

# \$656,375,000 State of Connecticut General Obligation Bonds

**\$400,000,000 General Obligation Bonds (2002 Series D) – New Money**

**\$256,375,000 General Obligation Refunding Bonds (2002 Series E) – Refunding**

Dated: **August 15, 2002**

Due: **As shown on pages inside front cover**

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. Interest on the Bonds will be payable on November 15, 2002 and semiannually thereafter on May 15 and November 15 in each year until maturity or earlier redemption. Interest is calculated on the basis of a 360-day year of twelve 30-day months at the annual rates described on the pages inside this front cover. **The Bonds are subject to redemption prior to maturity as more fully described herein.**

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.

**(See pages inside front cover for maturities, interest rates and prices or yields.)**

*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.*

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 September 5, 2002.

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## Treasurer of the State of Connecticut

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### Merrill Lynch & Co.

**Bear, Stearns & Co. Inc.**

**M.R. Beal & Company**

**Quick & Reilly, Inc.**

**Advest, Inc.**

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

**Apex, Pryor Securities**

**Belle Haven Investments, L.P.**

**William Blair & Company LLC**

A Division of Rice Financial Products Company

**CIBC World Markets**

**Fidelity Capital Markets**

**The Chapman Company**

**Jackson Securities**

**David Lerner Associates, Inc.**

**Gates Capital Corp.**

**JP Morgan**

**The May Davis Group, Inc.**

**Loop Capital Markets, LLC**

**Roosevelt & Cross, Incorporated**

**Siebert Brandford Shank & Co., L.L.C.**

**Raymond James & Associates, Inc.**

**UBS PaineWebber Inc.**

**Wachovia Bank, National Association**

Dated: **August 22, 2002**

**\$656,375,000**  
**State of Connecticut**  
**General Obligation Bonds**

\$400,000,000 General Obligation Bonds (2002 Series D) – New Money

<u>November 15,</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2003	\$14,190,000	3.00 %	1.35%	20772FH37
2003	5,810,000	2.00	1.35	20772FH29
2004	5,000,000	2.00	1.58	20772FH45
2005	8,185,000	5.00	2.05	20772FH60
2005	12,650,000	2.00	2.05	20772FH52
2006	13,290,000	5.00	2.42	20772FH86
2006	7,545,000	2.50	2.42	20772FH78
2007	10,280,000	5.25	2.72	20772FJ27
2007	10,550,000	2.75	2.72	20772FH94
2008	10,470,000	5.25	3.06	20772FJ43
2008	10,365,000	3.00	3.06	20772FJ35
2009	10,000,000	5.00	3.29	20772FJ68
2009	10,835,000	3.25	3.29	20772FJ50
2010	10,770,000	5.00	3.52	20772FJ84
2010	10,060,000	3.50	3.52	20772FJ76
2011	12,000,000	5.25	3.66	20772FK25
2011	8,835,000	3.625	3.66	20772FJ92
2012	15,640,000	5.25	3.76	20772FK41
2012	5,195,000	3.75	3.76	20772FK33
2013	19,985,000	5.375	3.88*	20772FK66
2013	845,000	3.80	3.88	20772FK58
2014	19,100,000	5.375	4.00*	20772FK82
2014	1,735,000	3.90	4.00	20772FK74
2015	15,945,000	5.375	4.11*	20772FL24
2015	4,890,000	4.05	4.11	20772FK90
2016	18,685,000	5.375	4.21*	20772FL40
2016	2,145,000	4.125	4.21	20772FL32
2017	19,060,000	5.375	4.31*	20772FL65
2017	1,775,000	4.25	4.31	20772FL57
2018	20,245,000	5.375	4.40*	20772FL81
2018	590,000	4.375	4.40	20772FL73
2019	20,050,000	5.375	4.49*	20772FM23
2019	780,000	4.45	4.49	20772FL99
2020	19,830,000	5.375	4.58*	20772FM49
2020	1,005,000	4.55	4.58	20772FM31
2021	19,625,000	5.375	4.66*	20772FM64
2021	1,210,000	4.65	4.66	20772FM56
2022	20,830,000	4.75	4.78	20772FM72

(plus accrued interest)

\* Priced assuming redemption on November 15, 2012; however, any such redemption is at the optional election of the Treasurer. See **The BONDS – Optional Redemption** herein.

**\$256,375,000 General Obligation Refunding Bonds (2002 Series E) – Refunding**

<u>November 15,</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2002	\$ 2,040,000	2.00 %	1.25%	20772FM80
2003	25,145,000	3.00	1.35	20772FM98
2005	2,800,000	4.00	2.05	20772FN22
2006	2,140,000	4.00	2.42	20772FN30
2009	5,000,000**	5.00	3.25	20772FN48
2009	6,900,000**	3.50	3.25	20772FN55
2010	11,770,000**	5.00	3.48	20772FN63
2011	68,870,000**	5.50	3.62	20772FN71
2011	5,000,000**	4.00	3.62	20772FN89
2012	25,000,000**	5.50	3.72	20772FP20
2012	30,330,000	5.50	3.76	20772FN97
2013	42,420,000**	5.50	3.84*	20772FP38
2014	20,990,000**	5.375	3.96*	20772FP53
2015	7,970,000**	5.375	4.07*	20772FP61

(plus accrued interest)

\* Priced assuming redemption on November 15, 2012; however, any such redemption is at the optional election of the Treasurer. See **The BONDS – Optional Redemption** herein.

\*\* The scheduled payment of principal of and interest on the Bonds noted with “\*\*” (the “Insured Bonds”) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. See **“Bond Insurance”** and **“Appendix I-D”** herein.



**[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.**

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “**Bond Insurance**” and “**Appendix I-D**” including specimen “Municipal Bond Insurance Policy” therein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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**OFFICIAL STATEMENT  
STATE OF CONNECTICUT  
\$656,375,000 General Obligation Bonds**

**\$400,000,000 General Obligation Bonds (2002 Series D) – New Money  
\$256,375,000 General Obligation Refunding Bonds (2002 Series E) – Refunding**

**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 \$400,000,000 aggregate principal amount of its General Obligation Bonds (2002 Series D) and \$256,375,000 aggregate principal amount of its General Obligation Refunding Bonds (2002 Series E) (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 pages, 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**

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**PART I**  
**INFORMATION CONCERNING THE BONDS**

**STATE OF CONNECTICUT**  
**\$656,375,000 General Obligation Bonds**

**\$400,000,000 General Obligation Bonds (2002 Series D) – New Money**  
**\$256,375,000 General Obligation Refunding Bonds (2002 Series E) – Refunding**

**THE BONDS**

**Description of the Bonds**

The State of Connecticut (the “State”) is issuing \$656,375,000 General Obligation Bonds (the “Bonds”). The Bonds consist of \$400,000,000 General Obligation Bonds (2002 Series D) (the “Series D Bonds”) comprised of the following issues:

\$ 19,575,000 General Obligation Bonds (2002 Series D-1)  
\$ 2,830,000 General Obligation Bonds (2002 Series D-2)  
\$ 40,205,000 General Obligation Bonds (2002 Series D-3)  
\$ 40,920,000 General Obligation Bonds (2002 Series D-4)  
\$ 64,885,000 General Obligation Bonds (2002 Series D-5)  
\$ 82,710,000 General Obligation Bonds (2002 Series D-6)  
\$148,875,000 General Obligation Bonds (2002 Series D-7)

and \$256,375,000 General Obligation Refunding Bonds (2002 Series E) (the “Series E Bonds”) comprised of the following issues:

\$ 20,000 General Obligation Refunding Bonds (2002 Series E-1)  
\$39,830,000 General Obligation Refunding Bonds (2002 Series E-2)  
\$65,180,000 General Obligation Refunding Bonds (2002 Series E-3)  
\$87,655,000 General Obligation Refunding Bonds (2002 Series E-4)  
\$63,690,000 General Obligation Refunding Bonds (2002 Series E-5)

The Bonds will be dated August 15, 2002, and will bear interest payable on November 15, 2002 and semiannually thereafter on May 15 and November 15 in each year, until maturity or earlier redemption, at the rate or rates indicated on the inside front cover page of this Official Statement.

Interest will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable to the registered owner as of the close of business on the last business day of April and October in each year. 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). The Series D Bonds are issued pursuant to resolutions adopted by the State Bond Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. The Series E Bonds are issued pursuant to a Bond Determination of the Treasurer. See **Nature of Obligation** herein.

Principal of and interest on 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.

The \$400,000,000 Series D Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Series D Bonds of each series will mature in the years and in the principal amounts set forth in the following table:

**\$400,000,000 Series D Bonds**

<u>Maturity</u> November 15,	<u>Series</u>							<u>Total</u>
	<u>2002 D-1</u>	<u>2002 D-2</u>	<u>2002 D-3</u>	<u>2002 D-4</u>	<u>2002 D-5</u>	<u>2002 D-6</u>	<u>2002 D-7</u>	<u>2002 Series D</u>
2003...				\$20,000,000				\$20,000,000
2004...				5,000,000				5,000,000
2005...			\$ 4,915,000	15,920,000				20,835,000
2006...			20,835,000					20,835,000
2007...			12,755,000		\$ 8,075,000			20,830,000
2008...					20,835,000			20,835,000
2009...					20,835,000			20,835,000
2010...					13,840,000	\$ 6,990,000		20,830,000
2011...						20,835,000		20,835,000
2012...						20,835,000		20,835,000
2013...						20,830,000		20,830,000
2014...	\$1,785,000	\$ 2,830,000	1,700,000		1,300,000	13,220,000		20,835,000
2015...	17,790,000						\$ 3,045,000	20,835,000
2016...							20,830,000	20,830,000
2017...							20,835,000	20,835,000
2018...							20,835,000	20,835,000
2019...							20,830,000	20,830,000
2020...							20,835,000	20,835,000
2021...							20,835,000	20,835,000
2022...							20,830,000	20,830,000
<b>TOTAL</b>	<b>\$19,575,000</b>	<b>\$2,830,000</b>	<b>\$40,205,000</b>	<b>\$40,920,000</b>	<b>\$64,885,000</b>	<b>\$82,710,000</b>	<b>\$148,875,000</b>	<b>\$400,000,000</b>

The \$256,375,000 Series E Bonds are being issued for the purpose of advance refunding an aggregate principal amount of all or a portion of the callable maturities of certain outstanding State general obligation bonds set forth in the “Plan of Refunding” described in **Appendix I-A**. Series E Bonds of each series will mature in the years and in the principal amounts set forth in the following table:

**\$256,375,000 Series E Bonds**

<u>Maturity</u> November 15,	<u>Series</u>					<u>Total</u>
	<u>2002 E-1</u>	<u>2002 E-2</u>	<u>2002 E-3</u>	<u>2002 E-4</u>	<u>2002 E-5</u>	<u>2002 Series E</u>
2002...	\$20,000	\$ 2,020,000				\$ 2,040,000
2003...		25,145,000				25,145,000
2005...		2,800,000				2,800,000
2006...		2,140,000				2,140,000
2009...		7,725,000	\$ 4,175,000			11,900,000
2010...			11,770,000			11,770,000
2011...			49,235,000	\$24,635,000		73,870,000
2012...				55,330,000		55,330,000
2013...				7,690,000	\$34,730,000	42,420,000
2014...					20,990,000	20,990,000
2015...					7,970,000	7,970,000
<b>TOTAL</b>	<b>\$20,000</b>	<b>\$39,830,000</b>	<b>\$65,180,000</b>	<b>\$87,655,000</b>	<b>\$63,690,000</b>	<b>\$256,375,000</b>



## Optional Redemption

The Bonds maturing after November 15, 2012 will be subject to redemption, at the election of the Treasurer, on or after November 15, 2012 at any time, in whole or in part prior to maturity. The redeemed Bonds may be in such amounts and in such order of maturity and in such Series and bear such interest rate or rates (but by lot among bonds bearing the same interest rate within a maturity of a Series) as the Treasurer may determine. The respective redemption prices (expressed as percentages of the principal amounts of bonds to be redeemed) are set forth in the following table, to which will be added interest accrued and unpaid to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
From November 15, 2012 and thereafter	100%

**Notice of Redemption.** Notice of redemption shall be mailed not less than thirty (30) 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. 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, New York, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered Bond certificates will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of 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. Beneficial Owners are, however, expected to

receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. 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, and redemption premium, if any, with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the 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 nor its nominee, 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, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor 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 provided by 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:

	<u>Series D</u>	<u>Series E</u>
Sources:		
Par Amount of Bonds.....	\$ 400,000,000.00	\$ 256,375,000.00
Plus: Net Original Issue Premium..	<u>25,613,903.60</u>	<u>30,318,800.55</u>
Total Sources .....	<u>\$ 425,613,903.60</u>	<u>\$ 286,693,800.55</u>
Uses:		
Deposit to Refunding Escrow .....	\$	\$ 284,752,445.33
Bond Insurance .....		387,287.85
Underwriters' Discount.....	2,103,774.44	1,317,622.93
Other Money Available to State .....	<u>423,510,129.16</u>	<u>236,444.44</u>
Total Uses .....	<u>\$ 425,613,903.60</u>	<u>\$ 286,693,800.55</u>

(accrued interest to be added)

The State will also deposit \$1,658,698.88 to the refunding escrow for a total escrow deposit of \$286,411,144.21.

## BOND INSURANCE

The State has received a commitment from Financial Security Assurance Inc. (the “Bond Insurer”) for a financial guaranty insurance policy (the “Policy”) with respect to certain of the Series E Bonds identified on the page after the front cover (the “Insured Bonds”). Under the Policy, a specimen copy of which is included as **Appendix I-D** hereto, the Bond Insurer guarantees the payment of the principal of and interest on the Insured Bonds on the regularly scheduled due dates for the payment thereof. For information concerning the Bond Insurer and a specimen copy of the Policy see **Appendix I-D** hereto.

## 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

Moody’s Investors Service (“Moody’s”), Standard & Poor’s Rating Services (“S&P”), a division of the McGraw-Hill Companies, Inc. and Fitch Ratings (“Fitch”) have assigned their municipal bond ratings of Aa2, AA and AA, respectively, to the Bonds. At the time that ratings were assigned Moody’s and S&P each revised its credit outlook on the State’s general obligation bonds from “stable” to “negative”. The Insured Bonds (see **BOND INSURANCE**) have been assigned ratings of “Aaa”, “AAA” and “AAA” by Moody’s, S&P and Fitch, respectively, based on the bond insurance provided by Financial Security Assurance Inc. Each such rating and such credit outlook reflects only the views of the respective rating agency, and an explanation of the significance of such rating and such credit outlook 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.

## VERIFICATION OF MATHEMATICAL COMPUTATIONS

McGladrey & Pullen LLP, independent certified public accountants, will deliver a report relating to (i) the accuracy of the mathematical computations regarding the adequacy of the cash and maturing principal of and interest earned on the Governmental Obligations deposited with the Escrow Holder, as defined in **Appendix I-A**, to pay, when due, the principal, redemption price and interest on the Refunded Bonds, as defined in **Appendix I-A**, and (ii) the yield on the Bonds and on certain investments considered by Bond Counsel in their determination that the interest on the Bonds is not included in gross income for Federal income tax purposes, as a condition to the delivery 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.

### **Original Issue Discount**

The initial public offering prices of the Bonds of certain maturities in certain Series ( the "OID Bonds") are less than their stated principal amounts. Under existing law, the difference between the stated principal amount and the initial offering price of each maturity of the OID Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of the OID Bonds is sold will constitute original issue discount ("OID"). The offering prices relating to the yields set forth on the inside front cover page of this Official Statement for the OID Bonds are expected to be the initial offering prices to the public at which a substantial amount of each maturity of the OID Bonds are sold. Under existing law OID on the Bonds accrued and properly allocable to the owners thereof under the Code is not included in gross income for federal income tax purposes if interest on the Bonds is not included in gross income for federal income tax purposes.

Under the Code, for purposes of determining an owner's adjusted basis in an OID Bond, OID treated as having accrued while the owner holds the OID Bond will be added to the owner's basis. OID will accrue on a constant-yield-to-maturity method based on regular compounding. The owner's adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond. For certain corporations (as defined for federal income tax purposes) a portion of the original issue discount that accrues in each year to such an owner of an OID Bond will be included in the calculation of the corporation's federal alternative minimum tax liability. As a result, ownership of an OID Bond by such a corporation may result in an alternative minimum tax liability even though such owner has not received a corresponding cash payment.

Prospective purchasers of OID Bonds should consult their own tax advisors as to the calculation of accrued OID, the accrual of OID in the cases of owners of the OID Bonds purchasing such Bonds after the initial offering and sale, and the state and local tax consequences of owning or disposing of such OID Bonds.

## **Original Issue Premium**

The initial public offering prices of the Bonds of certain maturities in certain Series (the “OIP Bonds”) are more than their stated principal amounts. An owner who purchases a Bond at a premium to its principal amount must amortize bond premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner’s basis in the Bond for federal income tax purposes. Prospective purchasers of OIP Bonds should consult their tax advisors regarding the amortization of premium and the effect upon basis.

## **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.

Accrued original issue discount on a Bond is also 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.

Owners of OID Bonds or OIP Bonds should consult their own tax advisors with respect to the determination for state and local income tax purposes of original issue discount or premium accrued upon sale or redemption thereof, and with respect to the state and local tax consequences of owning or disposing of OID Bonds or OIP Bonds.

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 Series D Bonds, and delivery of the Series D Bonds will be subject to the approving opinions of Bond Counsel as follows:

- (a) Day, Berry & Howard LLP with respect to the \$19,575,000 General Obligation Bonds (2002 Series D-1);
- (b) Levy & Droney, P.C. with respect to the \$2,830,000 General Obligation Bonds (2002 Series D-2);
- (c) Nixon Peabody LLP with respect to the \$40,205,000 General Obligation Bonds (2002 Series D-3);
- (d) Pullman & Comley, LLC with respect to the \$40,920,000 General Obligation Bonds (2002 Series D-4);
- (e) Law Offices of Joseph C. Reid, P.A. with respect to the \$64,885,000 General Obligation Bonds (2002 Series D-5);
- (f) Robinson & Cole LLP with respect to the \$82,710,000 General Obligation Bonds (2002 Series D-6);
- (g) Shipman & Goodwin LLP with respect to the \$148,875,000 General Obligation Bonds (2002 Series D-7);

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 Series E Bonds, and delivery of the Series E Bonds will be subject to the approving opinions of Bond Counsel as follows:

- (a) Day, Berry & Howard LLP with respect to the \$20,000 General Obligation Refunding Bonds (2002 Series E-1);
- (b) Levy & Droney, P.C. with respect to the \$39,830,000 General Obligation Refunding Bonds (2002 Series E-2);
- (c) Pullman & Comley, LLC with respect to the \$65,180,000 General Obligation Refunding Bonds (2002 Series E-3);
- (d) Robinson & Cole LLP with respect to the \$87,655,000 General Obligation Refunding Bonds (2002 Series E-4);
- (e) Shipman & Goodwin LLP with respect to the \$63,690,000 General Obligation Refunding Bonds (2002 Series E-5);

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.

Certain legal matters will be passed upon for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P., of New York, New York. Squire, Sanders & Dempsey L.L.P. has previously served as Bond Counsel in connection with other State 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 \$712,307,704.15 plus accrued interest. 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 \$708,886,306.78 plus accrued interest. 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 prices, and such initial public offering prices 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 August 22, 2002

/s/ Denise L. Nappier  
Denise L. Nappier  
State Treasurer

## TABLE OF STATUTORY AUTHORIZATIONS

The Series D Bonds include the following authorizations which have been consolidated for purposes of sale:

A.	\$19,575,000.00	General Obligation Bonds (2002 Series D-1)	
	1.	\$ 5,781,688.40	Capital City Project Bonds (Series C) authorized by Section 32-616 of the General Statutes of the State of Connecticut, Revision of 1958, as amended.
	2.	\$ 2,073,427.60	General State Purposes Bonds (1997 Act, Section 2(l), Series C) authorized by Sections 1 through 7 and more particularly subsection 2(l) of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 5, 1997 Special Session, as amended.
	3.	\$ 4,685,052.00	General State Purposes Bonds (1997 Act, Section 21(k), Series C) 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 5, 1997 Special Session, as amended.
	4.	\$ 79,881.00	General State Purposes Bonds (1999 Act, Section 2(k), Series D) authorized by Sections 1 through 7 and more particularly subsection 2(k) of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
	5.	\$ 6,954,951.00	General State Purposes Bonds (1999 Act, Section 21(j), Series B) authorized by Sections 20 through 26 and more particularly Section 21(j) of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
B.	\$2,830,000.00	General Obligation Bonds (2002 Series D-2)	
	1.	\$ 2,453,406.07	General State Purposes Bonds (1999 Act, Sections 31 through 38 Grants, Series D) authorized by Sections 31 through 38 of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
	2.	\$ 352,690.43	General State Purposes Bonds (1999 Act, Sections 12 through 19 Grants, Series F) authorized by Sections 12 through 19 of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
	3.	\$ 292.50	General State Purposes Bonds (1998 Act, Sections 8 through 15 Grants, Series F) authorized by Sections 8 through 15 of Special Act No. 98-9 of the General Assembly of the State of Connecticut, February 1998 Session, as amended.
	4.	\$ 23,611.00	General State Purposes Bonds (1995 Act, Sections 32 through 37 Grants, Series J) authorized by Sections 32 through 37 of Special Act No. 95-20 of the General Assembly of the State of Connecticut, January 1995 Session, as amended.
C.	\$40,205,000.00	General Obligation Bonds (2002 Series D-3)	
	1.	\$ 1,290,755.00	General State Purposes Bonds (1997 Act, Section 21(l), Series E) 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 Session, as amended.

