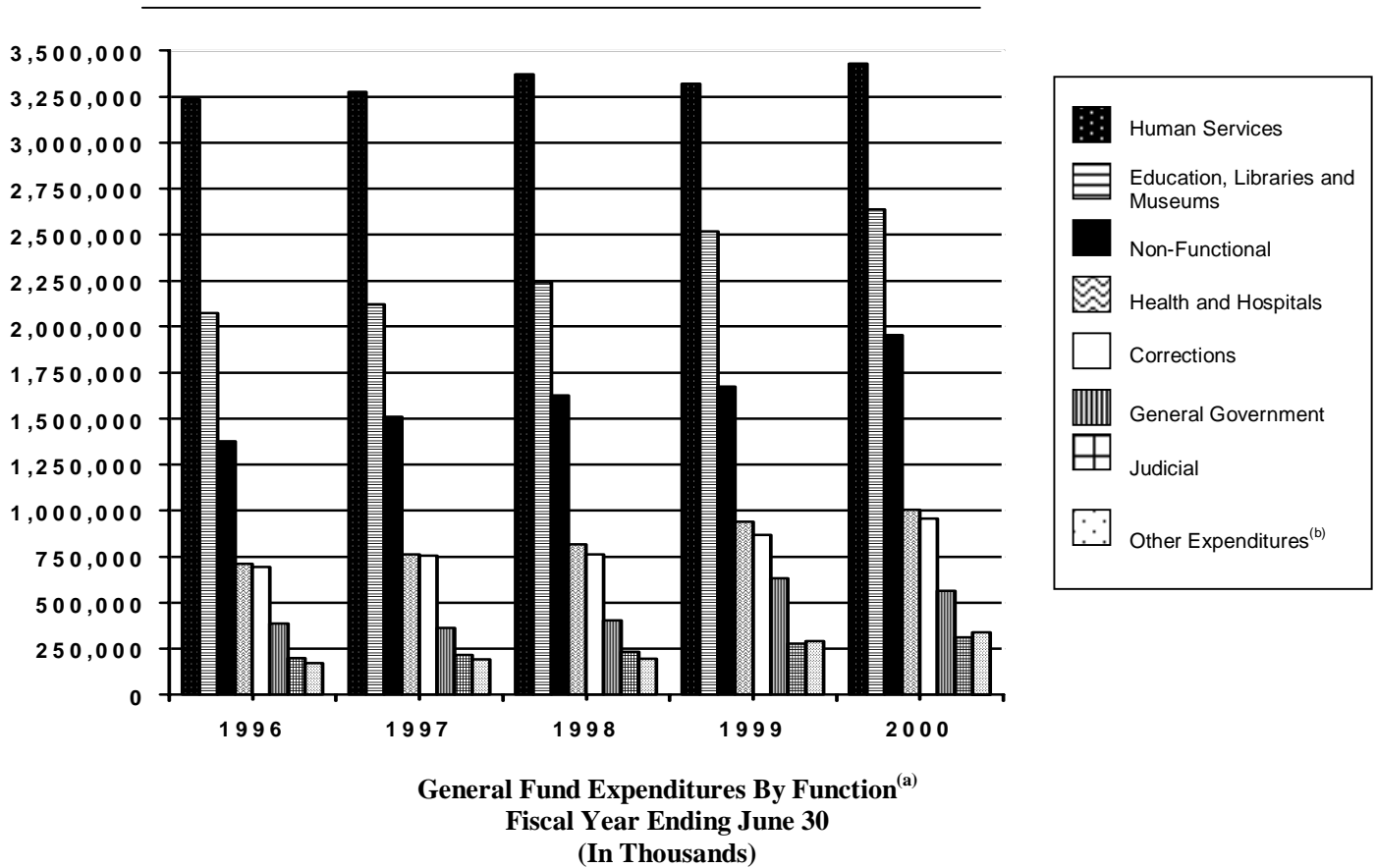
	Human Services	\$3,324.5	30.9%		Human Services	\$3,423.6	30.4%
	Education, Libraries and Museums	2,535.4	23.6%		Education, Libraries and Museums	2,651.7	23.5%
	Non-Functional	1,906.5	17.3%		Non-Functional	2,055.5	18.2%
	Health and Hospitals	983.7	9.2%		Health and Hospitals	1,096.4	9.7%
	Corrections	942.1	8.8%		Corrections	1,006.8	8.9%
	General Government	427.4	4.0%		General Government	456.5	4.1%
	Judicial	297.7	2.8%		Judicial	324.1	2.9%
	Other Expenditures ^(b)	324.9	3.0%		Other Expenditures ^(b)	386.2	3.4%

(a) The pie charts reflect the total listed expenditures of \$10,742.2 for 1999-2000 and \$11,400.8 for 2000-2001, and do not reflect adjustments for unallocated lapses of \$160.6 for 1999-2000 and 120.0 for 2000-2001. See **Appendix III-E** for anticipated adjustments to appropriated expenditures.

(b) Other expenditures are comprised of appropriations for Regulation and Protection, Conservation and Development, Legislative and Transportation.

SOURCE: Special Act 99-10, as amended by Special Act 00-13.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 1996 through 2000 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund expenditures for last five fiscal years is illustrated below:



	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Human Services.....	\$ 3,234,159	\$ 3,277,044	\$ 3,371,318	\$ 3,231,095	\$ 3,430,561
Education, Libraries and Museums.....	2,075,705	2,122,230	2,240,437	2,411,479	2,637,518
Non-Functional.....	1,376,113	1,509,500	1,626,622	1,705,133	1,954,711
Health and Hospitals.....	710,516	762,347	817,777	905,529	1,005,233
Corrections.....	693,414	757,341	762,917	845,239	957,555
General Government.....	387,683	364,301	404,279	594,847	566,310
Judicial.....	198,594	217,086	232,340	266,043	309,319
Other Expenditures ^(b)	169,965	190,127	194,156	291,444	339,697
Totals.....	\$ 8,846,149	\$ 9,199,976	\$ 9,649,846	\$ 10,250,809	\$ 11,200,904

(a) The bar graphs and amounts listed do not reflect expenditure of restricted federal and other grants. See **Appendix III-D** for total expenditures.

(b) Other expenditures are comprised of appropriations for Regulation and Protection, Conservation and Development and Legislative.

SOURCE: 1996, 1997, 1998, 1999 and 2000 Annual Reports of the State Comptroller

Components of Expenditures

Human Services. Virtually all of the State expenditures for Human Services are allocated to the Department of Social Services for various programs and services, including Medicaid payments, Temporary Assistance to Families, and General Assistance payments.

Education, Libraries and Museums. Based upon the adopted budget for the 2000-2001 fiscal year, approximately 69% of the State expenditures for Education, Libraries and Museums is allocated to the Department of Education, with the largest share consisting of payments to local governments. The remaining 31% consists of expenditures for higher education (including the University of Connecticut, the Connecticut State University System and Regional Community-Technical Colleges), the Teachers' Retirement Board, the State Library and services for the blind and deaf.

Non-Functional. Non-Functional State expenditures consist of debt service payments, State employee fringe benefit accounts and other miscellaneous appropriations.

Health and Hospitals. State expenditures for Health and Hospitals are allocated primarily for programs and services provided by the State Departments of Public Health, Mental Retardation, and Mental Health and Addiction Services.

Corrections. Appropriations to the State Department of Correction and the Department of Children and Families comprise the largest portion of State expenditures for Corrections. Other expenditures include expenses of the Board of Pardons, the Board of Parole, and the County Sheriffs.

General Government. State expenditures for General Government may be classified into three general categories: executive, financial administration and legal, the largest of which is expenditures for financial administration. Such expenditures are primarily for salaries and other miscellaneous expenses of various State departments.

Judicial. Judicial expenditures are comprised of salaries, expenses and payments for special programs of the Judicial Department and the Public Defender Services Commission.

Regulation and Protection. State expenditures for Regulation and Protection consist primarily of appropriations to the Department of Public Safety for salaries, equipment, training and other services and expenses. Other agencies and programs for which appropriations are made include the Police Officer Standards and Training Council, the Board of Firearms Permit Examiners, the Military Department, the Commission on Fire Prevention and Control, the Department of Consumer Protection, the Department of Labor, the Commission on Human Rights and Opportunities, the Office of Protection and Advocacy for Persons with Disabilities and the Office of the Child Advocate.

Conservation and Development. State expenditures for Conservation and Development fall into three general categories: agriculture; development of historical sites, commerce and industry; and environment, the latter accounting for approximately 55% of all appropriations for Conservation and Development based upon the adopted budget for the 2000-2001 fiscal year.

Legislative. Legislative expenditures are comprised primarily of salaries, equipment and other expenses necessary for Legislative Management and the Auditors of Public Accounts.

Expenditures by Type

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments). Such payments to third parties amount to approximately 64% of total General Fund appropriations under the adopted budget for the 2000-2001 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 36% of all General Fund appropriations under the adopted budget for the 2000-2001 fiscal year.

Appropriations categorized as payments to third parties are generally referred to for budgetary purposes as “fixed charges.” Contractually required payments to third parties include debt service payments. Statutorily required payments to third parties include grants to local governments and individual beneficiaries under a wide variety of programs established by statute. The amount of such payments is generally either specifically set forth in the statutes in question or is calculated in accordance with a formula set forth in such statutes. Despite the characterization of these statutorily determined payments to third parties as “fixed charges,” the Governor’s budgetary recommendations routinely include proposed modifications in the amounts and formulas for calculating the amounts of such appropriations, and such modifications are often, in fact, adopted by the General Assembly. A summary of fixed charges is shown on **Table 1**. This summary includes a breakdown of total fixed charges into payments to local governments and total payments, as well as information as to the most significant types of expenditures in each category.

TABLE 1
Fixed Charges - General Fund
Summarized by Function of Government and Expenditure Category
Including Major Expenditure Items
(In Thousands)

	Fiscal Year 1999 ^(a)		Fiscal Year 2000 ^(b)		Fiscal Year 2001	
	(Actual)		(Actual)		(Appropriated)	
	Total	Payments	Total	Payment	Total	Payments
	Payments	to Local	Payments	to Local	Payments	to Local
		Governments		Governments		Governments
LEGISLATIVE						
Total – Legislative.....	230	0	236	0	248	0
GENERAL GOVERNMENT						
Property Tax Relief Elderly Circuit						
Breaker	21,982	21,982	21,143	21,143	23,000	23,000
P.I.L.O.T. – New Manufacturing						
Machinery and Equipment.....	67,842	67,842	70,962	70,962	79,000	79,000
One-Time Local Capital Improvement						
Program Grants	20,000	20,000	0	0	0	0
Undesignated	53,266	33,312	51,363	28,840	49,270	30,237
Total – General Government	163,090	143,136	143,468	120,945	151,270	132,237
REGULATION AND PROTECTION						
Total – Regulation and Protection	328	0	319	0	430	0
CONSERVATION AND DEVELOPMENT						
Total – Conservation and Development.....	9,510	5,163	10,058	5,143	12,187	5,143

	Fiscal Year 1999 ^(a) (Actual)		Fiscal Year 2000 ^(b) (Actual)		Fiscal Year 2001 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payment to Local Governments
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Department of Mental Retardation).....	87,097	0	94,578	0	100,781	0
Community Residential Placements (Department of Mental Retardation).....	188,295	0	198,231	0	219,939	0
Grants for Substance Abuse Services	23,374	0	22,138	0	26,038	0
Grants for Mental Health Services.....	65,325	0	68,985	0	74,252	0
Undesignated	49,110	8,563	47,147	9,604	51,731	10,316
Total – Health and Hospitals	413,201	8,563	431,079	9,604	472,741	10,316
HUMAN SERVICES						
Medicaid.....	2,093,215	0	2,162,889	0	2,231,945	0
Old Age Assistance	31,466	0	30,876	0	32,093	0
Aid to the Disabled.....	64,095	0	62,089	0	64,666	0
Temporary Assistance to Families.....	24,258	0	24,258	0	24,043	0
Temporary Assistance to Families – TANF	188,268	0	143,384	0	116,269	0
Connecticut Pharmaceutical Assistance Contract to the Elderly.....	33,031	0	39,500	0	34,777	0
Medicaid – Disproportionate Share – Mental Health.....	191,000	0	191,000	0	151,000	0
Connecticut Home Care Program	15,248	0	19,058	0	22,667	0
Child Care Services - TANF/CCDBG.....	121,804	0	101,557	0	129,722	0
Disproportionate Share - Medical Emergency Assistance.....	214,239	0	204,511	0	207,000	0
State Administered General Assistance.....	74,407	0	87,580	0	84,765	0
Undesignated	94,236	11,340	108,113	17,644	116,842	20,171
Total – Human Services.....	3,145,267	11,340	3,174,815	17,644	3,215,789	20,171
EDUCATION, LIBRARIES AND MUSEUMS						
Interest Subsidy Debt Avoidance Grants	55,000	55,000	0	0	0	0
Transportation of School Children	41,243	41,243	42,800	42,800	45,200	45,200
Education Equalization Grants	1,299,138	1,299,138	1,347,877	1,347,877	1,388,000	1,388,000
Priority School Districts	19,000	19,000	20,336	20,336	20,058	20,058
Excess Cost – Student Based.....	42,362	42,362	46,763	46,763	49,000	49,000
Early Reading Success	19,604	19,604	20,582	20,582	22,049	22,049
Magnet Schools	15,818	15,818	24,094	24,094	31,684	31,684
Teachers’ Retirement Contributions	188,334	0	204,445	0	214,666	0
Undesignated	168,297	81,875	173,540	80,228	188,236	81,105
Total – Education	1,848,796	1,574,040	1,880,437	1,582,680	1,958,893	1,637,096
CORRECTIONS						
Board and Care for Children – Adoption.....	20,759	0	24,751	0	25,688	0
Board and Care for Children – Foster.....	68,149	0	72,512	0	73,062	0
Board and Care for Children – Residential.....	81,628	0	97,171	0	102,040	0
Undesignated	57,587	0	61,955	0	69,282	0
Total – Corrections	228,123	0	256,389	0	270,072	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security)	824,392	0	926,365	0	1,015,111	0
Reimbursement to Towns for Loss of Taxes on State Property	33,898	33,898	63,263	63,263	63,778	63,778
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property.....	85,120	85,120	97,163	97,163	97,163	97,163
Undesignated.....	551	0	590	0	816	0
Total – Non Functional.....	943,961	119,018	1,087,381	160,426	1,176,868	160,941
Total – Fixed Charges	6,752,506	1,861,260	6,984,182	1,896,442	7,293,498	2,000,904

(a) Does not include funds carried forward from Fiscal Year 1998 into Fiscal Year 1999. Does include funds carried forward from Fiscal Year 1999 into Fiscal Year 2000.

(b) Does not include funds carried forward from Fiscal Year 1999 into Fiscal Year 2000.

SOURCE: Office of Policy and Management

Adopted Budget 1999-2000 and 2000-2001

The Governor submitted his proposed budget document to the legislature on February 10, 1999. The budget document included a proposed General Fund budget for fiscal year 1999-2000 and fiscal year 2000-2001. Special Act No. 99-10 made General Fund appropriations and set forth estimated revenues for the 1999-2000 and 2000-2001 fiscal years, and constitutes the adopted budget.

The adopted budget for fiscal year 1999-2000 anticipated General Fund revenues of \$10,646.0 million and General Fund expenditures of \$10,581.6 million, with an estimated year end surplus of \$64.4 million. For fiscal year 2000-2001, the adopted budget anticipated General Fund revenues of \$11,090.0 million and General Fund expenditures of \$11,085.2 million, with a surplus of \$4.8 million. The adopted budget was within the expenditure limits prescribed by Article XXVIII of the Amendments to the Constitution of the State of Connecticut in conjunction with Section 2-33a of the General Statutes, \$68.6 million below the cap in fiscal year 1999-2000 and \$59.3 million below the cap in fiscal year 2000-2001.

Midterm Budget Adjustments

Per Section 4-71 of the Connecticut General Statutes, the Governor is required to submit a status report to the General Assembly on the biennial budget enacted in the previous year. The status report shall include any recommendations for adjustments and revisions to the enacted budget. On February 9, 2000, the Governor submitted to the General Assembly a status report including detailed projections of expenditures and revenues and proposed Midterm Budget Adjustments for the 1999-2000 and 2000-2001 fiscal years. Special Act No. 00-13 containing the General Assembly's Midterm Budget Adjustments for fiscal years 1999-2000 and 2000-2001 was passed by both Houses, and was signed into law by the Governor on May 5, 2000.

Fiscal Year 1999-2000. As part of the Midterm Budget Adjustments for the 1999-2000 fiscal year, the General Assembly appropriated substantially the entire projected 1999-2000 surplus. The appropriation of the projected surplus necessitated a declaration from the Governor in order for the General Assembly to appropriate funds beyond the limits of the State's expenditure cap.

Fiscal Year 2000-2001. Midterm Budget Adjustments for the 2000-2001 fiscal year anticipate General Fund revenues of \$11,281.3 million, General Fund expenditures of \$11,280.8 million and an estimated General Fund surplus of \$ 0.5 million. Pursuant to Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes, the Midterm Budget Adjustments would result in a fiscal 2000-2001 budget that remains within the limits imposed by the expenditure cap. For fiscal 2000-2001, permitted growth in capped expenditures is estimated at 5.48%. The Midterm Budget Adjustments would result in a fiscal 2000-2001 budget that is \$49.4 million below the expenditure cap.

See **Appendix III-E** for more information regarding the Adopted Budget for 1999-2000 and 2000-2001.

Fiscal Year 1999-2000 Operating Results

The adopted budget for the 1999-2000 fiscal year anticipated General Fund revenues of \$10,646.0 million and General Fund expenditures of \$10,581.6 million resulting in a projected surplus of \$64.4 million. **Appendix III-D** and **Appendix III-E** show the results for the 1999-2000 fiscal year per the Comptroller's annual report. This report indicates the 1999-2000 fiscal year General Fund revenues were \$11,213.6 million, General Fund expenditures were \$10,913.2 million and the operating surplus was \$300.4 million. After transferring \$34.9 million to the budget reserve fund, the remaining surplus will be applied pursuant to Special

Act 00-13 as follows: \$10 million will be used to wire local schools to the internet and \$255.5 million will be earmarked for local school construction projects in lieu of state bonding.

Fiscal Year 2000-2001 Operations

The adopted budget for the 2000-2001 fiscal year anticipates General Fund revenues of \$11,281.3 million and General Fund expenditures of \$11,280.8 million resulting in a projected surplus of \$0.5 million. Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares the revenues already received and the expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. **Appendix III-E** shows estimated revenues and expenditures for the 2000-2001 fiscal year as of September 30, 2000. This report estimates 2000-2001 fiscal year General Fund revenues of \$11,804.1 million, General Fund expenditures of \$11,414.6 million and an estimated operating surplus of \$389.5 million. Estimated revenues have been revised upward by \$522.8 million from the enacted budget plan and estimated expenditures have been revised upward by \$133.8 million. Expenditures have been revised upward primarily due to projected deficiencies totaling \$168.4 million in various state agencies. In order for the budget to remain within the limits imposed by the State's expenditure cap and meet the projected deficiencies, the Governor has instituted allotment recissions totaling \$50.0 million. The remaining portion of the deficiencies are expected to be met through transfers from agency lapses and additional appropriations of \$49.4 million.

The information in **Appendix III-E** and in the Comptroller's monthly reports contains only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2000-2001 operations of the General Fund.

Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to five percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. After transferring the amount that is required to meet the five percent rule of the Connecticut General Statutes, the balance shall be used pursuant to Article XXVIII of the Amendments to the Constitution of Connecticut to reduce bonded indebtedness or for other purposes permitted by Article XXVIII.

General Fund Budget History

Table 2 summarizes the results of operation of the General Fund on the budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the fiscal years 1996 through 2000 are set forth in **Appendix III-D** to this Modified Annual Information Statement.

TABLE 2
General Fund
Summary of Operating Results — Budgetary (Modified Cash) Basis
(In Millions)

	Fiscal Years Ended June 30				
	1996	1997	1998	1999	2000
Total General Fund Revenues ^(a)	\$9,111.1	\$9,582.0	\$10,142.2	\$10,616.4	\$11,213.6
Net-Appropriations/Expenditures ^{(a) (b)}	8,861.1	9,319.4	9,829.3	10,544.6	10,913.2
Operating Surplus/(Deficit)	\$ 250.0^(c)	\$ 262.6^(d)	\$ 312.9^(e)	\$71.8^(f)	\$300.4^(g)

(a) Does not include Restricted Federal and Other Grants.

(b) Does not include expenditures for Restricted Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D**.

(c) Pursuant to Special Act No. 96-8, Section 44, \$89.5 million of the operating surplus was reserved for the payment of principal and interest on the Economic Recovery Notes for the 1996-97 fiscal year, while the remaining \$160.5 million of the surplus was reserved for transfer to the Budget Reserve Fund. The Economic Recovery Notes were issued to fund a cumulative budgetary-basis deficit as of June 30, 1991.

(d) Pursuant to Special Act No. 97-21, \$166.7 million of the operating surplus was reserved for the payment of principal and interest on the Economic Recovery Notes over the 1997-99 biennium, while the remaining \$95.9 million of the surplus was reserved for transfer to the Budget Reserve Fund.

(e) \$161.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining \$151.2 million was reserved for the retirement of bonded debt.

(f) \$30.5 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining \$41.3 million was reserved for the retirement of bonded debt.

(g) \$34.9 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining \$265.5 million was reserved for debt avoidance.

SOURCE: Comptroller's Office

Table 3 shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Adopted GAAP based financial statements for fiscal year 2000 are included in **Appendix III-C**.

TABLE 3
General Fund
Summary of Operating Results — Budgetary (Modified Cash) Basis vs. GAAP Basis
(In Millions)

	Fiscal Years Ended June 30				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Modified Cash Basis Operating Surplus/(Deficit).....	\$250.0	\$262.6	\$ 312.9	\$ 71.8	\$ 300.4
<u>Adjustments:</u>					
Increases (decreases) in revenue accruals:					
Governmental Receivables	(22.4)	31.4	(35.2)	56.3	59.8
Other Receivables	(27.0)	(3.1)	(35.7)	(21.4)	15.5
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities.....	4.1	(38.3)	60.6	(49.7)	(161.5)
Salaries and Fringe Benefits Payable	(17.8)	(29.3)	(6.5)	(33.7)	120.8
Increase (decrease) in Continuing					
Appropriations.....	15.5	111.0	180.5	294.1	(289.8)
Reclassification of equity adjustments		<u>(81.5)</u>	<u>(85.8)</u>	<u>(142.5)</u>	<u>(118.1)</u>
GAAP Based Operating Surplus/(Deficit).....	<u>\$ 202.4</u>	<u>\$ 252.8</u>	<u>\$ 390.8</u>	<u>\$ 174.9</u>	<u>\$ (72.9)</u>

SOURCE: Comptroller's Office

Table 4 sets forth on the budgetary (modified cash) basis the actual cumulative unreserved fund balance (deficit) for the General Fund for the last five fiscal years.

TABLE 4
General Fund
Unreserved Fund Balance — Budgetary (Modified Cash) Basis
(In Millions)

	Fiscal Years Ended June 30				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Operating Surplus/Deficit	\$250.0	\$262.6	\$312.9	\$71.8	\$ 300.4
Fund Transfers and Reserves	160.5	95.9	161.7	30.5	34.9
Budget Reserve Fund.....					
Economic Recovery Note Debt Retirement.....	89.5	166.7	--	--	--
Reserve for Debt Service Appropriation	--	--	151.2	41.3	--
Reserve for Debt Avoidance	--	--	--	--	<u>265.5</u>
Total Transfers/Reserves.....	<u>250.0</u>	<u>262.6</u>	<u>312.9</u>	<u>71.8</u>	<u>300.4</u>
Unreserved Fund Balance					
Surplus/(deficit)	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>

SOURCE: Comptroller's Office

Table 5 shows the reconciliation of the actual cumulative unreserved Fund balance (deficit) under the modified cash basis to the GAAP basis of accounting for the last five fiscal years.

TABLE 5
Unreserved Fund Balance — Budgetary (Modified Cash) Basis vs. GAAP Basis
(In Millions)

	Fiscal Years Ended June 30				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$0.0
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	—	—	—	141.8	35.0
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction.....	(115.3)	(122.4)	(149.9)	(170.0)	(151.3)
Eliminate Corporation Accrual	(37.9)	(34.5)	(29.1)	(22.1)	(19.5)
Additional Taxes Receivable	<u>2.0</u>	<u>8.9</u>	<u>8.1</u>	<u>5.0</u>	<u>4.0</u>
Net Increase (Decrease) Taxes.....	(151.2)	(148.0)	(170.9)	(187.1)	(166.8)
Net Accounts Receivable.....	29.3	33.6	19.4	29.7	76.2
Federal and Other Grants Receivable ^(a)	340.1	368.9	383.4	428.4	435.7
Due From Other Funds.....	<u>8.8</u>	<u>7.2</u>	<u>13.1</u>	<u>7.9</u>	<u>4.8</u>
Total Additional Assets	\$ 227.0	\$ 261.7	\$ 245.0	\$ 278.9	\$349.9
Additional Liabilities					
Salaries and Fringe Payable.....	(198.3)	(235.0)	(240.7)	(279.9)	(158.0)
Accounts Payable—Department of Social Services	(495.4)	(509.3)	(479.4)	(525.7)	(676.7)
Accounts Payable—Trade & Other.....	(109.3)	(131.0)	(125.4)	(142.1)	(175.6)
Payable to Local Governments	(7.3)	(4.7)	(.1)	-	-
Payable to Federal Government	(38.9)	(40.9)	(90.6)	(72.0)	(48.8)
Due to Other Funds	<u>(17.7)</u>	<u>(10.8)</u>	<u>(3.1)</u>	<u>(3.7)</u>	<u>(.8)</u>
Total Additional Liabilities.....	\$(866.9)	\$(931.7)	\$(939.3)	\$(1,023.4)	\$(1,059.9)
Unreserved Fund Balance (Deficit)					
GAAP Basis	\$ (639.9)	\$ (670.0)	\$ (694.3)	\$ (602.7)	\$ (675.0)

(a) Primarily reimbursement for additional liabilities accrued to federal grant accounts or programs with federal participation, e.g., Medicaid.

SOURCE: Comptroller's Office

Table 6 sets forth on a GAAP basis the components of the fund balance for the General Fund for the last five fiscal years.

TABLE 6
General Fund Fund Balances-GAAP Basis
(In Millions)

	<u>Fiscal Years Ended June 30</u>				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Reserved:					
Petty Cash	\$ 1.0	\$ 1.0	\$ 1.1	\$ 1.1	\$ 1.0
Budget Reserve	241.0	336.9	498.6	529.1	564.0
Advances to Other Funds	-	-	-	-	5.0
Debt Avoidance	-	-	-	-	265.5
Inventories	48.5	32.7	34.3	34.3	37.7
Continuing Appropriations.....	82.6	184.5	372.3	526.4	343.5
Debt Service.....	<u>89.5</u>	<u>166.7</u>	<u>232.1</u>	<u>131.3</u>	<u>13.2</u>
Total.....	462.6	721.8	1,138.4	1,222.2	1,229.9
Unreserved:	<u>(639.9)</u>	<u>(670.0)</u>	<u>(694.3)</u>	<u>(602.7)</u>	<u>(675.0)</u>
Total Fund Balance	\$ (177.3)	\$ 51.8	\$ 444.1	\$ 619.5	\$ 554.9

SOURCE: Comptroller's Office

Year 2000 Readiness

Connecticut's Current State of Readiness. All mission critical systems and technology infrastructure components are operating with no Year 2000 impacts.

Year 2000 Risks Facing Connecticut. The State presently believes that the Year 2000 problem will not pose significant operations problems for the State's computer systems because it has completed modifications to existing software and conversions to new software, where warranted. While the State completed its Year 2000 plan on a timely basis, there is still a risk that testing for all failure scenarios did not satisfactorily reveal all Year 2000 software or hardware problems. Moreover, there can be no assurance that the systems of other companies on which the State's systems or service commitments may rely were tested and completed in a timely fashion. If the necessary remediations were not adequately tested, the Year 2000 problem may have a material impact on the operations of the State.

STATE DEBT

Constitutional Provisions

The State has no constitutional limit on its power to issue obligations or incur debt other than it may borrow only for public purposes. There are no reported court decisions relating to State bonded debt other than two cases validating the legislative determination of the public purpose for improving employment opportunities and related activities. The State Constitution has never required a public referendum on the question of incurring debt. Therefore, State statutes govern the authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters.

Types of State Debt

Pursuant to various public and special acts the State has authorized a variety of types of debt. These types fall generally into the following categories: direct general obligation debt, which is payable from the State's General Fund; special tax obligation debt, which is payable from specified taxes and other funds which are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds which are maintained outside the State's General Fund. In addition, the State has a number of programs under which the State is contingently liable on the debt of certain State quasi-public agencies and political subdivisions. See **OTHER FUNDS, DEBT AND LIABILITIES** for information concerning debt and contingent liabilities on debt other than direct general obligation debt.

State Direct General Obligation Debt

General

Statutory Authorization and Security Provisions. In general, the State issues general obligation bonds pursuant to specific statutory bond acts and Section 3-20 of the General Statutes, the State general obligation bond procedure act. That act provides that such bonds shall be general obligations of the State and that the full faith and credit of the State of Connecticut are pledged for the payment of the principal of and interest on such bonds as the same become due. Such act further provides that, as a part of the contract of the State with the owners of such bonds, appropriation of all amounts necessary for the punctual payment of such principal and interest is made, and the Treasurer shall pay such principal and interest as the same become due.

There are no State Constitutional provisions precluding the exercise of State power by statute to impose any taxes, including taxes on taxable property in the State or on income, in order to pay debt service on bonded debt now or hereafter incurred. The constitutional limit on increases in General Fund expenditures for any fiscal year does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There are also no constitutional or statutory provisions requiring or precluding the enactment of liens on or pledges of State General Fund revenues or taxes, or the establishment of priorities for payment of debt service on the State's general obligation bonds. There are no express statutory provisions establishing any priorities in favor of general obligation bondholders over other valid claims against the State.

Statutory Debt Limit. Section 3-21 of the General Statutes provides that no bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly or issued except as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of

the State for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. However, in computing the aggregate amount of indebtedness at any time, there shall be excluded or deducted revenue anticipation notes having a maturity of one year or less, refunded indebtedness, bond anticipation notes, borrowings payable solely from the revenues of a particular project, the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, the amount of federal grants certified by the Secretary of the Office of Policy and Management as receivable to meet the principal of certain indebtedness, all authorized and issued indebtedness to fund any budget deficits of the State for any fiscal year ending on or before June 30, 1991, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, and any indebtedness represented by agreements entered into pursuant to certain provisions of the General Statutes, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness. For purposes of the debt limit statute, all bonds and notes issued or guaranteed by the State and payable from General Fund tax receipts are counted against the limit, except for the exclusions or deductions described above. In addition, under Public Act No. 95-230, the amount of authorized but unissued debt under that Act for UConn 2000 is limited to the amount permitted to be issued under the cap. See *Types of Direct General Obligation Debt — UConn 2000 Financing*.

Under the General Statutes, the Treasurer is required to compute the aggregate amount of indebtedness as of January 1 and July 1 each year and to certify the results of such computation to the Governor and the General Assembly. If the aggregate amount of indebtedness reaches 90% of the statutory debt limit, the Governor shall review each bond act for which no bonds, notes or other evidences of indebtedness have been issued, and recommend to the General Assembly priorities for repealing authorizations for remaining projects.

The total tax receipts for the fiscal year beginning July 1, 2000 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, and the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of November 1, 2000 is described in the following table.

TABLE 7

**Statutory Debt Limit
as of November 1, 2000**

Total General Fund Tax Receipts	\$ 8,104,900,000	
Multiplier	1.6	
Debt Limit		\$ 12,967,840,000
Outstanding Debt ^(a)	\$ 6,739,187,890	
Guaranteed Debt ^(b)	469,465,146	
Authorized Debt ^(c)	3,894,626,379	
Total Subject to Debt Limit		\$ 11,103,279,415
Less Debt Retirement Funds ^(d)	\$ 117,870,572	
Aggregate Net Debt		\$ 10,985,408,843
Debt Incurring Margin		\$ 1,982,431,156

- (a) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes UCONN 2000 Bonds, tax increment financings and short term revenue anticipation notes.
- (b) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt**. Guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UCONN 2000 bonds. Excludes accreted value of UCONN 2000 capital appreciation bonds.
- (c) Includes guarantee for UCONN 2000 bonds authorized but unissued under cap for 2000-2001.
- (d) Includes Rental Housing Sinking Fund and debt service funds for self-liquidating debt issued to finance facilities at University of Connecticut and Connecticut State University.

SOURCE: State Treasurer's Office

State Bond Commission. The general obligation bond procedure act established the State Bond Commission and empowers it to authorize the issuance of general obligation bonds for purposes and in amounts and subject to other limits established by the legislature in a bond act. The Commission consists of the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of the Office of Policy and Management, the Commissioner of the Department of Public Works, and the Co-Chairpersons and Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding of the General Assembly. The Secretary of the Office of Policy and Management serves as secretary to the Commission.

Subject to satisfaction of certain conditions, the Commission may authorize the issuance of general obligation bonds, by the approving vote of at least a majority of the Commission, upon a finding that such authorization will be in the best interest of the State. Upon authorization, the principal amount of bonds so authorized is deemed an appropriation of such amount for such purpose or project and, subject to allotment thereof by the Governor, contracts may be awarded and obligations incurred with respect to the project or purpose, in amounts not exceeding the authorized principal amount, notwithstanding the fact that the contracts and obligations may at a particular time exceed the amount of the proceeds from the sale of such bonds received by the State up to that time. The Commission also determines the terms and conditions of the bonds authorized or delegates such determination to the Treasurer. The Commission generally meets monthly in formal session.

Types of Direct General Obligation Debt

Bond Acts. Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to authorize bonds for a variety of projects or purposes. Each bond act is usually specific as to its projects or purposes and the amount of bonds to be issued therefor, although each bond act may contain several projects or purposes. Each bond act also usually sets forth a maximum maturity of the bonds.

The types of projects and purposes for which the State has authorized general obligation debt include the following: acquisition, construction, renovation and improvement of buildings and facilities for State departments and agencies, educational institutions, prisons, college and university facilities, library facilities and courthouses, acquisition of development rights to preserve open space and farmland, and the provision of grants and loans to promote economic development within the State. Some bonds authorized for university and college facilities are self-liquidating, and certain fees and charges collected by the college or university are set aside and used to service the debt on these bonds. Bonds are also authorized to fund a wide variety of grant programs. Such grants are made to local governments for local school construction projects or to finance a variety of local government, economic development, highway, bridge and other capital improvement projects. Certain bonds are authorized to finance grants and loans to local housing authorities and developers of affordable housing. Other general obligation debt finances grants and loans to municipalities for design and construction of water pollution control facilities, in addition to loans that are financed under the State's Clean Water revenue bond program.

UConn 2000 Financing. In 1995 the General Assembly enacted Public Act No. 95-230, The University of Connecticut 2000 Act. That act established the University of Connecticut as a separate corporate entity and instrumentality of the State that is empowered to issue bonds and construct the infrastructure improvements contemplated by the act for the University of Connecticut. The estimated costs of the infrastructure improvements set forth in the act total \$1,250 million, with \$382 million scheduled to be undertaken in fiscal years 1996-1999 (Phase I) and \$868 million in fiscal years 2000-2005 (Phase II). The act authorizes the University to borrow money to finance the UConn 2000 projects, to finance cash flow deficits, and to refund such financings. Such borrowings are to be general obligations of the University payable from any revenues or assets of the University and may be secured by pledges of the University's revenues or assets other than mortgages.

The UConn 2000 projects are to be financed by \$18 million general obligation bonds of the State and \$962 million bonds of the University which are secured by the State's debt service commitment, which is an annual amount for any debt service requirements when due and payable. Under the Act, appropriations of all amounts of the State's debt service commitment are made out of the resources of the State's General Fund and the State Treasurer is obligated to make such payments. For this reason, all general obligation borrowings by the University are treated as part of the State's general obligation debt. The amount of the University's bonds which are secured by the State's debt service commitment is capped for each fiscal year, but any amount not used may be carried forward to future fiscal years. The cap does not apply to bonds issued to finance any special capital reserve fund or other debt service reserve fund, costs of issuance or capitalized interest. The amount of bonds issued by the University and secured by the State's debt service commitment and the amount of bonds which are authorized to be issued in a fiscal year under the cap are counted against the State's debt limit. The aggregate cap for fiscal years 1996-1999 is \$382 million, with the remaining cap of \$580 million spread over the fiscal years 2000-2005.

The form of master resolution for bonds secured by the State's debt service commitment must be approved by the State Bond Commission, as must any substantive amendment thereto. Each resolution approved by the University to borrow money, including bonds secured by the State's debt service commitment, may be rejected by the Governor within thirty days of submission. All borrowing by the University is to be undertaken by the State Treasurer.