2.     \$     4,165,859.00     General State Purposes Bonds (1999 Act, Section 2(l), Series D) authorized by Sections 1 through 7 and more particularly subsection 2(l) of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
  3.     \$     4,360,948.00     General State Purposes Bonds (Connecticut General Statutes Section 10a-89c, Series C) authorized by Section 10a-89c of the General Statutes of the State of Connecticut, Revision of 1958, as amended.
  4.     \$     9,848,078.00     General State Purposes Bonds (1999 Act, Section 21(k), Series D) authorized by Sections 20 through 26 and more particularly subsection 21(k) of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
  5.     \$     20,539,360.00     General State Purposes Bonds (2000 Act, Section 2(a) to (c) and (e) to (f), Series B) authorized by Sections 1 through 7 and more particularly subsections 2(a) to (c) and (e) to (f) of Public Act No. 00-167 of the General Assembly of the State of Connecticut, February 2000 Session, as amended.
- D.     \$40,920,000.00            General Obligation Bonds (2002 Series D-4)
1.     \$     17,900,352.10     State Equipment Purchase Bonds (1987 Act, Section 2, Series N) authorized by Section 2 of Public Act No. 87-361 of the General Assembly of the State of Connecticut, as amended.
  2.     \$     23,019,647.90     Community Conservation Development Bonds (1979 Act, Section 21(a), Series V) authorized by Section 21(a) of Public Act No. 79-607 of the General Assembly of the State of Connecticut, as amended.
- E.     \$64,885,000.00            General Obligation Bonds (2002 Series D-5)
1.     \$     5,142,699.00     General State Purposes Bonds (1997 Act, Sections 2(a) through 2(j) and 2(n) through 2(p), Series F) authorized by Sections 1 through 7 and more particularly subsections 2(a) through 2(j) and 2(n) through 2(p) of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 1997 Session, as amended.
  2.     \$     46,850,812.00     General State Purposes Bonds (1999 Act, Sections 2(a) to (i) and 2(m) to (p), Series C) authorized by Sections 1 through 7 and more particularly subsection 2(a) through (i) and 2(m) through (p) of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
  3.     \$     12,891,489.00     General State Purposes Bonds (1999 Act, Sections 21(a) through 21(h) and 21(l) through 21(n), Series C) authorized by Sections 21(a) through 21(h) and 21(l) through 21(n) of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
- F.     \$82,710,000.00            General Obligation Bonds (2002 Series D-6)
1.     \$     385,726.42     General State Purposes Bonds (1986 Act, Sections 1 through 7, Series E) authorized by Sections 1 through 7 of Special Act No. 86-54 of the General Assembly of the State of Connecticut, February 1986 Session, as amended.

- 2.       \$     2,324,273.58     General State Purposes Bonds (1995 Act, Sections 1 through 7, Series I) authorized by Sections 1 through 7 of Special Act No. 95-20 of the General Assembly of the State of Connecticut, January 1995 Session, as amended.
- 3.       \$     80,000,000.00     General State Purposes Bonds (2001 Act, Sections 1 through 7, Series A) authorized by Sections 1 through 7 of Special Act No. 01-2 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.
- G.       \$148,875,000.00           General Obligation Bonds (2002 Series D-7)
  - 1.       \$     148,875,000.00     School Construction Bonds (Series GGG) authorized by Chapter 173 of the General Statutes of Connecticut, as amended.

## PLAN OF REFUNDING

*The Series E Bonds and other funds of the State will be used to advance refund the following maturities and principal amounts of outstanding general obligation bonds on the dates and at the redemption prices set forth below (the “Refunded Bonds”).*

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Coupon</u>	<u>Call Date</u>	<u>Call Price</u>	<u>CUSIP</u>
1992 Series D	11/15/2003	\$10,000,000	5.80 %	11/15/2002	102 %	2077262H2
1993 Series F	12/01/2005	3,800,000	4.625	12/01/2003	101.5	20772EEG4
1993 Series F	12/01/2006	3,800,000	4.75	12/01/2003	101.5	20772EEJ8
1994 Series D	12/01/2003	4,060,000	5.60	12/01/2002	102	20772EME0
1995 Series A	03/15/2004	12,380,000	5.30	03/15/2003	102	20772ENQ2
1997 Series A	03/01/2015	8,785,000	5.25	03/01/2007	101	20772EVF7
1997 Series A	03/01/2016	8,785,000	5.25	03/01/2007	101	20772EVG5
1997 Series C	08/01/2011	13,000,000	5.00	08/01/2007	101.5	20772EYV6
1997 Series C	08/01/2012	13,000,000	5.00	08/01/2007	101.5	20772EVZ3
1997 Series C	08/01/2013	13,000,000	5.125	08/01/2007	101.5	20772EWA7
1997 Series C	08/01/2014	13,000,000	5.25	08/01/2007	101.5	20772EWB5
1998 Series B	03/15/2010	12,750,000	5.25	03/15/2008	101	20772EB51
1998 Series B	03/15/2011	12,750,000	5.125	03/15/2008	101	20772EB69
1998 Series B	03/15/2012	12,750,000	5.00	03/15/2008	101	20772EB77
1998 Series B	03/15/2013	12,670,000	5.125	03/15/2008	101	20772EB85
1998 Series B	03/15/2014	12,655,000	5.25	03/15/2008	101	20772EB93
1998 Series C	10/15/2011	7,900,000	5.25	10/15/2008	101	20772EP23
1998 Series C	10/15/2013	6,900,000	5.25	10/15/2008	101	20772EP49
1998 Series D	12/15/2011	5,840,000	5.25	12/15/2008	101	20772ER47
1998 Series D	12/15/2012	7,000,000	5.25	12/15/2008	101	20772ER62
1999 Series A	06/15/2012	15,000,000	5.25	06/15/2009	101	20772EV26
1999 Series A	06/15/2014	10,325,000	5.25	06/15/2009	101	20772EV42
1999 Series B	11/01/2011	8,645,000	5.75	11/01/2009	101	20772E2H5
1999 Series B	11/01/2012	2,195,000	5.375	11/01/2009	101	20772EY64
2000 Series A	04/15/2012	3,450,000	6.00	04/15/2010	101	20772E3V3
2000 Series B	06/15/2012	7,565,000	5.10	06/15/2010	100	20772E4Q3
2000 Series B	06/15/2013	3,740,000	5.20	06/15/2010	100	20772E4R1
2000 Series C	12/15/2012	17,480,000	5.375	12/15/2010	100	20772FGS3

Upon delivery of the Series E Bonds, the State and State Street Bank and Trust Company of Connecticut, N.A. (“Escrow Holder”), will enter into an Escrow Agreement (the “Escrow Agreement”) to provide for the refunding of the Refunded Bonds. Under the Escrow Agreement, the Escrow Holder will deposit in an irrevocable trust fund called the Escrow Deposit Fund the net proceeds of the Series E Bonds and other monies and will use such proceeds and other monies to purchase direct obligations of, or obligations guaranteed by, the United States of America or obligations of the Federal National Mortgage Association (the “Government Obligations”), the maturing principal of and interest on which will provide amounts sufficient to pay the principal, interest and redemption prices on the Refunded Bonds on the dates such payments are due. The Escrow Agreement permits the substitution of certain Government Obligations for other Government Obligations provided that the maturing principal of and interest on all Government Obligations held at any time under the Escrow Agreement will provide amounts sufficient to pay the principal, interest and redemption prices on the Refunded Bonds on the dates such payments are due. All investment income on and maturing principal of the Government Obligations held in the Escrow Deposit Fund and needed to pay the principal and premium of and interest on the Refunded Bonds will be irrevocably deposited by the State for payment of the Refunded Bonds.

FORM OF BOND COUNSEL OPINION

*The opinion of each Bond Counsel with respect to the series of the Series D or Series E Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Series D Bonds or Series E 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 [Refunding ]Bonds (2002 Series D[E]-\_\_) 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 \$656,375,000.

The Bonds are dated as of August 15, 2002, mature on November 15 in the years, in the principal amounts and bear interest from their dated date, payable on November 15, 2002 and semiannually thereafter on May 15 and November 15 in each year until maturity [**or earlier redemption**], at the rate or rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
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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 close of business on the last business day of April and October in each year, 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 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 August 6, 2002 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 refunding bonds authorized by Section 3-20(i) of the General Statutes of Connecticut, Revision of 1958, as amended. The Bonds are being issued for the purposes of advance refunding:

**[HERE LIST REFUNDED BONDS]**

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, a Bond 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, 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 \$656,375,000 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,

**[INTENTIONALLY LEFT BLANK]**

**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 Series D Bonds and Series E 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 Series D Bonds and Series E 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 Series D Bonds and Series E Bonds.*

**Continuing Disclosure Agreement**

This Continuing Disclosure Agreement (“Agreement”) is made as of the \_\_\_ day of September, 2002 by the State of Connecticut (the “State”) acting by its undersigned officer, duly authorized, in connection with the issuance of \$400,000,000 General Obligation Bonds (2002 Series D) dated August 15, 2002 and \$256,375,000 General Obligation Refunding Bonds (2002 Series E) dated August 15, 2002 (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 August 22, 2002 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 Repository  
100 Business Park Drive  
Skillman, NJ 08558  
(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

FT Interactive Data  
Attn: NRMSIR  
100 William Street  
New York, NY 10038  
(212) 771-6999  
Fax: (212) 771-7391  
Email: NRMSIR@FTID.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, 2002) 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-6 and III-D-7).
  - 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-4 and III-D-5).

- d. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis vs. GAAP Basis (as of the end of the most 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

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**INFORMATION CONCERNING BOND INSURANCE AND SPECIMEN POLICY**

The information contained in this **Appendix I-D** has been furnished by Financial Security Assurance Inc. for use in this Official Statement. The State takes no responsibility for the accuracy thereof.

**Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. (“Financial Security”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series E Bonds maturing November 15 in the years 2009 through 2015, inclusive, except for \$30,330,000 of the 2012 maturity (the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

**Financial Security Assurance Inc.**

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

At June 30, 2002, Financial Security’s total policyholders’ surplus and contingency reserves were approximately \$1,710,044,000 and its total unearned premium reserve was approximately \$898,579,000 in accordance with statutory accounting principles. At June 30, 2002, Financial Security’s total shareholders’ equity was approximately \$1,817,013,000 and its total unearned premium reserve was approximately \$744,499,000 in accordance with generally accepted accounting principles.

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

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

**SPECIMEN INSURANCE POLICY**

A specimen bond insurance policy follows as **Exhibit A** to this **Appendix I-D**.



**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

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

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

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

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

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

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

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

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

[Counter signature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

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

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

(212) 826-0100

Form 500NY (5/90)

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**PART II**  
**INFORMATION SUPPLEMENT**  
**OF THE STATE OF CONNECTICUT**

**August 22, 2002**

The Annual Information Statement of the State of Connecticut (the "State"), dated October 30, 2001, as modified February 27, 2002 appears in this Official Statement as **Part III** and contains information through October 30, 2001. 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.

This Information Supplement updates certain information in the October 30, 2001 Annual Information Statement through August 13, 2002. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

**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-25.* The following information is added following the caption *Fiscal Year 2001-2002 Operations*:

The adopted budget for the 2001-2002 fiscal year anticipated General Fund revenues of \$11,894.1 million and General Fund expenditures of \$11,894.0 million resulting in a projected surplus of \$0.1 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** to this **Part II** shows estimated revenues and expenditures for the 2001-2002 fiscal year based on information as of June 30, 2002 contained in the Comptroller's report released August 1, 2002. This report estimated 2001-2002 fiscal year General Fund revenues of \$10,851.9 million, General Fund expenditures of \$11,826.8 million, the payment of additional expenditures from the resources still available from the surplus for the 2000-2001 fiscal year and certain miscellaneous adjustments of \$162.9 million, and an estimated deficit of \$812.0 million, as a result of a decrease in estimated revenue and an increase in certain expenditures.

The Comptroller's Report for the period ending September 30, 2001 had shown an estimated deficit at that time of \$301.7 million. Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report

with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required.

As part of the plan to address the budget shortfall as projected in November 2001, the Governor called a Special Session of the Connecticut General Assembly in November 2001. The Special Session adopted legislation which contained \$35.3 million General Fund operating budget reductions for fiscal year 2001-2002 and \$129.0 million in expenditure reductions that had been appropriated from the fiscal year 2000-2001 surplus. It was anticipated that legislation would be adopted in the regular February 2002 Session that would transfer the reductions in appropriations from the fiscal year 2000-2001 surplus to the resources of the General Fund. These actions, together with various allotment modifications imposed by the Governor, while not fully eliminating the budget shortfall, reduced deficit projections at that time to below 1% of General Fund expenditures.

The legislation also authorized \$51.6 million in additional general obligation bonds to finance some of the reductions in expenditures from the 2000-01 surplus.

Tax collections following the November 2001 Special Session were lower than originally estimated. The revenue sources experiencing the greatest decline relative to the originally enacted budget plan were: personal income taxes, down \$561.4 million; sales and use taxes, down \$197.2 million; and corporation taxes, down \$126.2 million. In addition, refunds of both personal income taxes and corporation taxes are primarily responsible for the additional \$78.6 million in refund requests.

The budget deficit of \$812.0 million is expected to be met in part with a complete transfer from the Budget Reserve Fund pursuant to Section 4-30a of the Connecticut General Statutes. The Budget Reserve Fund currently has a balance of \$594.7 million. The remaining portion of the budget deficit may be met with the issuance of Economic Recovery Notes. An August 2002 Special Session of the General Assembly approved the authorization of such Economic Recovery Notes.

#### ***Midterm Budget Adjustments for Fiscal 2002-03:***

On July 1, 2002, the Governor signed Public Act 02-1 of the May Special Session of the General Assembly, which constitutes the Midterm Budget Adjustments for fiscal year 2002-2003. The adopted Midterm Budget Adjustments anticipate General Fund expenditures of \$12,091.8 million or a reduction of \$339.6 million from the originally adopted fiscal year 2002-2003 budget plan.

The more significant revenue changes that were enacted in support of the adopted budget include the following modifications: 1) a 61 cent increase in the cigarette tax from \$0.50 cents per pack to \$1.11 per pack effective April 3, 2002 resulting in \$129.3 million in additional anticipated revenue from cigarette and sales taxes, 2) imposition of a \$250 tax on certain business entities and limitations on the use of corporate tax credits that are expected to yield \$58.5 million, 3) a deferral on the phase-in of previously enacted tax changes is expected to raise \$35.6 million, 4) enhanced management of unclaimed property to be escheated to the State is expected to yield \$35.0 million, 5) reduced general fund revenue transfers to other funds resulting in \$24.8 million in savings, 6) a tax amnesty program which is expected to raise \$22 million, 7) conversion of an HMO tax credit under the insurance premiums tax to an appropriation which would yield an additional \$15.6 million, and 8) transfers from other funds of the state, quasi-public agencies, and proceeds from the Anthem demutualization which are expected to yield \$300.1 million.

For fiscal year 2002-2003, the enacted Midterm Budget Adjustments reduced \$339.6 million in General Fund appropriations from the originally enacted budget. The more significant reductions included: 1) an additional \$94 million in unallocated statewide lapses, 2) debt service savings of \$36.8 million, 3) removal of the town aid road grant from the general fund totaling \$35 million, 4) authorizing the Governor to undertake

extraordinary rescission authority of no more than \$35 million, 5) reduced state contributions to the teachers' retirement fund of \$34.9 million, 6) reductions of \$23.6 million to the constituent units of higher education, 7) \$21 million in reductions to various education grants, 8) a freeze on hiring and managerial pay increases expected to save \$18.0 million, and 9) \$16.8 million in savings due to changes in purchasing reimbursement for pharmacy services.

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 for fiscal year 2002-2003 are \$376.2 million below the expenditure cap.

At an August 2002 Special Session of the General Assembly various bills were approved to implement the 2002-2003 Midterm Budget Adjustments, to reduce the net amount of bond authorizations which took effect in the 2002-2003 fiscal year, to approve certain bond authorizations which would take effect in fiscal year 2003-2004 and to increase the bond authorization for the University of Connecticut which will take effect beginning in the 2004-2005 fiscal year.

***Fiscal Year 2002-2003 Operations:***

The adopted Midterm Budget Adjustments for the 2002-2003 fiscal year anticipate General Fund expenditures of \$12,091.8 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. The Comptroller will be releasing the first report on the new fiscal year by September 3, 2002. In the absence of the Comptroller's report until that date, the Office of Policy and Management estimated, in a letter to the State Treasurer dated July 26, 2002, based primarily on a reduction in anticipated revenues for the 2002-2003 fiscal year, that there was an estimated \$245 million budget deficit for the 2002-2003 fiscal year as outlined in **Appendix III-E to Part II**. In a report dated August 5, 2002 the General Assembly's Office of Fiscal Analysis estimated revenues of \$11,705.0 million for the 2002-2003 fiscal year. This revenue estimate would result in an estimated \$386.8 million budget deficit for the 2002-2003 fiscal year based on the anticipated general fund expenditures outlined in **Appendix III-E to Part II**. Pursuant to Section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates of revenues and expenditures for the current fiscal year by the twentieth day of each month to the Comptroller for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on August 20, 2002, as of July 31, 2002 General Fund revenues are estimated at \$11,846.8 million, General Fund expenditures and miscellaneous adjustments are estimated at \$12,128.3 million, and the General Fund deficit for the 2002-2003 fiscal year is estimated at \$281.5 million. The next monthly report of the Comptroller is anticipated on September 3, 2002.

Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required.

The above projections are only estimates and the information in **Appendix III-E to Part II**, in the monthly letter of the Office of Policy and Management to the Comptroller, 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 2002-2003 operations of the General Fund.

**STATE DEBT**

*Page III-30.* **TABLE 7** is revised as follows:

**TABLE 7**

**Statutory Debt Limit  
As of August 6, 2002**

Total General Fund Tax Receipts <sup>(a)</sup>	\$8,197,500,000.00	
Multiplier	<u>1.60</u>	
Debt Limit		\$13,116,000,000.00
Outstanding Debt <sup>(b)</sup>	\$7,822,850,096.00	
Guaranteed Debt <sup>(c)</sup>	611,360,146.50	
Authorized Debt <sup>(d)</sup>	<u>3,977,436,532.00</u>	
Total Subject to Debt Limit		\$12,411,646,774.50
Less Debt Retirement Funds <sup>(e)</sup>	\$ 51,810,556.50	
Aggregate Net Debt		\$12,359,836,218.00
Debt Incurring Margin		\$ 756,163,782.00

- (a) Total General Fund Tax Receipts estimates for the 2002-2003 fiscal year were not adopted as part of the Midterm Budget Adjustments. The estimate used in this table is the estimate provided by the Secretary of the Office of Policy and Management on July 26, 2002.
- (b) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes UCONN 2000 Bonds, tax increment financings, short term revenue anticipation notes and lease financings other than the Middletown courthouse.
- (c) 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.
- (d) Includes guarantee for UCONN 2000 Bonds authorized but unissued under cap on UCONN 2000 bonds for 2000-2001 fiscal year.
- (e) Includes debt service funds for self-liquidating debt issued to finance facilities at University of Connecticut and Connecticut State University.

SOURCE: State Treasurer's Office



Page III-34. TABLE 8 is revised as follows:

**TABLE 8**

**Direct General Obligation Indebtedness <sup>(a)</sup>  
Principal Amount Outstanding As of August 6, 2002  
(In Thousands)**

General Obligation Bonds	\$ 7,794,255
UCONN 2000 Bonds	614,634
Lease Financings	47,760
Tax Increment Financings	<u>32,710</u>
Long Term General Obligation Debt Total	8,489,359
Short Term General Obligation Debt Total	<u>-</u>
Gross Direct General Obligation Debt	8,489,359
Deduct:	
University Auxiliary Services <sup>(b)</sup>	51,810
Net Direct General Obligation Debt	<u>\$ 8,437,549</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 the debt service on such bonds.

SOURCE: State Treasurer's Office

Page III-34. TABLE 10 is revised as follows:

**TABLE 10**

**Summary of Principal, Mandatory Sinking Fund Payments  
and Interest on Long-Term Direct General Obligation Debt<sup>(a)</sup>  
as of August 6, 2002**

<b>Fiscal Year</b>	<b>Principal Payments<sup>(b)</sup></b>	<b>Interest Payments<sup>(b)(c)</sup></b>	<b>Total Debt Service</b>
2002-03	\$561,171,368	409,068,735	970,240,103
2003-04	615,675,923	415,268,055	1,030,943,978
2004-05	644,326,775	400,342,348	1,044,669,123
2005-06	585,085,405	374,527,182	959,612,587
2006-07	575,710,140	354,318,518	930,028,658
2007-08	574,070,553	332,880,497	906,951,050
2008-09	552,268,493	346,495,080	898,763,573
2009-10	532,233,599	312,733,831	844,967,430
2010-11	501,449,105	226,951,129	728,400,234
2011-12	437,250,834	182,222,549	619,473,383
2012-13	379,192,960	141,037,699	520,230,659
2013-14	339,895,000	107,693,437	447,588,437
2014-15	323,926,365	81,761,986	405,688,351
2015-2031	<u>1,344,914,121</u>	<u>207,409,790</u>	<u>1,552,323,911</u>
<b>Totals</b>	\$7,967,170,641	\$3,892,710,836	\$11,859,881,477

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$7,967,170,641), plus accreted interest (\$522,188,777), on State and UCONN 2000 capital appreciation bonds, total the amount of such long-term debt (\$8,489,359,419) 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 2002-2014.
- (c) 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 4.54% average rate. The balance of the Bonds mature in the years 2005-2014. On February 22, 2001 the State issued \$100,000,000 General Obligation Variable Rate Demand Bonds of which \$100,000,000 remain outstanding. The interest on these securities is estimated herein at a 5.00% average rate. The balance of the Bonds mature in the years 2018-2021. On May 1, 2002 the State issued \$100,000,000 Taxable General Obligation Bonds of which \$100,000,000 remain outstanding. The interest on these securities is estimated herein at a 5.2% average rate. The balance of the Bonds mature in the years 2005-2012.