The total amount of University bonds and State general obligation bonds authorized by the Act is \$270 million less than the estimated costs of the infrastructure improvements set forth in the Act. This difference is expected to be addressed by capital cost reductions, deferring certain projects to a future date, and by securing additional funding sources, such as private fundraising and special obligation bonds. Special obligation bonds are to be secured by particular revenues of the University pledged therefore, are not subject to the cap on the University's general obligation bonds and are not counted against the State's debt limit.

Special obligation bonds are not secured by the State's debt service commitment, but may be secured by a special capital reserve fund which the State undertakes to restore to its minimum level. See **OTHER FUNDS, DEBT AND LIABILITIES - Contingent Liability Debt - Special Capital Reserve Funds**. Before issuing special obligation bonds secured by such a special capital reserve fund, the act requires the board of trustees of the University to determine that project revenues, other than those derived from the State's debt service commitment and the State's minimum operating provision, are estimated to be sufficient to pay the debt service on the special obligation bonds, to maintain reserves and to operate the physical infrastructure of the University. The act requires the Treasurer to confirm that such determination is not unreasonable or arbitrary. The University may also issue special obligation bonds which are not secured by such a special capital reserve fund.

Lease Financing. The State has issued certificates of participation for the development of courthouse facilities, based upon State rental payments under a lease purchase agreement between the State and the project developer. The State has treated this method of lease financing as general obligation debt. However, the State has entered into other leasing arrangements for the development of courthouse facilities which are not treated as general obligation debt, most often in circumstances where the lease is a standard lease or the State is not a participant in the securitization of rental payments under the lease.

Tax Increment Financing. In 1992 the General Assembly authorized the Connecticut Development Authority to issue tax increment bonds for certain types of economic development projects. Under the program the amount of such bonds that may be issued is limited so that the debt service on the bonds may not exceed the estimated increases in the sales tax and the admissions, cabaret and dues taxes generated by the project and allocated by the Authority for debt service on the bonds. Under the General Statutes, debt service on the bonds is required to be paid from such tax receipts (whether or not the actual tax receipts equal or exceed the estimated amount) and is deemed appropriated from the General Fund. The State has classified such tax increment bonds as general obligation debt. No such tax increment bonds may be issued without the approval of the State Bond Commission and no commitments for new projects under this program may be approved by the Authority on or after July 1, 2001.

In addition to general obligation bonds for Hartford development projects, the legislature created the Capital City Economic Development Authority in 1998 and granted it the power to issue revenue bonds for a convention center in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. The bonds must be approved by the State Bond Commission, various other conditions and approvals must be satisfied, and the Authority must determine the extent to which incremental tax revenues to be derived as a result of construction and operation of the project and visitor spending with respect thereto are reasonably expected to offset debt service. The legislation originally authorized tax increment bonds for a sports stadium, but in 1999 the legislature authorized state general obligation bonds for the stadium.

In 1998 the legislature authorized the Connecticut Development Authority to issue up to \$120 million in tax increment financing for the Steel Point Project in Bridgeport. The issuance of the bonds is subject to the approval of the State Bond Commission. The legislation also authorizes the State to provide financial assistance to the project, for any two year period, in an aggregate amount exceeding \$10 million. The legislation provides that the Authority, and certain State agencies may provide financial assistance to the Steel Point Project in an aggregate amount not to exceed \$200 million when combined with funds from the City of Bridgeport, exclusive of various financing costs and financial assistance from other State agencies and the Federal government.

In 1998 the legislature also authorized the City of New Haven to apply for tax increment financing through the Connecticut Development Authority in an amount up to \$28 million for improvements in the Long Wharf area of the City. The legislation also authorizes the State to provide financial assistance to the City for the project in an aggregate amount exceeding \$10 million for any two year period.

Certain Short-Term Borrowings. The General Statutes authorize the Treasurer, subject to the approval of the Governor, to borrow such funds, from time to time, as may be necessary, and to issue obligations of the State therefor, which shall be redeemed by the Treasurer whenever, in the opinion of the Treasurer, there are funds in the treasury available for such purpose. The State has established programs of temporary note issuances from time to time to cover periodic cash flow requirements. No temporary notes are outstanding and none have been issued since 1991.

Forms of Debt. In addition to the bonds, notes and lease financings described above, the State Treasurer has the authority to issue refunding bonds, bond anticipation notes, and capital appreciation bonds. The State general obligation bond procedure act provides that the Treasurer may issue temporary notes and any renewals thereof in anticipation of the proceeds from the sale of bonds whenever the State Bond Commission has adopted a resolution authorizing bonds. The Treasurer is also authorized by the State general obligation bond procedure act to issue refunding bonds whenever the Treasurer finds that the sale is in the best interests of the State and that the State reasonably expects to achieve net debt service savings as a result of such refunding. Certain of the State's general obligation bonds have been issued as capital appreciation bonds. Capital appreciation bonds are issued at a deep discount and interest on the bonds is compounded semi-annually and only paid at maturity. For purposes of the State's debt tables, the interest which has accrued on capital appreciation bonds up to the date of the table is added to the principal amount of the State's debt. Pursuant to State statute, accrued interest on UCONN 2000 capital appreciation bonds is excluded from the calculation of the statutory debt limit.

Derivatives. The General Statutes authorize the Treasurer, with the approval of the State Bond Commission, to enter into various agreements in connection with liquidity and credit facilities and swap and other arrangements to manage interest rate risk. See **FINANCIAL PROCEDURES - Investment and Cash Management - Interest Rate Risk Management.**

Debt Statement

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds as of November 1, 2000) for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State's General Fund.

TABLE 8

**Direct General Obligation Indebtedness ^(a)
Principal Amount Outstanding Pro-forma as of November 1, 2000
(In Thousands)**

General Obligation Bonds	\$	6,707,098
UCONN 2000 Bonds		471,355
Lease Financings		32,090
Tax Increment Financings		<u>35,055</u>
Long Term General Obligation Debt Total		7,245,597
Short Term General Obligation Debt Total		<u>-</u>
Gross Direct General Obligation Debt		7,245,597
Deduct:		
University Auxiliary Services ^(b)		46,591
Rental Housing Sinking Fund ^(c)		<u>71,280</u>
Net Direct General Obligation Debt	\$	<u>7,127,727</u>

-
- (a) The table does not include refunded bonds for which escrow funds and investments are sufficient to pay all debt service. The table also does not include limited or contingent liabilities of the State or obligations of the State to towns for participation in the construction and alteration of school buildings. See **OTHER FUNDS, DEBT AND LIABILITIES**.
- (b) Considered self-liquidating. The proceeds of such bonds have been used to build facilities for the State University System and the University of Connecticut. Student fees, other than tuition, for use of such facilities, are deposited into enterprise funds and are used for the operation of such facilities and for deposit annually into a debt service fund maintained by the Treasurer for payment of debt service on such bonds.
- (c) The State has established a contractual trust fund with the bondholders in which there is a pledged fund balance, the amount of which has been deducted.

SOURCE: State Treasurer's Office

Debt Ratios

The following table sets forth certain ratios relating to the State’s gross and net direct general obligation indebtedness:

TABLE 9

Debt Ratios - Long Term General Obligation Debt

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Gross Direct Debt ^(a)	\$6,573,810	\$6,826,826	\$6,981,212	\$7,176,905	\$7,432,891
Net Direct Debt ^(a)	\$6,428,391	\$6,678,398	\$6,865,905	\$7,067,276	\$7,315,945
Ratio of Debt to Personal Income ^(b)					
Gross Direct Debt	6.00%	5.87%	5.70%	5.56%	5.76%
Net Direct Debt	5.87%	5.74%	5.60%	5.48%	5.67%
Ratio of Debt to Estimated Full Value ^(c)					
Gross Direct Debt	2.57%	2.64%	2.65%	2.60%	2.51%
Net Direct Debt	2.51%	2.58%	2.61%	2.56%	2.47%
Per Capita Debt ^(d)					
Gross Direct Debt	\$2,012	\$2,088	\$2,133	\$2,187	\$2,265
Net Direct Debt	\$1,968	\$2,043	\$2,098	\$2,153	\$2,229

- (a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in *Table 11*.
- (b) See *Appendix III-B, Table B-2*. Personal Income: 1996—\$109,354 million; 1997—\$116,347 million; 1998—\$122,564 million; 1999—\$128,983 million —2000 ratio uses 1999 data.
- (c) Full value estimated by Office of Policy and Management. Uses final equalized net grand lists: 1994—\$256 billion; 1995—\$258 billion; 1996—\$263 billion; 1997 - \$276 billion; and 1998 - \$296 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 1996 ratio uses 1994 data; 1997 ratio uses 1995 data; 1998 ratio uses 1996 data; 1999 ratio uses 1997 data; and 2000 ratio uses 1998 data.
- (d) See *Appendix III-B, Table B-1*. State population: 1996—3,267,000; 1997—3,269,000; 1998—3,273,000; 1999—3,282,000. 2000 ratio uses 1999 data.

Debt Service Schedule

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of November 1, 2000. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

TABLE 10

**Summary of Principal, Mandatory Sinking Fund Payments,
and Interest on Long-Term Direct General Obligation Debt^(a)
as of November 1, 2000**

Fiscal Year	Principal Payments^(b)	Sinking Fund Payments^(c)	Interest Payments^{(b)(d)}	Total Debt Service
2000-01	\$ 425,251,369	\$ -	\$ 259,046,398	\$ 684,297,767
2001-02	581,491,532	4,275,000	352,565,952	938,332,483
2002-03 ^(b)	501,322,485	4,445,000	326,858,056	832,625,541
2003-04	503,839,774	-	313,915,079	817,754,853
2004-05	513,231,267	-	304,092,159	817,323,426
2005-06	457,370,539	-	283,922,566	741,293,106
2006-07	442,950,395	-	267,790,127	710,740,522
2007-08	442,096,449	-	252,786,650	694,883,099
2008-09	419,565,030	-	271,869,555	691,434,585
2009-10	400,264,738	-	242,838,446	643,103,184
2010-11	369,394,845	-	162,794,090	532,188,936
2011-12	312,401,175	-	124,577,106	436,978,281
2012-13	264,577,382	-	88,815,374	353,392,756
2013-14	225,843,504	-	60,832,208	286,675,713
2014-15	210,058,950	-	40,176,103	250,235,053
2015-2025	<u>584,431,529</u>	<u>-</u>	<u>73,023,722</u>	<u>657,455,251</u>
Totals	\$6,654,090,964	\$ 8,720,000	\$3,425,903,593	\$10,088,714,557

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$6,654,090,964), plus future sinking fund payments (\$8,720,000), and existing sinking fund deposits (\$71,280,000), plus accreted interest on State and UConn 2000 capital appreciation bonds (\$511,506,509), total the amount of such long-term debt (\$7,245,597,473) as shown in **Table 8**. See footnotes (b) and (c) for further explanation.
- (b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bonds issued pursuant to the College Savings Bond Program and UConn 2000 bonds. Capital appreciation bonds mature in fiscal years 2001-2014.
- (c) \$80,000,000 Rental Housing Term Bonds become due in 2002. A special Rental Housing Debt Service Fund has been established into which annual mandatory sinking fund payments are made sufficient to produce such \$80,000,000 at maturity. The total sinking fund payments that are required to have been made aggregate \$71,280,000 and, when added to the total \$8,720,000 sinking fund payments that remain to be made through July 1, 2002, equal the total \$80,000,000 bonds outstanding. Therefore, the \$80,000,000 is not reflected in either the principal payments or total debt service due in fiscal year 2002-2003.
- (d) On May 14, 1997, the State issued \$100,000,000 General Obligation Variable Rate Demand Bonds of which \$99,235,000 remain outstanding. The interest on these securities is estimated herein at a 6.0% average rate. The balance of the Bonds mature in the years 2005-2014.

SOURCE: State Treasurer's Office

Outstanding Long-Term Direct General Obligation Debt

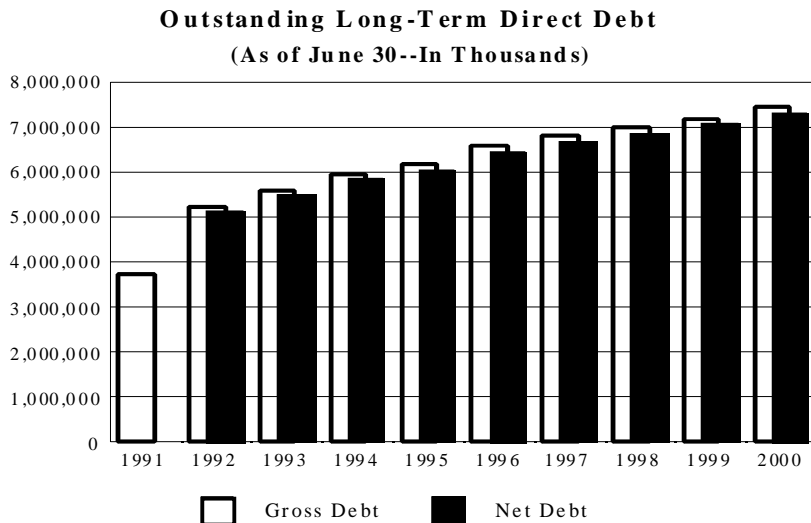
The following table and graph sets forth the total long-term direct general obligation debt outstanding at the end of each of the last ten fiscal years, and the net long-term direct general obligation debt outstanding at the end of each of the last five fiscal years. Net debt excludes bonds that are considered self-liquidating. See *Table 8*.

TABLE 11
Outstanding Long-Term Direct General Obligation Debt
(As of June 30-In Thousands)

<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>	<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>
1991	\$ 3,729,959	\$	1996	\$ 6,573,810 ^(e)	\$ 6,428,391 ^(e)
1992	5,235,879 ^(a)	5,118,368 ^(a)	1997	6,826,826 ^(f)	6,678,398 ^(f)
1993	5,594,715 ^(b)	5,479,474 ^(b)	1998	6,981,212 ^(g)	6,865,905 ^(g)
1994	5,962,250 ^(c)	5,845,233 ^(c)	1999	7,176,905	7,067,276
1995	6,186,518 ^(d)	6,051,141 ^(d)	2000	7,432,891	7,315,945

- (a) Includes \$915,710,000 Economic Recovery Notes.
- (b) Includes \$705,610,000 Economic Recovery Notes.
- (c) Includes \$555,610,000 Economic Recovery Notes.
- (d) Includes \$315,710,000 Economic Recovery Notes.
- (e) Includes \$236,055,000 Economic Recovery Notes.
- (f) Includes \$157,055,000 Economic Recovery Notes.
- (g) Includes \$ 78,055,000 Economic Recovery Notes.

SOURCE: State Treasurer's Office



Future Issuance of Direct General Obligation Debt

Authorized But Unissued Direct General Obligation Debt. The General Assembly has empowered the State Bond Commission to authorize direct obligation bonds pursuant to certain bond acts. The table below shows, as of November 1, 2000, the amount of bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The table shows the same information for UConn 2000 bonds secured by the State's debt service commitment authorized to be issued under the cap through June 30, 2001.

TABLE 12

**Authorized but Unissued Direct General Obligation Debt
as of November 1, 2000
(In Thousands)**

	State Direct Debt	UCONN 2000 ^(a)	Tax Increment ^(b)	Total
Bond Acts in Effect	\$ 13,839,841	\$ 618,427	\$ 190,800	\$ 14,649,068
Amount Authorized	11,613,383	618,427	42,800	12,274,610
Amount Issued	10,045,215	518,427	39,330	10,602,972
Authorized but Unissued	1,568,168	100,000	3,470	1,671,638
Available for Authorization	2,226,458	-	148,000	2,374,458

(a) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest.

(b) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission, since there is no statutory amount of authorization, except for \$148 million authorized under Public Act No. 98-179 for the Steel Point Project in Bridgeport and the Long Wharf area in New Haven.

SOURCE: State Treasurer's Office; Office of Policy and Management

Bond Authorizations and Reductions. The General Assembly authorizes bonds in various public and special acts each year or each biennium. In addition to authorizing bonds for new projects and purposes, the General Assembly reviews prior authorizations and may repeal certain projects and bond authorizations or otherwise reduce prior bond authorizations. The table and graph below list the amount of new authorizations of general obligation debt and the net amount after subtracting prior bond authorizations which have been repealed or reduced.

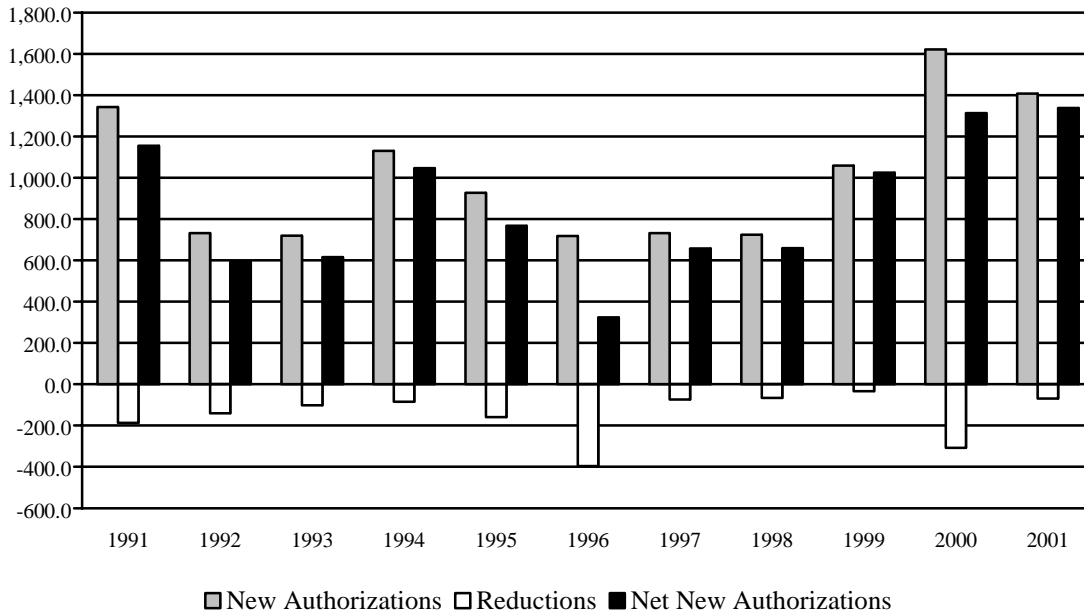
TABLE 13
Statutory Bond Authorizations and Reductions^(a)
(In Millions)

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
New Authorizations	1,342.4	731.6	718.8	1,130.0	926.3	718.4	733.1	729.7	1,056.8	1,621.6	1,407.9
Reductions	(187.3)	(140.6)	(102.6)	(84.2)	(159.6)	(396.0)	(74.3)	(66.0)	(31.7)	(308.4)	(70.1)
Net New Authorizations	1,155.1	591.0	616.2	1,045.8	766.7	322.4	658.8	663.7	1,025.1	1,313.2	1,337.8

(a) Does not include lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 1997 through 2001, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Does not include an additional \$396 million in general obligation bonds which take effect after 2001.

SOURCE: Office of Policy and Management

Statutory Bond Authorizations and Reductions
(In Millions)



Purposes of Recent Bond Authorizations. The purposes for which the State issues its general obligation bonds include those described in the next table. The amounts authorized for each of these purposes for recent fiscal years is reflected in the following table, including amounts authorized for UConn 2000. The table does not reflect any statutory reductions of authorized items from prior years, nor are tax increment or cash flow borrowings or lease financings included.

TABLE 14

**New Agency Authorizations (Does Not Include Reductions)
(In Thousands)**

<u>Purpose</u>	<u>1995-1996</u>	<u>1996-1997</u>	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
Policy & Management.....	\$ 104,950	\$ 140,550	\$ 117,338	\$ 116,800	\$ 190,960	\$ 179,921
Administrative Services	17,500	11,800	0	0	0	0
Veterans' Affairs.....	643	815	1,000	500	0	0
Public Works.....	28,000	30,000	29,000	21,000	20,000	20,000
Public Safety	9,270	14,052	8,500	6,400	6,700	2,300
Motor Vehicles.....	830	3,000	0	0	0	0
Military	1,980	3,900	7,550	1,050	300	1,300
Agriculture	8,500	3,500	1,400	3,900	2,250	1,000
Environmental Protection.....	45,980	51,080	81,500	71,000	137,650	141,150
Economic and Community Development:						
Housing.....	45,000	40,000	18,000	20,000	5,000	10,500 ^(c)
Economic Development	15,000	30,000	22,200	16,400	40,000	138,500
Other	0	0	0	148,000	14,000	0
Ct Innovations Inc.	19,500	19,000	8,000	20,000	0	10,000
Historical Commission.....	150	150	150	150	300	300
Public Health	0	0	1,000	0	0	0
Mental Retardation.....	10,300	6,500	5,365	0	4,000	4,000
Mental Health and Addiction Services	19,002	10,190	16,100	10,300	20,750	21,750
Social Services	3,000	3,000	6,250	6,000	5,000	6,000
Education	143,000	154,900	195,163	344,200	404,900	482,100
State Library.....	2,460	3,400	2,500	2,500	2,500	2,500
Arts.....	1,000	1,000	1,000	1,000	1,000	1,000
Regional Community-Technical Colleges.....	18,191	14,800	19,520	69,705	77,187	74,855
State University.....	47,391	48,886	34,142	40,952	85,537	88,352
Secretary of State	525	500	900	750	0	0
Legislative Management	0	0	0	0	800	0
Children & Families	7,800	1,250	5,000	33,000	6,500	14,500
Judicial	23,404	12,650	23,848	11,500	62,000	20,500
CPTV	2,665	1,170	1,200	6,470	2,000	2,000
Contingency	596	6,604	0	0	0	0
Corrections.....	0	0	5,000	0	10,000	35,000
UCONN	18,000	0	19,400	0	2,000	20,000
UCONN Health.....	11,200	8,439	5,593	7,881	4,250	3,400
UCONN 2000 ^(a)	112,542	112,001	93,146	64,311	130,000	100,000
Hartford Econ Dev Projects ^(b)	0	0	0	33,000	386,000	27,000
Totals.....	\$718,379	733,137	729,765	1,056,769	\$1,621,584	1,407,928

- (a) To be issued by University of Connecticut based on cap for the year indicated prior to actual bond issuance. Does not include additional amounts which may exceed cap to finance reserve funds, issuance costs and capitalized interest. Does not include \$350 million authorized under the cap for fiscal years 2002 to 2005
- (b) The legislature also authorized an additional \$26 million in general obligation bonds for various development projects in Hartford which take effect during fiscal year 2002.
- (c) Does not include \$20 million approved by the General Assembly for a grant-in-aid to the city of New London, for fiscal year 2002, for economic development and additional costs of improvements to the Fort Trumbull peninsula.

SOURCE: Office of Policy and Management

OTHER FUNDS, DEBT AND LIABILITIES

The State conducts certain of its operations through State funds other than the State General Fund and, pursuant to legislation, may issue debt secured by the special taxes or revenues pledged to certain of such funds. In addition, the State is contingently liable or has limited liability, from the resources of the State's General Fund, for payment of debt service on certain obligations of quasi-public State agencies and municipalities of the State. The State has also made commitments to municipalities to make future grant payments for school construction projects, payable over a period of years. In addition, the State has committed to apply moneys for debt service on loans to finance child care facilities and has certain other contingent liabilities for future payments.

Transportation Fund and Debt

In 1984 the State adopted legislation establishing a transportation infrastructure program and authorizing special tax obligation ("STO") bonds to finance the program. The infrastructure program is a continuous program for planning, construction and improvement of State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program, waterway facilities, mass transportation and transit facilities, aeronautic facilities (excluding Bradley International Airport), the highway safety program, maintenance garages and administrative facilities of the Department of Transportation, payment of the State's share of the costs of the local bridge program established under the act, and payment of State contributions to the local bridge revolving fund established under the act. The infrastructure program is administered by the Department of Transportation.

The cost of the infrastructure program for State fiscal years 1985-2004, which is to be met from federal, State, and local funds, is currently estimated at \$14.1 billion. During fiscal years 1985-2000, \$11.4 billion of the total infrastructure program was approved. The remaining \$2.7 billion is required for fiscal years 2001-2004. The \$2.7 billion is comprised of \$698.6 million from the anticipated issuance of new special tax obligation bonds, \$50.4 million in anticipated revenues, and \$1.9 billion in anticipated federal funds. The State's share of the 1985-2004 infrastructure program costs, estimated at \$5.5 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of STO bonds. The portion of State program costs not financed by STO bonds is estimated at \$0.5 billion and includes the expenses of the infrastructure program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses include resurfacing and restoring State highways, improving certain highways in urban areas, providing safety improvements along the State's roads, and completing certain other transportation improvements.

The State's share of the cost of the infrastructure program for State fiscal years 1985-2004 to be financed by STO bonds is estimated at \$5.0 billion. The issuance of such STO bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. STO bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

The State has established a Special Transportation Fund for the purpose of budgeting and accounting for all transportation related taxes, fees and revenues credited to such Fund and securing the STO bonds. STO bonds are payable solely from revenues of the Special Transportation Fund. The aggregate of motor fuel taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, and portions of the oil companies tax and sales tax on motor vehicles and other transportation related revenue sources, including enacted adjustments to all the foregoing sources, are intended to cover the cost of the State's share of the infrastructure program, including debt service requirements. After providing for debt service requirements, the balance of the receipts from such revenue sources may be applied to the payment of general obligation bonds of the State issued for transportation purposes and for the payment of annually budgeted expenses of the Department of Transportation and the Department of Motor Vehicles.

The following table shows the amount of STO bonds authorized by the General Assembly for the program, the amount issued and the amount outstanding (excluding refunded bonds) as of November 1, 2000. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

TABLE 15

**Special Tax Obligation Bonds
As of November 1, 2000
(In Millions)^(a)**

	<u>New Money</u>	<u>Total</u>
Amount Authorized	\$4,901.4 ^(b)	
Amount Issued	4,494.7	5,939.2
Amount Outstanding	1,940.0	3,118.5

(a) The amounts under the New Money column include only new money borrowings, and not refundings. The amounts under the Total column include both new money borrowings and refundings.

(b) Includes authorizations effective July 1, 2000 or before.

SOURCE: State Treasurer's Office

Debt service on State direct general obligation bonds for transportation purposes may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2000, the Special Transportation Fund paid \$31.4 million of State direct general obligation transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for fiscal year 2000-01 is \$29.2 million.

Over the past decade, the Fund's revenues and expenses have undergone a variety of legislative changes. Legislation passed in 1991 and 1993 called for a phasing in of increases in the gasoline tax up to a rate of 39 cents per gallon in 1997. Legislation passed in 1997, 1998, and 2000 further reduced the gasoline tax to its current rate of 25 cents per gallon. The 2000 legislation, which will have a significant impact on the Fund, was directed toward achieving a reduction in the gasoline tax and maintaining in the Fund a positive cumulative balance.

The reduction in the gasoline tax is projected to produce an annual revenue reduction of approximately \$99 million. This revenue reduction will be partially offset by additional motor vehicle sales tax revenues, a transfer from the State's General Fund, additional oil companies tax payments and reduction in expenditures caused by the transfer of the Town Aid Road Program out of the Fund and into the General Fund. In fiscal 2001, these modifications are projected to reduce the Fund revenues by approximately \$55 million while simultaneously reducing total expenditures by approximately \$40 million. By fiscal 2004, the modifications are projected to reduce revenues by \$72 million, while expenditures are projected to be \$38 million lower. Finally, the 2000 legislation repealed Public Act 97-309, which had required that any surplus in excess of \$20 million be used for debt reduction or the payment of debt service on STO bonds. During the 2000 fiscal year, the State defeased \$85.0 million of STO bonds using surplus available from fiscal years 1998 and 1999. The balance of such surplus, approximately \$1.531 million, was used for debt service on STO bonds in the fiscal year ending June 30, 2001. Following the repeal of Public Act 97-309, surplus balances in the Fund will now be carried forward.

Other Special Revenue Funds and Debt

Bradley Airport

Bradley International Airport, located in Windsor Locks, Connecticut, is owned by the State and operated by the Bureau of Aviation and Ports in the State's Department of Transportation. The General Assembly has authorized the issue of \$294 million revenue bonds for improvements at Bradley International Airport, payable solely from revenues generated at the Airport.

On October 1, 1982 the State issued \$100 million Bradley International Airport Revenue Bonds. All of the outstanding maturities of this issue were subsequently refunded. As of November 1, 2000 there were \$71.2 million of tax-exempt 1992 Bradley International Airport Revenue Refunding Bonds and \$3.02 million of taxable 1989 Bradley International Airport Revenue Refunding Subordinated Bonds outstanding. The amount of revenue bonds authorized but unissued is \$194 million.

Additional special obligation bonds to finance self-sustaining special facilities at Bradley International Airport payable solely from the revenues derived from such special facilities were authorized in 1993. In March 2000, the State issued \$53.8 million Bradley International Airport Special Obligation Parking Revenue Bonds to finance the construction of a five story parking garage facility at the airport.

Clean Water Fund

The General Assembly authorized the issue of up to \$999.4 million revenue bonds for the purpose of funding municipal sewer treatment improvement projects. The revenue bonds are payable solely from the revenues or other receipts, funds or moneys pledged therefor. The proceeds of the revenue bonds are loaned to Connecticut municipalities to finance water pollution treatment facilities, and the loan repayments by the municipalities secure the bonds. The loans are evidenced by interim funding obligations and project loan obligations of the municipalities, pursuant to which the full faith and credit of each such municipality is pledged, or in a few instances revenues of a municipal sewer system are pledged. As of November 1, 2000, \$542.9 million revenue bonds (excluding refunded bonds) were outstanding. Legislation enacted in 1996 created a drinking water improvement program as part of the sewer treatment improvement program. Under this program, the State makes loans from the proceeds of general obligation bonds to Connecticut municipalities and water companies to finance water quality projects.

Unemployment Compensation

Unemployment compensation benefits are paid in the State from unemployment compensation taxes collected from employers. Monies collected from unemployment compensation taxes are deposited in the State's Unemployment Compensation Fund and transferred at the direction of the Administrator of the State's Unemployment Compensation Program by order of the Comptroller to the Secretary of the Treasury of the United States as trustee of the Federal Unemployment Trust Fund for deposit in the State's Federal Unemployment Trust Fund account. The monies in the State's Federal Unemployment Trust Fund account are transferred back to the State at the request of the State Treasurer as directed by the Administrator in order to pay unemployment benefits. The monies so received are deposited into the State's Unemployment Compensation Fund and are available to be used by the Administrator to be paid out as benefits.

A deficit in the State's Unemployment Compensation Fund as of July 31, 1993 of approximately \$759 million was initially funded by borrowings from the Federal Unemployment Compensation Fund. Interest on these Federal loans was paid through assessments levied on employers in addition to unemployment compensation taxes. Legislation enacted in 1993 authorized an increase in unemployment taxes to cover future expected unemployment benefits, and authorized a separate annual assessment and the issuance of special obligation bonds to repay the outstanding federal borrowings and expected shortfalls in the Fund through December 1993. The State issued three series of special obligation bonds totaling \$1,020.7 million in

1993 to repay the federal borrowings and unemployment benefits and to fund certain reserves. The legislation also provides for a surtax in the form of an assessment to be paid by contributing employers. The bonds are payable solely from such assessments and from funds requisitioned by the State from the State's Federal Unemployment Trust Fund account at the U.S. Treasury. As of November 1, 2000, \$334.2 million of such bonds were outstanding. The authority to issue additional bonds so that the total amount of bonds outstanding at any time does not exceed \$1,000 million plus amounts for certain reserves and costs of issuance has been reserved by the State if necessary to fund future shortfalls. The State has not incurred any additional federal borrowing since the issuance of the three series of bonds, other than borrowings for cash flow purposes which have been repaid prior to September 30 in each case and which therefore have not been subject to federal interest charges.

Second Injury Fund

The Second Injury Fund is a State-run workers' compensation insurance fund which pays lost wages and medical benefits to qualified injured workers. The State Treasurer is the custodian of the Second Injury Fund, and is responsible for its administration. The State established the Second Injury Fund in 1945 to encourage the hiring of persons with pre-existing physical impairments, such as veterans. Until the January 1, 1995 statutory closure of the Fund for second injury claims, the Fund provided relief to employers when an injured worker, who already had a pre-existing injury or condition, was hurt on the job and the second injury was made worse by the existence of the first injury. Employers transferred liability for workers' compensation claims to the Second Injury Fund after 104 weeks if certain criteria were met. Notwithstanding the statutory closing as of July 1, 1995 for the claims described above, the Second Injury Fund continues to accept liability for claims relating to uninsured employers and reimbursement to employers in instances of concurrent employment and for certain other claims.

The Second Injury Fund is financed by assessments levied on Connecticut employers. Insured employers pay a surcharge on the workers' compensation insurance policies based on annual standard premiums. The assessment for self-insured employers is based upon the amount of their workers' compensation loss costs for medical and indemnity benefits incurred in the prior calendar year.

Starting in 1990, the Second Injury Fund's expenses and assessments began to rise dramatically in response to several factors including the ease of transferring claims to the Second Injury Fund, high benefit rates and the absence of a claims management program to reduce and control costs.

In 1995, a Second Injury Fund reform program was implemented with the primary objective of changing the focus of the Fund from a claims processing and paying agency to a claims management agency. In 1995 and 1996, the State enacted legislation to further reform the Second Injury Fund. Those laws include provisions that closed the Second Injury Fund to claims resulting from second injuries occurring on and after July 1, 1995, set a final date of July 1, 1999 for the transfer of these claims to the Second Injury Fund, authorized the issuance of an amount not to exceed \$750 million in revenue bonds and notes outstanding at any one time to provide funds for stipulations, and capped the Premium Surcharge Rate at 15% of the Standard Premium for Insured Employers until June 30, 1998.

The State issued its first series of Second Injury Fund revenue bonds on November 7, 1996 in the amount of \$100 million and entered into a Commercial Paper Dealer Agreement in February 1997 that provides for the issuance of up to an additional \$300 million notes. On October 26, 2000, the State issued a second series of Second Injury Fund Revenue Bonds in the amount of \$124,100,000. The bonds and notes are or will be payable solely from amounts held in the Finance Account of the Second Injury Fund and revenues pledged for their payment pursuant to legislation and the indenture of trust with respect to such bonds and notes, including a special assessment premium surcharge on employers.

As of June 30, 2000, the Second Injury Fund had settled approximately 5,262 cases since January 1, 1995 at a cost of \$391.6 million and had approximately 4,631 open cases remaining. In addition, certain

lawsuits are pending which challenge the exclusion of certain claims from the Second Injury Fund. Based on the Second Injury Fund's experience to date, it is expected that \$550 million, inclusive of the 1996 and 2000 bonds, of authorized debt will be adequate to finance stipulations for the remainder of the open cases.

The Fund will maintain on-going statutory and financial responsibilities for Second Injury claims transferred prior to July 1, 1999, in addition to uninsured employer claims, certain dependent and survivor death benefits, a pro-rata share of lost time cost in concurrent employment claims, and the cost of reimbursing employers and insurers for cost of living adjustments (COLAs) in certain cases, and claims for totally disabled claimants.

Contingent Liability Debt

The General Assembly has the power to impose limited or contingent liabilities upon the State in such a manner as it may deem appropriate and as may serve a public purpose. This power has been used to support the efforts of quasi-public agencies, municipalities and other authorities formed to carry out essential public and governmental functions by authorizing these entities to issue indebtedness backed, partially or fully, by General Fund resources of the State. Not all entities that are authorized to issue such indebtedness have done so, and the description below of the State's limited or contingent liability is restricted only to specific indebtedness backed by the State.

Special Capital Reserve Funds

The primary vehicle through which the State has undertaken contingent or limited liability is the special capital reserve fund. A special capital reserve fund, if established, provides additional security for bonds issued by the entity authorized to establish such a reserve fund. Subject to exceptions in the legislation authorizing the establishment of a particular special capital reserve fund, monies held in and credited to a special capital reserve fund are intended to be used solely for the payment of the principal of bonds secured by such special capital reserve fund, the purchase of such bonds, the payment of interest on such bonds or the payment of any redemption premium required to be paid when such bonds are redeemed prior to maturity. The special capital reserve fund is frequently funded with bond proceeds to a specified amount (the minimum of which is often the maximum annual principal and interest payments due on the bonds). The State undertakes the obligation to restore a special capital reserve fund to its minimum level. The method for determining such required minimum capital reserve is set out in the legislation authorizing the special capital reserve fund. If the special capital reserve fund should fall below the required minimum capital reserve amount, an official of the authority or municipality which established the special capital reserve fund shall certify to the Secretary of the Office of Policy and Management or the State Treasurer or both the amount necessary to restore such special capital reserve fund to the required minimum capital reserve amount. On or before December 1, annually, there will be deemed to be appropriated from the State's General Fund such amount as specified in the certificate, which amount shall be allotted and paid to the entity that established the special capital reserve fund. On an annual basis, the State's liability under any special capital reserve fund mechanism is limited to its obligation to restore that fund to its minimum capital reserve amount.