SOURCE: State Treasurer's Office

**Pages III-38 and 39.** The following information is added under the caption *Future Issuance of Direct General Obligation Debt*:

The General Assembly authorized \$51.6 million in additional general obligation bonds for various purposes in the November 2001 Special Session.

## **OTHER FUNDS, DEBT AND LIABILITIES**

**Pages III-45, III-47, III-48, III-49 and III-50.** The following footnotes with respect to the Bond Authorizations of the Connecticut Health and Educational Facilities Authority, the City of Waterbury and the Connecticut Resources Recovery Authority, for which the State has a contingent obligation under the Special Capital Reserve Fund Program, are revised or added to **TABLE 16** on **Page III-50**.

- (b) On or about November 1, 2001, CHEFA redeemed \$4.7 million of the Nursing Program Bonds and \$5.2 million of the Connecticut State University System Bonds, leaving bonds outstanding in the amounts of \$149.3 million and \$82.1 million respectively. On or about March 13, 2002 CHEFA sold \$76.2 million of the Connecticut State University System Bonds, with an increase in the Minimum Capital Reserve Requirement of \$7.0 million. On May 1, 2002 \$29.8 million CHEFA Nursing Program Bonds were retired, reducing the Minimum Capital Reserve Requirement by \$3.4 million.
- (d) The General Assembly authorized Waterbury to issue up to \$100 million Special Capital Reserve Fund Bonds. The City issued \$97.5 million Special Capital Reserve Fund Bonds in April 2002. The Minimum Capital Reserve Requirement is \$10.1 million.
- (e) Of the \$297.5 million of outstanding SCRF or guaranteed debt as of October 15, 2001 of the Connecticut Resources Recovery Authority ("CRRA"), approximately \$212.7 million pertains to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. Those bonds have a Minimum Capital Reserve Requirement of approximately \$26.5 million. In addition to tipping fees under service agreements with participating municipalities, the Authority's bonds are payable from the sale of steam and electricity. Enron Power Marketing, Inc. ("Enron") is the entity which is obligated to pay the Authority a monthly "capacity charge" for the purchase of steam and an additional charge for electrical output from the facility. The capacity charge is significantly above current market prices. Enron filed for bankruptcy on December 2, 2001 and has not made its capacity or electricity payments since that time. It is unlikely that Enron will make its other required payments to CRRA. CRRA, in an effort to generate adequate revenues to pay debt service on its bonds for the Mid-Connecticut facility, has increased tipping fees, is pursuing remedies in bankruptcy court with the Attorney General, negotiating with Connecticut Light & Power and other parties for increased electric rates and has applied for licensure as an electric supplier in the State of Connecticut. Also Covanta Mid-Conn., Inc., operator of the steam and electricity production components of the Mid-Connecticut facility, filed for bankruptcy on April 1, 2002. Thus far the bankruptcy has not affected Covanta's operation of the Mid-Connecticut facility. The State is obligated to maintain the Minimum Capital Reserve Requirement for these bonds to the extent the Authority uses monies in the capital reserve fund to pay debt service on the Authority's outstanding bonds. It is unclear at this time whether there will be any need for the State to make payments to maintain the Minimum Capital Reserve Requirement, but the maximum obligation of the State in each year to maintain the reserve fund is limited to approximately \$26.5 million. During April 2002, the General Assembly passed Public Act No. 02-46 which authorizes a loan by the State to the CRRA of up to \$115 million to support the repayment of the Authority's debt for the Mid-Connecticut facility and to minimize the amount of tipping fee increases chargeable to the towns which use the Mid-Connecticut facility. Among other things, the Act also changed the composition of the Board of Directors.

## PENSION AND RETIREMENT SYSTEMS

**Page III-53.** The following information is added to the end of the third paragraph under the heading **State Employees' Retirement Fund:**

As of June 30, 2002 the market value of the fund's investment assets was \$7,090,774,566.

**Page III-54.** The following information is added to the end of the third paragraph under the heading **Teachers' Retirement Fund:**

As of June 30, 2002 the market value of the fund's investment assets was \$10,107,741,560.

## LITIGATION

**Page III-57.** The following is added to the paragraphs on the *Sheff v. O'Neill* case:

The April 2002 hearing was held and the Court is waiting for briefs to be filed in the fall of 2002.

**Page III-58.** The following is added to the paragraph on *Hospital Tax Cases:*

In one of the cases a decision was made in favor of the State by the Superior Court. The decision has been appealed to the Supreme Court.

**Pages III-58 and 59.** With respect to the matters involving *Indian Tribes:*

The Mashantucket Pequot Tribe has withdrawn its application to take additional lands outside its reservation into trust. The case that was pending in the United States District Court has been dismissed as moot. In June 2002, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State is considering appealing that determination. If federal recognition is upheld, the tribe could institute land claims against the State or others.

**Page III-59.** The following case is added to the end of the **LITIGATION** section:

*Pratt & Whitney Division of UTC v. Commissioner of Revenue Services* and *Hamilton Standard Division of UTC v. Commissioner of Revenue Services* are both cases in the Connecticut Superior Court. They involve sales and use tax refund claims by the plaintiffs, who argue that the materials, tools, machinery and equipment used by them in conducting research and development as aircraft manufacturers in an aircraft manufacturing facility with respect to aircraft parts and components qualify for an exemption from sales and use tax under Connecticut General Statutes Section 12-412 (78). The trial court bifurcated liability from the damages portion of the case, and on July 3, 2002 entered summary judgment for the plaintiffs on their claims. The case now proceeds to the damages phase. The claims cover the tax years April 1, 1995 through December 31, 1998, and July 1, 1993 through June 30, 1997, respectively. The decision could also affect other tax years.

**APPENDIX III-A**

**Page III-A-7.** The 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<sup>(a)</sup>**  
**Collective Bargaining Units and**  
**Those Not Covered by Collective Bargaining**

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented<sup>(b)</sup></u>	<u>Contract Status, if any</u>
<b><u>Covered by Collective Bargaining</u></b>		
Administrative Clerical	10.12%	Contract in place through 6/30/2002 <sup>(c)</sup>
Correction Officers	9.31%	Contract in place through 6/30/2004
Maintenance and Service	8.60%	Contract in place through 6/30/2005
Health Care Non-Professionals	8.45%	Contract in place through 6/30/2005
Social and Human Services	7.53%	Contract in place through 6/30/2002 <sup>(c)</sup>
Administrative and Residual	6.16%	Contract in place through 6/30/2003
Engineering, Scientific and Technical	5.04%	Contract in place through 6/30/2005
Health Care Professionals	4.87%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.25%	Contract in place through 6/30/2006
Judicial Employees	2.65%	Contract in place through 6/30/2002 <sup>(c)</sup>
University of Connecticut Faculty	2.42%	Contract in place through 6/30/2006
Connecticut State University Faculty	2.32%	Contract in place through 6/30/2006
University of Connecticut Professional Employee Association	2.28%	Contract in place through 6/30/2005
State Police	2.17%	Contract in place through 6/30/2004
Congress of Connecticut Community Colleges	2.14%	Contract in place through 6/30/2005
Vocational Technical School Teachers	2.00%	Contract in place through 6/30/2003
Education Professionals (Institutions)	1.81%	Contract in place through 6/30/2005
Judicial Professionals	1.80%	Contract in place through 6/30/2002 <sup>(c)</sup>
Protective Services	1.67%	Contract in place through 6/30/2004
<b><u>Other Bargaining Units (11 units)</u></b>	<b><u>3.02%</u></b>	Varies by Unit
<b>Total Covered by Collective Bargaining</b>	<b>87.61%</b>	
<b><u>Not Covered by Collective Bargaining</u></b>		
Auditors of Public Accounts	0.19%	Not Applicable
<b><u>Other Employees</u></b>	<b><u>12.20%</u></b>	Not Applicable
<b>Total Not Covered by Collective Bargaining</b>	<b>12.39%</b>	
<b>Total Full Time Work Force</b>	<b>100.00%</b>	

(a) PA 97-148 granted collective bargaining rights effective July 1, 1999 to about 749 full time Special Deputy Sheriffs who are not included above. They have been transferred to the Judicial Branch as Judicial Marshals and have an approved contract in place through June 30, 2005.

(b) Percentage expressed reflects approximately 53,218 filled full-time positions as of June 30, 2001.

(c) The State and the bargaining unit are currently in negotiations for a successor agreement.

Source: Office of Policy and Management.

## STATE ECONOMY

Page III-B-15. TABLE B-18 is revised and supplemented as follows:

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
2000	2.2	2.8	4.0
2001	3.2	3.6	4.7
2002 <sup>(b)</sup>	3.6	4.2	5.8

(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

## APPENDIX III-E

**Appendix III-E** to this **Part II** reflects the original budget for fiscal year 2001-2002, and the estimated General Fund revenues and expenditures based on the Comptroller's report released August 1, 2002. It also reflects the Midterm Budget Adjustments for fiscal year 2002-2003, using revenue estimates provided by the Office of Policy and Management, and the estimated General Fund revenues and expenditures for fiscal year 2002-2003, as estimated by the Office of Policy and Management on July 26, 2002. It does *not* include the estimates of the Office of Policy and Management in a letter dated August 20, 2002, described above on **Page II-3** of this **Part II**, which estimates a General Fund deficit of \$281.5 million for the 2002-2003 fiscal year.

APPENDIX III-E

**GENERAL FUND REVENUES AND EXPENDITURES**  
**ADOPTED BUDGET FOR FISCAL YEAR 2001-02**  
**ESTIMATED BUDGET FOR FISCAL YEAR 2001-02**  
**MIDTERM BUDGET ADJUSTMENTS FOR FISCAL YEAR 2002-03**  
**ESTIMATED BUDGET FOR FISCAL YEAR 2002-03**  
(In Millions)

	<u>Adopted Budget 2001-02<sup>(d)</sup></u>	<u>Estimated Budget 2001-02<sup>(e)</sup></u>	<u>Mid-Term Budget Adjustments 2002-03<sup>(j)</sup></u>	<u>Estimated Budget 2002-03<sup>(p)</sup></u>
<b>Revenues</b>				
<u>Taxes</u>				
Personal Income Tax	\$4,841.4	\$4,280.0	\$4,553.0	\$4,348.0
Sales & Use	3,193.7	2,996.5	3,141.3	3,100.5
Corporation	501.2	375.0	470.4 <sup>(k)</sup>	480.8 <sup>(k)</sup>
Public Service	189.7	168.4	172.9	170.8
Inheritance & Estate <sup>(a)</sup>	210.0	153.1	143.5	145.0
Insurance Companies	192.0	217.4 <sup>(f)</sup>	218.0 <sup>(f)</sup>	224.8 <sup>(f)</sup>
Cigarettes	117.0	162.0 <sup>(f)</sup>	237.0 <sup>(f)</sup>	241.5 <sup>(f)</sup>
Real Estate Conveyance	110.0	120.7	111.0	111.0
Oil Companies	61.8	21.5	77.5 <sup>(l)</sup>	77.5 <sup>(l)</sup>
Alcoholic Beverages	41.0	42.0	42.0	42.0
Admissions and Dues	25.3	26.9	28.5	27.7
Miscellaneous	<u>36.1</u>	<u>26.2</u>	<u>37.9</u>	<u>28.9</u>
Total Taxes	\$9,519.2	\$8,589.7	\$9,233.0	\$8,998.5
Less Refunds of Taxes	(\$751.0)	(\$829.6)	(\$794.6)	(\$787.0)
Less R&D Credit Exchange	<u>(14.0)</u>	<u>(21.9)</u>	<u>(14.0)</u>	<u>(14.0)</u>
Net Taxes	\$8,754.2	\$7,738.2	\$8,424.4	\$8,197.5
<u>Other Revenues</u>				
Transfers- Special Revenues	265.2	277.6	273.0	268.9
Indian Gaming Payments	360.0	369.0	399.0	396.7
Licenses, Permits, Fees	128.2	137.6	128.5	131.0
Sales of Commodities & Services	28.8	30.5	31.0	30.9
Rents, Fines & Escheats	51.2	47.5	88.4 <sup>(m)</sup>	83.2
Investment Income	62.7	25.5	28.0	18.1
Miscellaneous	128.0	111.9	121.0	113.5
Less Refunds of Payments	<u>(0.5)</u>	<u>(0.4)</u>	<u>(0.5)</u>	<u>(0.5)</u>
Total Other Revenue	\$1023.6	\$999.2	\$1,068.4	\$1,041.8
<u>Other Sources</u>				
Federal Grants	2,144.3	2,142.2	2,303.2	2,311.6
Transfers to the Resources of the G.F.	0.0	0.0	284.1 <sup>(n)</sup>	284.1 <sup>(n)</sup>
Transfers from Tobacco Settlement Funds	120.0	120.0	133.0	133.0
Transfers to Other Funds <sup>(b)</sup>	<u>(148.0)</u>	<u>(147.7)</u>	<u>(121.2)</u>	<u>(121.2)</u>
Total Other Sources	<u>\$2,116.3</u>	<u>\$2,114.55</u>	<u>\$2,599.1</u>	<u>\$2,607.5</u>
Total Unrestricted Revenues	\$11,894.1	\$10,851.9	\$12,091.9	\$11,846.8
Restricted Federal & Other Grants	<u>750.0</u>	<u>1,894.5<sup>(g)</sup></u>	<u>750.0</u>	<u>750.0</u>
Total Revenue	\$12,644.1	\$12,746.4	\$12,841.9	\$12,596.8

	<b>Adopted Budget 2001-02<sup>(d)</sup></b>	<b>Estimated Budget 2001-02<sup>(e)</sup></b>	<b>Mid-Term Budget Adjustments 2002-03<sup>(j)</sup></b>	<b>Estimated Budget 2002-03<sup>(p)</sup></b>
<b>Appropriations/Expenditures</b>				
Legislative	\$59.8	\$55.0	\$60.8	\$60.8
General Government	462.7	441.9	451.9	451.9
Regulation & Protection	224.7	213.4	228.9	228.9
Conservation & Development	75.1	71.7	71.4	71.4
Health & Hospitals	1,213.6	1,188.0	1,246.4	1,246.4
Transportation	35.0	35.0	0.0	0.0
Human Services	3,494.4	3,473.4	3,687.4	3,687.4
Education, Libraries & Museums	2,772.3	2,749.5	2,810.3	2,810.3
Corrections	1,085.5	1,056.7	1,132.0	1,132.0
Judicial	384.1	373.4	395.9	395.9
Non-Functional				
Debt Service	1,031.4	992.0	1,023.4	1,023.4
Miscellaneous	<u>1,159.1</u>	<u>1,157.2</u>	<u>1,235.2</u>	<u>1,235.2</u>
Subtotal	\$11,997.7	\$11,807.2	\$12,343.67	\$12,343.7
Unallocated Lapse	<u>(103.9)</u>	<u>0.0</u>	<u>(251.9)<sup>(o)</sup></u>	<u>(251.9)<sup>(o)</sup></u>
Net Appropriations/Expenditures	\$11,893.9	\$11,807.2	\$12,091.8	\$12,091.8
Surplus (or Deficit) from Operations	\$0.1	(\$955.3)	\$0.1	(\$245.0)
Miscellaneous Adjustments	<u>0.0</u>	<u>143.3<sup>(h)</sup></u>	<u>0.0</u>	<u>0.0</u>
<b>Balance<sup>(c)</sup></b>	<u>\$0.1</u>	<u>(\$812.0)<sup>(i)</sup></u>	<u>\$0.1</u>	<u>(\$245.0)<sup>(q)</sup></u>

NOTE: Columns may not add due to rounding.

- (a) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act 01-1 of the November Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16.
- (b) Transfer to Mashantucket Pequot and Mohegan Fund for grants to towns.
- (c) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to seven and one-half percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. When in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to the Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit.
- (d) Per Special Act 01-1 of the June Special Session.
- (e) Per the Comptroller's report for the period ending June 30, 2002, with an adjustment of \$19.6 million for restricted grants affecting surplus.
- (f) Includes enacted legislative changes that affect revenues as follows:
  - i: Per Public Act 02-1, the increase in Cigarette Tax from 50 cents per pack to \$1.11 per pack effective April 3, 2002 is estimated to yield \$42.5 million in fiscal year 2002 and \$129.3 million in fiscal year 2003 in cigarette and sales taxes.
  - ii: Per Public Act 02-3, eliminating the HMO HUSKY tax credit is estimated to save \$14 million in fiscal 2001-02 and \$15.6 million in fiscal 2002-03.
- (g) The figure reflected for Restricted Accounts and Federal & Other Grants reflects realized revenues through June 30, 2002 for the Estimated Budget 2001-02 and an estimate for the Estimated Budget 2002-03. Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.
- (h) Composed of fiscal year 2000-01 surplus pursuant to Public Act No. 02-4, and funds credited to the resources of the General Fund pursuant to Public Act No. 02-1 of the May Special Session, with an adjustment of \$19.6 million for restricted grants affecting surplus.
- (i) The balance of \$594.7 million credited to the Budget Reserve Fund shall be deemed to be appropriated for the purpose of funding the fiscal year 2001-02 deficit. The unfunded balance of \$217.3 million will be financed by the proposed issuance of economic recovery notes if approved by the General Assembly.
- (j) Expenditures are per Public Act No. 02-1 of the May Special Session. The Finance Committee did not adopt revenue estimates for the 2002-03 fiscal year. The revenues included in the table above are the assumed revenue estimates at



- the time of adoption of Public Act No. 02-1 of the May Special Session as provided by the Office of Policy and Management.
- (k) Public Act No. 02-1 of the May Special Session, effective on January 1, 2002, instituted a \$250 charge on LLC's, LLP's & S corporations, and limited corporation credits from reducing tax liability by more than 70%.
  - (l) Public Act No. 02-1 of the May Special Session, effective on January 1, 2002, suspended the transfer to the Underground Tank Cleanup Account for one-year, and reduced the annual transfer to the Special Transportation Fund by \$25 million.
  - (m) Accelerate escheats to the State of Connecticut.
  - (n) Public Act No. 02-1 of the May Special Session, transferred one-time revenue of \$100 million from quasi-public agencies, \$127.2 million of proceeds from the Anthem demutualization, \$50.9 million in transfers from Tobacco Settlement Funds, and \$6 million from miscellaneous accounts.
  - (o) Per Public Act No. 02-1 of the May Special Session, the lapse anticipates \$94 million in wage concessions from the state's labor unions, \$11 million under the Executive & Judicial Branch for a manager and confidential wage freeze, and \$7 million from the Executive and Judicial Branch hiring freeze. In addition, \$35 million is anticipated for the Governor's extraordinary rescissions authority per section 52 of the Act.
  - (p) Reflects estimated revenues reported to the Treasurer by the Office of Policy and Management on July 26, 2002.
  - (q) Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required. *See page II-3 of this Part II (see discussion above under STATE GENERAL FUND – Fiscal Year 2002-2003 Operations). The Office of Policy and Management's letter to the Comptroller dated August 20, 2002, estimates a General Fund deficit as of July 31, 2002 of \$281.5 million for the 2002-2003 fiscal year.*

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.

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

**OCTOBER 30, 2001**

*Modified February 27, 2002*

This Annual Information Statement of the State of Connecticut (the "State") contains information through October 30, 2001, *modified February 27, 2002* to include June 30, 2001 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, 2000 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. For information about the State after October 30, 2001, 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
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\* Denotes member of the State Bond Commission

**PART III**  
**OCTOBER 30, 2001**  
*Modified February 27, 2002*  
**ANNUAL INFORMATION STATEMENT OF THE**  
**STATE OF CONNECTICUT**

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## 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 a 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 the past three 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 a level above the high 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, 2001, the balance in the budget reserve fund was \$564.0 million. After the transfer of \$30.7 million from the June 30, 2001 surplus, the balance in the budget reserve fund is \$594.7 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 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 (9) 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, LLC 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 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. 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, 2001 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, 1997 through June 30, 2001 are included in **Appendix III-D** to this Modified Annual Information Statement. The adopted budgets for the fiscal years ending June 30, 2002 and June 30, 2003, the actual budgetary-basis results for the fiscal year ending June 30, 2001 and the estimated (as of September 30, 2001) budgetary-basis results for the fiscal year ending June 30, 2002 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; DRI-WEFA, 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.

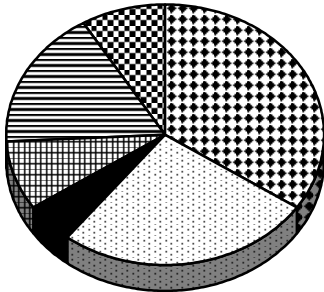
**Fiscal 2002 and 2003 Adopted Revenues.** General Fund revenues as forecasted at the adoption of the budgets for the fiscal years ending June 30, 2002 and 2003 ("Adopted Revenues") are reflected in **Appendix III-E** to this Modified Annual Information Statement. The State, as of the forecast date, expected to derive over seventy percent of its General Fund revenues from taxes during each of the 2001-02 and 2002-03 fiscal years. Fiscal year 2000-2001 actual revenues, based on information contained in the Comptroller's annual report for the fiscal year ending June 30, 2001, and fiscal year 2001-2002 revenue forecasts based on information contained in the Comptroller's monthly report for the period ending September 30, 2001, 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

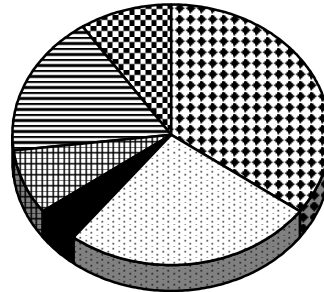
unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources for the fiscal years ending June 30, 2002 and June 30, 2003, as forecasted at the time of adoption of the biennial budget, are set forth below:







**Adopted General Fund Revenues (In Millions)**







**Adopted Revenues 2001-2002**  
\$11,894.1 <sup>(a)</sup>



**Adopted Revenues 2002-2003**  
\$12,432.0 <sup>(a)</sup>



	Personal Income Tax	\$4,841.4	37.8%
	Sales and Use Tax	3,193.7	24.9%
	Corporate Business Tax	501.2	3.9%
	Other Taxes <sup>(b)</sup>	982.9	7.7%
	Unrestricted Federal Grants	2,144.3	16.8%
	Other Non-Tax Revenues <sup>(c)</sup>	1,144.1	8.9%

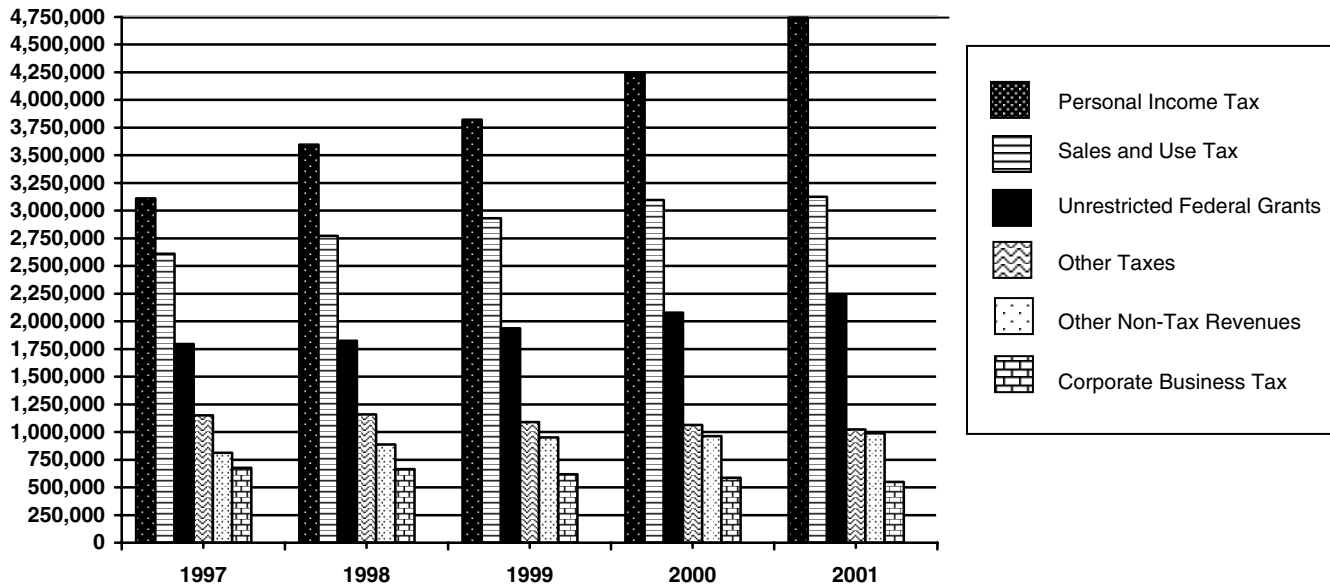
	Personal Income Tax	\$5,109.9	38.3%
	Sales and Use Tax	3,317.6	24.9%
	Corporate Business Tax	531.5	4.0%
	Other Taxes <sup>(b)</sup>	952.4	7.1%
	Unrestricted Federal Grants	2,266.6	17.0%
	Other Non-Tax Revenues <sup>(c)</sup>	1,165.5	8.7%

- (a) The pie charts reflect the total of the listed tax and revenue amounts of \$12,807.6 million for 2001-2002 and \$13,343.5 million for 2002-2003 and do not reflect tax refunds and transfers to other funds of \$913.5 million for 2001-2002 and \$911.5 million for 2002-2003. 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 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. 01-1 of the June Special Session.

**Historical General Fund Revenues.** Actual General Fund revenues for the fiscal years 1997 through 2001 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<sup>(a)</sup>**  
**Fiscal Year Ending June 30**  
**(In Thousands)**



	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Taxes:</b>					
Personal Income Tax .....	\$ 3,110,868	\$ 3,596,225	\$ 3,820,837	\$ 4,238,228	\$ 4,744,233
Sales Tax.....	2,611,456	2,772,109	2,932,191	3,096,780	3,125,078
Corporate Business Tax .....	677,883	663,672	619,539	587,756	550,509
Other Taxes <sup>(b)</sup> .....	<u>1,150,245</u>	<u>1,158,738</u>	<u>1,089,738</u>	<u>1,063,543</u>	<u>1,022,755</u>
<b>Subtotal</b> .....	7,550,452	8,190,744	8,462,305	8,986,307	9,442,575
Refunds of Taxes .....	<u>(490,548)</u>	<u>(580,830)</u>	<u>(645,000)</u>	<u>(713,359)</u>	<u>(735,482)</u>
<b>Total Net Taxes</b> .....	\$ 7,059,904	\$ 7,609,914	\$ 7,817,305	\$ 8,272,948	\$ 8,707,093
<b>Other Revenue:</b>					
Federal Grants					
(Unrestricted).....	1,795,514	1,824,595	1,938,271	2,078,914	2,237,045
Other Non-Tax Revenues					
(Unrestricted) <sup>(c)</sup> .....	811,658	887,732	950,813	963,784	987,932
Transfers to Other Funds .....	(85,000)	(180,000)	(90,000)	(180,000)	(85,400)
Transfers from Other Funds.....	<u>0</u>	<u>0</u>	<u>0</u>	<u>78,000</u>	<u>138,800</u>
Total Other Revenues .....	<u>\$ 2,522,172</u>	<u>\$ 2,532,327</u>	<u>\$ 2,799,084</u>	<u>\$ 2,940,698</u>	<u>\$ 3,278,377</u>
<b>Total Revenues</b> .....	\$ 9,582,076	\$ 10,142,241	\$ 10,616,389	\$ 11,213,646	\$ 11,985,470

- (a) The bar graph reflects the total of the listed tax and revenue amounts and does not reflect the listed adjustments for tax refunds and transfers to or from other funds. 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: 1997, 1998, 1999, 2000 and 2001 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 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 2001 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**

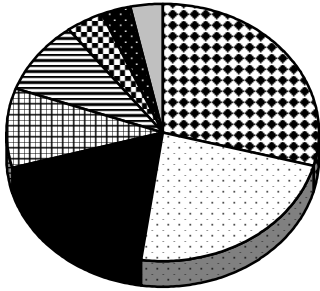
### ***Appropriated and Historical Expenditures***

**Fiscal 2002 and 2003 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.

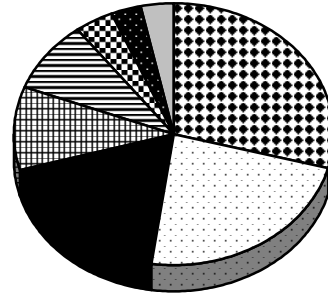
Appropriated expenditures included in adopted budgets for fiscal years ending June 30, 2002 and June 30, 2003, actual expenditures for the fiscal year ending June 30, 2001, and estimated expenditures for the fiscal year ending June 30, 2002 based on information contained in the Comptroller's monthly report for the period ending September 30, 2001 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, 2002 and June 30, 2003 is set forth below.















## Appropriated General Fund Expenditures (In Millions)

**Appropriated Expenditures 2001-2002**  
\$11,893.9 <sup>(a)</sup>



**Appropriated Expenditures 2002-2003**  
\$12,431.4 <sup>(a)</sup>



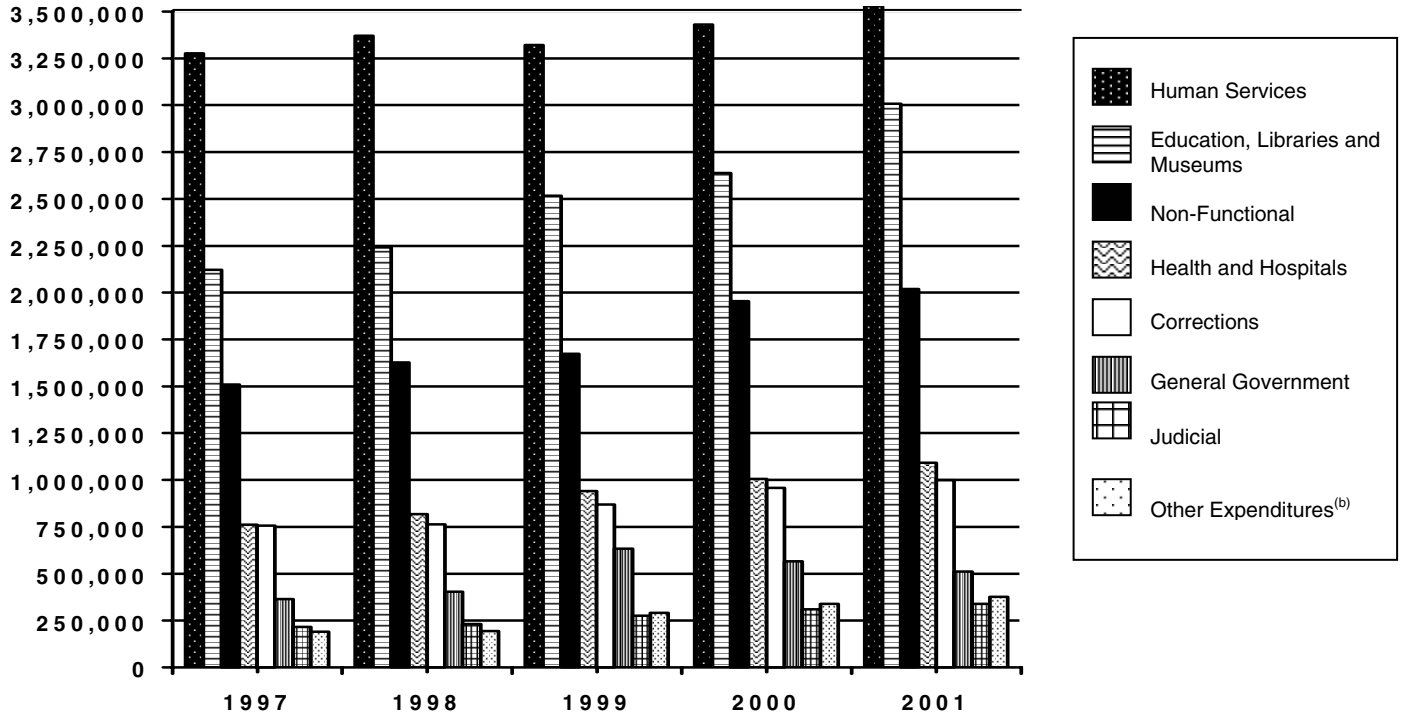
	Human Services	\$3,494.4	29.1%		Human Services	\$3,659.8	29.2%
	Education, Libraries and Museums	2,772.3	23.1%		Education, Libraries and Museums	2,897.3	23.1%
	Non-Functional	2,190.5	18.3%		Non-Functional	2,294.7	18.3%
	Health and Hospitals	1,213.6	10.1%		Health and Hospitals	1,267.1	10.1%
	Corrections	1,085.5	9.0%		Corrections	1,137.7	9.0%
	General Government	462.7	3.9%		General Government	472.7	3.8%
	Judicial	384.1	3.2%		Judicial	399.4	3.2%
	Other Expenditures <sup>(b)</sup>	394.6	3.3%		Other Expenditures <sup>(b)</sup>	409.5	3.3%

(a) The pie charts reflect the total listed expenditures of \$11,997.7 for 2001-2002 and \$12,538.2 for 2002-2003, and do not reflect adjustments for unallocated lapses of \$103.9 for 2001-2002 and \$106.9 for 2002-2003. 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 No. 01-1 of the June Special Session.

**Historical General Fund Expenditures.** Actual General Fund expenditures for the fiscal years 1997 through 2001 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:



**General Fund Expenditures By Function<sup>(a)</sup>**  
**Fiscal Year Ending June 30**  
**(In Thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Human Services.....	\$ 3,277,044	\$ 3,371,318	\$ 3,231,095	\$ 3,430,561	\$ 3,537,462
Education, Libraries and Museums.....	2,122,230	2,240,437	2,411,479	2,637,518	3,007,391
Non-Functional.....	1,509,500	1,626,622	1,705,133	1,954,711	2,019,041
Health and Hospitals.....	762,347	817,777	905,529	1,005,233	1,092,361
Corrections.....	757,341	762,917	845,239	957,555	999,052
General Government.....	364,301	404,279	594,847	566,310	511,430
Judicial.....	217,086	232,340	266,043	309,319	338,568
Other Expenditures <sup>(b)</sup> .....	<u>190,127</u>	<u>194,156</u>	<u>291,444</u>	<u>339,697</u>	<u>377,395</u>
<b>Totals .....</b>	<b>\$ 9,199,976</b>	<b>\$ 9,649,846</b>	<b>\$ 10,250,809</b>	<b>\$ 11,200,904</b>	<b>\$ 11,882,700</b>

(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, Legislative and Transportation.

SOURCE: 1997, 1998, 1999, 2000 and 2001 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 2001-2002 fiscal year, approximately 70% 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 30% 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 2001-2002 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 63% of total General Fund appropriations under the adopted budget for the 2001-2002 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 37% of all General Fund appropriations under the adopted budget for the 2001-2002 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 2001 <sup>(a)</sup> (Actual)		Fiscal Year 2002 (Appropriated)		Fiscal Year 2003 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payment to Local Governments	Total Payments	Payments to Local Governments
<b>LEGISLATIVE</b>						
Total – Legislative .....	243	0	256	0	265	0
<b>GENERAL GOVERNMENT</b>						
One Time Surplus Revenue Sharing .....	31,000	31,000	0	0	0	0
Property Tax Relief Elderly Circuit Breaker.....	20,562	20,562	21,500	21,500	22,000	22,000
P.I.L.O.T. – New Manufacturing Machinery and Equipment .....	75,945	75,945	75,000	75,000	75,500	75,500
Undesignated .....	83,528	35,899	49,246	27,830	49,923	27,946
Total – General Government.....	211,035	163,406	145,746	124,330	147,423	125,446
<b>REGULATION AND PROTECTION</b>						
Total – Regulation and Protection .....	424	0	279	0	279	0
<b>CONSERVATION AND DEVELOPMENT</b>						
Total – Conservation and Development.....	10,774	5,143	12,700	5,143	14,969	5,143

	Fiscal Year 2001 <sup>(a)</sup> (Actual)		Fiscal Year 2002 (Appropriated)		Fiscal Year 2003 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payment to Local Governments
<b>HEALTH AND HOSPITALS</b>						
Employment Opportunities and Day Services (Department of Mental Retardation) .....	99,353	0	108,833	0	114,817	0
Community Residential Services (Department of Mental Retardation) .....	218,254	0	234,192	0	240,757	0
Grants for Substance Abuse Services.....	19,647	0	20,782	0	21,102	0
Grants for Mental Health Services.....	73,909	0	76,288	0	77,466	0
Undesignated .....	52,124	10,190	48,052	10,716	48,526	10,716
Total – Health and Hospitals.....	463,287	10,190	488,147	10,716	502,668	10,716
<b>TRANSPORTATION</b>						
Total – Transportation.....	34,857	34,857	35,000	35,000	35,000	35,000
<b>HUMAN SERVICES</b>						
Medicaid .....	2,331,594	0	2,454,318	0	2,593,271	0
Old Age Assistance.....	29,823	0	30,325	0	31,779	0
Aid to the Disabled .....	58,430	0	58,759	0	59,323	0
Temporary Assistance to Families.....	23,651	0	0	0	0	0
Temporary Assistance to Families – TANF....	124,051	0	128,343	0	122,540	0
Connecticut Pharmaceutical Assistance Contract to the Elderly .....	37,862	0	48,385	0	74,468	0
Medicaid – Disproportionate Share – Mental Health .....	151,000	0	105,935	0	105,935	0
Connecticut Home Care Program .....	21,411	0	23,000	0	25,380	0
Child Care Services - TANF/CCDBG .....	106,642	0	123,617	0	115,475	0
Housing/Homeless Services.....	19,279	0	25,192	0	25,392	0
Disproportionate Share – Medical Emergency Assistance .....	205,487	0	85,000	0	85,000	0
State Administered General Assistance .....	94,066	0	99,052	0	101,442	0
Medicaid Excess Cost.....	23,522	0	0	0	0	0
Hospital Finance Restructuring Funding.....	27,404	0	0	0	0	0
Undesignated .....	83,221	14,595	77,906	5,554	76,974	5,554
Total – Human Services.....	3,337,443	14,595	3,259,832	5,554	3,416,979	5,554
<b>EDUCATION, LIBRARIES AND MUSEUMS</b>						
School Construction Grants .....	373,085	373,085	0	0	0	0
Transportation of School Children.....	45,939	45,939	47,500	47,500	50,000	50,000
Education Equalization Grants .....	1,384,627	1,384,627	1,459,000	1,459,000	1,515,500	1,515,500
Priority School Districts.....	20,058	20,058	82,274	82,274	81,622	81,622
Excess Cost – Student Based .....	58,399	58,399	59,500	59,500	69,000	69,000
Early Reading Success.....	20,347	20,347	2,236	2,236	2,236	2,236
Magnet Schools .....	24,841	24,841	33,341	33,341	45,188	45,188
Teachers’ Retirement Contributions .....	214,666	0	204,511	0	214,737	0
Undesignated .....	216,885	106,487	187,826	78,364	183,604	71,386
Total – Education.....	2,358,847	2,033,783	2,076,188	1,762,215	2,161,887	1,834,932
<b>CORRECTIONS</b>						
Board and Care for Children – Adoption .....	30,832	0	38,150	0	40,535	0
Board and Care for Children – Foster .....	71,381	0	75,060	0	75,604	0
Board and Care for Children – Residential .....	114,783	0	134,234	0	139,678	0
Undesignated .....	67,993	0	83,022	0	90,609	0
Total – Corrections .....	284,989	0	330,466	0	346,426	0
<b>NON FUNCTIONAL</b>						
Debt Service (Including UConn 2000 and CHEFA Day Care Security).....	975,875	0	1,031,415	0	1,060,161	0
Reimbursement to Towns for Loss of Taxes on State Property .....	63,779	63,779	66,059	66,059	63,778	63,778
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property .....	97,163	97,163	100,932	100,932	97,163	97,163
Undesignated .....	643	0	879	0	880	0
Total – Non Functional .....	1,137,460	160,942	1,199,285	166,991	1,221,982	160,941
Total – Fixed Charges.....	7,839,359	2,422,916	7,547,899	2,109,949	7,847,878	2,177,732

(a) Does not include funds carried forward from Fiscal Year 2000 into Fiscal Year 2001. Does include funds carried forward from Fiscal Year 2001 into Fiscal Year 2002.

SOURCE: Office of Policy and Management

### ***Fiscal Year 2000-2001 Operating Results***

The adopted budget for the 2000-2001 fiscal year 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. **Appendix III-D** and **Appendix III-E** show the results for the 2000-2001 fiscal year per the Comptroller's annual report. This report indicates the 2000-2001 fiscal year General Fund revenues were \$11,985.5 million, General Fund expenditures were \$11,954.8 million, resulting in an operating surplus of \$30.7 million. The operating surplus of \$30.7 million has been transferred pursuant to section 4-30a of the Connecticut General Statutes to the state's budget reserve fund.

Prior to the conclusion of the fiscal year, the State was projecting a surplus in excess of \$600 million. As part of the adopted biennial budget for the ensuing fiscal years, the legislature appropriated \$576.2 million of the fiscal 2000-2001 surplus for purposes such as debt avoidance or measures that are primarily one-time in nature. This resulted in General Fund expenditures for fiscal year 2000-2001 that were significantly higher than originally budgeted. This level of surplus appropriation assured that the State would still be able to make a deposit into the state's budget reserve fund, thereby maintaining the statutorily required 5% balance in the fund.