Quasi-Public Agencies

The State has established by legislation several quasi-public agencies. These quasi-public agencies are not departments, institutions or agencies of the State. They are, however, bodies politic and corporate that constitute public instrumentalities and political subdivisions of the State and whose exercise of authority granted to them is deemed to be the performance of an essential public and governmental function. These organizations provide a wide range of services that might otherwise be provided directly by the State.

Among the public authorities are: the Connecticut Development Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Housing Finance Authority and the Connecticut Resources Recovery Authority. Each of these

public authorities is authorized to issue bonds in its own name to facilitate its activities and each has issued bonds secured by a special capital reserve fund for which the State has limited contingent liability.

Connecticut Development Authority (“CDA”). The CDA was established in 1973 as a successor Authority. In order to discharge its responsibilities and fulfill its purposes, the CDA is authorized to offer various financing programs including The Mortgage Insurance and Loan Program (the “Insurance Fund”), the Umbrella Bond Program, the Self-Sustaining Bond Program, the Connecticut Growth Fund, the Connecticut Works Fund, the Connecticut Works Guarantee Fund, the Connecticut Capital Access, the Connecticut Small Business Reserve Fund, the Environmental Assistance Revolving Loan Fund, the Tax Incremental Financing Program, the High-Technology Infrastructure Fund, created in 2000, and the General Obligation Bond Program. Currently, only certain CDA bonds issued pursuant to the Umbrella Bond Program and the General Obligation Bond Program are further secured by special capital reserve funds.

Under the Umbrella Bond Program the CDA issues bonds to provide loans to private entities for the acquisition of industrial land, buildings, machinery, equipment and pollution control devices. Loan payments from the borrower to the CDA provide funds to service the debt on such bonds. Loans financed under the Umbrella Bond Program are secured by real and/or personal property of the borrower and by the Insurance Fund, which is, in part, State funded and insures payment of the loans. Loans may be insured up to an aggregate outstanding principal amount not to exceed four times the funds available to the Insurance Fund. As of June 30, 2000 the assets in the Insurance Fund totaled \$8.4 million and an additional \$20.45 million of State bonds have been authorized to fund the Insurance Fund but remain unissued. As of June 30, 2000, loans insured by the Insurance Fund totaled \$35.9 million.

Under the General Obligation Bond Program (the “Program”), the CDA issues bonds to finance eligible economic development and information technology projects. Pursuant to an Indenture of Trust between the CDA and Fleet National Bank (formerly Shawmut Bank Connecticut, N.A.), general revenues of the CDA, which are not otherwise pledged, are made available to service the debt of bonds issued under the Program. Although such bonds may also be secured by a special capital reserve fund, to date under the Program only \$30,560,000 1993 Series A (Hartford Whalers Project) bonds have been secured by such a fund.

The Board of Directors of the CDA is comprised of eleven members: the State Treasurer, the Commissioner of Economic and Community Development, the Secretary of the Office of Policy and Management, as *ex officio* members; four members appointed by the governor and experienced in the field of financial lending or the development of commerce, trade or business; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives.

Connecticut Health and Educational Facilities Authority (“CHEFA”). CHEFA was established to assist in the financing of facilities for educational or health care purposes, including colleges and universities, secondary schools, nursing homes, hospitals, child care facilities, and any other qualified non-profit institution through the issuance of bonds. Payments from institutions provide funds to service the debt on loans made pursuant to the issuance of bonds by CHEFA. CHEFA is also authorized to issue tax-exempt and taxable revenue bonds secured by one or more special capital reserve funds solely to finance projects for “participating nursing homes” and for housing, student centers, food service facilities and other auxiliary service facilities at public institutions of higher learning, including the Connecticut State University system.

Under CHEFA’s nursing home program, loans are secured by mortgages on the nursing homes and pledges of gross receipts. Minimum debt service coverage ratios of 1.25 times annual debt service are required and restrictions are placed on the issuance of additional debt. Participating nursing homes are required to fund a debt service reserve fund in an amount equal to one year’s maximum annual debt service and a working capital fund reserve account in an amount equal to 60 days of operating expenses or three year’s maximum annual debt service. If a participating nursing home is in default or is likely to become in default under its loan agreement with CHEFA due to the failure to make any payment(s) required, CHEFA may request that the

Commissioner of the Department of Social Services withhold any funds in the State's custody that are due and payable to the nursing home via a Medicaid intercept. Funds subject to withholding under this section include federal and state grants, contracts, allocations and appropriations.

The State Treasurer has applied appropriated funds and General Fund Budget Surplus to defease certain bonds for nursing homes in order to avoid any draw on the special capital reserve fund which secures such bonds. Legislation enacted in 1998 provides that no bonds secured by a special capital reserve fund are to be issued by CHEFA in the future for nursing homes, except for refunding bonds under certain circumstances where the debt service on the refunding bonds is less than the aggregate debt service on the refunded bonds.

CHEFA is also allowed to issue revenue bonds to finance facility improvements for the Connecticut State University System (the "System") which are secured by one or more special capital reserve funds. The System has pledged University Student Fees as a source of funds for the payment of debt service on the bonds. In the past, many facilities of the System were financed through self-liquidating general obligation bonds of the State, so implementation of this program should limit the need for the State to issue such bonds in the future.

The Board of Directors of CHEFA is comprised of ten members including the State Treasurer and Secretary of the Office of Policy and Management, both serving *ex officio*, and eight members appointed by the governor based on their qualifications in the areas of health care, higher education, or public finance.

Connecticut Higher Education Supplemental Loan Authority ("CHESLA"). CHESLA provides financial assistance in the form of education loans to students in or from the State, their parents or others responsible for the cost of their education and provides an alternative method to enable institutions for higher education in the State to assist qualified students to attend such institutions. CHESLA is authorized to issue bonds the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayment of such loans service the debt on CHESLA bonds. CHESLA, in connection with the issuance of its bonds has made certain covenants with respect to such loans, including a covenant to do or cause to be done all such acts and things necessary to receive and collect all revenues due with respect to such loans. CHESLA bonds are further secured by a special capital reserve fund.

The Board of Directors of CHESLA is comprised of eight members including the State Treasurer, Secretary of the Office of Policy and Management and the Commissioner of Higher Education, serving *ex officio*, and five members appointed by the Governor based on their qualifications in the areas of higher education and/or public finance.

Connecticut Housing Finance Authority ("CHFA"). CHFA was established in 1969 to meet the needs of low and moderate income families and persons for decent housing and to encourage and assist the development and construction of multifamily housing by reducing the cost of mortgage financing therefor. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements including unrestricted statutory income limits in certain urban areas. The enabling act authorizes CHFA to make or purchase construction and permanent mortgage loans which are guaranteed or insured by the United States of America or any agency or instrumentality thereof, by the Federal Home Loan Mortgage Corporation, by a private mortgage insurance company or the State or the Authority itself without limitation as to amount and to make or purchase mortgage loans not so insured or guaranteed in an aggregate amount not to exceed \$750 million. In order to finance these activities CHFA has established a Housing Mortgage Finance Program and has issued its general obligation bonds under a General Bond Resolution pursuant to which CHFA has pledged all revenues which it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal therefrom from any source and any monies received from investments. In addition, such General Bond Resolution provides for general covenants such as a covenant to do all things necessary with respect to the operation of such Housing Mortgage Finance Program in order to pay principal of and interest on its bonds and provides for certification as to self-sufficiency in order to issue any additional bonds. Bonds issued under

CHFA's General Bond Resolution are further secured by a special capital reserve fund. In addition, while not specifically pledged, CHFA has other funds reserved in respect of mortgages financed under the General Bond Resolution.

CHFA has also established a Group Home Mortgage Finance Program and has issued and expects to issue additional Group Home Mortgage Finance Program Special Obligation Bonds under a separate indenture, which bonds are and will be secured by State appropriations to the residents thereof and further secured by a special capital reserve fund.

The Board of Directors of CHFA is comprised of fifteen members, including the Commissioner of Economic and Community Development, the Secretary of the Office of Policy and Management, the Commissioner of Banking and the State Treasurer, serving *ex officio*; seven members appointed by the Governor and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives who among them are experienced in all aspects of housing design, development, finance, management and state and municipal finance.

Connecticut Resources Recovery Authority ("CRRA"). CRRA was created in 1973 to assist municipalities in meeting their solid waste disposal and recycling needs. To further its purpose CRRA develops, finances and supervises solid waste management facilities and contracts. CRRA has developed four integrated solid waste systems that serve over 100 municipalities in the State. CRRA bonds may be secured by a special capital reserve fund. CRRA bonds are generally secured by service agreements with participating municipalities under which the municipalities agree to deliver a minimum amount of waste to a specified facility each year or to pay the tipping fee for any amount that does not meet the minimum commitment. These service agreements are generally secured by the municipality's full faith and credit. CRRA bonds are generally additionally secured by revenues from the sale of energy generated by the facility and waste from non-municipal sources.

The Board of Directors of CRRA is comprised of thirteen members including the Secretary of the Office of Policy and Management, the Commissioner of Transportation and the Commissioner of Economic and Community Development, serving *ex officio*, four members appointed by the Governor of whom two shall be heads of municipalities and two shall be without government office or status with a high-level of experience in municipal or corporate finance or in business and industry and other appointees made by the heads of the State Legislature.

Assistance to Municipalities

In addition to the limited or contingent liabilities that the State has undertaken in connection with the activities of its quasi-public agencies, the State has undertaken certain limited or contingent liabilities to assist municipalities. The State currently has limited or contingent liabilities outstanding in connection with bonds issued by the City of West Haven and the Southeastern Connecticut Water Authority. The State previously was obligated pursuant to the establishment of a special capital reserve fund to secure certain bonds issued by the City of Bridgeport to fund its past budget deficits; however such bonds were refunded by the City in 1996. Legislation also authorized distressed municipalities, in certain circumstances and subject to various conditions, to issue deficit funding obligations secured by a special capital reserve fund. There are no such obligations currently outstanding.

The City of West Haven. Special Act No. 92-5 authorized the State to guarantee up to \$35 million of debt issued by the City of West Haven. The State's guarantee is a faith and credit pledge to the punctual payment of principal and interest on such guaranteed debt. In March 1999, the City of West Haven advanced refunded its outstanding State-guaranteed debt. The refunding bonds are not guaranteed by the State. The proceeds of the refunding bonds have been placed in an irrevocable escrow held in trust to pay the principal

and interest requirements on the defeased State-guaranteed bonds. Pursuant to Special Act No. 00-6, the City may no longer issue State-guaranteed bonds.

Southeastern Connecticut Water Authority. The Southeastern Connecticut Water Authority was established for the purpose of developing a reliable water supply for southeastern Connecticut. The State Bond Commission is authorized to approve a State guarantee of obligations of the Southeastern Connecticut Water Authority. Amounts borrowed by the Authority are to be repaid by July 1, 2016.

State Treasurer's Role

By statute, CDA, CHEFA, CHFA, CHESLA and CRRA may not owe any money or issue any bonds or notes which are guaranteed by the State of Connecticut or for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State until or unless such borrowing or issuance is approved by the State Treasurer or the Deputy State Treasurer. The approval shall be based on documentation provided by the authority that the authority anticipates receiving sufficient revenues to (1) pay the principal of and interest on the bonds and notes issued, (2) establish, increase and maintain any reserves deemed by the authority to be advisable to secure the payment of the principal of and interest on such bonds and notes, (3) pay the cost of maintaining, servicing and properly insuring the purpose for which the proceeds of the bonds and notes have been issued, if applicable, and (4) pay such other costs as may be required.

Similarly, no municipality may issue any obligation for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State unless and until such obligation and the agreement establishing the capital reserve fund are approved by the State Treasurer. The State Treasurer's approval shall be based upon factors delineated in the general statutes, including the establishment of a property tax intercept procedure to service the municipality's debt.

Outstanding Contingent Debt

The amount of outstanding debt which is secured by special capital reserve funds or State guarantees as described above is outlined in the following table.

**TABLE 16
BOND AUTHORIZATIONS WITH
LIMITED OR CONTINGENT LIABILITY
(IN MILLIONS)**

	Authorized SCRF or Guaranteed Debt	Outstanding SCRF or Guaranteed Debt	Minimum Capital Reserve Requirement
	<u>As of 11/1/00</u>	<u>As of 11/1/00</u>	<u>As of 11/1/00</u>
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	\$300.0	\$51.8	\$10.0
General Obligation Bond Program.....	30.6	21.4	2.5
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	162.1	16.0
Connecticut State University System	(a)	87.3	9.7
Connecticut Higher Education Supplemental Loan Authority	170.0	107.7 ^(b)	8.6 ^(b)
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	3,235.6 ^(c)	285.0
Group Home Mortgage Finance Program	(a)	20.2	1.5
Connecticut Resources Recovery Authority	725.0	317.2	37.4
University of Connecticut Student Fee			
Revenue Bonds.....	(a)	31.8	2.1
INDEBTEDNESS GUARANTEED BY STATE^(d)			
Southeastern Connecticut Water Authority.....	15.0	0.8	N/A

(a) No statutory limit.

(b) On or about November 15, 2000, it is expected that CHESLA will issue its \$16,410,000 Revenue Bonds (Family Education Loan Program) Series A and its \$5,975,000 Revenue Refunding Bonds (Family Education Loan Bonds) Series B. The Series B Bonds will currently refund bonds maturing on or subject to mandatory redemption on November 15, 2000. Upon issuance of these bonds on November 15, 2000, the outstanding bonds secured by a special capital reserve fund will be \$124.11 million and the Minimum Special Capital Reserve Fund Requirement will be \$8.7 million.

(c) On or about November 15, 2000, it is expected that the amount of CHFA's outstanding SCRF-backed debt will be reduced to \$3,116.4 million due to the scheduled maturity of \$39.8 million in outstanding bonds and the special redemption of \$79.4 million of such bonds.

(d) The City of West Haven's bonds secured by the State's guarantee are not included in this Table since the Bonds were advance refunded and are payable from an irrevocable escrow of defeasance securities.

School Construction Grant Commitments

The State is obligated to various cities, towns and regional school districts under a grant-in-aid public school building program to fund certain of the costs of construction and alteration of school buildings and to support part of the interest payments on municipal debt issued to fund the State's share of such school building projects. Pursuant to this program, cities, towns and districts are ranked according to their adjusted equalized

net grand list per capita and based on such rankings a percentage is assigned which determines the amount of grant money a town or regional school district is eligible to receive for a project or type of project authorized by the legislature and approved by the Commissioner of Education. Grants for construction costs are paid to the cities, towns and districts in installments which correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2000, the State is obligated to various cities, towns and regional districts for \$858.2 million in aggregate installment payments and \$294.1 million in aggregate interest subsidy, for a total of \$1,152.3 million. Funding for these payments may come from future State direct general obligation bond sales. The State legislature and the Commissioner of Education have authorized additional grant commitments to be made under this program which could also be funded by general obligation bonds. The Commissioner estimates that these additional grants may be approximately \$205.0 million for installment payment grants and approximately \$79.3 million for interest subsidy grants.

Legislation enacted in 1997 significantly changed the method of financing the State's share of local school construction projects. For school construction projects approved during the 1997 legislative session and thereafter, the State will no longer participate in the payment of debt service on municipal bonds and therefore will no longer fund the State's share of the cost of interest incurred by the municipalities. The State will bear the costs of its share of construction projects on a progress payment basis during the construction period. Legislation enacted in 1997 and subsequent years approved additional grant commitments for local school construction projects under the new grant program. As of June 30, 2000, the Commissioner estimates that grant payments under this program will be approximately \$1,683.2 million.

The amount of grant commitments authorized for the local school construction program has been increasing significantly in recent years.

The legislature has authorized bonds for both grant programs based on the amount of grants that the Commissioner of Education estimates will be paid during each fiscal year. Since there is generally a lapse of one or more years from the time grant commitments are approved to the time grant payments are required to be made, the amount of unpaid grant commitments will be significantly greater than the amount of bonds authorized to fund the grant commitments.

Child Care Facilities Debt Service Commitments.

Legislation enacted in 1997 authorized the Connecticut Health and Educational Facilities Authority to issue bonds and loan the proceeds to various entities to finance child care facilities. The Department of Social Services may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on the Authority's bonds. Any obligation by the Department to make such payments is subject to annual appropriations. The Authority first issued special obligation bonds under this program in 1998. The Authority has approximately \$37,615,000 bonds outstanding under this program with annual debt service of approximately \$2,749,199, of which the Department is committed to pay approximately \$2,225,784.

Two other Child Care Facilities programs also authorize the Commissioner of the Department of Social Services to enter into guaranties of loans made to entities to finance the development of child care and child development centers or programs. The Authority is administering this program on behalf of the Department, and is currently limiting the aggregate amount of guaranties to the balance of monies in the reserve funds for the respective programs.

Other Contingent Liabilities

The Connecticut Lottery Corporation was created in 1996 as a public instrumentality of the State to operate the State's lottery pursuant to the Connecticut Lottery Corporation Act. The State and the Corporation purchase annuities under group contracts with insurance companies which provide payments corresponding to the obligation for payments to lottery prize winners. The State has transferred to the Corporation all annuities purchased by it and the Corporation has assumed responsibility for the collection of revenue generated from the lottery and for the payment of all lottery prizes. Under the Act, the termination of the Corporation shall not affect any outstanding contractual obligation of the Corporation and the State shall succeed to the obligations of the Corporation under any such contract. As of June 30, 2000 the future obligation to lottery prize winners is \$817 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 54,616 active members, 1,137 inactive (vested) members and 32,101 retired members as of June 30, 2000. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions; other employees generally participate in the Tier II plan, which is non-contributory and provides somewhat lesser benefits. As of July 1, 2000 approximately 56% of the total workforce was covered under the Tier II plan. Employees hired after July 1, 1997 participate in the Tier IIA plan, which requires contributions from its employee members.

Since 1971, payments into the fund and investment income generally have been sufficient to fund a full normal cost contribution and to make payments in respect of the unfunded past service liability in amounts which have varied over time due to changes in the statute and union agreements. Payments into the State Employees' Retirement Fund are made from employee contributions, General and Transportation Fund appropriations and grant reimbursements from Federal and other funds.

The most recent actuarial valuation, dated November 14, 2000, indicated that as of June 30, 2000 the State Employees' Retirement Fund had an actuarial accrued liability of \$11,512,154,892 and had assets with an actuarial value of \$7,196,039,538. This resulted in an unfunded actuarial liability of \$4,316,115,354 as of June 30, 2000. On such date, the market value of the fund's investment assets was \$8,284,938,346, which amount exceeded the actuarial value by \$1,088,898,808.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 11.43% on investment assets over the past ten years (fiscal year 1990-91 through fiscal year 1999-00) and an annualized net return of 14.79% over the past five years (fiscal year 1995-96 through fiscal year 1999-00).

State contributions to the Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, and benefits paid are set forth below for each of the past five fiscal years.

TABLE 17

State Employees' Retirement Fund

	Year Ending June 30				
	1996	1997	1998	1999	2000
General Fund					
Contributions	\$223,115,971	\$228,072,482	\$227,610,361	\$199,304,785	\$212,947,331
Transportation Fund					
Contributions	31,300,000	33,469,400	25,740,000	28,419,000	27,636,000
Federal and other					
(Reimbursements)	80,696,000	87,689,000	81,163,459	87,838,000	102,176,999
Employee Contributions	<u>35,919,817</u>	<u>37,875,580</u>	<u>35,408,824</u>	<u>38,897,333</u>	<u>43,782,742</u>
Total Contributions.....	\$371,031,788	\$387,106,462	\$369,922,644	\$354,459,118	\$386,543,072
Investment Income ^(a)	208,274,418	220,849,433	242,206,972	245,642,870	286,587,354
Net Realized Gains (Losses)	84,353,219 ^(b)	(107,532,938) ^(c)	357,937,509 ^(d)	1,350,241	299,651,658
Benefits Paid	418,481,040	450,283,000 ^(c)	550,802,000 ^(e)	572,003,425 ^(e)	596,333,139

(a) Investment Income (exclusive of net realized gains and losses).

(b) The Fund's investment portfolio was restructured by the Treasurer during the 1996 fiscal year. The restructuring resulted in an atypical amount of assets with significant capital appreciation being sold.

(c) The vast majority of net realized losses are attributable to sales in the Fund's real estate portfolio.

(d) Due to the statutory cap on the percentage of equity securities that the Treasurer could hold in the investment portfolio of the various pension funds, the Treasurer was required to rebalance the investment portfolio by selling approximately \$1,250 million of appreciated equity securities during the 1998 fiscal year. Such sales resulted in an unusually high amount of realized gains allocable to the Fund for such period.

(e) Includes Benefits Paid and Refunds.

Teacher's Retirement Fund

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor or superintendent in the public school systems of the State, with certain exceptions. While establishing salary schedules for teachers, municipalities do not provide contributions to the maintenance of the Fund. As of June 30, 2000, there were approximately 51,000 active and former employees with accrued and accruing benefits and approximately 20,848 retired members.

Since 1979, payments into the fund and investment income generally have been sufficient to fund a full normal cost contribution and make payments in varying amounts in respect of the unfunded past service liability. Contributions to the Fund are made by employees and by General Fund appropriations from the State. State contributions to the Fund are made quarterly on the basis of certifications submitted by the Teachers' Retirement Board and are funded with annual appropriations from the General Fund.

The most recent actuarial valuation, dated January 8, 1999, indicated that as of June 30, 1998 the Teachers' Retirement Fund, inclusive of the excess earnings account, had an actuarial accrued liability of \$12,088,579,238 and had assets with an actuarial value of \$8,839,548,678. This resulted in an unfunded accrued liability of \$3,249,030,560 as of June 30, 1998. On such date, the market value of the fund's investment assets was \$9,971,658,707, which amount exceeded the actuarial value by \$1,132,110,029. As of June 30, 2000, the market value of the fund's investment assets was \$11,940,222,779.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 11.51% on investment assets over the past ten years (fiscal year 1990-91 through fiscal year 1999-00) and an annualized net return of 14.92% over the past five years (fiscal year 1995-96 through fiscal year 1999-00).

State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, and benefits paid are set forth below for each of the past five fiscal years.

TABLE 18

Teachers' Retirement Fund

	Year Ending June 30				
	1996	1997	1998	1999	2000
General Fund					
Contributions	\$139,953,000	\$147,884,700	\$179,365,000	\$188,334,000	\$204,445,443
Employee					
Contributions	<u>164,108,864</u>	<u>149,349,291</u>	<u>155,242,385</u>	<u>154,682,000</u>	<u>168,207,183</u>
Total Contributions.....	\$304,061,864	\$297,233,991	\$334,607,385	\$343,016,000	\$372,652,626
Investment Income ^(a)	296,656,577	310,312,287	337,652,602	347,734,968	410,683,507
Net Realized Gains (Losses)	124,818,990 ^(b)	(156,146,313) ^(c)	510,763,178 ^(d)	777,827	461,947,176
Benefits Paid	439,211,963	478,327,334	523,035,137	562,962,086	630,885,706

(a) Investment Income (exclusive of net realized gains and losses).

(b) The Fund's investment portfolio was restructured by the Treasurer during the 1996 fiscal year. The restructuring resulted in an atypical amount of assets with significant capital appreciation being sold.

(c) The vast majority of net realized losses are attributable to sales in the Fund's real estate portfolio.

(d) Due to the statutory cap on the percentage of equity securities that the Treasurer could hold in the investment portfolio of the various pension funds, the Treasurer was required to rebalance the investment portfolio by selling approximately \$1,250 million of appreciated equity securities during the 1998 fiscal year. Such sales resulted in an unusually high amount of realized gains allocable to the Fund for such period.

Other Retirement Systems

The other minor retirement systems funded by the State include the Judicial Retirement System, the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2000, there were approximately 215 active members of these plans and approximately 230 retired members.

Unclassified employees of the Connecticut State System of Higher Education and the central office staff of the Department of Higher Education are eligible to participate in the Connecticut Alternate Retirement Program. This program is a defined contribution program, and thus the State has no unfunded liability with respect to the program. All member contributions and State appropriations are held in a separate retirement fund by the Treasurer who may invest and reinvest as much of the fund's assets as are not required for current disbursements, which are comprised primarily of benefit payments. Any employee who elects or has elected to participate in the program may elect to receive a refund of all contributions made by the employee into the state employees retirement system in lieu of receiving any pension benefits under said retirement system.

The State is the administrator of the Connecticut Municipal Employees' Retirement System and the Connecticut Probate Judges and Employees' Retirement System. As the administrator of these systems the State owes a fiduciary obligation to these systems; however, the State has no direct financial liability to pay benefits under these systems.

Social Security and Other Post-Employment Benefits

State employees, except for police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958, are entitled to Social Security coverage. Certain employees hired prior to that date have also elected to be covered. Pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security coverage. As of June 30, 2000, approximately 61,513 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 1999-00 was \$164 million. Of this amount, \$152.8 million was paid from the General Fund and \$11.2 million was paid from the Transportation Fund.

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. As of June 30, 2000, a total of 32,101 retirees were eligible to receive such benefits; and, a total of 30,827 retirees and 23,156 retirees, respectively, were actually receiving health care benefits and life insurance benefits. For the fiscal year 1999-00, \$173.9 million was expended for such coverage. The State finances the cost of such benefits on a pay-as-you-go basis; as such, the State has not established any fund for the accumulation of assets with which to pay post-retirement health care and life insurance benefits in future years. The State will need to make significant General Fund appropriations for such benefits each fiscal year. For the fiscal year 2000-01, \$180.4 million was appropriated.

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund: \$2,718,181 was expended for fiscal year 1995-96; \$3,213,564 was expended for fiscal year 1996-97; \$3,500,000 was expended for fiscal year 1997-98; \$8,445,295 was expended for fiscal year 1998-99; \$8,007,343 was expended for fiscal year 1999-00; and \$10,646,815 has been appropriated for fiscal year 2000-01. No fund has been established for the accumulation of assets with which to pay such benefits in future years; therefore, significant General Fund appropriations will be required for each fiscal year. The increase in the expenditure between fiscal year 1997-98 and fiscal year 1998-99 is largely attributable to legislation which became effective July 1, 1998 which generally requires the State to subsidize the health insurance costs of retired teachers who are not members of the Board's health benefit plan in a manner consistent with its prior practice of subsidizing the health insurance costs of those retired teachers who were members of the Board's health benefit plan. Of the total expenditures for fiscal year 1999-00 and the total appropriations for fiscal year 2000-01, expenditures of \$4,323,636 and appropriations of \$5,280,000 are attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Additional Information

The June 30, 2000 audited financial statements which are included as **Appendix III-C** hereto, and in particular notes 9 through 11 and the required PERS Supplementary Information of the accompanying General Purpose Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 22 of such financial statements identifies a contingent liability of the State to pay pension liabilities of certain persons who are not employees of the State.

LITIGATION

The State, its officers and employees, are defendants in numerous lawsuits. The ultimate disposition and fiscal consequences of these lawsuits are not presently determinable. The Attorney General's Office has reviewed the status of pending lawsuits and reports that it is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in aggregate in a final judgment against the State which would materially adversely affect its financial position, except that in the cases described below the fiscal impact of an adverse decision might be significant but is not determinable at this time. The cases described in this section generally do not include any individual case where the fiscal impact of an adverse judgment is expected to be less than \$15 million, but adverse judgments in a number of such cases could, in the aggregate and in certain circumstances, have a significant impact.

Sheff v. O'Neill is a Superior Court action brought in 1989 on behalf of black and Hispanic school children in the Hartford school district. The plaintiffs sought a declaratory judgment that the public schools in the greater Hartford metropolitan area are segregated de facto by race and ethnicity and are inherently unequal to their detriment. They also sought injunctive relief against state officials to provide them with an "integrated education." On April 12, 1995, the Superior Court entered judgment for the State. On July 9, 1996, the State Supreme Court reversed the Superior Court judgment and remanded the case with direction to render a declaratory judgment in favor of the plaintiffs. The Court directed the legislature to develop appropriate measures to remedy the racial and ethnic segregation in the Hartford public schools. The Supreme Court also directed the Superior Court to retain jurisdiction of this matter. The 1997 General Assembly enacted P.A. 97-290, An Act Enhancing Educational Choices and Opportunities, in response to the Supreme Court decision. In response to a motion filed by the plaintiffs, the Superior Court in 1998 ordered the State to show cause as to whether there has been compliance with the Supreme Court's ruling. In a Memorandum of Decision issued March 3, 1999, the Superior Court found that the State complied with the 1996 decision of the Supreme Court. The Superior Court noted that the plaintiffs failed to allow the State enough time to take additional steps in its remedial process. Therefore, the plaintiffs may be able to pursue their claim at a later date.

The Connecticut Traumatic Brain Injury Association, Inc. v. Hogan is a Federal District Court civil rights action brought in 1990 on behalf of all persons with retardation or traumatic brain injury who have been, or may be, placed in Norwich, Fairfield Hills or Connecticut Valley Hospitals. The plaintiffs claim that the treatment and training they need is unavailable in state hospitals for the mentally ill and that placement in those hospitals violates their constitutional rights. The plaintiffs seek relief which would require that the plaintiff class members be transferred to community residential settings with appropriate support services. This case has been settled as to all persons with mental retardation by their eventual discharge from Norwich and Fairfield Hills Hospital. The case is still proceeding as to those persons with traumatic brain injury and the class of plaintiffs has been expanded to include persons with acquired brain injury who are in the custody of the Department of Mental Health and Addiction Services. The Court in 1998 expanded the class of plaintiffs to include persons who are or have been in the custody of the Department of Mental Health and Addiction Services at any time during the pendency of the case without reference to a particular facility.

Johnson v. Rowland is a Superior Court action brought in 1998 in the name of several public school students and the Connecticut municipalities in which the students reside, seeking a declaratory judgment that the State's current system of financing public education through local property taxes and State payments to municipalities determined under a statutory Education Cost Sharing ("ECS") formula violates the Connecticut Constitution. Additionally, the suit seeks various injunctive orders requiring the State to, among other things, cease implementation of the present system, modify the ECS formula, and fund the ECS formula at the level contemplated in the original 1988 public act which established the ECS.

Donald P. Karp, Administrator of the Estate of Leslie J. Karp v. State of Connecticut is a Superior Court action brought in 1999, pursuant to a grant of permission to sue by the legislature, seeking money damages for the death of Leslie J. Karp, M.D., who was killed in a head on collision with a vehicle operated by Edward Kiley. The plaintiff alleges that the death of his decedent was caused by the carelessness and negligence of the State through the Office of Adult Probation in their supervision of Kiley who was placed in the suspended prosecution program. This case has been settled.

Hospital Tax Cases. In 1999 several hospitals appealed to the Superior Court from the Commissioner of Revenue Services' denial of their claims for partial refunds of the hospital tax imposed on a hospital's gross earnings and for partial refunds of sales tax imposed upon patient care services. The hospitals claim that these taxes should not be imposed with regard to charges for tangible property transferred incidental to the provision of patient care services. Refunds are claimed for the last three years. It is anticipated that other hospitals in the State may bring similar suits.

PTI, Inc. v. Philip Morris et al. was filed in the Federal Court for the Central District of California in 1999 against the State of Connecticut and the Attorney General in his official and individual capacities. The plaintiffs re-import and distribute cigarettes that have previously been sold by their manufacturers to foreign markets. The plaintiffs challenge certain provisions of the 1998 Master Settlement Agreement (MSA) entered into by virtually all states and territories to resolve litigation by the respective states against the major domestic tobacco companies. The plaintiffs further challenge certain state statutes, including those banning the sale of re-imported cigarettes, so-called Non Participating Manufacturer statutes, that would decrease the price advantage that re-imported cigarettes enjoy over other cigarettes. The plaintiffs claim that various provisions of the MSA and these state statutes violate the federal constitution, antitrust and civil rights laws. The plaintiffs seek declaratory and injunctive relief, compensatory, special and punitive damages, plus attorneys fees and costs. The court has granted the State's motion to dismiss this case.

Carr v. Wilson-Coker is a Federal District Court action brought in 2000 in which the plaintiffs seek to represent a class of certain Connecticut Medicaid beneficiaries. The plaintiffs claim that the Commissioner of the Department of Social Services fails to provide them with reasonable and adequate access to dental services and to adequately compensate providers of dental services. The plaintiffs seek declaratory and injunctive relief, plus attorneys' fees and costs.

While the various cases described in this paragraph involving alleged **Indian Tribes** do not claim significant monetary damages from the State, the cases are mentioned because they claim sovereignty over land areas that are part of the State of Connecticut. Several suits have been filed since 1977 in the Federal District Court and the Connecticut Superior Court on behalf of alleged **Indian Tribes** in various parts of the State, claiming monetary recovery as well as ownership to land in issue. Some of these suits have been settled or dismissed. The plaintiff group in the remaining suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull, Orange, Shelton and Seymour. There may be additional suits filed by other alleged Indian Tribes claiming ownership of land located in the State of Connecticut but to which the State is not a party. One such claim involves the alleged Schaghticoke Indian Tribe claiming privately and town held lands in the Town of Kent. The State has also challenged the decision of the Federal Department of the Interior which allows the Mashantucket Pequot Tribe to add land holdings of the Tribe outside of its reservation to the land held in trust for its benefit by the Department. The added land was not part of the Tribe's original reservation designated under the Federal Settlement Act with the Tribe. The additional land was purchased by the Tribe. The United States Court of Appeals for the Second Circuit has recently rejected the State's claim that the Federal Settlement Act does not allow the Federal Department of the Interior to take this additional land and add it to the Tribe's reservation land. The parties may seek review of this decision, but, in any event, additional issues remain to be decided in the case and the Second Circuit remanded the case for further proceedings.

INDEX TO APPENDICES

Appendix III-A	Governmental Organization and Services	III-A-1
Appendix III-B	State Economy	III-B-1
Appendix III-C	June 30, 2000 General Purpose (GAAP-Based) Financial Statements	
	Comptroller's Transmittal Letter	III-C-2
	Auditor's Letter.....	III-C-3
	June 30, 2000 General Purpose Financial Statements	III-C-5
	Notes to June 30, 2000 Financial Statements	III-C-25
Appendix III-D	June 30, 1996-June 30, 2000 Budgetary (Modified Cash Basis)	
	General Fund Financial Statements	
	Comptroller's Transmittal Letter (June 30, 1996 - June 30, 2000).....	III-D-2
	Auditor's Letter (June 30, 1996 - June 30, 2000)	III-D-3
	June 30, 1996-June 30, 2000 Financial Statements	III-D-4
Appendix III-E	June 30, 2000-June 30, 2001 Adopted Budgets, June 30, 1999 Actual	
	Budget and June 30, 2000 Estimated Budget	III-E-1

[INTENTIONALLY BLANK]

GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General Assembly. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within the cities and towns. A number of regional bodies exist to perform governmental functions that would otherwise be performed at the local level. Most of the State's 169 cities and towns were established or incorporated during the 18th and 19th centuries, and many are still governed under charters enacted by the General Assembly by Special Act. The State's Constitution grants home rule powers to cities and towns, within certain limitations. A large number of smaller municipalities lack charters, and the components and structure of these municipalities are determined directly by the General Statutes. The General Statutes also contain a variety of provisions pertaining to the organization and operation of all units of local government, including both those with charters and those without. In addition to the 169 cities and towns that are the basic units of local government in Connecticut, the General Statutes provide procedures for the creation of many types of local special purpose authorities, districts and similar bodies. These include, among others, local housing authorities, regional school districts, and a variety of special tax and service districts.

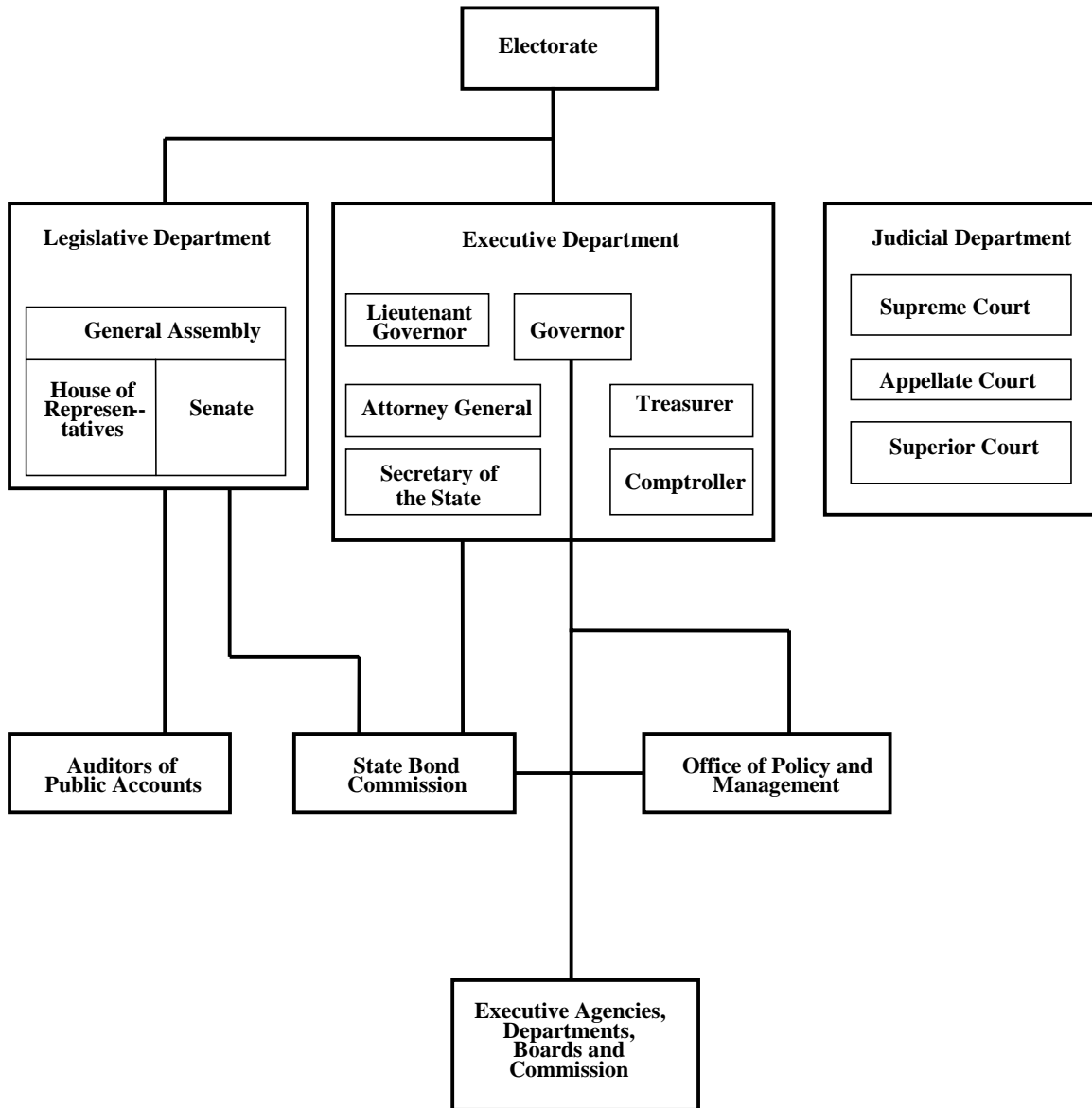
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute to file petitions to become debtors under Chapter Nine of Title 11 of the Federal Bankruptcy Code without the prior written consent of the Governor.

State Government Organization

Under the State Constitution, the legislative, executive and judicial functions and powers of State government are divided among three distinct branches referred to in the Constitution as "departments": the legislative department, the executive department and the judicial department. The following table shows the structure of the three departments.

TABLE A-1

Structure of State Government



Legislative Department. Legislative power is vested in the General Assembly, composed of the Senate and House of Representatives. Currently the Senate consists of 36 members, each representing a single senatorial district, and the House of Representatives consists of 151 members each representing a single assembly district. Both the number of members and the boundaries of the legislative districts may vary in accordance with the requirements of the State's Constitution. The General Assembly is assisted by a full-time staff. General Assembly employees are included under the legislative function in **Tables A-2** and **A-3** below.

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 2000, and the new members will take office in January 2001.

A regular session of the General Assembly is held each year. These sessions run from January through June in odd-numbered years and February through May in even-numbered years. The General Assembly reconvenes for special sessions in general only in emergencies or to consider bills or appropriations vetoed by the Governor. Even-year sessions are supposed to be limited to budgetary, revenue and financial matters, bills and resolutions raised by committees of the General Assembly and certified emergencies.

Two Auditors of Public Accounts, who cannot be of the same political party, are appointed by the General Assembly to four-year terms. The State Auditors are required to make an annual audit of the accounts of the Treasurer and the Comptroller and, biennially or as frequently as they deem necessary, to audit the accounts of each officer, department, commission, board and court of the State government authorized to expend State appropriations. The Auditors are required to report unauthorized, illegal, irregular or unsafe handling or expenditure of State funds or any actual or contemplated breakdown in the safeguarding of any resources of the State promptly upon discovery to the Governor, the State Comptroller, the Attorney General and appropriate legislative agencies. Each budgeted agency of the State must keep its accounts in such form and by such methods as to exhibit facts required by the State Auditors. A full-time staff assists the State Auditors. Employees of the State Auditors are included under the legislative function in **Tables A-2** and **A-3** below.

Executive Department. The present Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 1998 and assumed office in January 1999. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

The supreme executive power of the State is vested in the Governor. The Governor has the constitutional responsibility for ensuring that the laws are faithfully executed, giving the General Assembly information on the state of the government, and recommending to the General Assembly such measures as the Governor may deem expedient. The Governor is empowered to veto bills and line items in appropriations bills, but the General Assembly may reconsider and repass such matters upon a two-thirds vote of each house, whereupon such bills or appropriations become law. Broad appointive and investigative powers are conferred upon the Governor by statute. The Lieutenant Governor serves as President of the Senate and becomes Governor in case of the inability of the Governor to exercise the powers and perform the duties of the office.

The Treasurer is primarily responsible for receiving and disbursing all monies belonging to the State, superintending the collection of State taxes and revenues and the investment of State funds, administering certain State trust funds and managing State property. Subject to the approval of the Governor, the Treasurer is authorized, when necessary, to make temporary borrowings evidenced by State obligations. In addition, the State Bond Commission normally delegates to the Treasurer the responsibility for determining the terms and conditions and carrying out the issuance of State debt.

The Secretary of the State administers elections, has custody of all public records and documents, and certifies to the Treasurer and the Comptroller the amount and purpose of each appropriation made by the General Assembly.

The Comptroller's primary duties include adjusting and settling public accounts and demands and prescribing the method of keeping and rendering all public accounts. All warrants and orders for the disbursement of public money are registered with the Comptroller. The Comptroller also has authority to require reports from State agencies upon any matter of property or finance and to inspect all records in any public office, and is responsible for examining the amount of all debts and credits of the State. The Comptroller is required to issue monthly reports on the financial condition of the State, which are prepared on a modified cash basis and are not audited.

The Attorney General has general supervision over all legal matters in which the State is an interested party except those legal matters over which prosecuting officers have discretion. The duties of the office include giving advice and on request rendering legal opinions to the legislative and executive departments as to questions of law. Among the Attorney General's statutory duties concerning State financial matters are membership on the State Bond Commission, the approval of all State contracts or leases and appearing before any committee of the General Assembly to represent the State's best interests when any measure affecting the State treasury is pending.

In addition to the constitutionally mandated offices, the General Statutes provide for a number of executive branch agencies, departments and commissions, each of which generally has its own agency head appointed by the Governor, in most cases with the advice and consent of one or both houses of the General Assembly. Of these statutorily established offices, the one most directly related to the fiscal operation and condition of the State is the Office of Policy and Management. The Secretary of the Office of Policy and Management is directly responsible to the Governor for policy development in four major areas: budget and financial management, policy development and planning, management and program evaluation, and intergovernmental policy. The Office of Policy and Management has significant responsibility in preparing the State budget, in assisting the Governor in policy development and in representing the State in most collective bargaining negotiations. It is the duty of the Office of Policy and Management to prepare and furnish to the General Assembly and Comptroller financial and accounting statements relating to the State's financial condition and general accounts, and to examine and assist in the organization, management and policies of departments and institutions supported by the State in order to improve their effectiveness. The Secretary of the Office of Policy and Management, like the Comptroller, is empowered to inspect the financial records and to require reports of State agencies.

Employees of the executive department are included in **Tables A-2** and **A-3** below under all function headings except the legislative and judicial functions. A list of the major executive branch agencies, departments and commissions, by function headings, is found in **Table A-5**.

Judicial Department. The State's judicial department consists of three principal trial and appellate courts: the Superior Court, the Appellate Court, and the Supreme Court.

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 183 sitting Superior Court judges, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

On July 1, 1983, the Appellate Court was created and the appellate session of the Superior Court was dissolved. The Appellate Court hears appeals from decisions of the Superior Court except for certain matters which are directly appealable to the Supreme Court. There are nine Appellate Court judges nominated by the Governor and appointed by the General Assembly to eight-year terms.

The Connecticut Supreme Court reviews decisions of the Appellate Court and, in certain cases, of the Superior Court. Except in cases where original jurisdiction exists in the Supreme Court, there is no right of review in the Supreme Court unless specifically provided by statute. The Supreme Court consists of seven Justices (one Chief Justice and six Associate Justices) nominated by the Governor and appointed by the General Assembly to eight-year terms.

In addition to the principal trial and appellate courts, there is a Court of Probate in each of 130 probate districts situated throughout the State.

Employees of the judicial department are shown in **Tables A-2** and **A-3** under the judicial function heading.

Quasi-Public Agencies. In addition to the budgeted components of State government provided for in the State's Constitution and the General Statutes, important State-wide governmental functions are performed by quasi-public agencies, authorities and similar bodies created under the General Statutes. A number of these entities receive significant funding from the State, although they are not budgeted agencies of the State. Each of these entities is governed by a board of directors chosen in accordance with its respective enabling statute. These boards generally include legislative appointees, gubernatorial appointees and ex officio directors holding certain executive branch offices.

State Employees

Employment Statistics. Statistics regarding approximate filled permanent full-time positions within budgeted components of State government are shown on the following two tables.

TABLE A-2

**State Employees^(a)
By Function of Government**

Function Headings^(b)	1996	1997^(c)	1998	1999	2000
Legislative	415	415	427	438	434
General Government	4,241	3,960	3,745	3,853	3,910
Regulation and Protection	4,636	4,376	4,200	4,319	4,550
Conservation and Development	1,420	1,410	1,399	1,420	1,463
Health and Hospitals	9,105	8,444	8,280	8,709	8,747
Transportation	4,024	3,790	3,675	3,610	3,643
Human Services	2,492	2,477	2,347	2,391	2,375
Education, Libraries and Museums .	13,125	12,990	13,494	14,130	14,357
Corrections	10,088	9,856	9,346	9,454	10,027
Judicial	<u>2,786</u>	<u>2,852</u>	<u>2,971</u>	<u>3,068</u>	<u>3,224</u>
Totals	52,332	50,570	49,884	51,392	52,730

(a) Table shows approximate filled full-time positions as of June 30 in each of the listed years.

(b) A breakdown of the agencies, boards, commissions and similar bodies included in each of the listed government function headings as of June 30, 2000 is shown in **Table A-5** below.

(c) The state offered an Early Retirement Incentive Program with a window of April 1 through August 1, 1997. Approximately 1,200 full time employees took advantage of this program through June 30, 1997.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2000^(a)
By Function of Government and Fund Categories

<u>Function Headings</u>	<u>General Fund</u>	<u>Special Transportation Fund</u>	<u>Other Appropriated Funds</u>	<u>Special Funds - Non-Appropriated</u>	<u>Federal Funds</u>	<u>Private Contributions</u>	<u>TOTALS</u>
Legislative	434						434
General Government	3,141	12	10	391	36	320	3,910
Regulation and Protection	2,171	670	614	158	930	7	4,550
Conservation and Development	735		8	295	299	126	1,463
Health and Hospitals	8,364			69	301	13	8,747
Transportation		3,524		119			3,643
Human Services	2,027		16	2	317	15	2,375
Education, Libraries and Museums	9,770			4,406	181		14,357
Corrections	9,875			89	63		10,027
Judicial	<u>3,151</u>			<u>12</u>	<u>61</u>		<u>3,224</u>
Totals	39,668	4,206	648	5,539	2,188	481	52,730

(a) Table shows approximate filled full-time positions.

SOURCE: Office of Policy and Management

Collective Bargaining Units and Process. The General Statutes guaranty State employees, other than elected or appointed officials and certain management employees and others with access to confidential information used in collective bargaining, the right to organize and participate in collective bargaining units. There are presently 32 such bargaining units representing State employees.

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

The General Statutes deny State employees the right to strike. Questions concerning employment or bargaining practices prohibited by the sections of the General Statutes governing collective bargaining with regard to State employees may generally be brought before the State Board of Labor Relations.

Information regarding employees participating in collective bargaining units and employees not covered by collective bargaining is shown on the following table

TABLE A-4

**Full-Time Work Force
Collective Bargaining Units and
Those Not Covered by Collective Bargaining^(a)**

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented^(b)</u>	<u>Contract Status, if any</u>
<u><i>Covered by Collective Bargaining</i></u>		
Administrative Clerical	10.30%	Contract in place through 6/30/2002
Correction Officers	9.53%	Contract in place through 6/30/2001
Maintenance and Service	8.69%	Contract in place through 6/30/1999 ^(c)
Health Care Non-Professionals	8.62%	Contract in place through 6/30/2001
Social and Human Services	7.66%	Contract in place through 6/30/2002
Administrative and Residual	6.18%	Contract in place through 6/30/2003
Engineering, Scientific and Technical	5.08%	Contract in place through 6/30/2001
Health Care Professionals	4.87%	Contract in place through 6/30/2001
University Health Professionals (University of Connecticut Health Center)	3.04%	Contract in place through 6/30/2002
Judicial Employees	2.65%	Contract in place through 6/30/2002
University of Connecticut Faculty	2.41%	Contract in place through 6/30/2001
Connecticut State University Faculty	2.23%	Contract in place through 6/30/2001
University of Connecticut Professional Employee Association	2.21%	Contract in place through 6/30/2001
State Police	2.11%	Contract in place through 6/30/2004
Congress of Connecticut Community Colleges	2.00%	Contract in place through 6/30/2001
Vocational Technical School Teachers	2.00%	Contract in place through 6/30/2003
Education Professionals (Institutions)	1.82%	Contract in place through 6/30/2001
Judicial Professionals	1.69%	Contract in place through 6/30/2002
Protective Services	1.62%	Contract in place through 6/30/2004
<u>Other Bargaining Units (11 Units)</u>	<u>2.87%</u>	Varies by Unit
Total Covered by Collective Bargaining	87.59%	
<u><i>Not Covered by Collective Bargaining</i></u>		
Auditors of Public Accounts	0.18%	Not Applicable
<u>Other Employees</u>	<u>12.23%</u>	Not Applicable
Total Not Covered by Collective Bargaining	12.41%	
Total Full-Time Work Force	100.00%	

(a) Public Act No. 97-148 granted collective bargaining rights effective July 1, 1999 to a group of per diem employees (Special Deputy Sheriffs) who are not included here. Negotiations with this group were suspended pending a referendum in November 2000. As the result of this just completed referendum, these employees will be transferred from the Executive to the Judicial Branch.

(b) Percentages expressed reflect approximately 52,730 filled full-time positions as of June 30, 2000.

(c) Successor Contract in arbitration.

SOURCE: Office of Policy and Management.

Governmental Services

Services provided by the State or financed by State appropriations are classified under one of ten major government function headings or are classified as “non-functional”. These function headings are used for the State’s General Fund and for other funds of the State used to account for appropriated moneys. State agencies, boards, commissions and other bodies are each assigned to one of the function headings for budgeting purposes. The following table shows a breakdown of the government function headings according to the major agencies, boards, commissions and other bodies assigned to them.

TABLE A-5
Function of Government Headings^{(a)(b)}

<p><u>Legislative</u> Legislative Management Auditors of Public Accounts Commission on the Status of Women Commission on Children Commission on Latino and Puerto Rican Affairs African-American Affairs Commission</p> <p><u>General Government</u> Governor’s Office Secretary of the State Lieutenant Governor’s Office State Elections Enforcement Commission Ethics Commission Freedom of Information Commission Judicial Selection Commission State Properties Review Board State Treasurer State Comptroller Department of Revenue Services Division of Special Revenue State Insurance and Risk Management Board Gaming Policy Board Office of Policy and Management Department of Veterans’ Affairs Department of Administrative Services Department of Information Technology Department of Public Works Attorney General Office of the Claims Commissioner Division of Criminal Justice Criminal Justice Commission</p>	<p><u>Regulation and Protection</u> Department of Public Safety Police Officers Standards and Training Council Board of Firearms Permit Examiners Department of Motor Vehicles Military Department Commission on Fire Prevention and Control Department of Banking Department of Insurance Office of Consumer Counsel Department of Public Utility Control Department of Consumer Protection Department of Labor Office of Victim Advocate Commission on Human Rights and Opportunities Office of Protection and Advocacy for Persons with Disabilities Office of the Child Advocate Workers’ Compensation Commission</p> <p><u>Conservation and Development</u> Department of Agriculture Department of Environmental Protection Council on Environmental Quality Connecticut Historical Commission Department of Economic and Community Development Agricultural Experiment Station</p> <p><u>Health and Hospitals</u> Department of Public Health Office of Health Care Access Office of the Medical Examiner</p>	<p>Department of Mental Retardation Department of Mental Health and Addiction Services Psychiatric Security Review Board</p> <p><u>Transportation</u> Department of Transportation</p> <p><u>Human Services</u> Department of Social Services Soldiers’, Sailors’, and Marines’ Fund</p> <p><u>Education, Libraries and Museums</u> Department of Education Board of Education and Services for the Blind Commission on the Deaf and Hearing Impaired State Library Department of Higher Education University of Connecticut University of Connecticut Health Center Charter Oak College Teachers’ Retirement Board Regional Community-Technical Colleges Connecticut State University</p> <p><u>Corrections</u> Department of Correction Board of Pardons Board of Parole Department of Children and Families County Sheriffs</p> <p><u>Judicial</u> Judicial Department Public Defenders Services Commission</p>
--	---	---

-
- (a) In addition to the ten listed government function headings, the State also employs a “non-functional” heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
(b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2000.

SOURCE: Office of Policy and Management

In addition to services provided directly by the State, various State-wide and regional quasi-public agencies, authorities and similar bodies also provide services. Such entities principally assist in the financing of various types of facilities and projects. In addition to their own budgetary resources and the proceeds of their borrowings, a number of such entities have received substantial funding from the State, which the entities generally use to provide financial assistance to the general public and the private and nonprofit sectors.

Because Connecticut does not have an intermediate county level of government between State and local government, local entities provide all governmental services not provided by the State and quasi-public agencies. Such services are financed principally from property tax revenues, State funding of various types and federal funding.

[INTENTIONALLY BLANK]

STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one quarter of the total population of the United States and approximately 60% of the Canadian population live within 500 miles of the State.

Economic Resources

Population Characteristics. Connecticut had an estimated population of 3,282,000 in 1999. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially during later decades. The following table presents the population trends of Connecticut, New England and the United States since 1940.

TABLE B-1
Population
(In Thousands)

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>
1940....	1,709	%	8,437	%	132,165	%
1950....	2,007	17.4	9,314	10.4	151,326	14.5
1960....	2,535	26.3	10,509	12.8	179,323	18.5
1970....	3,032	19.6	11,847	12.7	203,302	13.4
1980....	3,108	2.5	12,349	4.2	226,542	11.4
1990....	3,287	5.8	13,207	6.9	248,710	9.8
1991....	3,289	0.0	13,201	(0.0)	252,153	1.4
1992....	3,275	(0.4)	13,188	(0.1)	255,030	1.1
1993....	3,272	(0.1)	13,216	0.2	257,783	1.1
1994....	3,268	(0.1)	13,243	0.2	260,327	1.0
1995....	3,265	(0.1)	13,283	0.3	262,803	1.0
1996....	3,267	0.1	13,329	0.3	265,229	0.9
1997....	3,269	0.1	13,378	0.4	267,784	1.0
1998....	3,273	0.1	13,429	0.4	270,248	0.9
1999....	3,282	0.3	13,496	0.5	272,691	0.9

Note: 1940-1990, April 1 Census
1991-1999, Mid-year estimates

SOURCE: United States Department of Commerce, Bureau of the Census

The State is highly urbanized with a 1999 population density of 677 persons per square mile, as compared with 77 for the United States as a whole. Approximately 84% of the population resides within the State's three largest metropolitan areas of Hartford (34%), Bridgeport and New Haven (25% each).

Transportation. Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Bradley International Airport, in Windsor Locks, is well situated for overseas air freight operations and is accessible from all areas of the State and Western Massachusetts.

Railroad freight service is provided to most major towns and cities in the State, and connections are provided with major eastern railroads as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides it with access to European and South American export markets. The State's harbors at Bridgeport, New Haven and New London can accommodate deep draft vessels.

Connecticut provides financial assistance for all of the urban and rural bus services operating in the State. In addition, the State supports commuter express bus operations, American with Disability Act services, and ridesharing programs. Rail commuter service operates between New Haven and New York City and related points. Also, rail commuter service operates between New London and New Haven.

Connecticut initiated a transportation infrastructure renewal program in 1984 and continues that program today. It has resulted in the restoration and enhancement of the major components of the transportation system and provides for the continued maintenance of these systems.

Utility Services. The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, New England and Canada. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England, Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. As of July 2000, most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. The electricity is still delivered to the consumer over the wires of the regulated distribution companies (Connecticut Light & Power Company and The United Illuminating Company). Electric suppliers are not subject to rate regulation by the State Department of Public Utility Control (DPUC), but must receive a license issued by the DPUC before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory are not subject to the 1998 restructuring legislation. These consumers continue to purchase and receive their electrical needs from the municipal electric company.

The restructuring legislation mandated a 10 percent rate reduction (from 1996 levels) subject to specific adjustments during the period of 2000 to 2003. This "standard offer" service is available to all consumers except those that had already entered into special contracts with the electric companies. The legislation also provides a procedure allowing for the recovery of utility's stranded costs, including the issuance of revenue bonds.

Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past two years, Energy East Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas has also been recently acquired by Northeast Utilities.

Since 1996 the DPUC is allowing some competitive market forces to enter the natural gas industry in Connecticut. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. The gas is delivered to the consumer using the local distribution company's mains and pipelines. This competitive market is not yet available to the residential consumer.

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Three LECs currently offer local telephone services in Connecticut. They are The Southern New England Telephone Company (SNET), which has recently been acquired by SBC Communications, Inc., Woodbury Telephone Company (a wholly-owned

subsidiary of SNET) and Verizon New York Inc. Connecticut also has approximately 114 CLECs certified to provide local exchange services including AT&T Communications of New England, Cox Connecticut Telecommunication, LLC and Connecticut Telephone and Communications Systems, Inc.

Connecticut is dependent upon oil, including imported oil, for a portion of its energy requirements, particularly in the transportation sector and for heating oil and is thus affected by developments in the international oil market.

Economic Performance

Personal Income. Connecticut has a high level of personal income. Historically, the State’s average per capita income has been among the highest in the nation. The following table shows total and per capita personal income for Connecticut residents during the period from 1990 to 1999 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE B-2

Connecticut Personal Income by Place of Residence

<u>Calendar Year</u>	<u>Connecticut</u>		<u>Connecticut Per Capita as % of</u>	
	<u>Total</u> (Millions)	<u>Per Capita</u>	<u>New England</u>	<u>United States</u>
1990	\$ 87,935	\$26,736	116.8%	135.7%
1991	88,344	26,860	115.5	133.2
1992	93,779	28,635	117.1	135.5
1993	96,867	29,605	117.4	136.0
1994	99,788	30,535	116.4	135.0
1995	104,315	31,949	116.5	135.4
1996	109,354	33,472	116.1	135.6
1997	116,347	35,591	116.7	137.4
1998	122,564	37,447	115.7	136.9
1999	128,983	39,300	115.0	137.6

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the annual growth rate of personal income, on a current and constant dollar basis, of Connecticut, New England and the United States.

TABLE B-3

Calendar Year	Annual Growth Rates in Personal Income By Place of Residence					
	<u>Conn.</u> (Current)	<u>New England</u> (Current)	<u>U.S.</u> (Current)	<u>Conn.</u> (Constant)	<u>New England</u> (Constant)	<u>U.S.</u> (Constant)
1990	3.8%	3.5%	6.9%	(0.1)%	(0.4)%	2.8%
1991	0.5%	1.4%	3.5%	(3.1)%	(2.1)%	(0.2)%
1992	6.2%	5.0%	6.0%	3.6%	2.5%	3.5%
1993	3.3%	3.3%	4.1%	0.9%	0.9%	1.6%
1994	3.0%	4.3%	5.0%	0.9%	2.1%	2.8%
1995	4.5%	4.9%	5.3%	2.3%	2.6%	3.1%
1996	4.8%	5.4%	5.6%	2.8%	3.4%	3.6%
1997	6.4%	6.3%	6.0%	4.4%	4.2%	3.9%
1998	5.3%	6.5%	6.5%	4.0%	5.2%	5.2%
1999	5.2%	6.1%	5.4%	3.7%	4.5%	3.8%

Note—Constant dollars are adjusted for inflation using the GDP deflator.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the sources of personal income by place of residence for the State and the United States in 1999.

TABLE B-4
Sources of Personal Income By Place of Residence
Calendar 1999
(In Millions)

	<u>Conn</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing.....	\$61,965	48.04%	\$3,687,600	47.34%
Property Income (Div., Rents & Int.)	23,545	18.25%	1,477,375	18.97%
Wages in Manufacturing.....	16,513	12.70%	782,400	10.04%
Transfer Payments less Social Insurance Paid.....	8,692	6.74%	677,750	8.70%
Other Labor Income.....	7,991	6.20%	501,075	6.43%
Proprietor's Income	<u>10,277</u>	<u>7.97%</u>	<u>663,450</u>	<u>8.52%</u>
Personal Income—Total	\$128,983	100.00%	\$7,789,650	100.00%

Note—Columns may not add due to rounding.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Gross State Product. The State and the region's economic vitality is evidenced in the rate of growth of its Gross State Product. Gross State Product is the market value of all final goods and services produced by labor and property located within the State. The economies of Connecticut and New England were, for much of the 1980s, among the strongest performers in the nation in this category. While the growth rates of both

Connecticut and New England slowed in the initial years of the 1990s, the growth rates have steadily increased during the rest of the 1990s. According to the latest available data, in 1997 Connecticut's growth rate outpaced that of New England and the nation, but slowed somewhat in 1998.

The following table shows the Gross State Product in current dollars for Connecticut, New England and the United States.

TABLE B-5
Gross State Product
(In Millions of Dollars)

<u>Year</u>	<u>Connecticut</u>		<u>New England^(a)</u>		<u>United States^(b)</u>	
	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>
1989	95,016	5.9%	333,670	5.2%	5,411,353	6.3%
1990	98,914	4.1%	339,573	1.8%	5,706,658	5.5%
1991	100,373	1.5%	343,923	1.3%	5,895,430	3.3%
1992	103,766	3.4%	357,024	3.8%	6,209,096	5.3%
1993	107,993	4.1%	373,192	4.5%	6,513,026	4.9%
1994	112,588	4.3%	394,281	5.7%	6,930,791	6.4%
1995	118,973	5.7%	416,073	5.5%	7,309,516	5.5%
1996	124,693	4.8%	439,550	5.6%	7,715,901	5.6%
1997	134,792	8.1%	471,712	7.3%	8,240,312	6.8%
1998	142,099	5.4%	501,809	6.4%	8,745,219	6.1%

(a) sum of the GSP for the States in New England.

(b) denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table shows the Gross State Product in 1996 chained dollars.

TABLE B-6
Gross State Product
(In Millions of 1996 Chained Dollars)

<u>Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>
1989	117,339	1.8%	407,133	1.4%	6,538,643	2.4%
1990	117,268	(0.1)%	398,250	(2.2)%	6,630,742	1.4%
1991	114,555	(2.3)%	388,451	(2.5)%	6,615,685	(0.2)%
1992	114,803	0.2%	391,240	0.7%	6,774,505	2.4%
1993	115,803	0.9%	397,345	1.6%	6,918,389	2.1%
1994	117,689	1.6%	409,864	3.2%	7,203,002	4.1%
1995	121,117	2.9%	422,407	3.1%	7,433,965	3.2%
1996	124,693	3.0%	439,550	4.1%	7,715,901	3.8%
1997	132,534	6.3%	464,268	5.6%	8,120,854	5.2%
1998	138,053	4.2%	488,566	5.2%	8,537,669	5.1%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The table below shows the contribution to Connecticut's Gross State Product of the manufacturing and non-manufacturing sectors in the State's diverse economy. The table shows that, in 1998, Connecticut's output was concentrated in three areas: finance, services and manufacturing, which contributed two-thirds of the State's total output.

TABLE B-7

**Gross State Product by Industry in Connecticut
(In Millions of Dollars)**

Sector	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Manufacturing	18,547	19,949	19,901	19,452	18,420	18,983	20,017	21,233	22,626	23,513
Construction ^(a)	5,085	4,131	3,545	3,494	3,675	3,836	4,163	4,281	4,733	5,018
Agriculture ^(b)	613	677	637	704	791	774	748	817	849	923
Utilities ^(c)	6,022	6,722	6,803	7,212	7,619	8,021	8,400	8,185	8,681	9,138
Wholesale Trade	6,660	6,574	6,762	7,013	7,051	7,477	7,904	8,371	9,449	9,776
Retail Trade	8,674	8,528	8,361	8,340	8,548	8,825	9,012	9,326	9,894	10,595
Finance ^(d)	23,014	23,814	25,258	26,607	29,155	29,768	32,177	34,076	37,365	39,841
Services ^(e)	17,404	19,148	19,470	20,995	22,487	24,205	25,577	27,065	29,538	31,206
Government	<u>8,996</u>	<u>9,370</u>	<u>9,636</u>	<u>9,948</u>	<u>10,247</u>	<u>10,700</u>	<u>10,975</u>	<u>11,339</u>	<u>11,657</u>	<u>12,089</u>
Total GSP	95,016	98,914	100,373	103,766	107,993	112,588	118,973	124,693	134,792	142,099

Note—Columns may not add due to rounding.

(a) Includes mining.

(b) Includes forestry and fisheries.

(c) Includes transportation, communications, electric, gas and sanitary services.

(d) Includes finance, insurance and real estate.

(e) Covers a variety of activities, including professional, business and personal services.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Employment

The following table compares non-agricultural establishment employment for Connecticut, New England and the United States between 1990 and 1999.

TABLE B-8
Non-agricultural Employment^(a)
(In Thousands)

Calendar Year	Connecticut		New England		United States	
	Employment	Percent Growth	Employment	Percent Growth	Employment	Percent Growth
1990	1,623.5	(2.53)%	6,359.8	(3.30)%	109,403	1.41%
1991	1,555.1	(4.22)%	6,042.1	(4.99)%	108,255	(1.05)%
1992	1,526.1	(1.86)%	5,995.6	(0.77)%	108,590	0.31%
1993	1,531.1	0.33%	6,079.9	1.41%	110,693	1.94%
1994	1,543.8	0.83%	6,200.7	1.99%	114,138	3.11%
1995	1,561.8	1.17%	6,328.2	2.06%	117,190	2.67%
1996	1,583.8	1.41%	6,433.1	1.66%	119,598	2.05%
1997	1,612.7	1.82%	6,574.2	2.19%	122,678	2.58%
1998	1,642.8	1.87%	6,719.5	2.21%	125,848	2.58%
1999	1,671.4	1.74%	6,852.3	1.98%	128,770	2.32%

(a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Composition of Employment. The following table shows the distribution of non-agricultural employment in Connecticut and the United States in 1999.

TABLE B-9
Connecticut Non-agricultural Employment, 1999
(In Thousands)

	Connecticut		United States	
	Total	%	Total	%
Services ^(a)	526.6	31.50%	39,025	30.31%
Trade ^(b)	359.5	21.51%	29,713	23.07%
Manufacturing	269.2	16.11%	18,543	14.40%
Government	235.6	14.10%	20,163	15.66%
Finance ^(c)	140.7	8.42%	7,573	5.88%
Utilities ^(d)	78.1	4.67%	6,823	5.30%
Construction ^(e)	61.7	3.69%	6,930	5.38%
	1,671.4	100.00%	128,770	100.00%

(a) Covers a considerable variety of activities, including professional, business and personal services.

(b) Includes wholesale and retail trade.

(c) Includes finance, insurance, and real estate.

(d) Includes transportation, communications, electric, gas and sanitary services.

(e) Includes mining.

SOURCE: United States Department of Labor, Bureau of Labor Statistics.

Recent trends in the State's non-agricultural employment are reflected in the following table:

TABLE B-10

**Connecticut Non-agricultural Employment
(Annual Averages In Thousands)**

<u>Year</u>	<u>Manufacturing</u>	<u>Trade</u> ^(a)	<u>Services</u> ^(b)	<u>Government</u> ^(c)	<u>Finance</u> ^(d)	<u>Utilities</u> ^(e)	<u>Construction</u> ^(f)	<u>Total Non-agricultural Employment</u> ^(g)
1990	341.01	360.38	424.96	210.39	151.57	72.39	62.85	1,623.54
1991	322.42	339.57	415.83	207.60	147.50	69.98	52.24	1,555.15
1992	305.71	331.33	423.08	207.32	142.34	67.98	48.32	1,526.06
1993	294.15	330.33	438.08	210.68	139.78	69.53	48.53	1,531.07
1994	285.29	335.24	449.84	217.23	135.72	70.46	50.00	1,543.77
1995	279.06	341.07	465.16	220.87	133.04	71.28	51.32	1,561.79
1996	274.73	347.24	480.54	222.85	131.67	73.60	53.13	1,583.76
1997	276.19	351.67	495.02	225.67	132.22	74.95	56.99	1,612.71
1998	276.97	355.65	510.70	227.57	136.50	75.83	59.58	1,642.80
1999	269.16	359.48	526.56	235.57	140.72	78.19	61.69	1,671.37

- (a) Includes wholesale and retail trade.
 (b) Covers a considerable variety of activities, including professional, business and personal services.
 (c) Includes employees of Indian Tribal entities and their gaming operations.
 (d) Includes finance, insurance, and real estate.
 (e) Includes transportation, communications, electric, gas and sanitary services.
 (f) Includes mining.
 (g) Totals may not equal sum of individual categories due to rounding.

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut Labor Department

Manufacturing

Manufacturing has traditionally been of prime economic importance to Connecticut but has declined during the last decade. The following table provides a ten-year historical picture of manufacturing employment in Connecticut, the New England region and the United States.

TABLE B-11

**Manufacturing Employment
(In Thousands)**

Calendar Year	Connecticut		New England		United States	
	Number	% Growth	Number	% Growth	Number	% Growth
1990	341.0	(5.08)%	1,215.8	(6.30)%	19,078	(1.61)%
1991	322.4	(5.46)%	1,136.8	(6.50)%	18,405	(3.53)%
1992	305.7	(5.18)%	1,094.4	(3.73)%	18,108	(1.61)%
1993	294.2	(3.76)%	1,069.2	(2.30)%	18,078	(0.17)%
1994	285.3	(3.03)%	1,055.3	(1.30)%	18,323	1.36%
1995	279.1	(2.17)%	1,049.1	(0.59)%	18,525	1.10%
1996	274.7	(1.58)%	1,040.4	(0.83)%	18,498	(0.15)%
1997	276.2	0.55%	1,045.6	0.50%	18,675	0.96%
1998	277.0	0.29%	1,046.3	0.07%	18,808	0.71%
1999	269.2	(2.82)%	1,017.6	(2.74)%	18,543	(1.41)%

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut State Labor Department.

Connecticut has a diverse manufacturing sector, with the construction of transportation equipment (primarily aircraft engines, helicopters and submarines) being the dominant industry. The State is also a leading producer of military and civilian helicopters. Employment in the transportation equipment sector is followed by fabricated metals, nonelectrical machinery, and electrical equipment for the total number employed in 1999.

TABLE B-12

**Manufacturing Employment
By Industry
(In Thousands)**

Calendar Year	Transportation Equipment	Fabricated Metals	Nonelectrical Machinery	Electrical Machinery	Other^(a)	Total Manufacturing Employment
1990	80.48	38.04	44.01	34.55	143.93	341.01
1991	77.90	34.49	39.50	31.09	139.44	322.42
1992	70.53	33.35	37.15	29.12	135.56	305.71
1993	62.90	33.57	36.15	28.07	133.46	294.15
1994	56.89	33.96	35.33	27.68	131.43	285.29
1995	52.68	34.29	35.09	27.72	129.28	279.06
1996	50.62	34.01	34.93	28.25	126.92	274.73
1997	50.13	34.63	34.65	28.80	127.98	276.19
1998	50.30	35.28	34.68	28.66	128.05	276.97
1999	48.86	33.75	33.15	26.96	126.44	269.16

(a) Includes other industries such as wood products, furniture, glass/stone, primary metals and instruments in the durable sector, as well as all industries such as chemicals, paper and plastics in the nondurable sector.

SOURCE: United States Department of Labor, Bureau of Labor Statistics.

During the past ten years, Connecticut's manufacturing employment was at its highest in 1990 at over 341,010 workers. Since that year, employment in manufacturing was on a downward trend with only a slight increase in 1997 and 1998. A number of factors, such as heightened foreign competition, a sharp decrease in defense spending, and improved productivity played a significant role in affecting the overall level of manufacturing employment. Total manufacturing jobs in Connecticut rebounded in 1997 and further improved in 1998, but continued to decline to a recent low of 269,160 in 1999. The total number of manufacturing jobs dropped 71,850 and 21.1% for the ten year period since 1990.