### **Adopted Budget Fiscal Years 2001-2002 and 2002-2003**

The Governor submitted his proposed budget to the legislature on February 7, 2001. The budget document included a proposed General Fund budget for fiscal year 2001-2002 and fiscal year 2002-2003. Special Act 01-1 of the June Special Session made General Fund appropriations and set forth estimated revenues for the 2001-2002 and 2002-2003 fiscal years, and constitutes the adopted budget.

The adopted budget for fiscal year 2001-2002 anticipated General Fund revenues of \$11,894.1 million and General Fund expenditures of \$11,894.0 million, with an estimated surplus of \$0.1 million. For fiscal year 2002-2003, the adopted budget anticipated General Fund revenues of \$12,432.0 million and General Fund expenditures of \$12,431.4 million, with a surplus of \$0.6 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, \$78.2 million below the cap in fiscal year 2001-2002 and \$63.0 million below the cap in fiscal year 2002-2003.

The enacted budget makes several changes to the state's tax law. The most significant change is the suspension for a period of two years of the 5.75% sales tax on hospital services. This will reduce revenues by \$110 million in fiscal 2001-2002 and by \$112 million in fiscal year 2002-2003. The remaining revenue modifications are modest in magnitude.

The enacted budget contains significant expenditure changes in several areas. The most significant change within the budget is the scaling back of the disproportionate share appropriation related to uncompensated care provided by hospitals in the state. This expenditure savings of approximately \$107 million was undertaken in conjunction with the tax change referenced above. Also within the Department of Social Services is the annualization of the HUSKY Adult program totaling \$28 million in the first year of the biennium and \$34 million in the second year of the biennium. The state's largest support for local education is through the Education Cost Sharing (ECS) formula. The budget as passed increases this grant by \$127.5 million by the second year of the biennium over the grant entitlement level for fiscal year 2000-2001. Of the \$127.5 million increase, \$50 million is devoted to phasing out the ECS grant's formula cap. Current law requires the grant formula cap to be eliminated in fiscal year 2004. Of the balance, \$10 million will go to non-cap towns as a one-time COLA, with the remaining funding going to expected enrollment growth over the biennium. 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 \$52.2 million by fiscal year 2002-2003 over fiscal year 2000-2001. In anticipation of new court house openings, the incorporation of the county sheriffs system within the Judicial Branch and the expansion of the alternative incarceration program, the Judicial



Department will see its expenditures increase by \$56.8 million between fiscal year 2000-2001 and fiscal year 2002-2003.

### ***Fiscal Year 2001-2002 Operations***

The adopted budget for the 2001-2002 fiscal year anticipated General Fund revenues of \$11,894.1 million and General Fund expenditures of \$11,894.0 million resulting in a projected surplus of \$0.1 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** show estimated revenues and expenditures for the 2001-2002 fiscal year as of September 30, 2001. This report estimates 2001-2002 fiscal year General Fund revenues of \$11,651.7 million, General Fund expenditures of \$11,953.4 million and an estimated operating deficit of \$301.7 million. Estimated revenues have been revised downward by \$242.4 million from the enacted budget plan and estimated expenditures have been revised upward by \$59.4 million. Revenues have been revised downward primarily due to weakness in the personal income tax, the sales and use tax, and inheritance and estate collections. Expenditures have been revised upward primarily due to deficiencies in various state agencies.

Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. It is expected that the Governor shall submit such a plan prior to the expiration of the thirty day time period on December 1, 2001. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required.

The information in **Appendix III-E** and in the Comptroller's monthly reports contain 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 2001-2002 operations of the General Fund.

## 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 1997 through 2001 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)**

	<b>Fiscal Years Ended June 30</b>				
	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>
Total General Fund Revenues <sup>(a)</sup> .....	\$9,582.0	\$10,142.2	\$10,616.4	\$11,213.6	<u>\$11,985.5</u>
Net-Appropriations/Expenditures <sup>(a) (b)</sup> .....	<u>9,319.4</u>	<u>9,829.3</u>	<u>10,544.6</u>	<u>10,913.2</u>	<u>11,954.8</u> <sup>(c)</sup>
<b>Operating Surplus/(Deficit)</b> .....	<u>\$ 262.6</u> <sup>(d)</sup>	<u>\$ 312.9</u> <sup>(e)</sup>	<u>\$ 71.8</u> <sup>(f)</sup>	<u>\$ 300.4</u> <sup>(g)</sup>	<u>\$ 30.7</u> <sup>(h)</sup>

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

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

(c) Does not include expenditures which were financed from fiscal year 2000 reserves for debt avoidance.

(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.

(h) \$30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.

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 2001 are included in **Appendix III-C**.

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

	<b>Fiscal Years Ended June 30</b>				
	<u><b>1997</b></u>	<u><b>1998</b></u>	<u><b>1999</b></u>	<u><b>2000</b></u>	<u><b>2001</b></u>
<b>Modified Cash Basis Operating Surplus/(Deficit).....</b>	\$ 262.6	\$ 312.9	\$ 71.8	\$ 300.4	\$ 30.7
<u>Adjustments:</u>					
Increase (decrease) in revenue accruals:					
Governmental Receivables .....	31.4	(35.2)	56.3	59.8	80.0 <sup>(a)</sup>
Other Receivables.....	(3.1)	(35.7)	(21.4)	15.5	(15.1)
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities.....	(38.3)	60.6	(49.7)	(161.5)	(115.8) <sup>(a)</sup>
Salaries and Fringe Benefits Payable.....	(29.3)	(6.5)	(33.7)	120.8	(14.1)
Increase (decrease) in Continuing					
Appropriations .....	111.0	180.5	294.1	(289.8)	334.0
Reclassification of equity adjustments .....	<u>(81.5)</u>	<u>(85.8)</u>	<u>(142.5)</u>	<u>(118.1)</u>	<u>(266.5)</u>
<b>GAAP Based Operating Surplus/(Deficit) .....</b>	<u><b>\$ 252.8</b></u>	<u><b>\$ 390.8</b></u>	<u><b>\$ 174.9</b></u>	<u><b>\$ (72.9)</b></u>	<u><b>\$ 33.2</b></u>

(a) In footnote 2 of the General Purpose Financial Statements in Appendix III-C, \$92.4 million of governmental revenues have been netted against accounts payable and other liabilities expenditures.

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)**

	<b>Fiscal Years Ended June 30</b>				
	<u><b>1997</b></u>	<u><b>1998</b></u>	<u><b>1999</b></u>	<u><b>2000</b></u>	<u><b>2001</b></u>
<b>Operating Surplus/Deficit.....</b>	\$262.6	\$312.9	\$ 71.8	\$300.4	\$ 30.7
<b>Fund Transfers and Reserves</b>					
Budget Reserve Fund.....	95.9	161.7	30.5	34.9	30.7
Economic Recovery Note Debt Retirement.....	166.7	--	--	--	--
Reserve for Debt Service Appropriation.....	--	151.2	41.3	--	--
Reserve for Debt Avoidance	--	--	--	<u>265.5</u>	--
Total Transfers/Reserves .....	262.6	312.9	71.8	300.4	30.7
<b>Unreserved Fund Balance</b>					
<b>Surplus/(deficit) .....</b>	<u><b>\$ 0.0</b></u>	<u><b>\$ 0.0</b></u>	<u><b>\$ 0.0</b></u>	<u><b>\$ 0.0</b></u>	<u><b>\$ 0.0</b></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>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Unreserved Fund Balance (Deficit)</b>					
<b>Modified Cash Basis</b> .....	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
<b>GAAP Based Adjustments</b>					
Continuing Appropriations Available for GAAP Liabilities .....	—	—	141.8	35.0	25.4
<b>Additional Assets</b>					
Taxes Receivable					
Income Tax Accrual Reduction .....	(122.4)	(149.9)	(170.0)	(151.3)	(194.1)
Eliminate Corporation Accrual .....	( 34.5)	(29.1)	(22.1)	(19.5)	(23.3)
Additional Taxes Receivable .....	<u>8.9</u>	<u>8.1</u>	<u>5.0</u>	<u>4.0</u>	<u>7.0</u>
Net Increase (Decrease) Taxes .....	(148.0)	(170.9)	(187.1)	(166.8)	(210.4)
Net Accounts Receivable .....	33.6	19.4	29.7	76.2	83.8
Federal and Other Grants Receivable <sup>(a)</sup> .....	368.9	383.4	428.4	435.7	525.8
Due From Other Funds .....	<u>7.2</u>	<u>13.1</u>	<u>7.9</u>	<u>4.8</u>	<u>7.2</u>
Total Additional Assets .....	\$ 261.7	\$ 245.0	\$ 278.9	\$ 349.9	\$ 406.4
<b>Additional Liabilities</b>					
Salaries and Fringe Payable .....	(235.0)	(240.7)	(279.9)	(158.0)	(173.4)
Accounts Payable—Department of Social Services .....	(509.3)	(479.4)	(525.7)	(676.7)	(773.3)
Accounts Payable—Trade & Other .....	(131.0)	(125.4)	(142.1)	(175.6)	(191.2)
Payable to Local Governments .....	(4.7)	(.1)	-	-	-
Payable to Federal Government .....	(40.9)	(90.6)	(72.0)	(48.8)	(72.6)
Due to Other Funds .....	<u>(10.8)</u>	<u>(3.1)</u>	<u>(3.7)</u>	<u>(.8)</u>	<u>(3.1)</u>
Total Additional Liabilities .....	\$(931.7)	\$(939.3)	\$(1,023.4)	\$(1,059.9)	\$1,213.6
<b>Unreserved Fund Balance (Deficit)</b>					
<b>GAAP Basis</b> .....	<u>\$(670.0)</u>	<u>\$(694.3)</u>	<u>\$ 602.7</u>	<u>\$( 675.0)</u>	<u>\$( 781.8)</u>

(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>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Reserved:</b>					
Petty Cash.....	\$ 1.0	\$ 1.1	\$ 1.1	\$ 1.0	\$ 1.0
Budget Reserve.....	336.9	498.6	529.1	564.0	594.7
Advances to Other Funds .....	-	-	-	5.0	6.6
Debt Avoidance.....	-	-	-	265.5	249.3
Inventories.....	32.7	34.3	34.3	37.7	36.2
Continuing Appropriations .....	184.5	372.3	526.4	343.5	687.0
Debt Service.....	<u>166.7</u>	<u>232.1</u>	<u>131.3</u>	<u>13.2</u>	<u>20.7</u>
Total .....	721.8	1,138.4	1,222.2	1,229.9	1,595.5
<b>Unreserved:</b>	<u>(670.0)</u>	<u>(694.3)</u>	<u>(602.7)</u>	<u>(675.0)</u>	<u>(781.8)</u>
<b>Total Fund Balance .....</b>	<u>\$ 51.8</u>	<u>\$ 444.1</u>	<u>\$ 619.5</u>	<u>\$ 554.9</u>	<u>\$ 813.7</u>

SOURCE: Comptroller's Office

## 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, 2001 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 October 15, 2001 is described in the following table.

**TABLE 7**

**Statutory Debt Limit  
as of October 15, 2001**

Total General Fund Tax Receipts	\$8,754,200,000	
Multiplier	1.60	
Debt Limit		\$14,006,720,000
Outstanding Debt <sup>(a)</sup>	\$7,193,405,430	
Guaranteed Debt <sup>(b)</sup>	542,900,147	
Authorized Debt <sup>(c)</sup>	\$4,058,766,432	
Total Subject to Debt Limit		\$11,795,072,009
Less Debt Retirement Funds <sup>(d)</sup>	\$ 124,337,723	
Aggregate Net Debt		\$11,670,734,286
Debt Incurring Margin		\$ 2,335,985,714

- 
- (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 2001-2002.
- (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 and an energy facility at a juvenile training school, 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, 2005.

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.

***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 October 15, 2001) 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 <sup>(a)</sup>  
Principal Amount Outstanding Pro-forma as of October 15, 2001  
(In Thousands)**

General Obligation Bonds	\$	7,143,865
UCONN 2000 Bonds		545,536
Lease Financings		49,540
Tax Increment Financings		<u>33,755</u>
Long Term General Obligation Debt Total		7,772,696
Short Term General Obligation Debt Total		<u>-</u>
Gross Direct General Obligation Debt		7,772,696
Deduct:		
University Auxiliary Services <sup>(b)</sup>		48,783
Rental Housing Sinking Fund <sup>(c)</sup>		<u>75,555</u>
Net Direct General Obligation Debt	\$	<u><u>7,648,359</u></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 the 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>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Gross Direct Debt <sup>(a)</sup>	\$6,826,826	\$6,980,204	\$7,176,905	\$7,432,891	\$7,920,531
Net Direct Debt <sup>(a)</sup>	\$6,678,398	\$6,864,897	\$7,067,276	\$7,315,945	\$7,795,785
Ratio of Debt to Personal Income <sup>(b)</sup>					
Gross Direct Debt	5.86%	5.63%	5.53%	5.37%	5.73%
Net Direct Debt	5.73%	5.54%	5.44%	5.28%	5.64%
Ratio of Debt to Estimated Full Value <sup>(c)</sup>					
Gross Direct Debt	2.64%	2.65%	2.60%	2.51%	2.50%
Net Direct Debt	2.58%	2.61%	2.56%	2.47%	2.46%
Per Capita Debt <sup>(d)</sup>					
Gross Direct Debt	\$2,088	\$2,133	\$2,187	\$2,182	\$2,325
Net Direct Debt	\$2,042	\$2,098	\$2,153	\$2,148	\$2,289

- (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: 1997—\$116,420 million; 1998—\$123,902 million; 1999—\$129,780 million; 2000—\$138,334 million. 2001 ratio uses 2000 data.
- (c) Full value estimated by Office of Policy and Management. Uses final equalized net grand lists: 1995—\$258 billion; 1996—\$263 billion; 1997 - \$276 billion; 1998 - \$296 billion; and 1999 - \$317 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 1997 ratio uses 1995 data; 1998 ratio uses 1996 data; 1999 ratio uses 1997 data; 2000 ratio uses 1998 data; and 2001 ratio uses 1999 data.
- (d) See *Appendix III-B, Table B-1*. State population: 1997—3,269,000; 1998—3,273,000; 1999—3,282,000; 2000—3,406,000. 2001 ratio uses 2000 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 October 15, 2001. 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<sup>(a)</sup>  
as of October 15, 2001**

<b>Fiscal Year</b>	<b>Principal Payments<sup>(b)</sup></b>	<b>Sinking Fund Payments<sup>(c)</sup></b>	<b>Interest Payments<sup>(b)(d)</sup></b>	<b>Total Debt Service</b>
2001-02	473,968,912	-	316,684,113	790,653,025
2002-03 <sup>(b)</sup>	559,977,485	4,445,000	376,959,581	941,382,066
2003-04	563,125,923	-	361,170,915	924,296,838
2004-05	571,211,775	-	348,461,198	919,672,973
2005-06	510,233,875	-	325,176,862	835,410,736
2006-07	501,090,140	-	307,065,092	808,155,232
2007-08	500,970,553	-	288,547,777	789,518,330
2008-09	478,353,493	-	304,990,827	783,344,320
2009-10	458,588,599	-	273,345,455	731,934,055
2010-11	433,400,636	-	190,840,412	624,241,048
2011-12	363,085,834	-	149,472,973	512,558,807
2012-13	314,937,960	-	111,661,744	426,599,703
2013-14	276,205,000	-	81,058,403	357,263,404
2014-15	260,436,365	-	57,725,452	318,161,817
2015-2025	900,839,121	-	124,976,263	1,025,815,580
<b>Totals</b>	<b>\$7,166,425,671</b>	<b>\$ 4,445,000</b>	<b>\$3,618,137,263</b>	<b>\$10,789,007,934</b>

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$7,166,425,671), plus future sinking fund payments (\$4,445,000), and existing sinking fund deposits (\$75,555,000), plus accreted interest (\$526,270,706) on State and UConn 2000 capital appreciation bonds, total the amount of such long-term debt (\$7,772,696,000) 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 2002-2014.
- (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 \$75,555,000 and, when added to the total \$4,445,000 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**

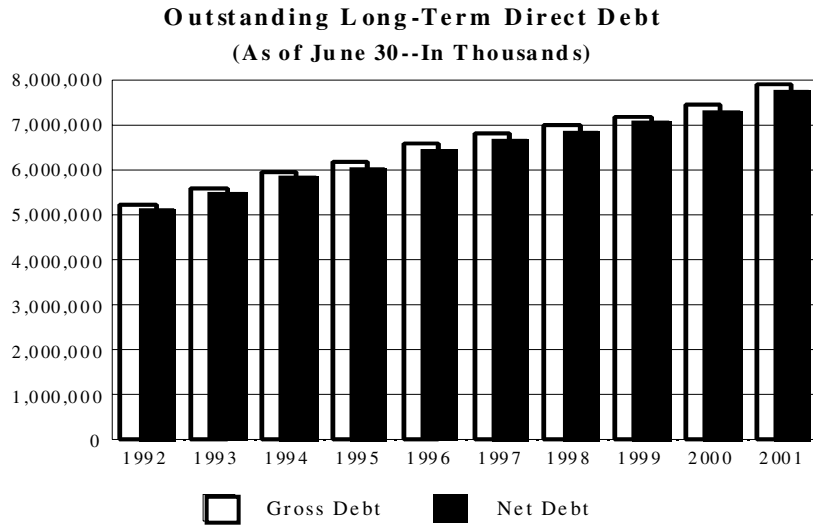
The following table and graph sets forth the total long-term direct general obligation debt outstanding at the end of each of the last ten fiscal years, and the net long-term direct general obligation debt outstanding at the end of each of the last five fiscal years. Net debt excludes bonds that are 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>
1992	5,235,879 <sup>(a)</sup>	5,118,368 <sup>(a)</sup>	1997	6,826,826 <sup>(f)</sup>	6,678,398 <sup>(f)</sup>
1993	5,594,715 <sup>(b)</sup>	5,479,474 <sup>(b)</sup>	1998	6,981,212 <sup>(g)</sup>	6,865,905 <sup>(g)</sup>
1994	5,962,250 <sup>(c)</sup>	5,845,233 <sup>(c)</sup>	1999	7,176,905	7,067,276
1995	6,186,518 <sup>(d)</sup>	6,051,141 <sup>(d)</sup>	2000	7,432,891	7,315,945
1996	\$ 6,573,810 <sup>(e)</sup>	\$ 6,428,391 <sup>(e)</sup>	2001	\$ 7,920,531	\$ 7,795,785

- (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 October 15, 2001, 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, 2002.

**TABLE 12**

**Authorized but Unissued Direct General Obligation Debt  
as of October 15, 2001  
(In Thousands)**

	<b>State Direct Debt</b>	<b>UCONN 2000<sup>(a)</sup></b>	<b>Tax Increment<sup>(b)</sup></b>	<b>Total</b>
Bond Acts in Effect	\$ 14,997,985	\$ 718,427	\$ 162,800	\$ 15,879,212
Amount Authorized	12,942,694	718,427	42,800	13,703,922
Amount Issued	11,039,219	618,427	39,330	11,696,976
Authorized but Unissued	1,903,476	100,000	3,470	2,006,946
Available for Authorization	2,055,291	-	120,000	2,175,291

- (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 \$120 million authorized under Public Act No. 98-179 for the Steel Point Project in Bridgeport.

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.



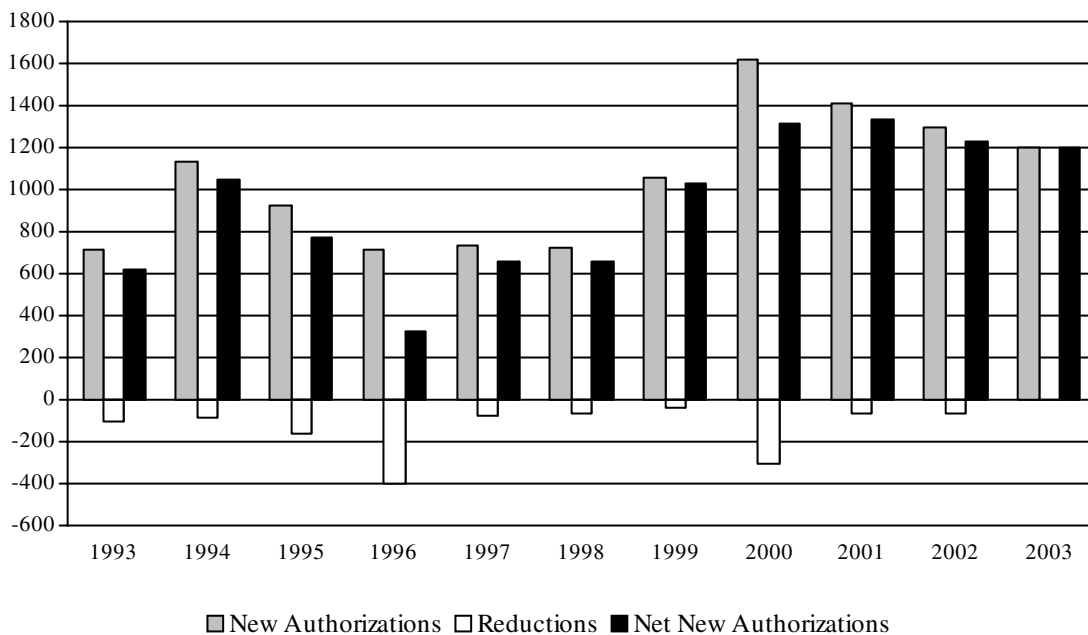
**TABLE 13**  
**Statutory Bond Authorizations and Reductions<sup>(a)</sup>**  
**(In Millions)**

	<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>	<u>2002</u>	<u>2003</u>
New Authorizations	718.8	1,130.0	926.3	718.4	733.1	729.8	1,056.8	1,621.6	1,407.9	1,310.0	1,201.1
Reductions	<u>(102.6)</u>	<u>(84.2)</u>	<u>(159.6)</u>	<u>(396.0)</u>	<u>(74.3)</u>	<u>(66.0)</u>	<u>(31.7)</u>	<u>(308.4)</u>	<u>(70.1)</u>	<u>(79.9)</u>	<u>0.0</u>
Net New Authorizations	616.2	1,045.8	766.7	322.4	658.8	663.8	1,025.1	1,313.2	1,337.8	1,230.1	1,201.1

(a) Does not include lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 1997 through 2003, 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 \$150 million in general obligation bonds which take effect after 2003.