Exports. In Connecticut, the export sector of manufacturing has assumed an increasingly important role in overall economic growth. From 1994 to 1999, the State's export of goods grew at an average annual rate of 4.4%. The following table shows the growth in exports of manufacturing products.

TABLE B-13

**Exports Originating in Connecticut
(In Millions)**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>% of 1999 Total</u>	<u>Average % Growth 1994-99</u>
A. Manufacturing Products								
Chemicals	\$843.4	\$753.4	\$679.5	\$594.5	\$588.7	\$570.5	7.2%	(7.4)%
Primary Metals	202.6	278.4	226.6	390.5	244.5	259.7	3.3%	12.0%
Fabricated	274.1	301.9	355.7	333.9	291.9	318.5	4.0%	3.7%
Nonelectrical	670.7	825.0	783.7	994.7	954.1	972.1	12.3%	8.5%
Electrical	579.3	669.9	710.6	747.6	615.1	593.4	7.5%	1.1%
Transportation	1,910.5	1,712.5	1,907.0	2,261.2	3,002.1	2,761.9	35.1%	8.9%
Instrument	675.2	667.9	754.6	919.1	940.9	1,008.2	12.8%	8.6%
Waste & Scrap	145.6	119.0	136.9	152.8	127.4	93.9	1.2%	(6.9)%
Others	<u>1,087.7</u>	<u>1,217.1</u>	<u>1,274.9</u>	<u>1,390.1</u>	<u>1,347.6</u>	<u>1,299.5</u>	<u>16.5%</u>	<u>3.8%</u>
Total	\$6,389.1	\$6,545.1	\$6,829.5	\$7,784.4	\$8,112.3	\$7,877.7	100%	4.4%
% Growth	1.0%	2.4%	4.3%	14.0%	4.2%	(2.9)%		
B. Gross State Product^(a)	\$112,588	\$118,973	\$124,693	\$134,792	\$142,099	\$150,938 ^(b)		
Mfg Exports as a % of GSP	5.7%	5.5%	5.5%	5.8%	5.7%	5.2%		

(a) In millions.

(b) GSP for 1999 is estimated by the Office of Policy and Management and is assumed to grow at the same rate as income derived from wages and salaries, which is estimated by the United States Department of Commerce, Bureau of Economic Analysis.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis
Massachusetts Institute for Social and Economic Research, University of Massachusetts (MISER)

Defense Industry. One important component of the manufacturing sector in Connecticut is defense related business. Approximately one-quarter of the manufacturing establishments and approximately one-quarter of the manufacturing employees are involved in defense related businesses. Nonetheless, this sector's significance in the State's economy has declined considerably. Connecticut has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In fiscal 1999, Connecticut received \$3,169.4 million of prime contract awards. This accounted for 2.8% of national total awards and ranked twelfth in total defense dollars awarded and fourth in per capita dollars awarded among the 50 states. In fiscal year 1999, Connecticut had \$966 in per capita defense awards, compared to the national average of \$421. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut based firms has fallen to 2.0% of Gross State Product in fiscal 1999, down from 5.1% of Gross State Product in fiscal year 1990.

Connecticut is a leading producer of aircraft engines and parts, submarines, and helicopters. The largest employers in these industries are United Technologies Corporation, including its Pratt and Whitney Aircraft Division with headquarters in East Hartford, and Sikorsky Aircraft Corporation in Stratford, as well as General Dynamics Corporation's Electric Boat Division in Groton.

The following table provides a historical perspective of defense contract awards for the past ten fiscal years. Defense contracts are awarded in their entirety and multi-year awards are credited in the year they are awarded, thus giving rise to some of the fluctuation.

TABLE B-14
Defense Contract Awards

<u>Federal Fiscal Year</u>	<u>Connecticut Total Contract Award (Thousands)</u>	<u>Connecticut Rank Among States Total Awards</u>	<u>% Change from Prior Year</u>	
			<u>Connecticut</u>	<u>U.S.</u>
1989-90	4,241,210	10th	(30.3)%	1.1%
1990-91	4,978,594	8th	17.4%	2.4%
1991-92	3,099,444	11th	(37.7)%	(9.5)%
1992-93	2,894,638	12th	(6.6)%	1.7%
1993-94	2,450,069	14th	(15.4)%	(3.4)%
1994-95	2,718,021	12th	10.9%	(1.2)%
1995-96	2,638,260	13th	(2.9)%	0.4%
1996-97	2,535,981	13th	(3.9)%	(2.6)%
1997-98	3,408,719	9th	34.4%	2.7%
1998-99	3,169,394	12th	(7.0)%	5.0%

SOURCE: United States Department of Defense

Non-manufacturing. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 84% by 1999. This trend has decreased the State's dependence on manufacturing. The State's non-manufacturing sector expanded by 2.7% in 1999 as compared to approximately 2.1% in each of the previous three years.

The table below provides a ten year profile of non-manufacturing employment in Connecticut, New England and the United States.

TABLE B-15
Non-manufacturing Employment
(In Thousands)

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>	<u>Number</u>	<u>% Growth</u>
1990	1,282.5	(1.83)%	5,127.5	(2.88)%	90,328	2.07 %
1991	1,232.7	(3.88)%	4,890.2	(4.63)%	89,843	(0.54)%
1992	1,220.4	(1.00)%	4,886.3	(0.08)%	90,485	0.71 %
1993	1,236.9	1.35 %	4,995.6	2.24 %	92,620	2.36 %
1994	1,258.5	1.75 %	5,129.8	2.69 %	95,815	3.45 %
1995	1,282.7	1.92 %	5,263.6	2.61 %	98,658	2.97 %
1996	1,309.0	2.05 %	5,376.8	2.15 %	101,098	2.47 %
1997	1,336.5	2.10 %	5,527.8	2.81 %	104,003	2.87 %
1998	1,365.8	2.19 %	5,672.3	2.61 %	107,043	2.92 %
1999	1,402.2	2.67 %	5,833.9	2.85 %	110,233	2.98 %

Source: United States Department of Labor, Bureau of Labor Statistics
Connecticut State Labor Department

Services, retail and wholesale trade, state and local government, as well as finance, insurance and real estate (FIRE) collectively comprise approximately 90% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 1990, 1997, 1998 and 1999 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the fiscal year and over the decade are also provided.

TABLE B-16
Connecticut Non-manufacturing Employment By Industry
(In Thousands)

<u>Industry</u>	<u>Calendar 1990</u>	<u>Calendar 1997</u>	<u>Calendar 1998</u>	<u>Calendar 1999</u>	<u>Percent Change 1998-99</u>	<u>Percent Change 1990-99</u>
Construction ^(a)	62.85	56.99	59.58	61.69	3.54%	(1.85)%
Transportation	40.68	43.02	43.64	44.37	1.67%	9.06%
Communications	18.53	18.05	18.94	18.83	(0.62)%	1.58%
Utilities	13.17	12.58	12.39	12.34	(0.36)%	(6.27)%
Wholesale Trade	74.38	85.10	86.46	87.10	0.74%	17.10%
Retail Trade	286.00	266.57	269.19	272.38	1.18%	(4.76)%
Finance and Real Estate	71.44	62.44	67.14	70.86	5.54%	(0.81)%
Insurance	80.13	69.78	69.37	69.86	0.71%	(12.81)%
Services ^(b)	424.96	495.02	510.70	526.56	3.11%	23.91%
Federal Government	25.50	23.50	22.61	22.27	(1.51)%	(12.68)%
State and Local Government ^(c)	<u>184.90</u>	<u>203.47</u>	<u>205.82</u>	<u>215.96</u>	<u>4.93%</u>	<u>16.80%</u>
Total Non-manufacturing Employment ^(d)	1,282.53	1,336.51	1,365.83	1,402.21	2.66%	9.33%

(a) Includes mining.

(b) Covers a considerable variety of activities, including professional and business services.

(c) Includes employees of Indian Tribal entities and their gaming operations.

(d) Totals may not agree with detail due to rounding.

Source: Connecticut State Labor Department

Retail Trade. Personal spending on goods and services generally accounts for two-thirds of the Gross Domestic Product. Approximately half of personal spending is generally done through retail stores. At the State level, retail trade therefore constitutes approximately one third of the State's economic activity, measured as Gross State Product. During the last decade, variations in retail trade closely matched variations in Gross State Product growth, making retail trade an important barometer of economic health.

TABLE B-17

**Retail Trade In Connecticut
(In Millions)**

	Fiscal Year <u>1996</u>	Fiscal Year <u>1997</u>	Fiscal Year <u>1998</u>	Fiscal Year <u>1999</u>	Fiscal Year <u>2000</u>	% Of Fiscal Year <u>2000 Total</u>	Average % Growth Fiscal Year <u>96-00</u>
SIC52 Hardware Stores	\$1,371	\$1,436	\$1,512	\$2,320	\$2,418	5.7%	16.9%
SIC53 General Merchandise	3,618	3,636	3,793	3,742	3,744	8.8%	0.9%
SIC54 Food Products	6,128	6,127	6,479	6,922	7,139	16.7%	3.9%
SIC55 Automotive Products	6,935	7,488	7,654	7,963	8,712	20.4%	5.9%
SIC56 Apparel & Accessory	1,586	1,696	1,896	2,047	2,195	5.1%	8.5%
SIC57 Furniture & Appliances	3,156	3,724	4,333	4,011	4,299	10.1%	8.5%
SIC58 Eating & Drinking	2,546	2,685	2,799	2,966	3,148	7.4%	5.5%
SIC59 Misc. Shopping Stores	<u>7,857</u>	<u>8,579</u>	<u>9,425</u>	<u>9,865</u>	<u>10,975</u>	<u>25.7%</u>	<u>8.7%</u>
Total^(a)	\$33,197	\$35,371	\$37,891	\$39,836	\$42,630	100.0%	6.5%
% Change from Previous Year	4.8%	6.5%	7.1%	5.1%	7.0%		
Durables (SIC 52,55,57)	\$11,462	\$12,648	\$13,499	\$14,294	\$15,429	36.2%	7.7%
% Change from Previous Year	4.8%	10.3%	6.7%	5.9%	7.9%		
Non Durables (all other SICs)	\$21,735	\$22,723	\$24,392	\$25,542	\$27,201	63.8%	5.8%
% Change from Previous Year	4.7%	4.5%	7.3%	4.7%	6.5%		

(a) Totals may not agree with detail due to rounding.

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State rose to a high of 7.6% in 1992, which was above the national average of 6.9%. Since then it has generally been declining and has remained mostly below the national average. It fell to 3.2% in 1999 and is averaging 2.3% for the first six months of 2000, well below the national average of 4.2% and 4.0%, respectively, for the same periods.

The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. Unemployment rates tend to be high during economic slowdowns and low when the economy is expanding. The rate is widely utilized as a proxy for consumer confidence. In general, when the unemployment rate is high consumer spending is lower and vice versa.

The following table compares unemployment rate averages of Connecticut, New England and the United States between 1990 and the first half of 2000. Connecticut's unemployment rate of 2.3% for the first half of 2000 is below the national average of 4.0%.

TABLE B-18
Unemployment Rate

<u>Year</u>	<u>Unemployment Rate</u>		<u>United States</u>
	<u>Connecticut</u>	<u>New England</u>	
1990	6.8	5.7	5.6
1991	7.6	8.0	6.9
1992	6.3	8.0	7.5
1993	5.6	6.8	6.9
1994 ^(a)	5.5	5.9	6.1
1995	5.7	5.4	5.6
1996	5.7	4.8	5.4
1997	5.1	4.4	4.9
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000 ^(b)	2.3	2.8	4.0

(a) Beginning with estimates for January 1994, State and area labor force statistics reflect a number of important changes. These include implementation of a major redesign of the Current Population Survey (CPS); introduction of updated population controls to the CPS; improved regression models for smaller states such as Connecticut; and incorporation of selected 1990 Census data in the geographic redefinition of labor market areas and in local area labor force estimation.

(b) Reflects average for the first six months.

SOURCE: United States Department of Labor, Bureau of Labor Statistics
Connecticut State Labor Department
Federal Reserve Bank of Boston

[INTENTIONALLY BLANK]

APPENDIX III-C

State Comptroller’s Letter III-C-2

Independent Auditor’s Report..... III-C-3

General Purpose Financial Statements III-C-5

 Combined Balance Sheet – All Fund Types, Account Groups, and Discretely Presented
 Component Units..... III-C-6

 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All
 Governmental Fund Types and Expendable Trust Funds..... III-C-8

 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget
 and Actual-Non-GAAP Budgetary Basis – General Fund and Budgeted Special Revenue
 Funds III-C-10

 Combined Statement of Revenues, Expenditures, and Changes in Retained Earnings/Fund
 Balances – All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely
 Presented Component Units III-C-12

 Combined Statement of Cash Flows – All Proprietary Fund Types, Nonexpendable Trust
 Funds, and Discretely Presented Component Units III-C-14

 Statement of Plan Net Assets – Pension Trust Funds (Defined Benefit Pension Plans) III-C-16

 Statement of Changes in Plan Assets – Pension Trust Funds and Investment Trust Fund..... III-C-18

 Combined Statement of Changes in Fund Balances – Higher Education Funds..... III-C-20

 Combined Statement of Revenues, Expenditures, and Other Changes – Higher Education Funds III-C-22

 Statement of Cash Flows – Affiliated Organization..... III-C-23

 Notes to the Financial Statements III-C-25

Required PERS Supplementary Information III-C-49

Statistical SectionNot Included



NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN
DEPUTY COMPTROLLER

January 23, 2001

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying general purpose financial statements of the State of Connecticut for the fiscal year ending June 30, 2000. The statements and the Independent Auditors' Report are extracted from the Comprehensive Annual Financial Report of the State of Connecticut which is prepared by my office and have been prepared in conformity with generally accepted accounting principles.

Sincerely,

A handwritten signature in black ink that reads "Nancy Wyman". The signature is fluid and cursive, with the first letter of "Nancy" being a large, stylized capital letter.

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE

ROBERT G. JAEKLE

HARTFORD, CONNECTICUT 06106-1559

INDEPENDENT AUDITORS' REPORT

Governor John G. Rowland
Members of the General Assembly

We have audited the accompanying general purpose financial statements of the State of Connecticut as of and for the year ended June 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Special Transportation Fund accounts within the Transportation Fund, which represent 20 percent and 70 percent, respectively, of the assets and revenues of the Special Revenue Funds; we did not audit the financial statements of the Transportation Special Tax Obligations Fund, which represent 100 percent of the assets and revenues of the Debt Service Funds; we did not audit the financial statements of the Bradley International Airport, the Connecticut Lottery Corporation, or the John Dempsey Hospital Fund, which represent 86 percent and 99 percent, respectively, of the assets and revenues of the Enterprise Funds; we did not audit the financial statements of the Clean Water Fund, which represent four percent and one percent, respectively, of the assets and revenues of the Trust and Agency Funds; we did not audit the financial statements of the Connecticut Housing Finance Authority, the Connecticut Resources Recovery Authority, the Connecticut Development Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Higher Education Supplemental Loan Authority, the Capital City Economic Development Authority and Connecticut Innovations Incorporated, which represent 100 percent of the assets and revenues of the Component Unit Funds; and, we did not audit the financial statements of the Connecticut State University or the University of Connecticut Foundation, which represent 35 percent and 44 percent, respectively, of the assets and revenues of the Higher Education and University Hospital Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned funds and accounts, is based solely on the reports of other auditors. All of the aforementioned audits were conducted in accordance with generally accepted auditing standards. In addition, the audits of the Connecticut Resources Recovery Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Connecticut Development Authority, Connecticut Lottery Corporation, Connecticut Innovations Incorporated, and Clean Water Fund, were conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that the audits of certain component units of the State, as described above, were not conducted in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.


In our opinion, and based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut as of June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.


In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2001, on our consideration of the State of Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 22 to the financial statements, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the State of Connecticut taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

The data in the statistical section listed in the table of contents was not audited by us and, accordingly, we express no opinion thereon.


Kevin P. Johnston
Auditor of Public Accounts


Robert G. Jaekle
Auditor of Public Accounts

January 23, 2001
State Capitol
Hartford, Connecticut

*General
Purpose
Financial
Statements*

Combined Balance Sheet
All Fund Types, Account Groups, and
Discretely Presented Component Units
 June 30, 2000
 (Expressed in Thousands)

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>
Assets and Other Debits:						
Cash and Cash Equivalents.....	\$ 686,635	\$ 455,998	\$ -	\$ 23,064	\$ 60,574	\$ 19,127
Investments:						
Equity in Combined Investment Funds.....	-	-	-	-	-	-
External Investment Pool.....	-	-	-	-	-	-
Other.....	47,705	22,502	-	-	600,329	-
Securities Lending Collateral.....	-	-	-	-	-	-
Receivables:						
Taxes.....	707,511	43,405	-	-	-	-
Accounts, Net of Allowances.....	236,519	4,944	2	821	50,098	5,849
Tuition.....	-	-	-	-	-	-
Loans, Net of Allowances.....	-	320,402	-	-	82,355	-
Interest.....	-	220	6,185	-	29,311	-
Notes Receivable.....	-	-	-	-	-	-
Federal Grants Receivable.....	82,205	12,016	-	9,084	710	-
Non-Federal Grants Receivable.....	2,323	12,414	-	-	-	-
Deposits with U.S. Treasury.....	-	-	-	-	-	-
Due From Other Funds.....	9,482	137,942	-	10,388	4,429	3,497
Due From Component Units.....	-	-	-	-	-	-
Due From Primary Government.....	-	-	-	-	-	-
Advances To Other Funds.....	4,950	-	-	-	-	-
Receivable From Other Governments.....	518,104	20,248	-	50,333	331	-
Inventories and Prepaid Items.....	37,672	13,784	-	-	4,919	4,269
Restricted Assets.....	-	-	530,064	-	122,313	-
Property, Plant & Equipment.....	-	-	-	-	221,013	45,458
Other Assets.....	-	-	-	-	10,619	1,352
Other Debits:						
Amount Available for Debt Retirement.....	-	-	-	-	-	-
Amount to be Provided for Debt Retirement.....	-	-	-	-	-	-
Total Assets and Other Debits.....	\$ 2,333,106	\$ 1,043,875	\$ 536,251	\$ 93,690	\$ 1,187,001	\$ 79,552
Liabilities, Equity and Other Credits:						
Liabilities:						
Accounts Payable and Accrued Liabilities.....	\$ 925,911	\$ 58,482	\$ -	\$ 103,354	\$ 148,718	\$ 25,241
Due To Other Funds.....	68,318	2,733	6,185	118,891	5,884	266
Due To Primary Government.....	-	-	-	-	-	-
Due To Component Units.....	2	18,802	-	-	-	-
Advances From Other Funds.....	-	-	-	-	-	4,950
Payable To Other Governments.....	53,003	-	-	-	-	-
Deferred Revenue.....	686,189	28,767	5,282	2,313	623	1,314
Escrow Deposits.....	-	-	-	-	-	-
Notes and Loans Payable.....	-	-	-	-	-	-
Securities Lending Obligation.....	-	-	-	-	-	-
Agency Deposit Liabilities.....	-	-	-	-	-	-
General Obligation Bonds.....	-	-	-	-	-	-
Transportation Related Bonds.....	-	-	-	-	-	-
Expendable Trust Fund Obligations.....	-	-	-	-	-	-
Revenue Bonds.....	-	-	-	-	228,712	-
Capital Leases.....	-	-	-	-	-	-
Claims and Judgements.....	-	-	-	-	-	-
Compensated Absences.....	-	-	-	-	42	4,763
Net Pension Obligation.....	-	-	-	-	-	-
Workers Compensation Liability.....	-	-	-	-	-	-
Liability for Landfill Closure Costs.....	-	-	-	-	-	-
Amount Held for Institutions.....	-	-	-	-	-	-
Liability for Escheat Property.....	44,768	-	-	-	-	-
Malpractice Liability.....	-	-	-	-	6,389	-
Long-Term Annuities Payable.....	-	-	-	-	486,568	-
Total Liabilities.....	1,778,191	108,784	11,467	224,558	876,936	36,534
Equity and Other Credits:						
Investment in Fixed Assets.....	-	-	-	-	-	-
Contributed Capital.....	-	-	-	-	104,224	1,380
Retained Earnings:						
Reserved.....	-	-	-	-	49,041	-
Unreserved.....	-	-	-	-	156,800	41,638
Fund Balances:						
Reserved.....	1,229,906	408,417	524,784	-	-	-
Unreserved, undesignated.....	(674,991)	526,674	-	(130,868)	-	-
Total Equity and Other Credits.....	554,915	935,091	524,784	(130,868)	310,065	43,018
Total Liabilities, Equity and Other Credits.....	\$ 2,333,106	\$ 1,043,875	\$ 536,251	\$ 93,690	\$ 1,187,001	\$ 79,552

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Types	Account Groups			Higher Education Funds	Total Primary Government (Memorandum only)	Component Units	Total Reporting Entity (Memorandum only)
	Trust and Agency	General Fixed Assets	General Long-Term Debt				
\$ 358,764	\$ -	\$ -	\$ 498,749	\$ 2,102,911	\$ 351,952	\$ 2,454,863	
21,913,603	-	-	622	21,914,225	-	21,914,225	
1,085,851	-	-	-	1,085,851	-	1,085,851	
111,209	-	-	228,118	1,009,863	534,503	1,544,366	
1,666,080	-	-	-	1,666,080	-	1,666,080	
-	-	-	-	750,916	-	750,916	
46,427	-	-	101,762	446,422	15,783	462,205	
-	-	-	1,229	1,229	-	1,229	
545,226	-	-	30,362	978,345	3,085,764	4,064,109	
17,472	-	-	-	53,188	43,982	97,170	
-	-	-	-	-	792	792	
120	-	-	-	104,135	-	104,135	
-	-	-	-	14,737	-	14,737	
840,790	-	-	-	840,790	-	840,790	
11,462	-	-	55,802	233,002	-	233,002	
-	-	-	44,915	44,915	-	44,915	
-	-	-	-	-	18,804	18,804	
-	-	-	-	4,950	-	4,950	
7,319	-	-	-	596,335	-	596,335	
4,643	-	-	13,019	78,306	1,295	79,601	
412,648	-	-	-	1,065,025	860,239	1,925,264	
-	3,770,684	-	2,119,460	6,156,615	225,570	6,382,185	
562,842	-	-	11,848	586,661	48,490	635,151	
-	-	539,525	-	539,525	-	539,525	
-	-	13,880,024	-	13,880,024	-	13,880,024	
\$ 27,584,456	\$ 3,770,684	\$ 14,419,549	\$ 3,105,886	\$ 54,154,050	\$ 5,187,174	\$ 59,341,224	
\$ 35,844	\$ -	\$ -	\$ 126,830	\$ 1,424,380	\$ 76,379	\$ 1,500,759	
20,160	-	-	11,028	233,465	-	233,465	
-	-	-	-	-	44,915	44,915	
-	-	-	-	18,804	-	18,804	
-	-	-	-	4,950	-	4,950	
-	-	-	-	53,003	-	53,003	
23,511	-	-	44,719	792,718	5,866	798,584	
-	-	-	-	-	117,018	117,018	
-	-	-	6,251	6,251	-	6,251	
1,666,080	-	-	-	1,666,080	-	1,666,080	
728,513	-	-	6,586	735,099	-	735,099	
-	-	7,221,893	-	7,221,893	-	7,221,893	
-	-	3,069,525	-	3,069,525	-	3,069,525	
-	-	610,065	-	610,065	-	610,065	
556,046	-	-	306,069	1,090,827	3,613,065	4,703,892	
-	-	49,406	-	49,406	-	49,406	
-	-	15,079	-	15,079	-	15,079	
-	-	294,091	76,309	375,205	-	375,205	
-	-	2,875,890	-	2,875,890	-	2,875,890	
-	-	283,600	-	283,600	-	283,600	
-	-	-	-	-	24,992	24,992	
-	-	-	-	-	371,499	371,499	
-	-	-	-	44,768	-	44,768	
-	-	-	-	6,389	-	6,389	
-	-	-	-	486,568	-	486,568	
3,030,154	-	14,419,549	577,792	21,063,965	4,253,734	25,317,699	
-	3,770,684	-	1,939,016	5,709,700	-	5,709,700	
-	-	-	-	105,604	250,122	355,726	
-	-	-	-	49,041	533,956	582,997	
-	-	-	-	198,438	149,362	347,800	
23,349,697	-	-	380,007	25,892,811	-	25,892,811	
1,204,605	-	-	209,071	1,134,491	-	1,134,491	
24,554,302	3,770,684	-	2,528,094	33,090,085	933,440	34,023,525	
\$ 27,584,456	\$ 3,770,684	\$ 14,419,549	\$ 3,105,886	\$ 54,154,050	\$ 5,187,174	\$ 59,341,224	

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Funds

For The Fiscal Year Ended June 30, 2000

(Expressed in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Taxes.....	\$ 8,282,510	\$ 562,223	\$ -	\$ -
Licenses, Permits and Fees.....	127,530	328,001	-	-
Tobacco Settlement.....	-	149,960	-	-
Intergovernmental.....	2,284,739	103,388	-	372,301
Charges for Services.....	41,772	35,157	-	-
Fines, Forfeits and Rents.....	39,996	22,358	-	-
Casino Gaming Payments.....	318,986	-	-	-
Restricted Federal and Other Grants/Accounts.....	720,925	97,145	-	-
Health Insurance Contributions.....	-	-	-	-
Investment Earnings and Interest on U.S. Deposits.....	53,450	18,430	33,367	-
Assessments.....	-	-	-	-
Miscellaneous.....	128,011	89,472	-	11,928
Total Revenues.....	11,997,919	1,406,134	33,367	384,229
Expenditures:				
Current:				
Legislative.....	68,590	-	-	-
General Government.....	812,515	178,234	-	-
Regulation and Protection.....	255,354	268,392	-	-
Conservation and Development.....	98,624	256,783	-	-
Health and Hospitals.....	1,146,347	5,962	-	-
Transportation.....	1,607	398,895	-	-
Human Services.....	3,769,993	10,203	-	-
Education, Libraries and Museums.....	2,064,733	379,792	-	-
Health Insurance Payments.....	-	-	-	-
Corrections.....	1,153,099	3,817	-	-
Judicial.....	399,144	8,531	-	-
Restricted Federal and Other Grants/Accounts.....	713,174	99,926	-	-
Capital Projects.....	-	-	-	745,784
Debt Service:				
Principal Retirement.....	547,561	25,445	169,578	-
Interest and Fiscal Charges.....	364,027	8,603	168,118	-
Advance Refunding Escrow.....	125,758	81,923	-	-
Total Expenditures.....	11,520,526	1,726,506	337,696	745,784
Excess (Deficiency) of Revenues Over Expenditures.....	477,393	(320,372)	(304,329)	(361,555)
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds and Notes.....	-	637,025	-	358,655
Operating Transfers In.....	338,360	241,145	351,259	-
Operating Transfers Out.....	(892,067)	(458,943)	(46,802)	(112,066)
Capital Lease Obligations.....	3,433	2,231	-	-
Total Other Financing Sources (Uses).....	(550,274)	421,458	304,457	246,589
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses.....	(72,881)	101,086	128	(114,966)
Fund Balances (deficit) - July 1	619,455	901,620	524,656	(15,902)
Equity Transfer In-Return of Contributed Capital.....	4,950	-	-	-
Equity Transfer to Component Units.....	-	(67,618)	-	-
Changes in Reserves for Inventories.....	3,391	3	-	-
Fund Balances (deficit) - June 30.....	\$ 554,915	\$ 935,091	\$ 524,784	\$ (130,868)

The accompanying notes are an integral part of the financial statements.

<u>Fiduciary Fund Type</u>	<u>Total (Memorandum only)</u>
<u>Expendable Trust</u>	
\$ 361,564	\$ 9,206,297
-	455,531
-	149,960
8,467	2,768,895
-	76,929
-	62,354
-	318,986
-	818,070
40,358	40,358
71,999	177,246
230,364	230,364
3,697	233,108
<u>716,449</u>	<u>14,538,098</u>
-	68,590
7,801	998,550
433,877	957,623
-	355,407
-	1,152,309
-	400,502
-	3,780,196
-	2,444,525
37,859	37,859
-	1,156,916
-	407,675
-	813,100
-	745,784
205,870	948,454
33,668	574,416
-	207,681
<u>719,075</u>	<u>15,049,587</u>
<u>(2,626)</u>	<u>(511,489)</u>
20,000	1,015,680
107,000	1,037,764
(91,976)	(1,601,854)
-	5,664
<u>35,024</u>	<u>457,254</u>
<u>32,398</u>	<u>(54,235)</u>
1,098,856	3,128,685
-	4,950
-	(67,618)
-	3,394
<u>\$ 1,131,254</u>	<u>\$ 3,015,176</u>

**Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances
Budget and Actual - Non-GAAP Budgetary Basis
General Fund and Budgeted Special Revenue Funds**

For the Fiscal Year Ended June 30, 2000

(Expressed in Thousands)

	<u>Budget</u>	<u>General Fund Actual</u>	<u>Variance</u>
Revenues:			
Budgeted			
Taxes, Net of Refunds.....	\$ 8,292,100	\$ 8,272,948	\$ (19,152)
Operating Transfers In.....	337,800	337,785	(15)
Casino Gaming Payments.....	319,000	318,986	(14)
Licenses, Permits, and Fees.....	122,800	127,544	4,744
Other.....	262,400	257,469	(4,931)
Federal Grants.....	2,078,800	2,078,914	114
Operating Transfers Out.....	(180,000)	(180,000)	-
Total Budgeted	11,232,900	11,213,646	(19,254)
Federal and Other Restricted	1,530,667	937,641	(593,026)
Total Revenues.....	12,763,567	12,151,287	(612,280)
Expenditures:			
Budgeted			
Legislative.....	62,597	54,541	8,056
General Government.....	713,432	564,092	149,340
Regulation and Protection.....	231,829	207,001	24,828
Conservation and Development.....	95,322	78,155	17,167
Health and Hospitals.....	1,034,336	1,005,233	29,103
Transportation.....	2,219	2,218	1
Human Services.....	3,478,427	3,430,561	47,866
Education, Libraries, and Museums.....	2,750,332	2,637,518	112,814
Corrections.....	986,957	957,555	29,402
Judicial.....	313,967	309,319	4,648
Non Functional.....	2,018,886	1,954,711	64,175
Total Budgeted.....	11,688,304	11,200,904	487,400
Federal and Other Restricted	1,530,667	937,641	593,026
Total Expenditures.....	13,218,971	12,138,545	1,080,426
Appropriations Lapsed.....	108,969	-	(108,969)
Excess (Deficiency) of Revenues Over Expenditures.....	(346,435)	12,742	359,177
Other Financing Sources (Uses):			
Prior Year Appropriations Carried Forward.....	668,195	668,195	-
Appropriations Continued to Fiscal Year 2000-2001.....	-	(378,431)	(378,431)
Miscellaneous Adjustments.....	-	(2,071)	(2,071)
Total Other Financing Sources (Uses).....	668,195	287,693	(380,502)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses.....	\$ 321,760	300,435	\$ (21,325)
Budgetary Fund Balances (deficit) - July 1.....		1,383,612	
Changes in Reserves.....		(416,485)	
Budgetary Fund Balances - June 30.....		\$ 1,267,562	

The accompanying notes are an integral part of the financial statements.

<u>Budgeted Special Revenue Funds</u>			<u>(Total Memorandum Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ 548,000	\$ 547,028	\$ (972)	\$ 8,840,100	\$ 8,819,976	\$ (20,124)
196,800	196,770	(30)	534,600	534,555	(45)
-	-	-	319,000	318,986	(14)
314,100	319,433	5,333	436,900	446,977	10,077
105,845	105,126	(719)	368,245	362,595	(5,650)
3,000	2,974	(26)	2,081,800	2,081,888	88
(2,000)	(2,000)	-	(182,000)	(182,000)	-
1,165,745	1,169,331	3,586	12,398,645	12,382,977	(15,668)
368,981	182,036	(186,945)	1,899,648	1,119,677	(779,971)
1,534,726	1,351,367	(183,359)	14,298,293	13,502,654	(795,639)
-	-	-	62,597	54,541	8,056
2,333	2,284	49	715,765	566,376	149,389
142,582	116,983	25,599	374,411	323,984	50,427
677	638	39	95,999	78,793	17,206
-	-	-	1,034,336	1,005,233	29,103
395,956	330,500	65,456	398,175	332,718	65,457
3,105	2,883	222	3,481,532	3,433,444	48,088
-	-	-	2,750,332	2,637,518	112,814
-	-	-	986,957	957,555	29,402
-	-	-	313,967	309,319	4,648
606,103	571,801	34,302	2,624,989	2,526,512	98,477
1,150,756	1,025,089	125,667	12,839,060	12,225,993	613,067
368,981	182,036	186,945	1,899,648	1,119,677	779,971
1,519,737	1,207,125	312,612	14,738,708	13,345,670	1,393,038
43,909	-	(43,909)	152,878	-	(152,878)
58,898	144,242	85,344	(287,537)	156,984	444,521
57,172	57,172	-	725,367	725,367	-
-	(72,700)	(72,700)	-	(451,131)	(451,131)
-	(1,806)	(1,806)	-	(3,877)	(3,877)
57,172	(17,334)	(74,506)	725,367	270,359	(455,008)
\$ 116,070	126,908	\$ 10,838	\$ 437,830	427,343	\$ (10,487)
	402,700			1,786,312	
	(85,072)			(501,557)	
	\$ 444,536			\$ 1,712,098	

**Combined Statement of Revenues, Expenses, and
Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Nonexpendable Trust Funds,
and Discretely Presented Component Units**

For The Fiscal Year Ended June 30, 2000

(Expressed in Thousands)

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Total</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	<u>Primary Government (Memorandum only)</u>
Operating Revenues:				
Charges for Services.....	\$ 43,502	\$ 106,657	\$ -	\$ 150,159
Interest on Financing Activities.....	2,402	-	10,181	12,583
Investment Earnings.....	-	199	32,699	32,898
Patient Service Revenue.....	114,841	-	-	114,841
Intergovernmental.....	-	-	12,270	12,270
Civic Center Lease Operations.....	-	-	-	-
Lottery Sales.....	837,509	-	-	837,509
Miscellaneous.....	5,485	287	417	6,189
Total Operating Revenues.....	1,003,739	107,143	55,567	1,166,449
Operating Expenses:				
Cost of Sales and Services.....	570,818	43,144	-	613,962
Administrative.....	72,386	44,768	1,133	118,287
Depreciation and Amortization.....	16,040	19,714	-	35,754
Interest on Financing Activities.....	5,704	-	29,607	35,311
Patient Care.....	86,341	-	-	86,341
Other Program Expenses.....	5,381	-	836	6,217
Civic Center Lease Oper. (includes depreciation expense of \$1,677)..	-	-	-	-
Solid Waste Operations.....	-	-	-	-
Total Operating Expenses.....	756,670	107,626	31,576	895,872
Operating Income (Loss).....	247,069	(483)	23,991	270,577
Nonoperating Revenues (Expenses):				
Interest and Investment Income.....	50,048	-	-	50,048
Interest and Fiscal Charges.....	(46,799)	-	-	(46,799)
Other.....	11,351	-	-	11,351
Total Nonoperating Income (Expense).....	14,600	-	-	14,600
Income (Loss) Before Operating Transfers.....	261,669	(483)	23,991	285,177
Operating Transfers:				
Operating Transfers In.....	10,830	-	8,652	19,482
Operating Transfers Out.....	(253,598)	-	(3,629)	(257,227)
Net Income (Loss).....	18,901	(483)	29,014	47,432
Add Items Affecting Contributed Capital:				
Depreciation on Equipment Acquired through				
Capital Grants.....	-	-	-	-
Total Add Back Items.....	-	-	-	-
Retained Earnings/Fund Balances-July 1(as restated).....	187,726	42,121	478,456	708,303
Equity Transfer From Primary Government.....	-	-	-	-
Equity Transfer Out.....	(786)	-	-	(786)
Retained Earnings/Fund Balances - June 30.....	\$ 205,841	\$ 41,638	\$ 507,470	\$ 754,949

The accompanying notes are an integral part of the financial statements.

Proprietary Fund Type Component Units	Total Reporting Entity (Memorandum only)
\$ 160,097	\$ 310,256
217,727	230,310
-	32,898
-	114,841
-	12,270
15,555	15,555
-	837,509
<u>25,020</u>	<u>31,209</u>
<u>418,399</u>	<u>1,584,848</u>
-	613,962
41,492	159,779
21,676	57,430
199,528	234,839
-	86,341
22,394	28,611
18,247	18,247
<u>113,516</u>	<u>113,516</u>
<u>416,853</u>	<u>1,312,725</u>
<u>1,546</u>	<u>272,123</u>
93,984	144,032
(16,872)	(63,671)
(399)	10,952
<u>76,713</u>	<u>91,313</u>
78,259	363,436
-	19,482
-	(257,227)
<u>78,259</u>	<u>125,691</u>
<u>122</u>	<u>122</u>
122	122
539,405	1,247,708
65,532	65,532
-	(786)
<u><u>\$ 683,318</u></u>	<u><u>\$ 1,438,267</u></u>

Combined Statement of Cash Flows All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For The Fiscal Year Ended June 30, 2000

(Expressed in Thousands)

	Proprietary Fund		Fiduciary Fund	Total
	Types		Type	Primary
	Enterprise	Internal Service	Nonexpendable Trust	Government (Memorandum only)
Cash Flows From Operating Activities:				
Operating Income (Loss).....	\$ 247,069	\$ (483)	\$ 23,991	\$ 270,577
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Provided by (Used in) Operating Activities:				
Amortization and Depreciation.....	16,040	19,714	-	35,754
Provision for Loan Losses.....	4,698	-	-	4,698
Investment Income.....	-	(199)	(32,699)	(32,898)
Interest Expense.....	5,704	-	29,607	35,311
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables.....	(379)	123	(2,820)	(3,076)
(Increase) Decrease in Due From Other Funds.....	(1,382)	8	-	(1,374)
(Increase) Decrease in Receivable From Other Governments.....	(422)	-	-	(422)
(Increase) Decrease in Inventories and Prepaid Expenses.....	(110)	(653)	-	(763)
Increase (Decrease) in Accounts Payable and Accrued Liabilities.....	12,392	22,616	721	35,729
Increase (Decrease) in Due To Other Funds.....	693	(13,295)	-	(12,602)
Issuance of Loans, Notes & Installment Contracts Receivable.....	-	-	(55,810)	(55,810)
Collection of Loans, Notes & Installment Contracts Receivable.....	2,263	-	-	2,263
Miscellaneous Operating Activities.....	(2,131)	(2,946)	579	(4,498)
Net Cash Provided by (Used in) Operating Activities.....	284,435	24,885	(36,431)	272,889
Cash Flows From Noncapital Financing Activities:				
Contributed Capital.....	-	-	-	-
Proceeds From Sale of Bonds and Notes.....	-	-	-	-
Retirement of Bonds and Notes Payable.....	(36,585)	-	(22,630)	(59,215)
Interest on Bonds and Notes Payable.....	(46,332)	-	(28,262)	(74,594)
Transfers From Other Funds.....	10,830	-	8,652	19,482
Transfers To Other Funds.....	(253,598)	-	(3,629)	(257,227)
Bond Issuance and/or Redemption Costs.....	-	-	-	-
Miscellaneous Noncapital Financing Activities-Deletions.....	-	-	-	-
Net Cash Provided by (Used in) Noncapital Financing Activities.....	(325,685)	-	(45,869)	(371,554)
Cash Flows From Capital And Related Financing Activities:				
Purchase of Fixed Assets.....	(27,207)	(25,925)	-	(53,132)
Proceeds From Sale of Bonds and Notes.....	53,800	-	-	53,800
Retirement of Bonds and Notes Payable.....	(3,600)	-	-	(3,600)
Interest on Bonds and Notes Payable.....	(6,161)	-	-	(6,161)
Capital Contributions or Grants.....	1,333	-	-	1,333
Miscellaneous Capital and Related Financing Activities-Additions.....	-	-	-	-
Miscellaneous Capital and Related Financing Activities-Deletions.....	(785)	-	-	(785)
Net Cash Provided by (Used in) Capital and Related Financing Activities.....	17,380	(25,925)	-	(8,545)
Cash Flows From Investing Activities:				
Proceeds From Sales of Investment Securities.....	81,952	-	55,473	137,425
Purchase of Investment Securities.....	(18,847)	-	(2,978)	(21,825)
Interest and Income on Investments.....	10,520	199	31,604	42,323
Miscellaneous Capital and Related Investing Activities-net.....	-	-	-	-
Net Cash Provided by (Used in) Investing Activities.....	73,625	199	84,099	157,923
Increase (Decrease) in Cash.....	49,755	(841)	1,799	50,713
Cash and Cash Equivalents - July 1 (as restated).....	123,291	19,968	6,970	150,229
Cash and Cash Equivalents - June 30.....	\$ 173,046	\$ 19,127	\$ 8,769	\$ 200,942
Reconciliation of Cash and Cash Equivalents to Balance Sheet:				
Cash and Cash Equivalents - June 30 (Balance Sheet).....	\$ 60,574	-	\$ 358,764	-
Plus-Cash and Cash Equivalents in Restricted Assets.....	112,472	-	-	-
Less-Cash and Cash Equivalents in Other Fiduciary Fund Types.....	-	-	349,995	-
Cash and Cash Equivalents - June 30.....	\$ 173,046	\$ -	\$ 8,769	\$ -

The accompanying notes are an integral part of the financial statements.

<u>Proprietary Fund Type Component Units</u>	<u>Total Reporting Entity (Memorandum only)</u>
\$ 1,546	\$ 272,123
23,353	59,107
18,892	23,590
-	(32,898)
200,652	235,963
1,231	(1,845)
(3,246)	(4,620)
-	(422)
(736)	(1,499)
31,874	67,603
-	(12,602)
(419,245)	(475,055)
458,020	460,283
6,356	1,858
<u>318,697</u>	<u>591,586</u>
7,213	7,213
257,860	257,860
(378,960)	(438,175)
(201,566)	(276,160)
-	19,482
-	(257,227)
(2,856)	(2,856)
(2,882)	(2,882)
<u>(321,191)</u>	<u>(692,745)</u>
(4,975)	(58,107)
371,621	425,421
(23,817)	(27,417)
(16,667)	(22,828)
-	1,333
5,553	5,553
<u>(512,292)</u>	<u>(513,077)</u>
<u>(180,577)</u>	<u>(189,122)</u>
589,767	727,192
(360,617)	(382,442)
85,834	128,157
<u>(16,096)</u>	<u>(16,096)</u>
298,888	456,811
115,817	166,530
337,831	488,060
<u>\$ 453,648</u>	<u>\$ 654,590</u>
\$ 351,952	
101,696	
-	
<u>\$ 453,648</u>	

Statement of Plan Net Assets

Pension Trust Funds (Defined Benefit Pension Plans)

June 30, 2000

(Expressed in Thousands)

	State Employees	State Teachers	Judicial
Assets:			
Cash and Cash Equivalents.....	\$ -	\$ -	\$ -
Receivables:			
Accounts, Net of Allowances.....	1,963	8,431	16
Interest.....	449	1,381	17
Total Receivables.....	<u>2,412</u>	<u>9,812</u>	<u>33</u>
Investments:			
Equity in Combined Investment Fund.....	8,284,938	11,940,223	141,210
Total Investments.....	<u>8,284,938</u>	<u>11,940,223</u>	<u>141,210</u>
Securities Lending Collateral.....	637,252	902,521	9,840
Due From Other Funds.....	4,754	-	-
Receivable From Other Governments.....	-	5,191	-
Total Assets.....	<u>\$ 8,929,356</u>	<u>\$ 12,857,747</u>	<u>\$ 151,083</u>
Liabilities and Equity:			
Liabilities:			
Accounts Payable and Accrued Liabilities.....	\$ 18	\$ -	\$ -
Due To Other Funds.....	439	5,871	-
Securities Lending Obligation.....	637,252	902,521	9,840
Total Liabilities.....	<u>637,709</u>	<u>908,392</u>	<u>9,840</u>
Fund Balance:			
Reserved for Employees' Pension Benefits.....	8,291,647	11,949,355	141,243
Total Fund Balance.....	<u>8,291,647</u>	<u>11,949,355</u>	<u>141,243</u>
Total Liabilities and Fund Balances.....	<u>\$ 8,929,356</u>	<u>\$ 12,857,747</u>	<u>\$ 151,083</u>

<u>Connecticut Municipal Employees</u>	<u>Probate Judges</u>	<u>State's Attorneys/ Public Defender</u>	<u>Total</u>
\$ 502	\$ 8	\$ 65	\$ 575
3,128	5	-	13,543
148	11	1	2,007
<u>3,276</u>	<u>16</u>	<u>1</u>	<u>15,550</u>
1,373,222	70,761	902	21,811,256
<u>1,373,222</u>	<u>70,761</u>	<u>902</u>	<u>21,811,256</u>
101,565	5,808	39	1,657,025
-	-	-	4,754
-	-	-	5,191
<u>\$ 1,478,565</u>	<u>\$ 76,593</u>	<u>\$ 1,007</u>	<u>\$ 23,494,351</u>
\$ -	\$ -	\$ -	\$ 18
-	-	-	6,310
101,565	5,808	39	1,657,025
<u>101,565</u>	<u>5,808</u>	<u>39</u>	<u>1,663,353</u>
1,377,000	70,785	968	21,830,998
<u>1,377,000</u>	<u>70,785</u>	<u>968</u>	<u>21,830,998</u>
<u>\$ 1,478,565</u>	<u>\$ 76,593</u>	<u>\$ 1,007</u>	<u>\$ 23,494,351</u>

Statement of Changes in Net Assets Pension Trust Funds and Investment Trust Fund

For the Fiscal Year Ended June 30, 2000

(Expressed in Thousands)

	<u>Pension Trust</u>		
	<u>State Employees</u>	<u>State Teachers</u>	<u>Judicial</u>
Additions:			
Contributions:			
Plan Participants.....	\$ 43,783	\$ 154,326	\$ 1,127
State	342,760	204,445	9,324
Municipalities.....	-	7,921	-
Total Contributions.....	<u>386,543</u>	<u>366,692</u>	<u>10,451</u>
Investment Income.....	1,025,923	1,469,363	19,122
Less: Investment Expenses.....	<u>(50,955)</u>	<u>(72,952)</u>	<u>(949)</u>
Net Investment Income.....	<u>974,968</u>	<u>1,396,411</u>	<u>18,173</u>
Pool's Share Transactions.....	-	-	-
Operating Transfers In.....	-	-	-
Miscellaneous.....	-	-	13
Total Additions.....	<u>1,361,511</u>	<u>1,763,103</u>	<u>28,637</u>
Deductions:			
Administrative.....	295	-	-
Benefit Payments and Refunds.....	596,303	630,886	11,836
Distributions to Pool Participants.....	-	-	-
Other Program Expenses.....	<u>3,263</u>	<u>-</u>	<u>-</u>
Total Deductions.....	<u>599,861</u>	<u>630,886</u>	<u>11,836</u>
Net Increase (Decrease) in Net Assets.....	761,650	1,132,217	16,801
Net assets held in trust for pension benefits and pool participants:			
July 1, 1999.....	7,529,997	10,817,138	124,442
June 30, 2000.....	<u>\$ 8,291,647</u>	<u>\$ 11,949,355</u>	<u>\$ 141,243</u>

The accompanying notes are an integral part of the financial statements.

Connecticut Municipal Employees	<u>Pension Trust</u>		State's Attorneys'/ Public Defender	External Investment Pool	<u>Total</u>
	Probate Judges				
\$ 12,835	\$ 218	\$ 35	\$ -	\$ 212,324	
-	-	-	-	556,529	
32,004	-	-	-	39,925	
<u>44,839</u>	<u>218</u>	<u>35</u>	<u>-</u>	<u>808,778</u>	
170,975	7,979	79	85,182	2,778,623	
(8,492)	(396)	(4)	(575)	(134,323)	
<u>162,483</u>	<u>7,583</u>	<u>75</u>	<u>84,607</u>	<u>2,644,300</u>	
-	-	-	(8,570)	(8,570)	
-	979	-	-	979	
-	18	-	-	31	
<u>207,322</u>	<u>8,798</u>	<u>110</u>	<u>76,037</u>	<u>3,445,518</u>	
6	13	-	-	314	
49,974	2,016	95	-	1,291,110	
-	-	-	84,607	84,607	
-	990	-	-	4,253	
<u>49,980</u>	<u>3,019</u>	<u>95</u>	<u>84,607</u>	<u>1,380,284</u>	
157,342	5,779	15	(8,570)	2,065,234	
<u>1,219,658</u>	<u>65,006</u>	<u>953</u>	<u>1,093,150</u>	<u>20,850,344</u>	
<u><u>\$ 1,377,000</u></u>	<u><u>\$ 70,785</u></u>	<u><u>\$ 968</u></u>	<u><u>\$ 1,084,580</u></u>	<u><u>\$ 22,915,578</u></u>	

Combined Statement of Changes in Fund Balances**Higher Education Funds**

For The Fiscal Year Ended June 30, 2000

(Expressed in Thousands)

	<u>Current Funds</u>		<u>Endowment and Similar Funds</u>
	<u>Unrestricted</u>	<u>Restricted</u>	
Revenues and Other Additions:			
Current Funds Revenues and Additions.....	\$ 649,333	\$ 172,061	\$ -
Private Gifts and Grants.....	-	-	33
Investment Earnings.....	-	-	438
Interest on Loans Receivable.....	-	-	-
Expended for Plant Facilities.....	-	-	-
Retirement of Indebtedness.....	-	-	-
Sale of Bonds.....	-	-	-
Foundation Revenues.....	-	-	-
Miscellaneous.....	-	-	195
Total Revenues and Other Additions.....	649,333	172,061	666
Expenditures and Other Deductions:			
Education and General.....	1,077,073	162,311	-
Auxiliary Enterprises.....	117,521	51	-
Patient Care.....	115,576	135	-
Indirect Costs Recovered.....	-	18,362	-
Loan Cancellations and Write-offs.....	-	-	-
Interest on Indebtedness.....	-	-	-
Capital Expenditures.....	-	-	-
Disposal of Plant Facilities.....	-	-	-
Depreciation.....	-	-	-
Administrative Costs.....	-	-	-
Retirement of Indebtedness.....	-	-	-
Foundation Expenditures.....	-	-	-
Other.....	4,186	269	362
Total Expenditures and Other Deductions.....	1,314,356	181,128	362
Transfers Among Funds - Additions (Deductions)			
Mandatory:			
Retirement of Indebtedness.....	(9,061)	-	-
Nonmandatory:			
Transfer From Foundation.....	-	10,445	-
Transfer To Foundation.....	(4,110)	-	-
Other.....	(12,327)	990	139
Total Transfers Among Funds	(25,498)	11,435	139
Operating Transfers from the State's			
Governmental Funds.....	697,742	-	-
Net Increase (Decrease) in Fund Balances.....	7,221	2,368	443
Fund Balances (deficit) - July 1.....	74,912	32,980	8,687
Fund Balances (deficit) - June 30.....	\$ 82,133	\$ 35,348	\$ 9,130

The accompanying notes are an integral part of the financial statements.

<u>Loan Funds</u>	<u>Plant Funds</u>	<u>Affiliated Organization</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 821,394
100	-	-	133
290	6,080	-	6,808
448	-	-	448
-	199,424	-	199,424
-	8,635	-	8,635
-	130,000	-	130,000
-	-	70,786	70,786
146	16,257	-	16,598
<u>984</u>	<u>360,396</u>	<u>70,786</u>	<u>1,254,226</u>
-	-	-	1,239,384
-	-	-	117,572
-	-	-	115,711
-	-	-	18,362
60	-	-	60
-	9,748	-	9,748
-	232,134	-	232,134
-	11,103	-	11,103
-	41,805	-	41,805
235	159	-	394
-	8,635	-	8,635
-	-	16,518	16,518
-	633	-	5,450
<u>295</u>	<u>304,217</u>	<u>16,518</u>	<u>1,816,876</u>
-	9,061	-	-
-	-	(10,445)	-
-	-	4,110	-
595	10,603	-	-
<u>595</u>	<u>19,664</u>	<u>(6,335)</u>	<u>-</u>
-	103,114	-	800,856
<u>1,284</u>	<u>178,957</u>	<u>47,933</u>	<u>238,206</u>
<u>33,014</u>	<u>1,938,836</u>	<u>201,459</u>	<u>2,289,888</u>
<u>\$ 34,298</u>	<u>\$ 2,117,793</u>	<u>\$ 249,392</u>	<u>\$ 2,528,094</u>

Combined Statement of Revenues, Expenditures, and Other Changes Higher Education Funds

For The Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

	<u>Current Funds</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>	
Revenues and Transfers from Foundation:			
Student Tuition and Fees.....	\$ 295,385	\$ -	\$ 295,385
Federal Grants and Contracts.....	32,315	105,235	137,550
State Grants and Contracts.....	10,166	27,499	37,665
Private Gifts and Grants.....	12,124	16,701	28,825
Patient Service.....	105,711	-	105,711
Sales and Services.....	169,679	-	169,679
Investment Earnings.....	13,651	1,494	15,145
Miscellaneous.....	10,302	1,084	11,386
Total Revenues.....	649,333	152,013	801,346
Transfer from Foundation.....	-	10,445	10,445
Total Revenues and Transfer from Foundation.....	649,333	162,458	811,791
Expenditures and Mandatory Transfers:			
Education and General:			
Instruction.....	\$ 457,794	\$ 10,569	\$ 468,363
Research.....	27,001	79,126	106,127
Public Service.....	33,633	10,045	43,678
Academic Support.....	127,434	6,997	134,431
Student Services.....	99,723	2,581	102,304
Institutional Support.....	175,130	1,296	176,426
Scholarship and Fellowships.....	59,380	51,692	111,072
Plant Operations and Maintenance.....	96,978	5	96,983
Total Educational and General Expenditures.....	1,077,073	162,311	1,239,384
Patient Care.....	115,576	135	115,711
Auxiliary Enterprises.....	117,521	51	117,572
Other Self-Supporting Enterprises.....	4,186	-	4,186
Mandatory Transfers:			
Retirement of Indebtedness.....	9,061	-	9,061
Total Expenditures and Mandatory Transfers.....	1,323,417	162,497	1,485,914
Other Transfers - Additions (Deductions):			
Operating Transfers from the State's			
Governmental Funds.....	697,742	-	697,742
Transfer to Foundation.....	(4,110)	-	(4,110)
Other Non-mandatory Transfers.....	(12,327)	990	(11,337)
Excess of Restricted Receipts over Transfers			
to Revenues.....	-	1,686	1,686
Refunded to Grantors.....	-	(269)	(269)
Total Other Transfers and Additions (Deductions)..	681,305	2,407	683,712
Net Increase (Decrease) in Fund Balances.....	\$ 7,221	\$ 2,368	\$ 9,589

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Affiliated Organization

For The Fiscal Year Ended June 30, 2000

(Expressed in Thousands)

Cash Flows From Operating Activities:

Change in Fund Balance..... \$ 47,933

Adjustments to Reconcile Change in Fund Balance to Net Cash

Used in Operating Activities:

Receipts to Establish or Increase Permanent Endowments..... (13,761)
 Net Realized and Unrealized Gains on Investments..... (22,549)
 Gifts of Marketable Securities..... (2,890)
 Funds Held in Trust by Others..... (1,720)
 Loss on Sale of Donated Property and Collections..... 656
 Depreciation and Other..... 264
 Increase in Cash Surrender Value of Life Insurance..... (2)

Changes in Assets and Liabilities:

(Increase) in Pledges and Contributions Receivable, Net..... (7,435)
 (Increase)/Decrease in Other Assets..... (1,020)
 Increase in Accounts Payable and Accrued Expenses..... (2,238)
 Increase in Trusts and Annuities Payable..... 329

Total Adjustments..... (50,366)

Net Cash Used in Operating Activities..... (2,433)

Cash Flows From Investing Activities:

Purchases of Investments..... (146,068)
 Sales of Investments..... 131,277
 Purchases of Property and Equipment..... (2,509)

Net Cash Used in Investing Activities..... (17,300)

Cash Flows From Financing Activities:

Receipts to Establish or Increase Permanent Endowments..... 13,761
 Proceeds from Issuance of Long Term Debt..... 8,000
 Increase in Deferred Bond Issuance Costs..... (240)

Net Cash Used in Financing Activities..... 21,521

Net Decrease in Cash and Cash Equivalents..... 1,788

Cash and Cash Equivalents - July 1..... 13

Cash and Cash Equivalents - June 1..... \$ 1,801

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT INTENTIONALLY BLANK

Notes To Financial Statements

June 30, 2000

Note 1 Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements of the State of Connecticut have been prepared in conformity with generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB), except for the financial statements of the University of Connecticut Foundation, Incorporated (an affiliated organization). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

b. Financial Reporting Entity

As required by generally accepted accounting principles, the accompanying financial statements include (1) all funds, agencies, boards, commissions, and account groups that comprise the State's legal entity, (2) legally separate organizations for which the State is financially accountable (component units), and (3) a legally separate organization for which the nature and significance of its relationship with the State is such that exclusions would cause the State's financial statements to be misleading (affiliated organization). Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) the State is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

Component Units

Component units are reported in the combined financial statements either in a separate column (discrete presentation) or in combination with similar funds of the State (blending presentation).

Discretely Presented Component Units

This column includes legally separate organizations for which the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's debt or provides significant funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). The financial data of the following organizations is included in this column.

Connecticut Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond, Umbrella, and Insurance programs as well as other economic development programs.

Connecticut Housing Finance Authority

The Authority is a public instrumentality and political subdivision of the State. It was created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development, and construction of housing

for low and moderate income families and persons throughout the State. The Authority's fiscal year is for the period ending on December 31, 1999.

Connecticut Resources Recovery Authority

The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority

The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated

The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut, to attract and service large conventions, tradeshows, exhibitions, conferences, and local consumer shows, exhibitions and events, to encourage the diversification of the state economy, to strengthen Hartford's role as the region's major business and industry employment center and seat of government, to encourage residential housing development in downtown Hartford, and to construct, operate, maintain and market a convention center project in Hartford.

Condensed financial information for the major component units is disclosed in Note 20. Complete financial statements of the individual component units can be obtained from their respective administrative offices.

Blended Component Unit

The Connecticut Lottery Corporation was created in July 1996 as a public instrumentality and political subdivision of the State. The purposes of the Corporation are to manage the State's lottery in an entrepreneurial and business-like manner and to provide continuing and increased revenue to the people of the State through the lottery. The State appoints a voting majority of the Corporation's governing board, and the Corporation provides revenue to the State. In

STATE OF CONNECTICUT

the combined financial statements, the Corporation is included in the Enterprise funds group (Primary Government).

Affiliated Organization

The University of Connecticut Foundation, Incorporated is a nongovernmental nonprofit corporation created exclusively to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut.

The Foundation is not financially accountable to the University. However, the Foundation is included as a component unit because the nature and significance of its relationship to the University are such that exclusion would cause the University's financial statements to be misleading. The Foundation is reported in a separate column in the higher education funds group (Primary Government).

c. Fund Accounting

The financial activities of the State are accounted for in individual funds and account groups.

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. In the financial statements, individual funds are classified in four fund categories and component units. The four fund categories are governmental funds, proprietary funds, fiduciary funds, and higher education funds.

Account groups are accounting entities used to account for the State's general fixed assets and long-term debt. These account groups are not funds because they do not reflect available financial resources and related liabilities. In the financial statements, the account groups are the general fixed asset account group and the general long-term debt account group.

Because the State of Connecticut has a significant number of legal funds, a functional basis combining presentation was chosen to facilitate the preparation and readability of the Comprehensive Annual Financial Report (CAFR). More detailed information on the legal funds can be found in the Annual Report of the Comptroller – a “modified cash” basis document also produced by the Office of the Comptroller.

Following is a description of the fund categories, account groups, and component units used in the accompanying financial statements.

Governmental Funds

1. General Fund – The General Fund is the general operating fund of the State. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State (e.g. health, social assistance, education, correction, etc.).

2. Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, major capital projects, and higher education sources) that are legally restricted to expenditures for specified purposes. For example, motor fuel taxes levied to fund Department of Transportation costs.

3. Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term bonds and notes.

4. Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure projects (other than those financed by proprietary funds and higher education funds).

Proprietary Funds

1. Enterprise Funds – These funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the State, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds – These funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These funds include expendable trust funds, nonexpendable trust funds, pension trust funds, an investment trust fund, and agency funds.

Account Groups

1. General Fixed Asset Account Group – This account group includes all the fixed assets (excluding infrastructure) that are not accounted for in the proprietary and higher education funds.

2. General Long-Term Debt Account Group – This account group includes all long-term obligations that are to be financed from governmental funds. These long-term obligations include the following:

- Unmatured principal on general obligation and transportation related bonds and notes.
- Other non-current liabilities for capital leases, compensated absences, unfunded pension costs, workers' compensation claims, and claims and judgements.

Higher Education Funds

The financial activities of the State's higher education institutions (University of Connecticut, State universities, and community-technical colleges) and an affiliated organization are accounted for in these funds, which are reported, in a separate column in the combined financial statements (Primary Government). The following fund categories and affiliated organization are included:

1. **Current Funds** – These funds are used to account for resources that will be expended in the near future for operating purposes. Included in the current fund category are unrestricted funds that the governing boards retain full control of, in achieving the institutions' purposes and restricted funds that may be utilized only in accordance with external restrictions.
2. **Endowment Funds** – These funds account for gifts that are restricted as to principal by the donor.
3. **Loan Funds** – These funds are used to account for loans to students and for resources available for such purposes.
4. **Plant Funds** – These funds account for resources that have been or will be used for institutional property acquisition, renewal, and replacement, and resources accumulated for the retirement of debt associated with institutional properties.
5. **Agency Funds** – These funds are funds held by an institution as custodian or fiscal agent for others such as student organizations, individual students, or faculty members.
6. **Affiliated Organization** – This column accounts for the financial activities of the University of Connecticut Foundation, Inc., a component unit of the University of Connecticut.

Component Units

The component units include proprietary type organizations that are legally separate from the State but that are considered part of the reporting entity.

d. Basis of Accounting

The accounting and financial reporting treatments applied to a fund is determined by its measurement focus and basis of accounting, which are described as follows:

Governmental Funds and Expendable Trust Funds

These funds are accounted for using a current financial resources measurement focus and a modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and liabilities are normally included on the balance sheet. Fund balance represents a measure of "available spendable resources." Under the modified accrual basis of accounting, revenues are recorded when they are susceptible to accrual (i.e. both measurable and available). The word "available" means that the revenue is collectible within the current period or soon enough thereafter to pay period liabilities. Expenditures are recorded when the related fund liability is in-

curred except for principal and interest on general long-term debt which are recorded as expenditures when due.

Major revenue sources that are treated as susceptible to accrual include sales and use taxes, personal income taxes, public service corporation taxes, and special fuel taxes. Revenues from restricted grants (federal or other) are recorded when the related expenditure has been incurred. Medicaid revenue is recorded when the related receivable is recorded.

Proprietary Funds, Nonexpendable Trust Funds, Pension Trust Funds, Investment Trust Fund, Component Units, and Affiliated Organization

These funds are accounted for using a flow of economic resources measurement focus and an accrual basis of accounting. Under the flow of economic resources measurement focus, all assets and liabilities are included on the balance sheet. Fund equity (proprietary funds and component units) is segregated into contributed capital and retained earnings components. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred.

According to GASB Statement No. 20, these funds (except for the affiliated organization) must comply with all applicable GASB pronouncements and all applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessors as follows (provided those pronouncements do not conflict with or contradict GASB pronouncements):

Fund Type	FASB Statements	FASB
	Issued on or Prior to 11/30/89	Statements Issued to Date
Proprietary Funds:		
John Dempsey Hospital		X
Others	X	
Nonexpendable Trust Funds	X	
Pension Trust Funds	X	
Investment Trust Funds	X	
Component Units:		
CT Development Authority		X
CT Housing Finance Authority	X	
CT Resources Recovery Authority	X	
CT Higher Education Supplemental Loan Authority	X	
CT Health & Educational Facilities Authority		X
CT Innovations, Inc.	X	
Capital City, EDA	X	

Agency Funds

These funds are accounted for using a modified accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and do not measure nor report results of operations.

Higher Education Funds

These funds (excluding the affiliated organization) are accounted for using a current financial resources measurement focus and an accrual basis of accounting with the following exceptions:

- All assets and liabilities are included on the balance sheet.

STATE OF CONNECTICUT

- Depreciation expense related to plant fund fixed assets is not recorded, except for fixed assets reported by the University of Connecticut.
- Revenues and expenditures of an academic term covering more than one fiscal year are reported in the fiscal year in which the program is predominately conducted.

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds except fiduciary funds use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of

the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carried-forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes and Federal and other restricted grant revenues of the General and Transportation funds which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for all governmental funds for which a budget is legally adopted.

f. Budgetary vs. GAAP Basis of Accounting

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis) (see Note 1d).
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis) (see Note 1d).
3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.
4. Certain special revenue funds are not subject to legal budgets.

Because of the above differences, a reconciliation between the budgetary and GAAP basis is presented in Note 2.

g. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund (“STIF”) and the Tax Exempt Proceeds Fund, Inc. (“TEPF”). TEPF is a short-term, tax-exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund’s share price.

Investments (see Note 4)

Equity in Combined Investment Funds is reported at fair value based on the funds’ current share price.

The external investment pool is reported at amortized cost.

Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.

Fair value is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water Fund (a nonexpendable trust fund) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising these investments, including but not limited to recent sales prices of the issuer’s securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. STIF and the Combined Investment Funds hold these investments.

Inventories

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Fixed Assets and Depreciation

General fixed assets are reported at historical or estimated historical cost. Donated fixed assets are valued at estimated fair value on the date donated. The cost of interest incurred during construction of infrastructure fixed assets (highways, bridges, etc.) is not capitalized. No depreci-

tion is provided for general fixed assets. Fixed assets in the enterprise and internal service funds are reported at cost. Interest cost incurred during construction at Bradley International Airport is capitalized as part of the assets. Depreciation of these fixed assets is determined using the straight-line method and is based upon the assets’ estimated useful lives.

Fixed assets in the higher education funds are reported at cost. No depreciation is recorded on these fixed assets, except for the University of Connecticut’s fixed assets. Depreciation of these fixed assets is determined using the straight-line method and is based on the assets’ estimated useful lives.

Fixed assets of the component units are reported at cost. Depreciation of these fixed assets is determined using the straight-line method and is based upon the assets’ estimated useful lives.

Food Stamps

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the operating statement.

Securities Lending Transactions (see Note 4)

Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the pension and nonexpendable trust funds based on their equity in the Combined Investment Funds.

Deferred Revenues

This liability account represents:

- Cash received by the State before the State has a legal claim to it (e.g. grant monies received before the incurring of qualifying expenditures).
- Revenues considered measurable but not available during the current period.

In subsequent periods, when the State has a legal claim to the cash received, or when the revenues become available, the liability for deferred revenues is removed from the balance sheet and revenue is recognized.

Capital Appreciation Bonds

Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the general long-term debt account group at its net or accreted value rather than at face value.

Other Long-term Obligations

STATE OF CONNECTICUT

The portion of the net pension obligation, workers' compensation claims, capital leases, claims and judgements, and accumulated compensated absences that are expected to be liquidated with available expendable financial resources is reported as an expenditure and a fund liability of the governmental and expendable trust funds that will pay it. The remaining portion that is not expected to be liquidated with available expendable financial resources is reported in the general long-term debt account group. In the proprietary funds, higher education funds, and component units such obligations are recorded as fund liabilities.

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

The State recognized a liability to the federal government for excess earnings received from investing special tax obligation bond proceeds (rebutable arbitrage). This liability is reported as a liability for claims and judgements.

h. Fund Equity
Contributed Capital

The amount of permanent capital in the enterprise funds, internal service funds, and component units which is contributed by governments and others.

Reserved Retained Earnings

The portion of retained earnings in the enterprise funds and component units which is legally restricted for specific future use.

Reserved Fund Balances

The portion of fund balances in the governmental, fiduciary, and higher education funds which is legally reserved for a specific future use, or which is not available for appropriation or expenditure.

i. Revenues, Expenditures, and Interfund Transactions
Taxes

Certain tax revenues that accrue to the State are considered "available" if the payer incurs the obligation to the State before year-end and payment is received within sixty days after year-end (see Note 6).

Licenses, Permits, and Fees

These items are not susceptible to accrual and are recognized as revenues when the cash is collected.

Interest Rate Swap Agreements

The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements,

no amounts are recorded in the financial statements (see Note 14).

Interfund Transactions

Interfund transactions are recorded as follows:

- (1) Transfers, which are from funds that are receiving revenues to funds in which the resources are to be expended, are classified as operating transfers.
- (2) Transactions that would be treated as revenues, expenditures or expenses if they involved organizations external to the State are treated similarly by the funds of the State.
- (3) Reimbursements from one fund to another are treated as expenditures or expenses of the reimbursing fund and as a reduction of the expenditures or expenses of the reimbursed fund.
- (4) Non-recurring or non-routine transfers of equity between funds and capital contributions to proprietary funds are classified as equity transfers.

j. Pension Trust Funds Transactions

Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds (including securities lending transactions) are allocated ratably to these funds based on their equity in the Combined Investment Funds.

k. External Investment Pool

Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its equity in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

m. Total Columns – Memorandum Only

Total columns captioned "Memorandum Only" are presented only to facilitate financial analysis. Data in these columns do not present the financial position, the results of operations or cash flow in conformity with generally accepted accounting principles nor is such data comparable to a consolidation.

Note 2 Budgetary Basis vs. GAAP

The following is a reconciliation of the excess (deficiency) of revenues and other sources over expenditures and other uses as accounted between the budgetary and GAAP basis of accounting (amounts in thousands):

Financial Statements Fund Types	General	Special Revenue
Excess (deficiency) of revenues and other sources over expenditures and other uses (Budgetary basis)	\$ 300,435	\$ 126,908
Adjustments:		
Increases (decreases) in revenue accruals:		
Government Receivables	59,768	(3,456)
Other Receivables	15,458	(492)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(161,454)	1,300
Salaries and Fringe Benefits Payable	120,796	5,821
Increases (decreases) in continuing appropriations	(289,764)	15,528
Reclass of fund balance adjustments:		
To operating expenditures	<u>(118,120)</u>	<u>(81,809)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis) - budgeted funds	(72,881)	63,800
To record excess (deficiency) of revenues and other sources over expenditures and other uses for nonbudgeted funds	<u>-</u>	<u>37,286</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis)	<u>\$ (72,881)</u>	<u>\$ 101,086</u>

Note 3 Fund Deficits

The following funds have deficit balances at June 30, 2000, none of which constitutes a violation of statutory

Special Revenue

Consumer Counsel and Public Utility Control	2,221
---	-------

Capital Projects

State Facilities	154,132
------------------	---------

provisions (amounts in thousands).

The Consumer Counsel and Public Utility Control Fund deficit has been addressed by Public Act 93-402, subsequently modified by Public Act 99-1 (June special session), which among other things, requires any GAAP deficits for budgeted funds existing as of June 30, 2003 to be amortized in fifteen equal increments beginning with the annual budget for fiscal year 2004-2005.

The State Facilities deficit will be eliminated in the future by the sale of bonds.

Note 4 Cash Deposits and Investments

In this note, the State's deposits and investments are classified in categories of "custodial credit risk." This is the risk that the State will not be able to (a) recover deposits if the depository bank fails or (b) recover the value of investments or collateral securities that are in the custody of an outside party if the counterparty to the investment or deposit transaction fails. Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low. The level of potential custodial credit risk is higher for those deposits or investments classified in category 2 and highest for those in category 3.

Cash Deposits (amounts in million)

At June 30, 2000, the reported amount of the State's deposits was \$(76.7) for the Primary Government and \$11.0 for the Component Units. The corresponding bank balance

STATE OF CONNECTICUT

for such deposits was \$139.0 for the Primary Government and \$15.1 for the Component Units. Of the bank balance for the Primary Government \$39.5 was insured by the Federal Deposit Insurance Corporation or held by the State's agent in the State's name (Category 1), and \$99.5 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, \$3.6 was insured by the Federal Deposit Insurance Corporation (Category 1), and \$11.5 was uninsured and uncollateralized (Category 3).

Category 3 deposits include some deposits that are collateralized as required by state statute. Under the statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. However, the collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund ("STIF") and seven Combined Investment Funds (the "CIFS"), including one international investment fund.

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF's investments are reported at amortized cost (which approximates fair value) and are disclosed in the investments schedules.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State's financial reporting entity) is reported as an investment trust fund in the combined financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not reported in the combined financial statements. Instead, each fund type's investment in the internal portion of STIF is reported as "cash equivalents" in the combined balance sheet.

The CIFS are open-ended, unitized portfolios in which the State pension and other trust funds are eligible to invest. The State pension and other trust funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in common stock, commercial equity real estate, foreign companies stocks and bonds, commer-

STATE OF CONNECTICUT

cial and residential mortgages, foreign governments' obligations, mortgage-backed securities, and venture capital partnerships. CIFS' investments are reported at fair value and are disclosed in the investments schedules.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the combined financial statements. Instead, each fund type's investment in the CIFS is reported as "equity in combined investment funds" in the combined balance sheet.

Complete financial information about STIF and the CIFS can be obtained from financial statements issued by the State Treasurer.