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>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>
Policy & Management .....	\$ 117,338	\$ 116,800	\$ 190,960	\$ 179,921	\$ 226,100	\$ 210,600
Comptroller.....	0	0	0	0	50,000	0
Administrative Services.....	0	0	0	0	53,000	0
Veterans' Affairs .....	1,000	500	0	0	0	0
Public Works .....	29,000	21,000	20,000	20,000	50,900	15,000
Public Safety (POST) .....	8,500	6,400	6,700	2,300	10,000	0
Motor Vehicles .....	0	0	0	0	0	0
Military .....	7,550	1,050	300	1,300	0	0
Agriculture.....	1,400	3,900	2,250	1,000	3,000	3,000
Environmental Protection .....	81,500	71,000	137,650	141,150	155,900	106,250
Economic and Community Development:						
Housing.....	18,000	20,000	5,000	10,500	20,000	10,000
Economic Development.....	22,200	16,400	40,000	138,500	110,900	51,000
Other .....	0	148,000	14,000	0	0	0
Ct Innovations Inc.....	8,000	20,000	0	10,000	10,000	10,000
Historical Commission .....	150	150	300	300	300	300
Public Health .....	1,000	0	0	0	12,500	1,000
Mental Retardation .....	5,365	0	4,000	4,000	2,500	1,500
Mental Health and Addiction Services.....	16,100	10,300	20,750	21,750	6,000	6,000
Social Services.....	6,250	6,000	5,000	6,000	3,500	0
Education .....	195,163	344,200	404,900	482,100	184,300	488,100
State Library .....	2,500	2,500	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 .....	19,520	69,705	77,187	74,855	69,070	66,162
State University .....	34,142	40,952	85,537	88,352	88,550	95,658
Secretary of State.....	900	750	0	0	0	0
Legislative Management.....	0	0	800	0	0	0
Children & Families .....	5,000	33,000	6,500	14,500	15,000	3,000
Judicial.....	23,848	11,500	62,000	20,500	56,500	27,500
CPTV .....	1,200	6,470	2,000	2,000	2,500	2,500
Contingency.....	0	0	0	0	0	0
Corrections.....	5,000	0	10,000	35,000	50,000	0
UCONN.....	19,400	0	2,000	20,000	0	0
UCONN Health .....	5,593	7,881	4,250	3,400	0	0
UCONN 2000 <sup>(a)</sup> .....	93,146	64,311	130,000	100,000	100,000	100,000
Hartford Econ Dev Projects.....	0	33,000	386,000	27,000	26,000	0
<b>Totals .....</b>	<b>\$ 729,765</b>	<b>\$1,056,769</b>	<b>\$1,621,584</b>	<b>\$1,407,928</b>	<b>\$1,310,020</b>	<b>\$1,201,070</b>

(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 \$150 million authorized under the cap for fiscal years 2004 to 2005.

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 1985-2006, which is to be met from federal, State, and local funds, is currently estimated at \$15.6 billion. During fiscal years 1985-2001, \$12.2 billion of the total infrastructure program was approved. The remaining \$3.4 billion is required for fiscal years 2002-2006. The \$3.4 billion is comprised of \$863.2 million from the anticipated issuance of new special tax obligation bonds, \$64.5 million in anticipated revenues, and \$2.5 billion in anticipated federal funds. The State's share of the 1985-2006 infrastructure program costs, estimated at \$5.9 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 \$0.6 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 currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the infrastructure program for State fiscal years 1985-2006 to be financed by STO bonds is estimated at \$5.3 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 October 15, 2001. 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 October 15, 2001**  
**(In Millions)<sup>(a)</sup>**

	<u>New Money</u>	<u>Total</u>
Amount Authorized	\$5,097.3 <sup>(b)</sup>	
Amount Issued	4,669.7	6,647.6
Amount Outstanding	1,497.0	3,094.1

(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, 2001 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, 2001, the Special Transportation Fund paid \$29.2 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 2001-02 is \$21.1 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.

In 2001, legislation was passed which made changes that will have an impact on the State's Special Transportation Fund. These changes included a number of cost saving measures, the imposition of new fees, and the modification of the State's emission program. Over the next five years, these changes are expected to increase revenues by \$32.1 million and reduce expenditures by \$22.6 million for an overall positive impact of \$54.7 on the Fund's cumulative fund balance by the end of 2006.

In addition, legislation was passed in 2001 which created the Connecticut Transportation Strategy Board. The 15 member board consists of five appointed members from the private sector, five appointed members from each of the five Transportation Investment Areas established in the legislation, and the Commissioners of Transportation, Environmental Protection, Economic and Community Development, and Public Safety, and the Secretary of the Office of Policy and Management. Not later than January 15, 2002, the Board is required to submit to the Governor and the General Assembly an initial strategy and preliminary projections of the cost necessary to implement the strategy over the first ten years. The legislation further requires that the Board shall provide to the Governor and the General Assembly periodic updates or revisions to the strategy and reports on implementing the strategy. Such strategy and all such updates and revisions are subject to approval by the General Assembly. The future impact of this legislative initiative on the Special Transportation Fund cannot be determined at this time.

## **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 issuance of revenue bonds for improvements at Bradley International Airport, payable from all or a portion of the revenues generated at the Airport. Legislation passed in 2001 removed a \$294 million bond issuance cap for Bradley Airport but retained the requirement for State Bond Commission approval of any new bond issue.

The legislation also established a Bradley Board of Directors to oversee the operation and development of Bradley Airport. The seven-member board includes five appointed members and the Commissioners of Transportation and Economic and Community Development. The Bradley Board is charged with a wide range of duties and responsibilities, including developing an organizational and management structure, approving the annual capital and operating budget, master plan, and community relations policies of the airport, and ensuring customer service standards and performance assessments.

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. On March 15, 2001, the State issued \$213.18 million Bradley International Airport Revenue Bonds, comprised of \$194 million General Airport Revenue Bonds to fund a major terminal expansion, and \$19.18 million General Airport Revenue Refunding Bonds to refund certain 1992 Bradley bonds. As of October 15, 2001 there were \$50.8 million of 1992 Bradley International Airport Revenue Refunding Bonds outstanding.

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 various State and federally mandated water pollution control and drinking water 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 control and drinking water improvements, 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 October 15, 2001, \$612.3 million revenue bonds (excluding refunded bonds) were outstanding.

### ***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. All of the bonds issued under this program were defeased in June 2001. 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 July 1, 1995 statutory closure of the Fund to 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.

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 Fund maintains on-going statutory and financial responsibilities for 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, in addition to Second Injury claims transferred prior to July 1, 1999.

As of June 30, 2001, the Second Injury Fund had settled approximately 5,519 cases since January 1, 1995 at a cost of \$412.1 million and has approximately 4,671 open cases. In addition, certain lawsuits are pending which challenge the exclusion of certain claims from the Second Injury Fund.

The State issued \$100 million Second Injury Fund Revenue Bonds in 1996 and an additional \$124.1 million in 2000, which have a final maturity of 2015. It originally had a Commercial Paper Dealer Agreement and credit support in place for up to \$300 million. That line of credit has now been reduced to \$195.4 million. The outstanding amount of notes is \$10 million as of October 15, 2001 and is expected to be reduced to zero by the end of the fiscal year. The bonds and notes are payable solely from amounts held in 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. Based on the Second Injury Fund's experience to date, it is not expected that additional revenue bonds will be issued. The management objective is to pay additional claims and settlements from current income and, if necessary, short term borrowings.

### **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, 2001 the assets in the Insurance Fund totaled \$8.2 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, 2001, loans insured by the Insurance Fund totaled \$28.3 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 \$30.56 million 1993 Series A (Hartford Whalers Project) bonds, of which \$19.85 million remain outstanding, 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 Special Needs Housing Mortgage Finance Program (formerly known as the Group Home Mortgage Finance Program) and has issued and expects to issue additional Special Needs Housing Mortgage Finance Program Special Obligation Bonds under a separate indenture, which bonds are and will be secured by State appropriations to or on behalf of the residents thereof and further secured by a special capital reserve fund.

The Board of Directors of CHFA is comprised of fifteen members: 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: 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

or other obligations issued by the City of Waterbury 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. The State previously had guaranteed debt service on bonds of the City West Haven, but an irrevocable escrow has been established to pay such bonds. 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 Waterbury.*** In March and June 2001, the State adopted legislation to assist the City of Waterbury in financing its budget deficits (the “Act”). The Act imposed certain financial controls on the City and created a Waterbury Financial Planning and Assistance Board. The Act authorizes the City, subject to approval of the Board and the State Treasurer, to issue bonds for the purpose of funding the City’s budget deficits. Payment of the bonds is serviced through the City’s taxing authority. The Act requires the City to direct certain of its tax revenues to a trustee through a tax intercept mechanism for the purpose of servicing the debt on its bonds. The Act also provides for the establishment of a special capital reserve fund to further secure up to \$100 million bonds be issued by the City to fund its budget deficits. The State is contingently obligated to restore the special capital reserve fund to its required minimum. The City has issued \$45 million bond anticipation notes under this program. It is anticipated that the City will issue bonds secured by a special capital reserve fund to permanently finance these bond anticipation notes.

The Board is comprised of the Secretary of the Office of Policy and Management, the State Treasurer, the Mayor of the City, and four members appointed by the Governor, one of whom shall be affiliated with a business located in the City, one of whom shall have expertise in finance, one of whom shall be a resident of the City and one of whom shall be a representative of organized labor. The Board may be terminated when the City meets certain conditions outlined in the Act.

***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)**

	<b>Authorized SCRF or Guaranteed Debt</b>	<b>Outstanding SCRF or Guaranteed Debt</b>	<b>Minimum Capital Reserve Requirement</b>
	<u>As of 10/15/01</u>	<u>As of 10/15/01</u>	<u>As of 10/15/01</u>
<b>INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS</b>			
Connecticut Development Authority			
Umbrella Bond Program.....	\$300.0	\$44.7	\$7.68
General Obligation Bond Program .....	30.6	19.8	2.5
Connecticut Health and Educational Facilities Authority			
Nursing Home Program .....	(a)	154.2 <sup>(b)</sup>	15.3
Connecticut State University System.....	(a)	87.3 <sup>(b)</sup>	9.6
Connecticut Higher Education Supplemental Loan Authority	170.0	121.8 <sup>(c)</sup>	8.7 <sup>(c)</sup>
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program .....	(a)	3,183.1	279.8
Special Needs Housing Mortgage Finance Program .....	(a)	19.8	1.5
Connecticut Resources Recovery Authority	725.0	297.5	36.1
University of Connecticut Student Fee			
Revenue Bonds .....	(a)	31.8	2.1
City of Waterbury Special Capital Reserve Fund Bonds <sup>(d)</sup> ....	\$-0-	\$-0-	\$-0-
<b>INDEBTEDNESS GUARANTEED BY STATE</b>			
Southeastern Connecticut Water Authority .....	15.0	0.7	N/A

(a) No statutory limit.

(b) On or about November 1, 2001, CHEFA will redeem \$4.7 million of the Nursing Program Bonds and \$5.2 million of the Connecticut State University System Bonds, leaving bonds outstanding in the amounts of \$149.3 million and \$82.1 million, respectively.

(c) On or about November 15, 2001, it is expected that CHESLA will issue its \$25,000,000 Revenue Bonds (CT Family Education Loan Program) 2001 Series A. Approximately \$7.9 million of CHESLA's 1990 Series A Bonds will be currently refunded by the 2001 Series A Bonds. On November 15, 2001, the outstanding bonds secured by a special capital reserve fund will be \$129.85 million and the Minimum Special Capital Reserve Fund Requirement will be \$8.1 million.

(d) The General Assembly authorized Waterbury to issue up to \$100 million Special Capital Reserve Fund Bonds. The City has issued \$45 million bond anticipation notes under this program. It is anticipated that Special Capital Reserve Fund Bonds will be issued by the City to permanently finance these bond anticipation notes.

## **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, 2001, the State is obligated to various cities, towns and regional districts for \$950 million in aggregate installment payments and \$327 million in aggregate interest subsidy, for a total of \$1,277 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 \$47 million for installment payment grants and approximately \$22 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, 2001 the Commissioner estimates that grant payments under this program will be approximately \$2,200 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 \$41.62 million bonds outstanding under this program with annual debt service of approximately \$3.0 million, of which the Department is committed to pay approximately \$2.4 million.

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 "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, 2001 the future obligation to lottery prize winners is \$765.4 million.

## PENSION AND RETIREMENT SYSTEMS

### State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 54,867 active members, 1,370 inactive (vested) members and 32,275 retired members as of June 30, 2001. 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, 2001 approximately 53.8% 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. As of July 1, 2001 approximately 21.6% of the total workforce was covered under the Tier IIA Plan.

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. As of June 30, 2001 the market value of the fund's investment assets was \$7,785,125,999.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 10.59% on investment assets over the past ten years (fiscal year 1991-92 through fiscal year 2000-01) and an annualized net return of 10.94% over the past five years (fiscal year 1996-97 through fiscal year 2000-01).

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**

	<b>Year Ending June 30</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
General Fund					
Contributions.....	\$228,072,482	\$227,610,361	\$199,304,785	\$212,947,331	\$257,806,736
Transportation Fund					
Contributions.....	33,469,400	25,740,000	28,419,000	27,636,000	31,321,880
Federal and other					
(Reimbursements) .....	87,689,000	81,163,459	87,838,000	102,176,999	86,494,566
Employee Contributions....	<u>37,875,580</u>	<u>35,408,824</u>	<u>38,897,333</u>	<u>43,782,742</u>	<u>46,088,785</u>
Total Contributions .....	\$387,106,462	\$369,922,644	\$354,459,118	\$386,543,072	421,711,967
Investment Income <sup>(a)</sup> .....	220,849,433	242,206,972	245,642,870	286,587,354	276,494,999
Net Realized Gains (Losses)	(107,532,938) <sup>(b)</sup>	357,937,509 <sup>(c)</sup>	1,350,241	299,651,658	(2,140,298)
Benefits Paid .....	450,283,000 <sup>(d)</sup>	550,802,000 <sup>(d)</sup>	572,003,425 <sup>(d)</sup>	596,333,139	619,174,473

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

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

(c) 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.

(d) 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, 2001, there were approximately 53,000 active and former employees with accrued and accruing benefits and approximately 21,679 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 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. As of June 30, 2001 the market value of the fund's investment assets was \$11,203,966,581.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 10.66% on investment assets over the past ten years (fiscal year 1991-92 through fiscal year 2000-01) and an annualized net return of 11.06% over the past five years (fiscal year 1996-97 through fiscal year 2000-01).

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**

	<b>Year Ending June 30</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
General Fund					
Contributions.....	\$147,884,700	\$179,365,000	\$188,334,000	\$204,445,443	\$214,665,698
Employee					
Contributions <sup>(a)</sup> .....	<u>149,349,291</u>	<u>155,242,385</u>	<u>154,682,000</u>	<u>168,207,183</u>	<u>173,884,438</u>
Total Contributions .....	\$297,233,991	\$334,607,385	\$343,016,000	\$372,652,626	\$388,550,136
Investment Income <sup>(b)</sup> .....	310,312,287	337,652,602	347,734,968	410,683,507	399,305,587
Net Realized Gains (Losses)	(156,146,313) <sup>(c)</sup>	510,763,178 <sup>(d)</sup>	777,827	461,947,176	(3,335,159)
Benefits Paid .....	478,327,334	523,035,137	562,962,086	630,885,706	690,674,530

- (a) Includes municipal contributions under early retirement incentive programs (\$7,062,072 during the 2001 fiscal year); does not include employee contributions to the Teacher's Retirement Health Insurance Fund (\$26,109,591 during the 2001 fiscal year).
- (b) Investment Income (exclusive of net realized gains and losses).
- (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, 2001, there were approximately 237 active members of these plans and approximately 243 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, 2001, approximately 62,069 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2000-01 was \$171.5 million. Of this amount, \$159.5 million was paid from the General Fund and \$12.3 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, 2001, a total of 32,225 retirees were eligible to receive such benefits; and, a total of 30,941 retirees and 22,968 retirees, respectively, were actually receiving health care benefits and life insurance benefits. For the fiscal year 2000-01, \$174.0 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 2001-02, \$205.0 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: \$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; \$9,440,747 was expended for fiscal year 2000-01; and \$11,471,800 has been appropriated for fiscal year 2001-02. 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 years 1999-00 and 2000-01 and the total appropriations for fiscal year 2001-02, expenditures of \$4,323,636 for fiscal year 1999-00 and \$4,454,670 for fiscal year 2000-01 and appropriations of \$5,280,000 for fiscal year 2001-02 are attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

### **Additional Information**

The June 30, 2001 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.

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. A hearing about whether the State is still complying with the Supreme Court's ruling and what order, if any, should issue has been scheduled for April, 2002.

*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. The trial in this case took place in March 2001. No decision has been rendered.

*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. The municipalities have been dismissed from the action for lack of standing. Trial has been scheduled for November, 2002.

**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.

**Doe v. State** is a Federal District Court action brought in October 2000 on behalf of all juveniles who have been strip searched at the State's juvenile detention centers. The plaintiffs claim that the blanket policy of strip searching all juveniles upon arrival at the detention centers is unconstitutional. A motion for class certification is currently pending. The plaintiffs seek damages, declaratory and injunctive relief, plus attorneys' fees and costs.

**Foreman v. State** is a Federal District Court action brought in January 2001 challenging the policy and/or practice of strip searching all adult inmates arriving at correctional centers, including temporary surrenders, regardless of whether there is a reasonable suspicion that the person might be carrying weapons or contraband. The complaint purports to be brought on behalf of a class of similarly situated individuals, and seeks damages, declaratory and injunctive relief, plus attorneys' fees and costs..

**Association for Retarded Citizens of Connecticut, Inc. v. O'Meara** is a Federal District Court action brought in October 2001 alleging that the State of Connecticut's Department of Mental Retardation is in violation of applicable Medicaid law and Title II of the Americans With Disabilities Act, along with other federal law, by maintaining a waiting list for Medicaid services of approximately 1600 Medicaid eligible persons. The suit also alleges that the Department of Mental Retardation's placement of persons in quasi-institutional settings, without first allowing them to choose a more integrated community setting, violates federal law. The case seeks mandatory injunctive relief, attorneys' fees and costs.

While the various cases described in this paragraph involving alleged **Indian Tribes** do not specify the monetary damages sought from the State, the cases are mentioned because they claim State land and/or 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 and Orange. An additional suit has been filed by the alleged Schaghticoke Indian Tribe claiming privately and town held lands in the Town of Kent. The State is not a party to that action. It is possible that other such land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. 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, and the case is presently pending in the United States District Court.