The following investments schedules disclose the reported amount and fair value of the State's investment in total and by investment type as of June 30, 2000. Further, the reported amounts of these investments are classified according to the following categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

The CIFS account for the purchase and sale of investments using "trade date" accounting – investments are increased or decreased on the date the purchase or sales order is made although the investments are not received or delivered until a later date (settlement date). Thus, CIFS' investments schedule was prepared taking into account unsettled sales and purchases of investments. This means that investments under unsettled sales are included in the schedule, because the investments are still subject to custodial credit risk that could result in losses prior to settlement. Conversely, investments under unsettled purchases are excluded from the schedule, because the investments are still in the hands of the dealers.

Investments-Primary Government

Short-Term Investment Fund

(amounts in thousands)

Investment Type	Reported Amount		Fair Value
	Category 1		
Repurchase Agreements	\$	464,865	\$ 464,865
Certificates of Deposit-Negotiable		132,228	132,129
Commercial Paper		2,128,380	2,128,380
Corporate Notes		37,083	37,013
Bankers' Acceptances		34,018	34,045
Bank Notes		719,641	720,635
Federal Agency Securities		170,190	169,744
State of Israel Bonds		1,500	1,500
Total Investments	\$	3,687,905	\$ 3,688,311

Investments-Primary Government

Combined Investment Funds

(amounts in thousands)

Investment Type	Reported Amount (Fair Value)		
	Category 1	Category 3	Total
Certificates of Deposit-Negotiable	\$ -	\$ 138,830	\$ 138,830
Asset Backed Securities	506,962		506,962
U.S. Government and Agency Securities:			
Not on Securities Loan	1,516,797		1,516,797
On Securities Loan for Securities or LOC Collateral		26,566	26,566
Mortgage Backed Securities	633,563		633,563
Corporate Debt	3,061,030	1,261,148	4,322,178
Convertible Securities	292,055		292,055
U.S. Corporate Stock:			
Not on Securities Loan	8,488,071		8,488,071
On Securities Loan for Securities or LOC Collateral		177,355	177,355
International Equity Securities:			
Not on Securities Loan	2,187,925		2,187,925
On Securities Loan for Securities or LOC Collateral		12,883	12,883
Short-term Investments		264,755	264,755
Preferred Stock	135,717	-	135,717
	<u>\$ 16,822,120</u>	<u>\$ 1,881,537</u>	<u>\$ 18,703,657</u>

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Real Estate Investment Trusts	31,908
Mutual Funds	42,018
Limited Liability Corporations	72,789
Trusts	54,567
Limited Partnerships	2,947,525
Annuities	14,595
Securities Held by Brokers-Dealers under Sec. Loans for Cash Collateral:	
U.S. Government and Agency Securities	607,880
U.S. Corporate Stock	378,132
International Equity Securities	525,142
Domestic Fixed Securities	102,012
International Fixed Securities	9,030
	<u>\$ 23,489,255</u>

The pension trust funds own approximately 100 percent of the investments that are in categories 1 and 3.

Investments-Primary Government

Other

(amounts in thousands)

Investment Type	Reported Amount			Total	Fair Value
	Category 1	Category 2	Category 3		
Collateralized Investment Agreements	\$ 487,990	\$ 55,849	\$ -	\$ 543,839	\$ 543,839
State/Municipal Bonds	226,785	-	-	226,785	226,785
U.S. Government & Agency Securities	195,733	-	-	195,733	195,733
Repurchase Agreements	6,763	45,988	-	52,751	52,751
Common Stock	41,016	6,024	1,654	48,694	48,694
Corporate Bonds	10,752	7,439	-	18,191	18,191
Other	30,127	-	1,016	31,143	31,143
	<u>\$ 999,166</u>	<u>\$ 115,300</u>	<u>\$ 2,670</u>	\$ 1,117,136	\$ 1,117,136

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Annuity Contracts	543,818	543,818
Mutual Funds	91,229	91,229
Guaranteed Investment Contracts	37,007	37,007
Tax Exempt Proceeds Fund	98,232	98,232
Other	64,788	64,788
Total Investments	<u>\$ 1,952,210</u>	<u>\$ 1,952,210</u>

The Special Assessment fund owns approximately 88 percent of the investments that are in Category No. 2.

Investments-Component Units

(amounts in thousands)

Investment Type	Reported Amount			Total	Fair Value
	Category 1	Category 2	Category 3		
U.S. Government & Agency Securities	\$ 256,739	\$ 10,160	\$ 11,458	\$ 278,357	\$ 278,250
Common Stock	103,620	-	-	103,620	103,620
Repurchase Agreements	124,544	-	-	124,544	124,544
Collateralized Investment Agreements	2,585	-	21,818	24,403	24,403
Mortgage Backed Securities	235,857	-	-	235,857	235,857
Corporate Bonds	42,579	-	-	42,579	42,579
Other	54,191	-	2,984	57,175	57,175
	<u>\$ 820,115</u>	<u>\$ 10,160</u>	<u>\$ 36,260</u>	866,535	866,428

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Guaranteed Investment Contracts	242,150	242,150
Fidelity Funds	171,382	171,382
Limited Partnerships	15,296	15,296
Other	25,582	25,582
Total Investments	<u>\$ 1,320,945</u>	<u>\$ 1,320,838</u>

CHFA owns approximately 82 percent and CHESLA owns approximately 61 percent of the investments that are in categories 1 and 3, respectively.

Derivatives

GASB Technical Bulletin Number 94-1 defines derivatives as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. According to this definition, the following State's investments or contracts are considered to be derivatives:

- Short-Term Investment Fund - Adjustable-rate federal agency, bank notes, and State of Israel securities whose interest notes vary directly with short-term money market indices and are reset daily, weekly, monthly, quarterly, or semi-annually.
- Combined Investment Funds - Adjustable-rate securities, asset backed securities, indexed Treasury securities, option contracts, mortgage backed securities (including interest-only strips), and foreign exchange contracts.

The State invests in derivatives to enhance investment returns or as in the case of foreign exchange contracts to facilitate trade settlements and to serve as foreign currency hedges.

The Mutual Fixed Income Fund (a Combined Investment Fund) invests in mortgage backed securities (MBSs), asset backed securities (ABSs), and interest-only strips. MBS's and ABS's are bonds issued by a special purpose trust that collects payments on an underlying collateral pool of mortgages or other loans and remits payments to bondholders. The bonds are structured in a series of classes or tranches, each with a different coupon rate and stated maturity date. Interest payments to the bondholders are made in accordance with the trust indentures and amounts received from borrowers in excess of interest payments and expenses

STATE OF CONNECTICUT

are used to amortize the principal on the bonds. Such principal payments are made to retire the tranches of bonds in order of their stated maturity. Because mortgage prepayments are largely dependent on market interest rates, the ultimate maturity date of the bonds is unpredictable and is sensitive to changes in market interest rates, but is generally prior to the stated maturity date. At June 30, 2000, the fund held MBSs of \$569.6 million and ABSs of \$165.2 million.

Interest-only strips (IOs) are a specialized type of mortgage backed securities. The cash flow on these investments is derived from the interest payments on the underlying mortgage loans. Prepayments on underlying loans curtail these interest payments, reducing the value of the IOs and, as such, these instruments are extremely sensitive to changes in interest rates, which encourage or discourage such prepayments. As of June 30, 2000, the IOs had a value of \$ 7.7 million.

From time to time, the International Stock, Mutual Fixed Income, and Private Investment Funds (Combined Investment Funds) utilize foreign currency contracts to facilitate transactions in foreign securities and to manage the funds currency exposure. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the funds' investments against currency fluctuations. Losses may arise from changes in the value of foreign currencies or failure of the counterparties to perform under the contracts' terms. As of June 30, 2000, the International Stock Fund reported an unrealized loss of \$18.4 million from open forward currency contracts.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State statute to lend its securities through a lending

agent to authorized broker-dealers and banks for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

During the year, the funds' lending agent lent securities similar to the types on loan at year-end and received cash (United States and foreign currency), U.S. Government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The funds' lending agent did not have the ability to pledge or sell collateral securities delivered absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105 percent of the market value of the loaned securities. In the event any borrower fails to return the loaned securities or pay distributions thereon, the funds' lending agent is contractually obligated to purchase replacement securities, or return the cash collateral. At year-end, the funds had no credit exposure to the borrowers, because the amounts the funds owed the borrowers exceeded the amounts the borrowers owed the funds.

All securities loans can be terminated on demand by either the funds or the borrowers. Cash collateral is invested by the funds' lending agent, and the average duration of the investments can not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. At year-end, the average duration of the collateral investments was 44 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Loans

Loans receivable for the primary government and its component units, as of June 30, 2000, consisted of the following (amounts in thousands):

	Primary Government				Total	Component Units
	Special Revenue	Enterprise	Trust and Agency	Higher Education		
Mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,925,874
Industrial	-	-	-	-	-	136,054
Housing	139,289	84,902	-	-	224,191	-
Clean Water	56,006	-	545,159	-	601,165	-
Student	-	-	-	22,501	22,501	-
Other	125,107	-	67	7,861	133,035	83,382
Less:						
Allowance for Losses	-	2,547	-	-	2,547	59,546
Loans Receivable Net	<u>\$ 320,402</u>	<u>\$ 82,355</u>	<u>\$ 545,226</u>	<u>\$ 30,362</u>	<u>\$ 978,345</u>	<u>\$ 3,085,764</u>

The mortgage loan program consists of home, multi-family, and construction loan mortgages made by the Connecticut Housing Finance Authority. Most home loans are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. In addition, some home and multi-family loans are insured or guaranteed by private insurers. Permanent loans earn interest at rates ranging from 0 percent to 13.5 percent and have initial terms of 10 to 40 years. Construction

loans earn interest at rates ranging from 0 percent to 9.92 percent. Upon completion of each development, the related permanent mortgage loan, which will generally be provided by the Authority, will be payable over 30 to 40 years at annual interest rates ranging from 0 percent to 9.92 percent. During the fiscal year, the State transferred to the Authority certain mortgage loans with a carrying amount of \$65.5 million. These loans are reported as an equity transfer in the statement of operations of the Authority.

The Clean Water fund loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both.

The industrial loan program consists of loans made by the Connecticut Development Authority to finance the purchase of land, buildings, and equipment by qualified applicants and to finance other economic development programs of the Authority. These loans are collateralized by assets acquired from the proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 3 percent to 12 percent. As of June 30, 2000, loans in the amount of \$35.9 million (including loans of \$8.4 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of \$8.4

million at year-end. Thus, the State is contingently liable in the event of any defaulted loans that could not be paid out of the assets of the insurance fund.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2000 (amounts in thousands):

	Funds	
	General	Special Revenue
Sales and Use	\$ 421,964	\$ -
Income Taxes	146,297	-
Corporations	69,955	-
Gasoline and Special Fuel	-	43,405
Various Other	87,134	-
Less: Allowance for Uncollectibles	<u>(17,839)</u>	<u>-</u>
Taxes Receivable	<u>\$ 707,511</u>	<u>\$ 43,405</u>

Note 7 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2000, restricted assets for the primary government and its component units were comprised of the following (amounts in thousands):

	Primary Government				Total	Component Units					Total
	Enterprise		Trust and Agency			Connecticut	Connecticut	Connecticut	Connecticut		
Debt Service	Bradley Int'l Airport	John Dempsey Hospital (9-30-99)	Clean Water Fund		Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-99)	Connecticut Resources Recovery Authority	Connecticut Higher Education Supplemental Loan Authority	Connecticut Health & Educational Facilities Authority		
Cash & Cash Equivalents	\$ 524,782	\$ 107,454	\$ 5,018	\$ -	\$ 637,254	\$ 21,951	\$ -	\$ 74,678	\$ -	\$ 5,067	\$ 101,696
Investments	-	6,530	1,135	412,648	420,313	28,921	295,060	508	10,799	414,563	749,851
Interest Receivable	5,282	528	-	-	5,810	-	1,608	750	-	784	3,142
Other	-	1,648	-	-	1,648	-	-	-	-	5,550	5,550
Total	<u>\$ 530,064</u>	<u>\$ 116,160</u>	<u>\$ 6,153</u>	<u>\$ 412,648</u>	<u>\$ 1,065,025</u>	<u>\$ 50,872</u>	<u>\$ 296,668</u>	<u>\$ 75,936</u>	<u>\$ 10,799</u>	<u>\$ 425,964</u>	<u>\$ 860,239</u>

Note 8 Property, Plant, and Equipment

(1) A summary of changes in general fixed assets is as follows (amounts in thousands):

	Balance 7/1/99			Balance 6/30/00
	Balance	Additions	Retirements	
Land	\$ 352,511	\$ 29,812	\$ 16,187	\$ 366,136
Buildings	2,032,985	94,066	2,774	2,124,277
Improvements				
Other Than Buildings	236,661	24,307	4,268	256,700
Machinery & Equipment	1,187,514	101,961	544,839	744,636
Construction in Progress	211,693	185,615	118,373	278,935
Total	<u>\$ 4,021,364</u>	<u>\$ 435,761</u>	<u>\$ 686,441</u>	<u>\$ 3,770,684</u>

The beginning balance of Construction in Progress was reduced to account for certain building projects that were substantially completed and capitalized in 1999.

(2) Property, plant, and equipment for the primary government and its component units consisted of the following as of June 30, 2000 (amounts in thousands):

	Primary Government			Component Units
	Enterprise	Internal Service	Higher Education	
Land	\$ 2,840	\$ -	\$ 39,067	\$ 22,123
Buildings	150,271	-	1,455,223	178,091
Improvements				
Other than Buildings	122,590	95	129,275	183
Machinery & Equipment	54,140	150,979	615,928	193,628
Construction in Progress	42,279	-	157,166	1,291
Subtotal	<u>372,120</u>	<u>151,074</u>	<u>2,396,689</u>	<u>395,316</u>
Less:				
Accumulated Depreciation	151,107	105,616	277,199	169,746
Total	<u>\$ 221,013</u>	<u>\$ 45,458</u>	<u>\$ 2,119,490</u>	<u>\$ 225,570</u>

STATE OF CONNECTICUT

The following estimated useful lives are used to compute depreciation: Buildings 10-60 years; Land Improvements 2-50 years; Machinery and Equipment 2-21 years.

Note 9 State Retirement Systems

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS) –consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports.

Plan Descriptions, Funding Policy, and Annual Pension Cost and Net Pension Obligation

Membership of each plan consisted of the following at the date of the latest actuarial evaluation:

	SERS 6/30/00	TRS 6/30/98	JRS 6/30/00
Retirees and beneficiaries receiving benefits	32,101	18,615	199
Terminated plan members entitled to but not yet receiving benefits	1,137	5,637	1
Active plan members	<u>54,616</u>	<u>43,452</u>	<u>209</u>
Total	<u>87,854</u>	<u>67,704</u>	<u>409</u>

State Employees' Retirement System

Plan Description

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B and Hazardous Duty members are required to contribute 2 percent and 4 percent respectively, of their salary up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier IIA members are required to contribute 2 percent and hazardous duty members are required to contribute 5 percent. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Teachers Retirement System

Plan Description

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent or super-

visor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183nn of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. For fiscal year 2000, the annual required contribution (ARC) was \$240.5 million; however, the State contributed \$204.4 million to the plan, reflecting a reduction of \$36.1 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

Judicial Retirement System

Plan Description

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information

The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	\$ 342,760	\$ 240,524	\$ 9,324
Interest on net pension obligation	155,271	78,040	3
Adjustment to annual required contribution	<u>(92,104)</u>	<u>(49,707)</u>	<u>(1)</u>
Annual pension cost	405,927	268,857	9,326
Contributions made	<u>342,760</u>	<u>204,445</u>	<u>9,324</u>
Increase (decrease) in net pension obligation	63,167	64,412	2
Net pension obligation beginning of year	<u>1,826,719</u>	<u>921,555</u>	<u>35</u>
Net pension obligation end of year	<u>\$ 1,889,886</u>	<u>\$ 985,967</u>	<u>\$ 37</u>

Three-year trend information is as follows (amounts in thousands):

	Fiscal Year	Annual	Percentage	Net
		Pension Cost (APC)	of APC Contributed	Pension Obligation
SERS	1998	\$ 630,293	53.1%	\$ 1,752,773
	1999	389,508	81.0%	1,826,719
	2000	405,927	84.4%	1,889,886
TRS	1998	\$ 239,878	74.8%	\$ 857,929
	1999	251,960	74.7%	921,555
	2000	268,857	76.0%	985,967
JRS	1998	\$ 9,310	100%	\$ 34
	1999	9,284	100%	35
	2000	9,326	100%	37

Defined Contribution Plan

The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary. During the year, plan members and the State contributed \$17.9 million and \$27.2 million, respectively.

Note 10 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). Although these retirement systems are included as pension trust funds in the State's financial statements, the State makes no contribution and has no financial liability other than a fiduciary responsibility.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	CMERS 6/30/99	CPJERS 12/31/99
Retirees and beneficiaries		
receiving benefits	4,234	198
Terminated plan members entitled		
to but not receiving benefits	96	34
Active plan members	<u>7,811</u>	<u>342</u>
Total	<u>12,141</u>	<u>574</u>
Number of participating employers	159	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System

Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

Note 11 Postemployment Benefits

In addition to the pension benefits described in Note 9, the State provides a postretirement health care and life insurance benefits, in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all employees who retire from the State.

Currently 32,101 retirees of the State Employees Retirement System meet those eligibility requirements. When employees retire, the State may pay up to 100 percent of their health care insurance premium cost (including dependent's coverage) based on the plan chosen by the employee. In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance, continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree has with the State at time of retirement as follows: (a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to re-

STATE OF CONNECTICUT

irement, but the reduced amount cannot be less than \$7,500; (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest \$100. The State finances the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. During the year ended June 30, 2000, \$173.9 million was paid in postretirement benefits.

Note 12 Capital and Operating Leases

a. State as Lessor

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2001	\$	17,365
2002		17,427
2003		17,497
2004		14,514
2005		12,000
Thereafter		<u>5,039</u>
Total	\$	<u>83,842</u>

Contingent revenues for the year ended June 30, 2000, were \$2.2 million.

b. State as Lessee

Obligations under capital leases and operating leases as of June 30, 2000, were \$67.1 million for capital leases and \$51.2 million for noncancelable operating leases in excess of one year. The following is a schedule of annual future minimum payments under these obligations along with the present value of the related net minimum capital lease payments discounted at approximately 6 percent as of June 30, 2000 (amounts in thousands):

	Capital Leases	
	Operating Leases	General Long-term
2001	\$ 20,672	\$ 8,290
2002	14,018	6,657
2003	8,741	6,243
2004	5,757	5,275
2005	1,922	4,207
Thereafter	<u>55</u>	<u>36,477</u>
Total future minimum payments	<u>\$ 51,165</u>	<u>67,149</u>
Less: Imputed interest		<u>17,743</u>
Present value of net minimum lease payments		<u>\$ 49,406</u>

Rental and lease payments for equipment charged to expenditures during the year ended June 30, 2000, totaled \$43.7 million.

Note 13 Changes in General Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2000 (amounts in thousands):

	Balance July 1, 1999	Issuances and Other Increases	Retirements and Other Decreases	Increase (Decrease)	Balance June 30, 2000
				Accreted Value	
General Obligation Bonds	\$ 6,902,197	\$ 994,540	\$ 674,716	\$ (128)	\$ 7,221,893
Transportation Related Bonds	3,191,626	150,000	264,207	(7,894)	3,069,525
Expendable Trust Fund Obligations	795,935	20,000	205,870	-	610,065
Net Pension Obligation	2,748,309	684,110	556,529	-	2,875,890
Compensated Absences	274,772	27,508	8,189	-	294,091
Worker's Compensation	280,074	56,894	53,368	-	283,600
Capital Leases	52,050	5,664	8,308	-	49,406
Claims and Judgements	<u>5,250</u>	<u>9,829</u>	<u>-</u>	<u>-</u>	<u>15,079</u>
Total General Long-Term Debt Account Group	<u>\$ 14,250,213</u>	<u>\$ 1,948,545</u>	<u>\$ 1,771,187</u>	<u>\$ (8,022)</u>	<u>\$ 14,419,549</u>

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Fund Types reflects the net proceeds from the sale of bonds and notes in the amount of \$1,015.7 million. This amount includes discounts on the sale of certain bonds and premium and accrued interest received at the time of sale in the amount of \$.7 million.

Included in retirements of general obligation and transportation related bonds are \$196.3 million of bonds which were defeased by cash of \$207.7 million.

Additionally, \$994.5 million of issuances and other increases for general obligation bonds include \$130.8 million of bonds issued by the University of Connecticut

and \$18.7 million of bonds issued by CHEFA for which the State of Connecticut will pay the principal and interest.

As of June 30, 2000 a liability of \$6 million for rebatable arbitrage is included in the liability for claims and judgments.

Note 14 Debt

General Obligation Bonds

General Obligation bonds are those bonds that are paid out of the revenues of the General fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but

unissued at June 30, 2000, were as follows (amounts in thousands):

Purpose of Bonds	Final	Original	Authorized	
	Maturity Dates	Interest Rates	Amount Outstanding	But Unissued
Capital Improvements	2000-2020	2.95-9.875%	\$ 2,107,419	\$ 493,862
School Construction	2000-2020	3.4-9.75%	1,232,503	63,471
Municipal & Other				
Grants & Loans	2000-2018	3.25-9%	1,516,672	533,833
Elderly Housing	2002-2011	7-7.75%	19,905	-
Elimination of Water Pollution	2000-2022	4.5-7.525%	343,169	65,781
General Obligation				
Refunding	2000-2015	2.4-9.75%	1,407,325	-
Miscellaneous	2000-2029	3.5-9.5%	93,790	5,949
			6,720,783	\$ 1,162,896
Accretion-Various Capital Appreciation Bonds			501,110	
		Total	\$ 7,221,893	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2000, were as follows:

Year Ending	Principal	Interest	Total
June 30, 2001	\$ 594,751	\$ 373,942	\$ 968,693
2002	562,992	343,334	906,326
2003	485,163	320,761	805,924
2004	495,791	310,532	806,323
2005	504,761	301,094	805,855
Thereafter	4,077,325	1,871,100	5,948,425
Total	\$ 6,720,783	\$ 3,520,763	\$ 10,241,546

Transportation Related Bonds

Transportation related bonds include special tax obligation bonds and general obligation bonds that are paid out of revenues pledged or earned in the Transportation Fund. The revenue pledged or earned in the Transportation Fund to pay special tax obligation bonds is transferred to the debt service fund for retirement of principal and interest.

Transportation related bonds outstanding and bonds authorized but unissued at June 30, 2000, were as follows (amounts in thousands):

Purpose of Bonds	Final	Original	Authorized	
	Maturity Dates	Interest Rates	Amount Outstanding	But Unissued
Specific Highways	2000-2017	4.25-5.50%	\$ 14,938	\$ 3,902
Infrastructure Improvements	2000-2019	2.65-10.0%	3,022,163	476,572
General Obligation				
Refunding	2000-2002	5.85-6.05%	26,229	-
Other	2005-2013	4.6-7.525%	613	165
			3,063,943	480,639
Accretion-Various Capital Appreciation Bonds			5,582	
		Total	\$ 3,069,525	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2000, were as follows:

Year Ending	Principal	Interest	Total
June 30, 2001	\$ 195,140	\$ 158,939	\$ 354,079
2002	196,280	148,946	345,226
2003	209,090	139,101	348,191
2004	208,535	128,661	337,196
2005	206,149	118,075	324,224
Thereafter	2,048,749	596,213	2,644,962
Total	\$ 3,063,943	\$ 1,289,935	\$ 4,353,878

Demand Bonds

Included in general obligation bonds, there are variable rate demand bonds in the amount of \$100 million. The bonds were issued in May 1997 to fund various State programs (e.g. community conservation development, economic development and manufacturing assistance, regional economic development, etc.) and will mature in the year 2014. Starting in the year 2005, the bonds will be subject to mandatory annual redemption in the principal amount of \$10 million plus accrued interest (these amounts are included in the debt service schedule). Concerning the issuance of the bonds, the State signed various agreements, including a "Remarketing Agreement" with a broker/dealer firm and a "Standby Bond Purchase Agreement" with a foreign bank.

These bonds bear interest at a weekly rate or at a flexible rate for a flexible rate period, which cannot be longer than 270 days. Initially, all bonds bear interest at the weekly rate. After that, the bonds may be converted from time to time to the flexible rate or weekly rate at the option of the State. The State's remarketing agent determines the weekly or flexible rate and applicable flexible rate period.

Bonds bearing interest at the weekly rate are subject to purchase at the option of the holder at a purchase price equal to principal and accrued interest, if any, on a minimum seven days' notice and delivery to the State's agent. In addition, all bonds are subject to mandatory purchase upon (1) conversion from the weekly rate to the flexible rate or vice versa, (2) the end of each flexible rate period, and (3) expiration or substitution of the Standby Bond Purchase Agreement. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase.

The Standby Bond Purchase Agreement requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus (for bonds bearing interest at the weekly rate) accrued interest up to 35 days at an annual interest rate not to exceed 15 percent; (1) for bonds held for up to 30 days after the purchase date, the Federal funds rate plus .50 percent; (2) for bonds held for more than 30 days but less than 90 days after the purchase date, the Federal funds rate plus 1.00 percent; and (3) for bonds held for more than 90 days after the purchase date, the higher of (a) the base commercial lending rate announced from time to time by the bank, or (b) the federal funds rate plus .50 percent.

STATE OF CONNECTICUT

The State is required under the Standby Bond Purchase Agreement to pay to the bank a quarterly fee of .065 percent per annum of the available commitment as of each payment date. The available commitment is an amount that the bank is committed to purchase under the agreement. Such amount was initially set in the agreement at \$101.4 million and is adjusted from time to time according to provisions in the agreement. If the rating on the bonds were to fall below certain levels, or be withdrawn or suspended, the bank fee could go as high as .135 percent per annum.

The Standby Bond Purchase Agreement expires in the year 2002 and could be extended annually for another year. If certain events of default described in the agreement were to occur, the agreement could be terminated prior to that date.

Expendable Trust Fund Obligations

In July, August, and September 1993, the State issued \$1,020.7 million of special assessment revenue bonds. The issuance of these special obligation revenue bonds was for the purpose of repaying loans made by the United States to Connecticut for payment of unemployment compensation benefits and assisting the State in meeting a portion of its unemployment compensation benefit obligations until increased employer assessments are levied. These bonds mature on various dates through 2001 and bear interest rates from 3.1 percent to 5.5 percent and shall be payable solely from revenues and requisitional funds specifically pledged for their payment.

The State has no contingent obligation either directly or indirectly with the payment of these bonds.

Future amounts (in thousands) needed to pay principal and interest on special assessment unemployment compensation bonds were as follows:

Year Ending				
June 30,	Principal	Interest	Total	
2001	\$ 150,265	\$ 14,665	\$ 164,930	
2002	<u>218,720</u>	<u>8,514</u>	<u>227,234</u>	
Total	<u>\$ 368,985</u>	<u>\$ 23,179</u>	<u>\$ 392,164</u>	

On November 1996, the State issued \$100 million of second injury special assessment revenue bonds. The bonds were issued to reduce long-term liabilities of the fund by settling claims on a one-time lump sum basis. The bonds bear fixed interest rates ranging from 4.25 percent to 6.00 percent and mature each year at various amounts through the year 2012, starting on January 1 of 1998. Because the bonds will be paid solely from future assessment revenue of the fund, the State has no contingent obligation either directly or indirectly for the payment of such bonds.

Future amounts (in thousands) needed to pay principal and interest on second injury special assessment revenue bonds were as follows:

Year Ending				
June 30,	Principal	Interest	Total	
2001	\$ 5,330	\$ 4,540	\$ 9,870	
2002	5,595	4,273	9,868	
2003	5,875	3,994	9,869	
2004	6,195	3,670	9,865	
2005	6,505	3,361	9,866	
Thereafter	<u>56,580</u>	<u>12,489</u>	<u>69,069</u>	
Total	<u>\$ 86,080</u>	<u>\$ 32,327</u>	<u>\$ 118,407</u>	

Additionally, the bond indenture allows for the periodic issuance of subordinated Bond Anticipation Notes (BANs) in the form of commercial paper. As of June 30, 2000, the fund had \$155 million in outstanding BANs. The State has entered into a Revolving Credit Agreement that ensures that the BANs can be refinanced on a long-term basis, and in October, the state replaced a portion of the BANs with \$124 million of revenue bonds.

Interest Rate Swap Agreements

The State has entered into interest rate swap agreements for the following outstanding debt:

Type	Face Value (000's)	Interest Rate	Maturity Date
Transportation - STO's	\$ 180,100	variable	2010

Based on these agreements, the State pays a fixed interest rate to the counterparty to the swap, and the counterparty pays the State a variable interest rate that is determined by the Agreement. The State continues to make payments to the bondholders, and only the net differences in interest payments are exchanged with the counterparty. By entering into these agreements, the State has in effect exchanged its variable rate liability for a fixed rate obligation.

The agreements call for the following exchange of interest rates:

Counterparty	Face Value (000's)	Interest Rate Assumed by State	Interest Rate Assumed by Counter party
AIG Corp.	\$ 108,100	5.75%	65% of 1-month LIBOR* rate
Sumitomo Bank	\$ 72,000	5.71%	65% of 1-month LIBOR* rate

*The primary fixed income index reference rates used in the Euro-markets.

Regarding these agreements, the State is exposed to the market risk relating to the relationship between the variable interest rate on the bonds (which is reset weekly) and the rate that it receives under the swap agreements (which is 65 percent of 1-month LIBOR). As of June 30, 2000, the AIG and Sumitomo interest rate swaps had unfavorable positions of \$5.6 million and \$1.4 million, respectively.

The counterparties guarantee both agreements, and the agreement with AIG Corp. has a collateral agreement, which goes into effect if the credit rating of AIG falls below a defined level.

Revenue Bonds

Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds, nonexpendable trust funds, higher education funds, and component units.

Revenue bonds outstanding at June 30, 2000, were as follows:

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding
Primary Government:			
Enterprise:			
Bradley Airport Operations	2000-2024	6.13-9.125%	\$ 131,770
Rental Housing	2000-2002	5.25-9%	95,797
John Dempsey Hospital (as of 9-30-99)	2001-2009	7.125%	1,145
Nonexpendable:			
Clean Water Fund	2000-2022	3.45-11.0%	549,880
Higher Education:			
Investment in Plant	2001-2029	3.55-8.25%	306,069
Premium on Clean Water Fund bonds sold			<u>6,166</u>
		Total	\$ 1,090,827
Component Units:			
CT Development Authority	2003-2019	4.3-8.75%	\$ 106,111
CT Housing Finance Authority (as of 12-31-99)	2040	2.95-9.8%	3,158,120
CT Resources Recovery Authority	2000-2016	3.3-7.7%	263,760
CT Higher Education Supplemental Loan Authority	2000-2017	4.4-7.5%	107,690
CT Health & Educational Facilities Authority	2000-2004	4.32-14.94%	7,105
Discount on CHFA Bonds sold			<u>(29,721)</u>
		Total	\$ 3,613,065

Revenue bonds issued by the component units do not constitute a liability or debt of the State, and the State is only contingently liable for these bonds as discussed in this section.

The following is a description of revenue bonds with restrictive covenants:

Primary Government

Bradley International Airport's revenue bonds were issued in 1982 in the amount of \$100 million to finance costs of improvements to the airport. As of June 30, 2000, the following bonds were outstanding:

- a) Airport revenue refunding bonds in the amount of \$74.8 million. These bonds were issued in October, 1992, to redeem the 1982 revenue bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture. In accordance with this indenture, certain assets of this fund have been restricted for the payment of bond principal and interest, construction projects and other uses.
- b) Airport subordinated refunding bonds in the amount of \$3.2 million. These bonds were issued in 1989 to

help pay for certain expenses (e.g. issuance costs, redemption premium) incurred in the issuance of the 1992 refunding bonds.

Additionally, Bradley parking garage bonds were issued in the amount of \$53.8 million. These bonds were issued in 2000 and are being used to build a parking garage at the airport.

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects.

Component Units

Connecticut Development Authority's revenue bonds are issued to finance such projects as the acquisition of land or the construction of buildings, and the purchase and installation of machinery, equipment, and pollution control facilities. The Authority finances these projects through its Self-Sustaining Bond Program and Umbrella Program. Under the Umbrella Program, bonds outstanding at June 30, 2000 were \$51.8 million. Assets totaling \$53.7 million are pledged under the terms of the bond resolution for the payment of principal and interest on these bonds until such time as it is determined that there are surplus funds as defined in the bond resolution. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had \$54.3 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 1999, bonds outstanding under the bond resolution and the indenture were \$3,145.6 million and \$12.5 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year (\$263 million at 12/31/99) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds (\$3,443 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 1999, the Authority has entered into interest rate swap agreements for \$259 million of its variable rate bonds. These agreements are similar in nature to the interest rate swap agreements section of this note. Dur-

STATE OF CONNECTICUT

ing the year, the Authority refunded some of its outstanding bonds, resulting in future cash flow savings of \$.6 million and an economic gain of \$.4 million.

Connecticut Resources Recovery Authority's revenue bonds are issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the bond indentures.

Connecticut Higher Education Supplemental Loan Authority's revenue bonds are issued to provide loans to students, their parents, and institutions of higher education to assist in the financing of the cost of higher education. These loans are issued through the Authority's Bond fund. According to the bond resolutions, the Authority internally accounts for each bond issue in separate funds, and additionally, the Bond fund includes individual funds and accounts as defined by each bond resolution.

Connecticut Health and Educational Facilities Authority's revenue bonds are issued to assist certain health care institutions, institutions of higher education, and

qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions. Prior to July 1, 1979, the Authority issued general obligation bonds for which the Authority is ultimately responsible for the payment of principal and interest when due. After July 1, 1979, the Authority has issued only special obligation bonds, which are discussed in the no-commitment debt section of this note. At year-end, the Authority had \$7.1 million in outstanding general obligation bonds.

Each Authority has established special capital reserve funds which secure all the outstanding bonds of the Authority at year-end (except as discussed below). These funds are usually maintained at an amount equal to next year's bond debt service requirements. The State may be contingently liable to restore any deficiencies that may exist in the funds in any one year in the event that the Authority is unable to do so. For the Connecticut Resources Recovery Authority, the amount of bonds outstanding at year-end that were secured by the special capital reserve funds was \$236.1 million. For the Connecticut Health and Educational Facilities Authority, the general obligation bonds outstanding at year-end were not secured by the special capital reserve funds.

Future amounts (in thousands) required to pay principal and interest on revenue bonds outstanding at June 30, 2000 were as follows:

Ending June 30,	Enterprise Funds		Primary Government Nonexpendable Trust		Higher Education		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2001	\$ 17,730	\$ 13,498	\$ 24,915	\$ 27,812	\$ 11,030	\$ 16,424	\$ 113,150	\$ 204,995
2002	4,956	13,466	31,040	26,330	12,975	15,668	135,610	199,225
2003	85,354	11,002	27,050	24,764	14,157	14,965	136,048	191,891
2004	4,780	8,531	32,425	23,323	15,459	14,230	137,735	184,535
2005	7,065	8,092	37,885	21,549	13,973	13,423	138,691	177,060
Thereafter	<u>108,827</u>	<u>59,140</u>	<u>396,565</u>	<u>143,046</u>	<u>238,475</u>	<u>136,120</u>	<u>2,981,552</u>	<u>1,927,581</u>
	<u>\$ 228,712</u>	<u>\$ 113,729</u>	<u>\$ 549,880</u>	<u>\$ 266,824</u>	<u>\$ 306,069</u>	<u>\$ 210,830</u>	<u>\$ 3,642,786</u>	<u>\$ 2,885,287</u>

No-Commitment Debt

Under the Self-Sustaining Bond Program, the Connecticut Development Authority issues revenue bonds to finance such projects as described previously in the component units section of this note. These bonds are paid solely from payments received from participating companies (or from proceeds of sale of the specific projects in the event of default) and do not constitute a debt or liability of the Authority or the State. Thus, the balances are not included in the Authority's financial statements. Total bonds outstanding for the year ended June 30, 2000 were \$1,263.9 million.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/ operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan agreements between the Authority and the operators. Letters of credit secures certain of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of default, neither the Authority nor the State guarantees payment of the debt,

except for the State's contingent liability discussed below. Thus, the assets and liabilities related to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2000 were \$280.4 million. Of this amount, \$74.9 million was secured by a special capital reserve fund.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its financial statements, except for restricted assets for which the Authority has fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2000, were \$3,464.3 million, of which \$259.5 million was secured by the special capital reserve funds.

The State may be contingently liable for those bonds that are secured by the special capital reserve funds as discussed previously in the component units section of this note.

Debt Refundings

As of June 30, 2000, \$1,741.9 million of outstanding general obligation, special tax obligation, and revenue bonds (including prior year's refundings) are considered defeased.

Note 15 Risk Management

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule below lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

Risk of Loss	Risk Financed by	
	Purchase of Commercial Insurance	Self-Insurance
Liability (Torts):		
General (State buildings, parks, or grounds)		X
Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
Professional liability	X	
Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than \$100 thousand.

When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is \$25 million, which is carried in a railroad liability policy.

For the last three fiscal years, the amount of settlements did not materially exceed insurance coverage.