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## GOVERNMENTAL ORGANIZATION AND SERVICES

### Introduction

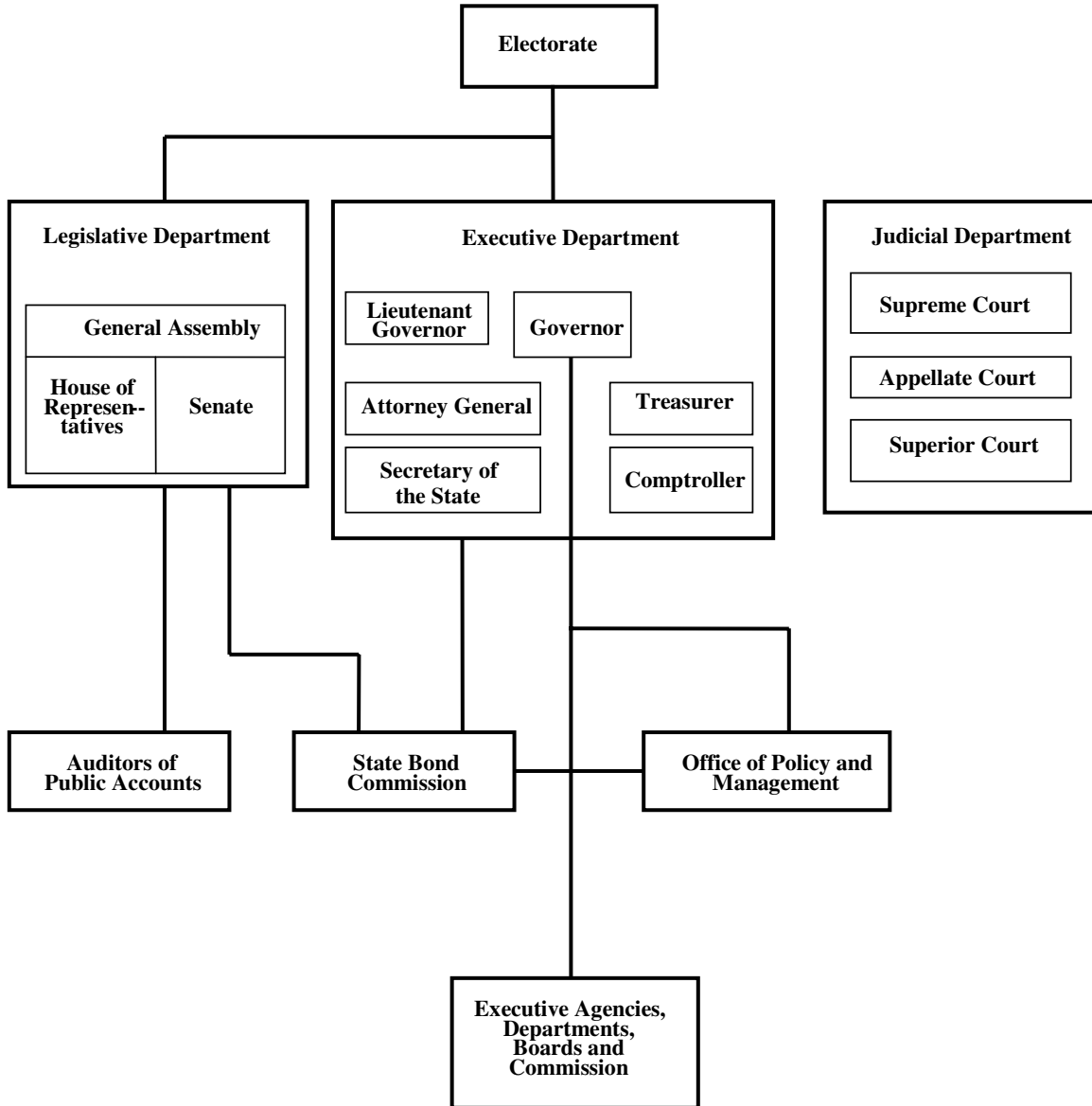
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General 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 took 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 may delegate 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 157 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<sup>(a)</sup>**  
**By Function of Government**

<u>Function Headings<sup>(b)</sup></u>	<u>1997<sup>(c)</sup></u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Legislative .....	415	427	438	434	447
General Government .....	3,960	3,745	3,853	3,910	3,910
Regulation and Protection .....	4,376	4,200	4,319	4,550	4,592
Conservation and Development.....	1,410	1,399	1,420	1,463	1,457
Health and Hospitals.....	8,444	8,280	8,709	8,747	8,635
Transportation .....	3,790	3,675	3,610	3,643	3,626
Human Services.....	2,477	2,347	2,391	2,375	2,332
Education, Libraries and Museums .	12,990	13,494	14,130	14,357	14,921
Corrections .....	9,856	9,346	9,454	10,027	9,956
Judicial .....	<u>2,852</u>	<u>2,971</u>	<u>3,068</u>	<u>3,224</u>	<u>3,342</u>
<b>Totals</b> .....	50,570	49,884	51,392	52,730	53,218

(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 is shown in **Table A-5**.

(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, 2001<sup>(a)</sup>**  
**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	447						447
General Government	3,097	12	9	436	36	320	3,910
Regulation and Protection	2,177	675	603	175	953	9	4,592
Conservation and Development	734		7	292	304	120	1,457
Health and Hospitals	8,231			79	312	13	8,635
Transportation		3,508		118			3,626
Human Services	1,992		16		310	14	2,332
Education, Libraries and Museums	10,137			4,591	193		14,921
Corrections	9,813			87	56		9,956
Judicial	<u>3,259</u>			<u>12</u>	<u>73</u>		<u>3,342</u>
<b>Totals</b>	39,887	4,195	635	5,790	2,235	476	53,218

(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. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. 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<sup>(a)</sup>**  
**Collective Bargaining Units and**  
**Those Not Covered by Collective Bargaining**

<u><b>Bargaining Unit/Status Group</b></u>	<u><b>Percentage of State Employees Represented<sup>(b)</sup></b></u>	<u><b>Contract Status, if any</b></u>
<u><b>Covered by Collective Bargaining</b></u>		
Administrative Clerical	10.12%	Contract in place through 6/30/2002
Correction Officers	9.31%	Contract in place through 6/30/2001 <sup>(c)</sup>
Maintenance and Service	8.60%	Contract in place through 6/30/2002
Health Care Non-Professionals	8.45%	Contract in place through 6/30/2005
Social and Human Services	7.53%	Contract in place through 6/30/2002
Administrative and Residual	6.16%	Contract in place through 6/30/2003
Engineering, Scientific and Technical	5.04%	Contract in place through 6/30/2001 <sup>(d)</sup>
Health Care Professionals	4.87%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.25%	Contract in place through 6/30/2002
Judicial Employees	2.65%	Contract in place through 6/30/2002
University of Connecticut Faculty	2.42%	Contract in place through 6/30/2002
Connecticut State University Faculty	2.32%	Contract in place through 6/30/2002
University of Connecticut Professional Employee Association	2.28%	Contract in place through 6/30/2005
State Police	2.17%	Contract in place through 6/30/2004
Congress of Connecticut Community Colleges	2.14%	Contract in place through 6/30/2002
Vocational Technical School Teachers	2.00%	Contract in place through 6/30/2003
Education Professionals (Institutions)	1.81%	Contract in place through 6/30/2001 <sup>(c)</sup>
Judicial Professionals	1.80%	Contract in place through 6/30/2002
Protective Services	1.67%	Contract in place through 6/30/2004
<u><b>Other Bargaining Units (11 units)</b></u>	<u><b>3.02%</b></u>	Varies by Unit
<b>Total Covered by Collective Bargaining</b>	<b>87.61%</b>	
<u><b>Not Covered by Collective Bargaining</b></u>		
Auditors of Public Accounts	0.19%	Not Applicable
<u><b>Other Employees</b></u>	<u><b>12.20%</b></u>	Not Applicable
<b>Total Not Covered by Collective Bargaining</b>	<b>12.39%</b>	
<b>Total Full Time Work Force</b>	<b>100.00%</b>	

(a) PA 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. The group of employees has chosen to bargain collectively and are currently in negotiations after a referendum in November 2000 to determine that the employees will be transferred to the Judicial Branch.

(b) Percentage expressed reflects approximately 53,218 filled full-time positions as of June 30, 2001.

(c) The State and the bargaining unit are currently in arbitration for a successor agreement.

(d) The arbitration award for the successor four year contract has been issued by the arbitrator but has not yet been taken up by the General Assembly.

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<sup>(a)(b)</sup>**

<p><b><u>Legislative</u></b>            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><b><u>General Government</u></b>            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><b><u>Regulation and Protection</u></b>            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            Office of Managed Care Ombudsman            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><b><u>Conservation and Development</u></b>            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><b><u>Health and Hospitals</u></b>            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><b><u>Transportation</u></b>            Department of Transportation</p> <p><b><u>Human Services</u></b>            Department of Social Services            Soldiers’, Sailors’, and Marines’ Fund</p> <p><b><u>Education, Libraries and Museums</u></b>            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><b><u>Corrections</u></b>            Department of Correction            Board of Pardons            Board of Parole            Department of Children and Families            Council to Administer Children’s Trust Fund            County Sheriffs</p> <p><b><u>Judicial</u></b>            Judicial Department            Public Defenders Services Commission            State Marshal Commission</p>
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- (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, 2001.

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 a population count of 3,405,565 in April 2000. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially during the past three decades. The following table presents the population trends of Connecticut, New England and the United States since 1940. (Estimated mid-year population figures from 1991 through 1999 have not yet been revised to take the 2000 census into account.)

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 Census	1,709	%	8,437	%	132,165	%
1950 Census	2,007	17.4	9,314	10.4	151,326	14.5
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
1991....	3,289	0.0	13,201	(0.1)	252,153	1.1
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: 1940-2000, April 1 Census. Figures are for census comparison purposes.  
1991-1999, Mid-year estimates.

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

The State is highly urbanized with a 2000 population density of 703 persons per square mile, as compared with 80 for the United States as a whole and 222 for the New England region. More than 80% of the population resides within the State's four largest metropolitan areas of Hartford, Waterbury, Bridgeport and New Haven.

**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 been acquired by SBC Communications, Inc., Woodbury Telephone Company (a wholly-owned subsidiary of SNET) and Verizon New York Inc. Connecticut also has approximately 130 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. This dependence is greatest in the transportation sector. Connecticut also relies on heating oils in both the residential and commercial sectors, and is reliant on residual oils and diesel fuels for the production of electricity. This petroleum dependence can make Connecticut particularly affected by developments in the oil commodity markets. Events that affect the international or domestic production of oil, the domestic and international refining capabilities, or the transportation of petroleum products within the United States or into the New England region can have an effect on Connecticut's local oil markets.

### 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 1991 to 2000 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> <sup>(a)</sup>	<u>New England</u>	<u>United States</u>
1991.....	88,344	26,775	115.4	133.6
1992.....	93,779	28,446	117.0	135.6
1993.....	96,867	29,309	117.2	136.0
1994.....	99,788	30,130	116.1	134.8
1995.....	104,315	31,423	116.1	135.0
1996.....	109,354	32,814	115.7	135.1
1997.....	116,420	34,803	116.2	136.9
1998.....	123,902	37,190	116.7	138.2
1999.....	129,780	38,506	115.6	138.2
2000.....	138,334	40,870	114.1	138.8

(a) The Census Bureau has not yet released intercensal population estimates that incorporate the results of the 2000 Decennial Census. BEA converted the April 1, 2000 Census Bureau population counts to a midyear 2000 basis and derived an interim set of population estimates for 1991-99 that are consistent with 1990 and 2000 population data. BEA has developed population estimates and incorporated them into interim state per capita personal income estimates.

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**  
**Annual Growth Rates in Personal Income By Place of Residence**

<u>Calendar Year</u>	<u>Conn.</u> <u>(Current)</u>	<u>New England</u> <u>(Current)</u>	<u>U.S.</u> <u>(Current)</u>	<u>Conn.</u> <u>(Constant)</u>	<u>New England</u> <u>(Constant)</u>	<u>U.S.</u> <u>(Constant)</u>
1991	0.5%	1.4%	4.1%	(3.1)%	(2.1)%	0.4%
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	6.5%	6.3%	6.0%	4.4 %	4.2 %	3.9%
1998	6.4%	6.8%	7.0%	5.1 %	5.5 %	5.7%
1999	4.7%	6.0%	4.7%	3.3 %	4.5 %	3.3%
2000	6.6%	8.4%	7.0%	4.2 %	6.0 %	4.6%

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 2000.

**TABLE B-4**  
**Sources of Personal Income By Place of Residence**  
**Calendar 2000**  
**(In Millions)**

	<u>Conn.</u>	<u>Percent</u> <u>of Total</u>	<u>U.S.</u>	<u>Percent</u> <u>of Total</u>
Wages in Non-manufacturing .....	\$ 68,302	49.37	\$4,007,100	48.17
Property Income (Div., Rents & Int.) .....	24,568	17.76	1,521,400	18.29
Wages in Manufacturing .....	17,200	12.33	830,125	9.98
Transfer Payments less Social Insurance Paid.....	8,879	6.42	711,400	8.55
Other Labor Income .....	8,432	6.10	534,150	6.42
Proprietor's Income.....	<u>10,953</u>	<u>7.92</u>	<u>714,950</u>	<u>8.59</u>
Personal Income—Total.....	\$138,334	100.00	\$8,319,125	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 and 1999.

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<sup>(a)</sup></u>		<u>United States<sup>(b)</sup></u>	
	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>
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	103,794	3.4	357,145	3.8	6,209,096	5.3
1993	107,924	4.0	373,298	4.5	6,513,026	4.9
1994	112,395	4.1	394,406	5.7	6,930,791	6.4
1995	118,645	5.6	416,166	5.5	7,309,516	5.5
1996	124,157	4.6	439,596	5.6	7,715,901	5.6
1997	134,968	8.7	471,336	7.2	8,224,960	6.6
1998	143,191	6.1	504,155	7.0	8,752,363	6.4
1999	151,779	6.0	542,347	7.6	9,308,983	6.4

(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>
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	114,830	0.2	391,385	0.8	6,774,505	2.4
1993	115,725	0.8	397,470	1.6	6,918,388	2.1
1994	117,489	1.5	410,014	3.2	7,203,002	4.1
1995	120,792	2.8	422,524	3.1	7,433,965	3.2
1996	124,157	2.8	439,596	4.0	7,715,901	3.8
1997	132,620	6.8	463,498	5.4	8,093,396	4.9
1998	138,749	4.6	489,127	5.5	8,507,978	5.1
1999	145,274	4.7	520,092	6.3	8,934,066	5.0

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 1999, 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)**

<u>Sector</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>	<u>1999</u>
Manufacturing	19,949	19,901	19,452	18,420	18,983	20,017	21,233	22,998	24,270	25,048
Construction <sup>(a)</sup>	4,131	3,544	3,493	3,594	3,670	3,904	3,929	4,285	4,675	5,067
Agriculture <sup>(b)</sup>	701	660	734	819	802	771	845	874	965	1,038
Utilities <sup>(c)</sup>	6,722	6,803	7,212	7,622	8,026	8,407	8,192	8,315	8,676	9,020
Wholesale Trade	6,574	6,762	7,013	7,008	7,377	7,747	8,136	9,126	9,529	9,750
Retail Trade	8,528	8,361	8,340	8,553	8,835	9,026	9,347	10,100	10,908	12,213
Finance <sup>(d)</sup>	23,814	25,258	26,607	29,173	29,797	32,221	34,073	37,892	40,765	43,623
Services <sup>(e)</sup>	19,148	19,470	20,995	22,488	24,205	25,577	27,063	29,652	31,253	33,389
Government	<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>11,726</u>	<u>12,150</u>	<u>12,631</u>
Total GSP	98,939	100,395	103,794	107,924	112,395	118,645	124,157	134,968	143,191	151,779

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 1991 and 2000.

**TABLE B-8**  
**Non-agricultural Employment<sup>(a)</sup>**  
**(In Thousands)**

Calendar Year	Connecticut		New England		United States	
	Employment	Percent Growth	Employment	Percent Growth	Employment	Percent Growth
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	1,583.7	1.40	6,432.4	1.65	119,590	2.05
1997	1,612.7	1.83	6,575.5	2.22	122,675	2.58
1998	1,642.9	1.87	6,721.0	2.21	125,845	2.58
1999	1,668.5	1.56	6,853.1	1.97	128,903	2.43
2000	1,693.2	1.48	7,012.4	2.32	131,755	2.21

(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 2000.

**TABLE B-9**  
**Connecticut Non-agricultural Employment, 2000**  
**(In Thousands)**

	Connecticut		United States	
	Total	%	Total	%
Services <sup>(a)</sup>	537.1	31.72	40,460	30.71
Trade <sup>(b)</sup>	365.3	21.57	30,330	23.02
Manufacturing	262.3	15.49	18,470	14.02
Government	242.0	14.29	20,675	15.69
Finance <sup>(c)</sup>	141.2	8.34	7,563	5.74
Utilities <sup>(d)</sup>	79.2	4.68	7,017	5.33
Construction <sup>(e)</sup>	66.1	3.91	7,240	5.49
	<u>1,693.2</u>	<u>100.00</u>	<u>131,755</u>	<u>100.00</u>

(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> <sup>(a)</sup>	<u>Services</u> <sup>(b)</sup>	<u>Government</u>	<u>Finance</u> <sup>(c)</sup>	<u>Utilities</u> <sup>(d)</sup>	<u>Construction</u> <sup>(e)</sup>	<u>Total Non-agricultural Employment</u> <sup>(f)</sup>
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	48.54	1,531.08
1994	285.29	335.24	449.84	217.23	135.72	70.46	49.99	1,543.76
1995	279.06	341.07	465.16	220.87	133.04	71.28	51.32	1,561.80
1996	274.79	347.05	480.52	222.85	131.73	73.58	53.15	1,583.67
1997	276.08	351.64	495.11	225.71	132.15	74.96	57.06	1,612.71
1998	276.87	355.73	510.70	227.64	136.49	75.81	59.62	1,642.86
1999	268.29	359.20	526.16	235.13	140.04	77.54	62.10	1,668.46
2000	262.30	365.32	537.12	241.98	141.21	79.24	66.06	1,693.23

(a) Includes wholesale and retail trade.

(b) Covers a considerable variety of activities, including professional, business and personal services.

(c) Includes finance, insurance and real estate.

(d) Includes transportation, communications, electric and gas.

(e) Includes mining.

(f) 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)**

<u>Calendar</u> <u>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>
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	274.8	(1.54)	1,040.4	(0.83)	18,498	(0.15)
1997	276.1	0.47	1,045.6	0.50	18,673	0.95
1998	276.9	0.29	1,046.4	0.08	18,803	0.70
1999	268.3	(3.11)	1,017.4	(2.77)	18,555	(1.32)
2000	262.3	(2.24)	1,010.6	(0.67)	18,470	(0.46)

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 machinery for the total number employed in 2000.

**TABLE B-12**  
**Manufacturing Employment**  
**By Industry**  
**(In Thousands)**

<b>Calendar</b>	<b>Transportation</b>	<b>Fabricated</b>	<b>Nonelectrical</b>	<b>Electrical</b>	<b>Other<sup>(a)</sup></b>	<b>Total</b>
<b><u>Year</u></b>	<b><u>Equipment</u></b>	<b><u>Metals</u></b>	<b><u>Machinery</u></b>	<b><u>Machinery</u></b>		<b><u>Manufacturing</u></b>
1991	77.93	34.49	39.50	31.09	139.41	322.42
1992	70.53	33.35	37.15	29.11	135.57	305.71
1993	62.92	33.57	36.15	28.06	133.45	294.15
1994	56.87	33.96	35.33	27.68	131.45	285.29
1995	52.68	34.29	35.09	27.73	129.27	279.06
1996	50.61	34.00	34.93	28.26	126.99	274.79
1997	50.12	34.63	34.65	28.80	127.88	276.08
1998	50.29	35.27	34.69	26.87	127.95	276.87
1999	48.25	34.01	33.15	26.87	126.01	268.29
2000	45.27	33.65	32.79	27.04	123.55	262.30

(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 322,420 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 262,300 in 2000. The total number of manufacturing jobs dropped 60,120 and 18.6% for the ten year period since 1991.

**Exports.** In Connecticut, the export sector of manufacturing has assumed an increasingly important role in overall economic growth. From 1995 to 2000, the State's export of goods grew at an average annual rate of 5.9%. The following table shows the growth in exports of manufacturing products.

**TABLE B-13**  
**Exports Originating in Connecticut**  
**(In Millions)**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>% of 2000 Total</u>	<u>Average % Growth 1995-2000</u>
<b>A. Manufacturing Products</b>								
Chemicals	753.4	679.5	594.5	588.7	570.5	634.3	7.3	(3.0)
Primary Metals	278.4	226.6	390.5	244.5	259.7	313.9	3.6	8.7
Fabricated	301.9	355.7	333.9	291.9	318.5	359.7	4.2	4.2
Nonelectrical	825.0	783.7	994.7	954.1	972.1	1,144.0	13.2	7.5
Electrical	669.9	710.6	747.6	615.1	593.4	778.0	9.0	4.2
Transportation	1,712.5	1,907.0	2,261.2	3,002.1	2,761.9	3,298.2	38.1	14.8
Instrument	667.9	754.6	919.1	940.9	1,008.2	790.7	9.1	4.5
Waste & Scrap	119.0	136.9	152.8	127.4	93.9	94.7	1.1	(3.1)
Others	<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>1,234.9</u>	<u>14.4</u>	<u>0.4</u>
<b>Total</b>	6,545.1	6,829.5	7,784.4	8,112.3	7,877.7	8,648.4	100.0	5.9
% Growth	2.4	4.3	14.0	4.2	(2.9)	9.8		
<b>B. Gross State Product<sup>(a)</sup></b>	118,645	124,157	134,968	143,191	151,779	163,405 <sup>(b)</sup>		
Mfg Exports as a % of GSP	5.5	5.5	5.8	5.7	5.2	5.3		

(a) In millions.

(b) GSP for 2000 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 2000, Connecticut received \$2,177.5 million of prime contract awards. This accounted for 1.8% of national total awards and ranked seventeenth in total defense dollars awarded and ninth in per capita dollars awarded among the 50 states. In fiscal year 2000, Connecticut had \$639 in per capita defense awards, compared to the national average of \$439. 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 1.8% of Gross State Product in fiscal 2000, down from 5.1% of Gross State Product in fiscal year 1991. The reduction in 2000 was primarily due to lower awards for supplies and equipment for naval ships.

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>
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
1999-2000	2,177,462	17th	(31.3)	7.3

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 84.5% by 2000. This trend has decreased the State's dependence on manufacturing.