Most State employees and retirees participate in three health plans. For one of these plans, the State was self-insured in prior years. In fiscal year 2000 the State

elected to purchase insurance coverage for this health plan, and liquidated the outstanding health plan liability.

The State records its risk management activities in the General fund, except for activities related to the medical malpractice risk which are recorded in the John Dempsey Hospital fund. At year-end, a liability for unpaid claims is recorded in each fund when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liability is determined based on the ultimate cost of settling the claims, including an amount for claims that have been incurred but not reported and claim adjustment expenses. The liabilities for medical malpractice and for workers' compensation are actuarially determined. The liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. The portion of the General fund liability considered to be long-term is recorded in the General Long-Term Debt account group. Changes in the claims liability accounts during the last two fiscal years were as follows (amounts in thousands):

	Medical Malpractice*	Workers' Compensation	Health Plan
Balance 6-30-98	\$ 8,434	\$ 278,927	\$ 47,410
Incurred claims	1,900	51,358	291,678
Paid claims	(3,314)	(50,211)	(275,215)
Balance 6-30-99	7,020	280,074	63,873
Incurred claims	2,162	56,894	1,345
Paid claims	(2,793)	(53,368)	(65,218)
Balance 6-30-00	\$ 6,389	\$ 283,600	\$ -

*Changes in the liability account are for fiscal years ending on 9-30-98 and 9-30-99.

Note 16 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2000, were as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General	\$ 14,432	\$ 68,320
Special Revenue:		
Transportation	18,985	668
Workers' Compensation	256	125
Banking	-	197
Consumer Counsel & Public Utility Control	-	181
Insurance	101	166
Criminal Injuries	147	-
Mashatucket Pequot & Mohegan	45,009	-
Regional Market	-	7
Soldiers, Sailors, & Marines	-	166
Employment Security	1,136	873
Grant and Loan Programs	23,584	18,841
Environmental Programs	30,298	230
Housing Programs	7,611	11
Other	10,815	70
	137,942	21,535
Debt Service	-	6,185
Capital Projects:		
State Facilities	-	118,110
Infrastructure	8,144	781
Transportation	2,244	-
	10,388	118,891
Enterprise:		
Bradley International Airport	-	995
John Dempsey Hospital (as of 9-30-99)	4,425	4,888
Other	4	1
	4,429	5,884

STATE OF CONNECTICUT

Internal Service:			
Correction Industries	95	4,952	
Information & Technology	1,685	180	
Administrative Services	<u>1,717</u>	<u>84</u>	
	<u>3,497</u>	<u>5,216</u>	
Expendable Trust:			
Employment Security	451	5,699	
Retired Teachers	<u>1,612</u>	<u>-</u>	
	<u>2,063</u>	<u>5,699</u>	
Nonexpendable Trust:			
Soldiers, Sailors, & Marines	152	-	
Other	<u>4</u>	<u>214</u>	
	<u>156</u>	<u>214</u>	
Pension Trust:			
State Employees	4,754	439	
State Teachers	<u>-</u>	<u>5,871</u>	
	<u>4,754</u>	<u>6,310</u>	
Agency:			
Payroll & Fringe Benefit	4,489	-	
Receipts & Pending Distribution	<u>-</u>	<u>7,937</u>	
	<u>4,489</u>	<u>7,937</u>	
Higher Education & University Hospital:			
Current Unrestricted	49,468	9,139	
Current Restricted	14	1,464	
Loan	-	314	
Plant Funds	51,221	104	
Endowment	-	1	
Agency Funds	<u>14</u>	<u>6</u>	
	<u>100,717</u>	<u>11,028</u>	
Component Units:			
CT Development Authority	18,796	-	
CT Health & Educational Facilities	-	44,915	
CT Innovations, Incorporated	<u>8</u>	<u>-</u>	
	<u>18,804</u>	<u>44,915</u>	
Totals	<u>\$ 301,671</u>	<u>\$ 302,134</u>	

As of June 30, 2000, interfund payables exceeded interfund receivables by \$463 thousand. Additionally, residual equity transfers out exceeded residual equity transfers in by \$786 thousand. Both of these differences were caused by the different reporting period used by John Dempsey Hospital, an enterprise fund.

Note 17 Retatement of Retained Earnings

As of June 30, 2000, the beginning retained earnings for the following funds were restated as follows (amounts in thousands):

Fund	Correction		
	Balance 6/30/99 Previously Reported	of Reported Assets/ Liabilities	Balance 6/30/99 as Restated
Internal Service:			
Information Technology	\$ 19,651	\$ (2,561)	\$ 17,090
Administrative Services	19,559	1,569	21,128
Component Units:			
Capital City Economic Development Authority	-	455	455

For the year 2000, the State added a new component unit to its financial reporting entity, the Capital City Economic Development Authority. This new addition has no significant effect on the operations or financial position of the State.

Note 18 Reserved Retained Earnings, Contributed Capital, and Reserved Fund Balances

Reserved Retained Earnings

Bradley International Airport, an enterprise fund, has \$46.8 million restricted for debt service requirements and other programs of the airport. The Connecticut Lottery Corporation, an enterprise fund, has \$2.3 million restricted for programs of the Corporation. The Connecticut Housing Finance Authority, a component unit, has \$514.7 million restricted for debt service requirements and other programs of the Authority. The Connecticut Resources Recovery Authority, a component unit, has \$19.3 million restricted for specific purposes.

Contributed Capital

The following is a summary of changes in the contributed capital accounts for the year ended June 30, 2000 (amounts in thousands):

	Binary Government		Component Units	
	Bradley Intentional Airport	Correction Industries	Connecticut Resources Recovery Authority	Connecticut Innovations, Incorporated
Balance July 1, 1999	\$ 102,541	\$ 5,230	\$ 1,835	\$ 78,356
Contributions-State	-	-	-	2,086
Contributions-Other	1,333	-	-	5,127
Items added back to retained earnings	-	-	(122)	-
Returned to the State	-	(4,950)	-	-
Balance June 30, 2000	<u>\$ 103,874</u>	<u>\$ 280</u>	<u>\$ 1,713</u>	<u>\$ 85,569</u>

The beginning balance for Correction Industries was adjusted to reflect a return of capital that occurred in 1999.

Reserved Fund Balances

These balances are comprised as follows (amounts in thousands):

Reserved For	Fund Type				
	General	Special Revenue	Debt Service	Trust and Agency	Higher Education
Petty Cash	\$ 1,091	\$ -	\$ -	\$ -	\$ -
Budget Reserve	564,038	-	-	-	-
Advances to Other Funds	4,950	-	-	-	-
Inventories	37,672	13,784	-	-	-
Continuing Appropriations	343,471	72,700	-	-	-
Debt Service	13,210	1,531	524,784	-	-
School Construction Grants	265,474	-	-	-	-
Loans	-	320,402	-	-	-
Employees' Pension Benefits	-	-	-	21,830,998	-
Trust Activities	-	-	-	434,119	-
Restricted	-	-	-	-	380,007
Pool Participants	-	-	-	1,084,580	-
	<u>\$ 1,229,906</u>	<u>\$ 408,417</u>	<u>\$ 524,784</u>	<u>\$ 23,349,697</u>	<u>\$ 380,007</u>

Reserved for continuing appropriations represents amounts of unexpended appropriations legally carried forward and available for encumbrances and expenditures in the succeeding year.

Reserved amounts in Higher Education represent amounts restricted for specific educational programs by federal grants, private gifts and endowments, and amounts reserved for student loans and debt service.

Note 19 Segment Information – Enterprise Funds

The State maintains five enterprise funds, which provide financing for State housing programs, airport services, hospital operations, lottery programs, and vocational education. Segment information for the year ended June 30, 2000, is as follows (amounts in thousands):

	John					Other
	Rental Housing	Bradley Airport Operations	Dempsey Hospital (9-30-99)	CT Lottery Corporation		
Operating Revenue	\$ 2,402	\$ 41,307	\$ 120,326	\$ 837,509	\$ 2,195	
Depreciation and Amortization Expense	2	8,863	6,223	945	7	
Operating Income (Loss)	(3,535)	10,629	(12,875)	252,786	64	
Operating Transfers In	10,830	-	-	-	-	
Operating Transfers Out	-	-	-	(253,598)	-	
Net Non-Operating Revenues (Expenses)	3,829	8,563	548	1,660	-	
Net Income (Loss)	11,124	19,192	(12,327)	848	64	
Capital Contributions	-	1,333	-	-	-	
Property, Plant & Equipment Additions (Deletions)	-	23,589	3,216	381	21	
Net Working Capital	166,853	10,493	21,006	478,475	1,004	
Total Assets	169,388	298,475	108,245	609,761	1,132	
Bond and Other Long-Term Liabilities	95,797	131,770	7,534	486,568	42	
Total Equity	71,058	159,613	76,118	2,261	1,015	

STATE OF CONNECTICUT

Note 20 Condensed Financial Statements – Component Units (amounts in thousands)

	Balance Sheets					
	Connecticut			Connecticut		
	Connecticut	Housing	Connecticut	Health &	Other	Total
		Development	Finance	Resources		
Authority	Authority	Recovery	Facilities			
	(12-31-99)	Authority	Authority			
Assets:						
Current Assets	\$ 211,796	\$ 3,461,156	\$ 86,938	\$ 16,213	\$ 276,772	\$ 4,052,875
Property, Plant, and Equipment	19,988	2,734	202,501	137	210	225,570
Restricted Assets	50,872	296,668	75,936	425,964	10,799	860,239
Other Assets	4,052	29,662	13,312	-	1,464	48,490
Total Assets	\$ 286,708	\$ 3,790,220	\$ 378,687	\$ 442,314	\$ 289,245	\$ 5,187,174
Liabilities and Equity:						
Liabilities:						
Current Liabilities	\$ 11,397	\$ 28,830	\$ 23,946	\$ 2,610	\$ 15,462	\$ 82,245
Revenue Bonds	106,111	3,128,399	263,760	7,105	107,690	3,613,065
Other Liabilities	-	117,018	24,992	416,414	-	558,424
Total Liabilities	117,508	3,274,247	312,698	426,129	123,152	4,253,734
Equity:						
Contributed Capital	162,840	-	1,713	-	85,569	250,122
Retained Earnings	6,360	515,973	64,276	16,185	80,524	683,318
Total Equity	169,200	515,973	65,989	16,185	166,093	933,440
Total Liabilities and Equity	\$ 286,708	\$ 3,790,220	\$ 378,687	\$ 442,314	\$ 289,245	\$ 5,187,174

Statements of Revenues, Expenses, and Changes in Equity

	Connecticut			Connecticut		
	Housing			Health &		
	Connecticut	Finance	Resources	Educational	Other	Total
		Development	Authority	Recovery		
Authority	(12-31-99)	Authority	Authority			
Operating Revenues	\$ 27,802	\$ 205,679	\$ 166,141	\$ 3,105	\$ 15,672	\$ 418,399
Operating Expenses:						
Depreciation and Amortization	270	4,876	16,136	52	342	21,676
Other	30,590	212,629	128,593	2,403	20,962	395,177
Operating Income (Loss)	(3,058)	(11,826)	21,412	650	(5,632)	1,546
Nonoperating Revenues (Expenses)	6,292	22,584	(12,784)	757	59,864	76,713
Net Income (Loss) for the Year	3,234	10,758	8,628	1,407	54,232	78,259
Equity-Beginning (as restated)	165,966	439,683	57,361	14,778	104,648	782,436
Equity transfer	-	65,532	-	-	-	65,532
Capital Contributions	-	-	-	-	7,213	7,213
Equity-Ending	\$ 169,200	\$ 515,973	\$ 65,989	\$ 16,185	\$ 166,093	\$ 933,440

Note 21 Related Organizations

Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 22 Commitments and Contingencies**A. Commitments**

At June 30, 2000, the State, including its component units, had the following outstanding commitments:

- 1) Infrastructure (highways, roads, etc.) and other construction contracts and miscellaneous contracts with various vendors totaling approximately \$1,533.8 million of which \$870.3 million is expected to be reimbursed by federal grants or other payments.
- 2) School construction and alteration grants with various towns for \$2,541.4 million and interest costs of \$294.1 million for a total of \$2,835.5 million. Funding for these projects is expected to come from bond sales.
- 3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately \$502.2 million. Funding for these programs is expected to come from bond sales.

B. Contingent Liabilities

The State has entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

C. Litigation

The State, its units and employees are parties to numerous legal proceedings, many of which normally occur in government operations. Most of these legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue

sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the State.

Note 23 Subsequent Events

In July \$125 million of special tax obligation bonds were issued, maturing at various dates through 2014 with interest rates from 4.375 percent to 5.625 percent.

In September, \$100 million of second lien special tax obligation bonds were issued, maturing at various dates through 2020 with an interest rate of 6%.

In October, \$124.1 million of special assessment second injury fund revenue bonds were issued, maturing at various dates through 2015 and having interest rates of 4.5 percent to 5.25 percent. These bonds replaced BANs that were outstanding as of June 30, 2000.

In December, \$400 million of general obligation bonds were issued, maturing at various dates through 2016 and having interest rates of 4.2 percent to 5.5 percent. Additionally, \$80 million of taxable general obligation bonds were issued. These bonds mature on various dates through 2004 and bear interest rates of 6.45 percent to 6.5 percent.

THIS PAGE LEFT INTENTIONALLY BLANK

***Required
PERS
Supplementary
Information***

Required Supplementary Information

Schedules of Funding Progress

(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
<u>SERS</u>						
6/30/95	\$4,209.2	\$7,838.2	\$3,629.0	53.7%	\$2,325.8	156.0%
6/30/96	\$4,604.2	\$8,138.6	\$3,534.4	56.6%	\$2,385.5	148.2%
6/30/97	\$5,131.0	\$8,833.2	\$3,702.2	58.1%	\$2,225.2	166.4%
6/30/98	\$5,669.9	\$9,592.4	\$3,922.5	59.1%	\$2,339.0	167.7%
6/30/99 *	-	-	-	-	-	-
6/30/00	\$7,196.0	\$11,512.1	\$4,316.1	62.5%	\$2,651.9	162.8%
*No actuarial valuation was performed as of June 30, 1999						
<u>TRS</u>						
6/30/94	\$5,602.1	\$8,222.6	\$2,620.5	68.1%	\$2,030.4	129.1%
6/30/95 *	-	-	-	-	-	-
6/30/96	\$6,648.2	\$9,626.8	\$2,978.6	69.1%	\$2,151.6	138.4%
6/30/97 *	-	-	-	-	-	-
6/30/98	\$7,721.1	\$10,970.1	\$3,249.0	70.4%	\$2,298.9	141.3%
6/30/99 *	-	-	-	-	-	-
*No actuarial valuations were performed as of June 30, 1995, 1997 and 1999						
<u>JRS</u>						
9/30/95	\$70.5	\$154.7	\$84.2	45.6%	\$19.2	438.5%
9/30/96	\$77.8	\$161.5	\$83.7	48.2%	\$19.5	429.2%
9/30/97	\$87.8	\$167.5	\$79.7	52.4%	\$20.2	394.6%
6/30/98	\$98.1	\$168.1	\$70.0	58.4%	\$21.2	330.2%
6/30/99	\$110.7	\$172.5	\$61.8	64.2%	\$21.9	282.2%
6/30/00	\$123.4	\$181.7	\$58.3	67.9%	\$24.1	241.9%
<u>MERS</u>						
6/30/94	\$653.0	\$635.0	\$(18.0)	102.8%	\$226.0	(8.0)%
6/30/95	\$711.0	\$661.0	\$(50.0)	107.6%	\$237.0	(21.1)%
6/30/96	\$782.0	\$692.2	\$(89.8)	113.0%	\$242.8	(37.0)%
6/30/97	\$872.0	\$731.1	\$(140.9)	119.3%	\$246.0	(57.3)%
6/30/98	\$980.4	\$814.1	\$(166.3)	120.4%	\$258.2	(64.4)%
6/30/99	\$1,100.7	\$860.1	\$(240.6)	128.0%	\$269.4	(89.3)%
<u>PJRS</u>						

For the Probate Judges Retirement System because the UAAL is zero, the actuarial cost method becomes the "aggregate cost method and a schedule of funding progress is not required.

Required Supplementary Information

Schedules of Employer Contributions

(Expressed in Millions)

Fiscal Year	<u>SERS</u>		<u>TRS</u>		<u>JRS</u>		<u>MERS</u>		<u>PJRS</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1995	\$535.3	54.3%	\$154.0	86.0%	\$9.0	100.0%	\$22.2	100.0%	\$-	-
1996	\$501.1	66.9%	\$164.7	85.0%	\$9.2	100.0%	\$23.2	100.0%	\$0.35	100.0%
1997	\$542.8	64.3%	\$174.0	85.0%	\$9.3	100.0%	\$21.3	100.0%	\$0.32	100.0%
1998	\$567.6	59.0%	\$211.0	85.0%	\$9.3	100.0%	\$18.8	100.0%	\$0.20	100.0%
1999	\$315.6	100.0%	\$221.6	85.0%	\$9.3	100.0%	\$18.1	100.0%	\$0.02	100.0%
2000	\$342.8	100.0%	\$240.5	85.0%	\$9.3	100.0%	\$32.0	100.0%	\$-	-

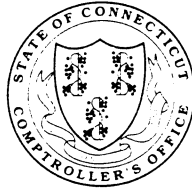
Note: During 1995 and 2000 the only contributions to the Probate Judges Retirement System were the required member contributions.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>	<u>MERS</u>	<u>PJRS</u>
Valuation date	6/30/00	6/30/98	6/30/00	6/30/99	12/31/99
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay	Level percent of pay	Level percent of pay	Flexible amortization	-
Remaining amortization period	33 Years	15-34 Years	31 Years	15-23 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	Adjusted market	Adjusted Market
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15.0%	5.0%	5.5%	7.0-7.5%	7.50%
Includes inflation at	5%	5%	5.5%	4.5%	3.5%
Cost-of-living adjustments	2.75-3.75%	3-5%	3.0-5.5%	3.0%	3%

THIS PAGE LEFT INTENTIONALLY BLANK

APPENDIX III-D



NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN
DEPUTY COMPTROLLER

January 23, 2001

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying balance sheets of the General Fund of the State of Connecticut for the fiscal years ending June 30, 1996-2000. This review also covered the accompanying statements of unappropriated surplus, revenues, and expenditures for the years ended on those dates. The statements are based on the annual report of the Office of the State Comptroller, which is prepared in compliance with Section 3-115 of the General Statutes, as well as the reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 1996-2000.

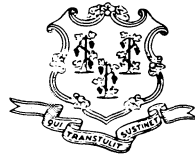
The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently for all periods shown.

Sincerely,

A handwritten signature in black ink, appearing to read "Nancy Wyman", is written over a faint, larger version of the same signature.

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

CERTIFICATE OF AUDIT

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 1996, 1997, 1998, 1999 and 2000, and the related statements of revenues, expenditures, and changes in unappropriated surplus for the years ended on those dates as shown in Appendices III-D-4, III-D-5, III-D-6 and III-D-7. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The financial statements referred to above present only the General Fund and are not intended to present fairly the financial position and results of operations of the State of Connecticut in conformity with generally accepted accounting principles.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund as of June 30, 1996, 1997, 1998, 1999 and 2000, and the results of its operations for the years then ended, on the basis of accounting described in Note (a) to Appendix III-D-4.

As discussed in the litigation section of the accompanying Official Statement, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements. However, as indicated in that section, an adverse judgement in any one of these cases could have a material fiscal impact on the State.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 29, 2000
State Capitol
Hartford, Connecticut

GENERAL FUND^(a)

**Balance Sheet
As of June 30
(In Thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Assets					
Cash and Short-Term Investments	\$ -	\$ -	\$ 106,204	\$ 263,256	\$ 150,871
Accrued Taxes Receivable	702,461	632,854	641,845	664,504	667,036
Accrued Accounts Receivable.....	12,385	19,949	22,828	24,378	26,285
Federal and Other Grants Receivable and Unexpended.....	392,249	464,061	568,067	704,982	656,289
Investments			44,250	54,867	47,705
Due from Other Funds.....	7,946	4,532	5,070	4,753	4,692
Total Assets.....	<u>\$ 1,115,041</u>	<u>\$ 1,121,396</u>	<u>\$ 1,388,264</u>	<u>\$ 1,716,740</u>	<u>\$ 1,552,878</u>
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term					
Investments	\$ 345,220	\$ 144,554	\$ -	\$ -	\$ -
Deferred Federal and Other Grant Revenue.....	81,335	91,596	189,738	319,484	266,260
Due to Other Funds	9,288	15,232	8,486	13,643	13,707
Total Liabilities	<u>\$ 435,843</u>	<u>\$ 251,382</u>	<u>\$ 198,224</u>	<u>\$ 333,127</u>	<u>\$ 279,967</u>
Reserves					
Petty Cash Funds.....	\$ 997	\$ 995	\$ 1,052	\$ 1,088	\$ 1,092
Statutory Surplus Reserves.....	249,967	262,639	312,911	71,759	300,435
Appropriations Continued to Following Year.....	428,234	606,380	876,077	1,310,766	971,384
Total Reserves	<u>\$ 679,198</u>	<u>\$ 870,014</u>	<u>\$ 1,190,040</u>	<u>\$ 1,383,613</u>	<u>\$ 1,272,911</u>
Unappropriated Surplus (Deficit).....	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities, Reserves and Surplus.....	<u>\$ 1,115,041</u>	<u>\$ 1,121,396</u>	<u>\$ 1,388,264</u>	<u>\$ 1,716,740</u>	<u>\$ 1,552,878</u>

- (a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Public Act No. 99-173 revised the accrual date for corporation business taxes to July 31st. Those taxes for which July collections are accrued include sales and use tax, personal income tax, corporation business tax, gross earnings taxes on utility and petroleum companies, hospital gross receipts tax, taxes on alcoholic beverages, cigarettes, gasoline and special motor fuels. Additionally, Indian gaming payments received through July 31 are accrued.

GENERAL FUND

**Statement of Revenues, Expenditures and Changes in Unappropriated Surplus
Fiscal Year Ended June 30
(In Thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Unappropriated Surplus (Deficit), July 1	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -
Total Revenues (per Appendix III-D-8)	9,911,085	10,262,342	10,922,192	11,360,260	12,151,287
Total Expenditures (per Appendix III-D-9)	9,646,098	9,880,241	10,429,797	10,994,680	12,138,545
Operating Balance	264,987	382,101	492,395	365,580	12,742
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	(15,474)	(110,974)	(180,520)	(294,077)	289,764
Transferred In (Out) or Reserved for:					
Budget Reserve Fund	(160,467)	(95,939)	(161,694)	(30,474)	(34,960)
Economic Recovery Note Debt					
Retirement Fund	(89,500)	(166,700)			
Reserve for Debt Retirement/Avoidance			(151,217)	(41,285)	(265,474)
Other Adjustments	454	(8,488)	1,036	256	(2,072)
Unappropriated Surplus (Deficit), June 30	<u>\$ -0-</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ -0-</u>	<u>\$ - 0 -</u>

GENERAL FUND

**Statement of Revenues
Fiscal Year Ended June 30
(In Thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Taxes:					
Personal Income	\$ 2,879,379	\$ 3,110,868	\$ 3,596,224	\$ 3,820,837	\$ 4,238,228
Sales and Use.....	2,460,133	2,611,456	2,772,109	2,932,191	3,096,780
Corporations	748,064	677,883	663,672	619,539	587,756
Insurance Companies.....	167,912	193,072	192,756	196,195	201,225
Inheritance and Estate.....	247,426	227,984	279,236	237,573	228,072
Alcoholic Beverages.....	40,400	39,671	39,772	40,281	40,965
Cigarettes.....	126,384	126,576	127,174	123,345	122,045
Admissions, Dues, Cabaret.....	23,334	25,887	24,955	26,942	26,716
Oil Companies.....	69,177	80,362	61,858	22,170	54,285
Public Service Corporations	191,967	179,365	170,418	167,704	166,263
Real Estate Conveyance	65,109	75,082	93,596	106,813	114,565
Hospital Gross Receipts.....	213,961	173,738	140,930	128,079	69,180
Miscellaneous	27,629	28,509	28,044	40,635	40,227
Refunds of Taxes.....	(410,500)	(490,548)	(580,830)	(645,000)	(713,359)
Transfer to Economic Recovery Fund	(92,190)	-	-	-	-
Other Revenue:					
Licenses, Permits, Fees.....	112,037	124,833	123,156	122,062	127,544
Sales of Commodities and Services.....	39,229	39,053	29,491	30,110	32,941
Transfer - Special Revenue.....	270,361	258,682	267,323	280,529	259,785
Investment Income	24,716	39,623	54,716	60,856	53,371
Transfers — To Other Funds.....	(85,000)	(85,000)	(180,000)	(90,000)	(180,000)
Fines, Escheats and Rents.....	33,829	33,130	37,097	55,763	45,659
Miscellaneous.....	122,716	112,736	118,373	112,962	125,498
Federal Grants	1,684,030	1,795,514	1,824,595	1,938,271	2,078,914
Indian Gaming Payments.....	148,703	203,601	257,576	288,532	318,986
Statutory Transfers From Other Funds	<u>2,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,000</u>
Total Unrestricted Revenue	9,111,135	9,582,077	10,142,241	10,616,389	11,213,646
Restricted Federal and Other Grants	799,950	680,265	779,951	743,871	937,641
Total Revenues^(a)	<u>\$ 9,911,085</u>	<u>\$ 10,262,342</u>	<u>\$ 10,922,192</u>	<u>\$ 11,360,260</u>	<u>\$ 12,151,287</u>

(a) See Operating Balance on **Appendix III-D-7** for surplus or deficit for each fiscal year.

GENERAL FUND

**Statement of Expenditures
Fiscal Year Ended June 30
(In Thousands)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Legislative	\$ 37,759	\$ 40,058	\$ 41,793	\$ 50,978	\$ 54,541
General Government					
Executive	16,667	7,234	8,022	8,731	9,929
Financial Administration	329,306	312,198	347,559	532,374	495,118
Legal	41,710	44,869	48,699	53,742	61,263
Total General Government	<u>387,683</u>	<u>364,301</u>	<u>404,280</u>	<u>594,847</u>	<u>566,310</u>
Regulation and Protection of Persons and Property					
Public Safety	51,362	56,270	57,327	107,942	129,216
Regulative	30,906	32,138	32,880	61,764	77,785
Total Regulation and Protection	<u>82,268</u>	<u>88,408</u>	<u>90,207</u>	<u>169,706</u>	<u>207,001</u>
Conservation and Development					
Agriculture	7,263	7,549	8,058	8,885	10,026
Environment	35,264	37,072	35,798	39,138	45,621
Historical Sites, Commerce and Industry	7,411	17,039	18,299	22,737	22,508
Total Conservation and Development	<u>49,938</u>	<u>61,660</u>	<u>62,155</u>	<u>70,760</u>	<u>78,155</u>
Health and Hospitals					
Public Health	59,823	63,080	63,170	70,334	79,445
Mental Retardation	467,239	514,368	540,359	579,290	627,435
Mental Health	183,453	184,899	214,248	255,905	298,353
Total Health and Hospitals	<u>710,515</u>	<u>762,347</u>	<u>817,777</u>	<u>905,529</u>	<u>1,005,233</u>
Human Services	<u>3,234,159</u>	<u>3,277,044</u>	<u>3,371,318</u>	<u>3,231,095</u>	<u>3,430,561</u>
Education, Libraries and Museums					
Department of Education	1,492,815	1,507,614	1,557,271	1,683,536	1,825,305
Education of the Blind and Deaf	16,764	14,276	13,133	14,618	16,052
University of Connecticut	196,125	207,279	232,876	234,464	260,972
Higher Education and the Arts	24,367	24,719	30,860	39,385	55,326
Libraries	10,946	11,645	12,126	13,729	14,326
Teachers Retirement	144,208	152,781	184,714	201,105	215,396
Community--Technical Colleges	89,619	94,296	95,604	105,064	115,432
State University	100,861	109,620	113,853	119,578	134,709
Total Education, Libraries and Museums	<u>2,075,705</u>	<u>2,122,230</u>	<u>2,240,437</u>	<u>2,411,479</u>	<u>2,637,518</u>
Corrections	<u>693,414</u>	<u>757,341</u>	<u>762,917</u>	<u>845,239</u>	<u>957,555</u>
Judicial	<u>198,594</u>	<u>217,086</u>	<u>232,340</u>	<u>266,043</u>	<u>309,319</u>
Non-Functional					
Debt Service	645,660	726,065	790,164	848,391	926,365
Miscellaneous	730,453	783,436	836,458	856,742	1,028,346
Total Non-Functional	<u>1,376,113</u>	<u>1,509,501</u>	<u>1,626,622</u>	<u>1,705,133</u>	<u>1,954,711</u>
Totals	<u>8,846,148</u>	<u>9,199,976</u>	<u>9,649,846</u>	<u>10,250,809</u>	<u>11,200,904</u>
Restricted Federal and Other Grants	799,950	680,265	779,951	743,871	937,641
Total Expenditures^(a)	<u>\$ 9,646,098</u>	<u>\$ 9,880,241</u>	<u>\$ 10,429,797</u>	<u>\$ 10,994,680</u>	<u>\$ 12,138,545</u>

(a) See Operating Balance on **Appendix III-D-7** for surplus or deficit for each fiscal year.

[INTENTIONALLY BLANK]

APPENDIX III-E

**GENERAL FUND REVENUES AND EXPENDITURES
ADOPTED BUDGET FOR 1999-00 AND ACTUAL BUDGET FOR 1999-00
MIDTERM ADJUSTED BUDGET AND ESTIMATED BUDGET FOR 2000-01
(In Millions)**

	<u>Adopted Budget 1999-00^(a)</u>	<u>Actual Budget 1999-00^(j)</u>	<u>Adopted Midterm Budget Adjustments 2000-01^(l)</u>	<u>Estimated Budget 2000-01^(o)</u>
Revenues				
<u>Taxes</u>				
Personal Income Tax	\$3,974.6 ^(g)	\$4,238.2	\$4,218.0 ^(g)	\$4,560.0
Sales & Use Corporation ^(b)	3,028.6	3,096.8	3,116.7	3,186.0
Hospital Gross Receipts ^(c)	573.3	587.8	512.9	568.1
Public Service	79.6	69.2	0.0 ^(l)	0.0 ^(l)
Inheritance & Estate	170.3	166.3	173.0	165.3
Insurance Companies	197.7	228.1	241.4	235.0
Cigarettes	199.2	201.2	198.4	205.7
Real Estate Conveyance	121.9	122.0	116.2	105.0
Oil Companies ^(d)	100.2	114.5	112.2	120.4
Alcoholic Beverages	18.0	54.3	39.2	44.8
Admissions, Dues, Cabaret	40.0	41.0	40.0	41.4
Miscellaneous	24.6	26.7	24.0	24.9
	<u>39.3</u>	<u>40.2</u>	<u>42.7</u>	<u>40.1</u>
Total Taxes	\$ 8,567.3	\$ 8,986.3	\$ 8,834.7	\$9,236.7
Less Refunds	<u>(741.5)</u>	<u>(713.4)</u>	<u>(729.8)</u>	<u>(793.1)</u>
Net Taxes	\$ 7,825.8	\$ 8,272.9	\$ 8,104.9	\$8,503.6
<u>Other Revenues</u>				
Transfers- Special Revenues	250.0	259.8	265.2	265.0
Indian Gaming Payments	306.7	319.0	336.0	335.0
Licenses, Permits, Fees	124.0	127.5	121.8	124.0
Sales of Commodities & Services	32.0	32.9	32.0	32.3
Rents, Fines & Escheats	35.0	45.7	41.1	43.3
Investment Income	70.0	53.4	68.0	62.8
Miscellaneous	115.0	125.5	133.6	129.7
Total Other Revenue	\$ 932.7	\$ 963.8	\$ 997.7	\$ 992.1
<u>Other Sources</u>				
Federal Grants	1,989.5	2,078.9	2,122.3	2,252.0
Transfers from Tobacco Settlement Funds	78.0 ^(h)	78.0	138.8 ^(h)	138.8
Transfers to Other Funds ^(e)	<u>(180.0)⁽ⁱ⁾</u>	<u>(180.0)⁽ⁱ⁾</u>	<u>(82.4)</u>	<u>(82.4)</u>
Total Other Sources	\$ 1,887.5	\$ 1,976.9	\$ 2,178.7	\$ 2,308.4
Total Unrestricted Revenues	\$10,646.0	\$11,213.6	\$11,281.3	\$11,804.1
Restricted Federal & Other Grants ^(k)	<u>750.0</u>	<u>937.6</u>	<u>750.0</u>	<u>837.5</u>
Total Revenue	\$11,396.0	\$12,151.2	\$12,031.3	\$12,641.6
Appropriations/Expenditures				
Legislative	\$53.9	\$55.1	\$59.0	\$55.8
General Government	427.4	479.9	456.5	452.3
Regulation & Protection	196.0	197.1	213.7	211.5
Conservation & Development	75.0	87.3	78.5	77.8
Health & Hospitals	983.7	972.4	1,096.4 ^(m)	1,108.1 ^(m)
Transportation	0.0	0.0	35.0 ⁽ⁿ⁾	35.0 ⁽ⁿ⁾
Human Services	3,324.5	3,367.0	3,423.6	3,476.5

	Adopted Budget 1999-00^(a)	Actual Budget 1999-00^(j)	Adopted Midterm Budget Adjustments 2000-01^(l)	Estimated Budget 2000-01^(o)
Education, Libraries & Museums	2,535.4	2,614.2	2,651.7	2,642.2
Corrections	942.1	946.2	1,006.8	1,014.5
Judicial	297.7	299.5	324.1	322.6
Non- Functional				
Debt Service	942.5	925.0	1,015.1	1,015.1
Miscellaneous	<u>964.0</u>	<u>967.4</u>	<u>1,040.4</u>	<u>1,039.7</u>
Subtotal	\$10,742.2	\$10,911.1	\$11,400.8	\$11,451.1
Unallocated Lapse	<u>(160.6)</u>	<u>0.0</u>	<u>(120.0)</u>	<u>(40.2)</u>
Net Appropriations/Expenditures	\$10,581.6	\$10,911.1	\$11,280.8	\$11,410.9
Surplus (or Deficit) from Operations	\$ 64.4	\$ 302.5	\$ 0.5	\$ 393.2
Miscellaneous Adjustments	<u>0.0</u>	<u>(2.1)</u>	<u>0.0</u>	<u>(3.7)</u>
Balance ^(f)	\$ 64.4	\$ 300.4	\$ 0.5	\$ 389.5

NOTE: Columns may not add due to rounding.

- (a) Per Special Act No. 99-10, the adopted biennial budget.
- (b) Per Public Act No. 95-160, reflects the acceleration and further reduction in the corporate income tax rate to an eventual 7.5% by January 1, 2000.
- (c) Per Public Act No. 00-170 eliminates the Hospital Gross Receipts tax on April 1, 2000.
- (d) Per Public Act No. 00-170, reflects the transfer of revenue earmarked for the Special Transportation Fund.
- (e) Transfer to Mashantucket Pequot and Mohegan Fund for grants to towns.
- (f) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to five percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. In accordance with the provisions of Article XXVIII of the Amendments to the Connecticut State Constitution and Section 72 of Special Act 00-13, after the transfer of \$34.9 million of the 1999-00 surplus to the Budget Reserve Fund, the remainder of roughly \$265.5 million will be used for IT wiring and debt avoidance for school construction.
- (g) Per Public Act No. 99-173, increases the maximum property tax credit against the Personal Income Tax to an eventual \$500, effective January 1, 2000.
- (h) Per Special Act No. 99-10, includes funds from the Master Tobacco Settlement Agreement.
- (i) Per Public Act No. 99-10, increases the Mashantucket Pequot and Mohegan Fund transfer in the first year of the biennium by \$90 million.
- (j) Per the Comptroller's annual report for fiscal year 1999-00. The line item expenditures exclude expenditures of appropriations carried over from the prior fiscal year and include expenditures of appropriations carried over to the next fiscal year, as determined by the Office of Policy and Management.
- (k) The figure reflected for Restricted Federal & Other Grants reflects realized revenues for the 1999-00 fiscal year and through September 30, 2000 for the 2000-01 fiscal year. Additional revenues may be received for the 2000-01 fiscal year. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.
- (l) Per Special Act No. 00-13 and Public Act No. 00-170, the adopted Midterm Budget Adjustments.
- (m) Includes the HUSKY adult expansion, expanding home care eligibility, and establishing a work incentive program for the disabled.
- (n) Per Section 1 of Special Act No. 00-13, transfers the Town Aid Road Grant from Special Transportation Fund.
- (o) Per the Comptroller's monthly report for the period ending September 30, 2000.

NOTE: The information in **Appendix III-E** contains only projections and no assurances can be given that subsequent projections will not indicate changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

[INTENTIONALLY LEFT BLANK]

[INTENTIONALLY LEFT BLANK]



Recycled Paper - Printed by
IMAGEMASTER 800-452-5152