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>
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	1,282.8	1.93	5,263.6	2.61	98,658	2.97
1996	1,308.9	2.03	5,392.0	2.44	101,095	2.47
1997	1,336.6	2.12	5,529.8	2.56	104,008	2.88
1998	1,366.0	2.20	5,674.7	2.62	107,043	2.92
1999	1,400.2	2.50	5,835.7	2.84	110,343	3.08
2000	1,430.9	2.19	6,001.8	2.85	113,288	2.67

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 1991, 1998, 1999 and 2000 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 1991</u>	<u>Calendar 1998</u>	<u>Calendar 1999</u>	<u>Calendar 2000</u>	<u>Percent Change 1999-2000</u>	<u>Percent Change 1991-2000</u>
Construction <sup>(a)</sup>	52.24	59.64	61.12	66.07	6.36	26.47
Transportation	40.94	43.64	44.53	46.38	4.15	13.29
Communications	18.17	18.94	18.75	18.98	1.23	4.46
Utilities	13.30	12.39	12.45	12.68	1.85	(4.66)
Wholesale Trade	65.27	86.54	86.18	87.74	1.81	34.43
Retail Trade	274.30	269.19	273.02	277.59	1.67	1.20
Finance and Real Estate	65.65	67.12	69.72	69.29	(0.62)	5.54
Insurance	81.85	69.37	70.32	71.92	2.28	(12.13)
Services <sup>(b)</sup>	415.83	510.70	526.16	537.12	2.08	29.17
Federal Government	26.18	22.60	22.34	22.44	0.45	(14.29)
State and Local Government	<u>179.00</u>	<u>205.86</u>	<u>214.59</u>	<u>220.73</u>	<u>2.86</u>	<u>23.31</u>
Total Non-manufacturing Employment <sup>(c)</sup>	1,232.73	1,365.99	1,400.18	1,430.94	2.20	16.08

(a) Includes mining.

(b) Covers a considerable variety of activities, including professional and business services.

(c) 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)**

	<b>Fiscal Year <u>1996</u></b>	<b>Fiscal Year <u>1997</u></b>	<b>Fiscal Year <u>1998</u></b>	<b>Fiscal Year <u>1999</u></b>	<b>Fiscal Year <u>2000</u></b>	<b>% Of Fiscal Year 2000 Total</b>	<b>Average % Growth Fiscal Year <u>1996-2000</u></b>
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>
<b>Total<sup>(a)</sup></b>	<b>\$33,197</b>	<b>\$35,371</b>	<b>\$37,891</b>	<b>\$39,836</b>	<b>\$42,630</b>	<b>100.0</b>	<b>6.5</b>
<b>% Change from Previous Year</b>	<b>4.8</b>	<b>6.5</b>	<b>7.1</b>	<b>5.1</b>	<b>7.0</b>		
<b>Durables (SIC 52,55,57)</b>	<b>\$11,462</b>	<b>\$12,648</b>	<b>\$13,499</b>	<b>\$14,294</b>	<b>\$15,429</b>	<b>36.2%</b>	<b>7.7%</b>
<b>% Change from Previous Year</b>	<b>4.8</b>	<b>10.3</b>	<b>6.7</b>	<b>5.9</b>	<b>7.9</b>		
<b>Non Durables (all other SICs)</b>	<b>\$21,735</b>	<b>\$22,723</b>	<b>\$24,392</b>	<b>\$25,542</b>	<b>\$27,201</b>	<b>63.8%</b>	<b>5.8%</b>
<b>% Change from Previous Year</b>	<b>4.7</b>	<b>4.5</b>	<b>7.3</b>	<b>4.7</b>	<b>6.5</b>		

(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 1991, 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 2.3% in 2000 and is averaging 2.2% for the first six months of 2001, well below the national average of 4.0% and 4.4%, 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 1991 and the first half of 2001. Connecticut's unemployment rate of 2.2% for the first half of 2001 is below the national average of 4.4%.

**TABLE B-18**  
**Unemployment Rate**

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
1991	6.8	8.0	6.9
1992	7.6	8.0	7.5
1993	6.3	6.8	6.9
1994 <sup>(a)</sup>	5.6	5.9	6.1
1995	5.5	5.4	5.6
1996	5.7	4.8	5.4
1997	5.1	4.4	5.0
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.3	2.8	4.0
2001 <sup>(b)</sup>	2.2	2.9	4.4

- (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.

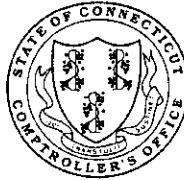
SOURCE: United States Department of Labor, Bureau of Labor Statistics  
Connecticut State Labor Department  
Federal Reserve Bank of Boston

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## APPENDIX III-C

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NANCY WYMAN  
COMPTROLLER

**STATE OF CONNECTICUT**  
OFFICE OF THE STATE COMPTROLLER  
55 ELM STREET  
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN  
DEPUTY COMPTROLLER

February 22, 2002

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, 2001. 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 cursive script that reads "Nancy Wyman".

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

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, 2001, 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 account within the Transportation Fund, or the Drinking Water Fund-Federal Account within the Environmental Programs Fund, which represent 29 percent and 72 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 84 percent and 98 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 five 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 37 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 auditing standards generally accepted in the United States of America. In addition, the audits of the Bradley International Airport, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Connecticut Development Authority, Connecticut Lottery Corporation, Connecticut Innovations Incorporated, Clean Water Fund and Drinking Water Fund-Federal Account, 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 auditing standards generally accepted in the United States of America 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, 2001, 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 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.

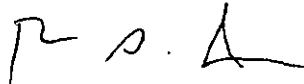
As discussed in Note 22 to the financial statements, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying 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

December 31, 2001  
State Capitol  
Hartford, Connecticut

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*General  
Purpose  
Financial  
Statements*

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## STATE OF CONNECTICUT

**Combined Balance Sheet**  
**All Fund Types, Account Groups, and**  
**Discretely Presented Component Units**  
 June 30, 2001  
 (Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Assets and Other Debits:</b>						
Cash and Cash Equivalents.....	\$ 735,755	\$ 553,122	\$ -	\$ 150,875	\$ 68,522	\$ 15,432
<b>Investments:</b>						
Equity in Combined Investment Funds.....	-	-	-	-	-	-
External Investment Pool.....	-	-	-	-	-	-
Other.....	50,460	24,123	-	-	568,934	-
Securities Lending Collateral.....	-	-	-	-	-	-
<b>Receivables:</b>						
Taxes.....	891,171	37,859	-	-	-	-
Accounts, Net of Allowances.....	234,018	8,336	-	2,270	45,321	8,569
Tuition.....	-	-	-	-	-	-
Loans, Net of Allowances.....	1,636	313,684	-	-	80,006	-
Interest.....	-	167	5,409	-	20,007	-
Notes Receivable.....	-	-	-	-	-	-
Federal Grants Receivable.....	62,074	14,094	-	9,732	1,677	-
Non-Federal Grants Receivable.....	6,554	8,318	-	-	-	-
Deposits with U.S. Treasury.....	-	-	-	-	-	-
Due From Other Funds.....	22,911	25,475	-	13,678	1,061	3,775
Due From Component Units.....	-	-	-	-	-	-
Due From Primary Government.....	-	-	-	-	-	-
Advances To Other Funds.....	4,950	-	-	-	-	-
Receivable From Other Governments.....	496,585	18,654	-	50,675	-	-
Inventories and Prepaid Items.....	36,232	13,142	-	-	5,935	5,323
Restricted Assets.....	-	-	562,131	-	305,320	-
Property, Plant & Equipment.....	-	-	-	-	249,957	50,208
Other Assets.....	-	-	-	-	15,924	569
<b>Other Debits:</b>						
Amount Available for Debt Retirement.....	-	-	-	-	-	-
Amount to be Provided for Debt Retirement.....	-	-	-	-	-	-
<b>Total Assets and Other Debits.....</b>	<b>\$ 2,542,346</b>	<b>\$ 1,016,974</b>	<b>\$ 567,540</b>	<b>\$ 227,230</b>	<b>\$ 1,362,664</b>	<b>\$ 83,876</b>
<b>Liabilities, Equity and Other Credits:</b>						
<b>Liabilities:</b>						
Accounts Payable and Accrued Liabilities.....	\$ 1,050,733	\$ 55,012	\$ -	\$ 109,263	\$ 150,585	\$ 31,623
Due To Other Funds.....	69,435	5,592	5,409	47,985	14,789	390
Due To Primary Government.....	-	-	-	-	-	-
Due To Component Units.....	151	19,209	-	-	-	-
Advances From Other Funds.....	-	-	-	-	-	4,950
Payable To Other Governments.....	78,708	-	-	-	-	-
Deferred Revenue.....	480,893	29,593	7,315	1,547	384	353
Escrow Deposits.....	-	-	-	-	-	-
Notes and Loans Payable.....	-	-	-	-	-	-
Securities Lending Obligation.....	-	-	-	-	-	-
Agency Deposit Liabilities.....	-	-	-	-	-	-
General Obligation Bonds.....	-	-	-	-	-	-
Transportation Related Bonds.....	-	-	-	-	-	-
Expendable Trust Fund Obligations.....	-	-	-	-	-	-
Revenue Bonds.....	-	-	-	-	422,026	-
Capital Leases.....	-	-	-	-	-	-
Claims and Judgements.....	-	-	-	-	-	-
Compensated Absences.....	-	-	-	-	6,756	5,428
Net Pension Obligation.....	-	-	-	-	-	-
Workers Compensation Liability.....	-	-	-	-	-	-
Liability for Landfill Closure Costs.....	-	-	-	-	-	-
Amount Held for Institutions.....	-	-	-	-	-	-
Liability for Escheat Property.....	48,717	-	-	-	-	-
Malpractice Liability.....	-	-	-	-	9,551	-
Long-Term Annuities Payable.....	-	-	-	-	451,339	-
<b>Total Liabilities.....</b>	<b>1,728,637</b>	<b>109,406</b>	<b>12,724</b>	<b>158,795</b>	<b>1,055,430</b>	<b>42,744</b>
<b>Equity and Other Credits:</b>						
Investment in Fixed Assets.....	-	-	-	-	-	-
Contributed Capital.....	-	-	-	-	108,322	1,380
<b>Retained Earnings:</b>						
Reserved.....	-	-	-	-	30,553	-
Unreserved.....	-	-	-	-	168,359	39,752
<b>Fund Balances:</b>						
Reserved.....	1,595,555	382,069	554,816	-	-	-
Unreserved, undesignated.....	(781,846)	525,499	-	68,435	-	-
<b>Total Equity and Other Credits.....</b>	<b>813,709</b>	<b>907,568</b>	<b>554,816</b>	<b>68,435</b>	<b>307,234</b>	<b>41,132</b>
<b>Total Liabilities, Equity and Other Credits.....</b>	<b>\$ 2,542,346</b>	<b>\$ 1,016,974</b>	<b>\$ 567,540</b>	<b>\$ 227,230</b>	<b>\$ 1,362,664</b>	<b>\$ 83,876</b>

The accompanying notes are an integral part of the financial statements.

STATE OF CONNECTICUT

Fiduciary Fund Types	Account Groups		Higher Education Funds	Total Primary Government (Memorandum only)	Component Units	Total Reporting Entity (Memorandum only)
	General Fixed Assets	General Long-Term Debt				
Trust and Agency						
\$ 240,106	\$ -	\$ -	\$ 431,383	\$ 2,195,195	\$ 284,450	\$ 2,479,645
20,592,619	-	-	591	20,593,210	-	20,593,210
1,416,686	-	-	-	1,416,686	-	1,416,686
110,427	-	-	210,322	964,266	551,101	1,515,367
1,483,679	-	-	-	1,483,679	-	1,483,679
-	-	-	-	929,030	-	929,030
112,162	-	-	105,525	516,201	14,574	530,775
-	-	-	910	910	-	910
591,469	-	-	30,719	1,017,514	3,208,496	4,226,010
12,660	-	-	-	38,243	36,058	74,301
-	-	-	-	-	222	222
209	-	-	-	87,786	-	87,786
-	-	-	-	14,872	-	14,872
733,670	-	-	-	733,670	-	733,670
46,430	-	-	97,223	210,553	-	210,553
-	-	-	36,215	36,215	-	36,215
-	-	-	-	-	19,360	19,360
-	-	-	-	4,950	-	4,950
3,474	-	-	-	569,388	-	569,388
5,170	-	-	19,099	84,901	95	84,996
505,852	-	-	-	1,373,303	767,333	2,140,636
-	4,060,881	-	2,245,024	6,606,070	260,941	6,867,011
576,417	-	-	8,058	600,968	46,637	647,605
-	-	575,512	-	575,512	-	575,512
-	-	14,227,201	-	14,227,201	-	14,227,201
<u>\$ 26,431,030</u>	<u>\$ 4,060,881</u>	<u>\$ 14,802,713</u>	<u>\$ 3,185,069</u>	<u>\$ 54,280,323</u>	<u>\$ 5,189,267</u>	<u>\$ 59,469,590</u>
\$ 29,442	\$ -	\$ -	\$ 152,708	\$ 1,579,366	\$ 77,526	\$ 1,656,892
57,636	-	-	9,317	210,553	-	210,553
-	-	-	-	-	36,215	36,215
-	-	-	-	19,360	-	19,360
-	-	-	-	4,950	-	4,950
-	-	-	-	78,708	-	78,708
19,378	-	-	34,024	573,687	5,770	579,457
-	-	-	-	-	127,551	127,551
-	-	-	9,352	9,352	-	9,352
1,483,679	-	-	-	1,483,679	-	1,483,679
722,957	-	-	6,587	729,544	-	729,544
-	-	7,730,235	-	7,730,235	-	7,730,235
-	-	3,100,121	-	3,100,121	-	3,100,121
-	-	248,550	-	248,550	-	248,550
632,373	-	-	294,819	1,349,218	3,591,201	4,940,419
-	-	64,246	-	64,246	-	64,246
-	-	13,110	-	13,110	-	13,110
-	-	308,587	82,970	403,741	-	403,741
-	-	3,011,447	-	3,011,447	-	3,011,447
-	-	326,417	-	326,417	-	326,417
-	-	-	-	-	24,160	24,160
-	-	-	-	-	223,321	223,321
-	-	-	-	48,717	-	48,717
-	-	-	-	9,551	-	9,551
-	-	-	-	451,339	-	451,339
<u>2,945,665</u>	<u>-</u>	<u>14,802,713</u>	<u>589,777</u>	<u>21,445,891</u>	<u>4,085,744</u>	<u>25,531,635</u>
-	4,060,881	-	2,003,194	6,064,075	-	6,064,075
-	-	-	-	109,702	276,306	386,008
-	-	-	-	30,553	593,624	624,177
-	-	-	-	208,111	233,593	441,704
22,396,655	-	-	380,192	25,309,287	-	25,309,287
1,088,710	-	-	211,906	1,112,704	-	1,112,704
<u>23,485,365</u>	<u>4,060,881</u>	<u>-</u>	<u>2,595,292</u>	<u>32,834,432</u>	<u>1,103,523</u>	<u>33,937,955</u>
<u>\$ 26,431,030</u>	<u>\$ 4,060,881</u>	<u>\$ 14,802,713</u>	<u>\$ 3,185,069</u>	<u>\$ 54,280,323</u>	<u>\$ 5,189,267</u>	<u>\$ 59,469,590</u>

STATE OF CONNECTICUT

**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, 2001  
(Expressed in Thousands)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Revenues:</b>				
Taxes.....	\$ 8,666,602	\$ 529,454	\$ -	\$ -
Licenses, Permits and Fees.....	168,868	341,236	-	-
Tobacco Settlement.....	-	112,535	-	-
Intergovernmental.....	3,107,955	171,071	-	392,135
Charges for Services.....	41,608	35,965	-	-
Fines, Forfeits and Rents.....	44,393	24,538	-	-
Casino Gaming Payments.....	332,418	-	-	-
Health Insurance Contributions.....	-	-	-	-
Investment Earnings and Interest on U.S. Deposits.....	65,329	24,752	30,055	-
Assessments.....	-	-	-	-
Miscellaneous.....	246,895	82,902	-	806
<b>Total Revenues.....</b>	<b>12,674,068</b>	<b>1,322,453</b>	<b>30,055</b>	<b>392,941</b>
<b>Expenditures:</b>				
Current:				
Legislative.....	71,146	-	-	-
General Government.....	924,169	253,222	-	-
Regulation and Protection.....	298,866	255,005	-	-
Conservation and Development.....	175,155	250,389	-	-
Health and Hospitals.....	1,479,136	10,421	-	-
Transportation.....	106,956	494,386	-	-
Human Services.....	3,835,560	14,548	-	-
Education, Libraries and Museums.....	2,726,579	136,864	-	-
Health Insurance Payments.....	-	-	-	-
Corrections.....	1,242,149	13,362	-	-
Judicial.....	456,301	11,646	-	-
Capital Projects.....	-	-	-	720,372
Debt Service:				
Principal Retirement.....	579,115	24,778	185,630	-
Refunding Escrow Payment.....	-	-	-	-
Interest and Fiscal Charges.....	377,926	7,355	164,422	-
<b>Total Expenditures.....</b>	<b>12,273,058</b>	<b>1,471,976</b>	<b>350,052</b>	<b>720,372</b>
<b>Excess (Deficiency) of Revenues Over Expenditures.....</b>	<b>401,010</b>	<b>(149,523)</b>	<b>(319,997)</b>	<b>(327,431)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Bonds and Notes.....	-	501,210	-	709,151
Non Cash Bond Issues.....	-	10,399	-	-
Operating Transfers In.....	391,766	182,737	379,749	-
Operating Transfers Out (includes \$7,246 to Component Unit).....	(780,125)	(551,346)	(30,321)	(148,883)
Capital Lease Obligations.....	20,574	14	-	-
Proceeds of Refunding Bonds.....	-	-	543,890	-
Payment to Refunded Bond Escrow Agent.....	-	-	(543,289)	-
<b>Total Other Financing Sources (Uses).....</b>	<b>(367,785)</b>	<b>143,014</b>	<b>350,029</b>	<b>560,268</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses.....</b>	<b>33,225</b>	<b>(6,509)</b>	<b>30,032</b>	<b>232,837</b>
<b>Fund Balances (deficit) - July 1 (as restated).....</b>	<b>781,008</b>	<b>933,555</b>	<b>524,784</b>	<b>(169,986)</b>
Equity Transfer In.....	6,500	-	-	5,584
Equity Transfer Out.....	(5,584)	(6,500)	-	-
Equity Transfer to Component Unit.....	-	(12,337)	-	-
Changes in Reserves for Inventories.....	(1,440)	(641)	-	-
<b>Fund Balances (deficit) - June 30.....</b>	<b>\$ 813,709</b>	<b>\$ 907,568</b>	<b>\$ 554,816</b>	<b>\$ 68,435</b>

The accompanying notes are an integral part of the financial statements.



STATE OF CONNECTICUT

<u>Fiduciary Fund Type</u>	<u>Total (Memorandum only)</u>
<u>Expendable Trust</u>	
\$ 310,340	\$ 9,506,396
-	510,104
-	112,535
11,058	3,682,219
-	77,573
-	68,931
-	332,418
41,942	41,942
72,748	192,884
244,642	244,642
6,003	336,606
<u>686,733</u>	<u>15,106,250</u>
-	71,146
9,860	1,187,251
459,933	1,013,804
-	425,544
-	1,489,557
-	601,342
-	3,850,108
-	2,863,443
39,252	39,252
-	1,255,511
-	467,947
-	720,372
321,695	1,111,218
187,742	187,742
26,809	576,512
<u>1,045,291</u>	<u>15,860,749</u>
<u>(358,558)</u>	<u>(754,499)</u>
144,100	1,354,461
-	10,399
70,930	1,025,182
(56,210)	(1,566,885)
-	20,588
-	543,890
-	(543,289)
<u>158,820</u>	<u>844,346</u>
<u>(199,738)</u>	<u>89,847</u>
1,206,949	3,276,310
-	12,084
-	(12,084)
-	(12,337)
-	(2,081)
<u>\$ 1,007,211</u>	<u>\$ 3,351,739</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, 2001  
(Expressed in Thousands)

	<u>Budget</u>	<u>General Fund Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
<b>Budgeted</b>			
Taxes, Net of Refunds.....	\$ 8,715,300	\$ 8,707,093	\$ (8,207)
Operating Transfers In.....	397,000	396,981	(19)
Casino Gaming Payments.....	332,500	332,418	(82)
Licenses, Permits, and Fees.....	124,400	124,331	(69)
Other.....	275,900	273,002	(2,898)
Federal Grants.....	2,236,900	2,237,045	145
Operating Transfers Out.....	(85,400)	(85,400)	-
<b>Total Budgeted .....</b>	<b>11,996,600</b>	<b>11,985,470</b>	<b>(11,130)</b>
Federal and Other Restricted	1,600,773	900,510	(700,263)
<b>Total Revenues.....</b>	<b>13,597,373</b>	<b>12,885,980</b>	<b>(711,393)</b>
<b>Expenditures:</b>			
<b>Budgeted</b>			
Legislative.....	66,101	55,406	10,695
General Government.....	703,284	511,430	191,854
Regulation and Protection.....	235,885	203,478	32,407
Conservation and Development.....	141,850	83,654	58,196
Health and Hospitals.....	1,150,297	1,092,361	57,936
Transportation.....	83,783	34,857	48,926
Human Services.....	3,602,324	3,537,462	64,862
Education, Libraries, and Museums.....	3,207,329	3,007,391	199,938
Corrections.....	1,022,176	999,052	23,124
Judicial.....	340,904	338,568	2,336
Non Functional.....	2,137,452	2,019,041	118,411
<b>Total Budgeted.....</b>	<b>12,691,385</b>	<b>11,882,700</b>	<b>808,685</b>
Federal and Other Restricted	1,600,773	900,510	700,263
<b>Total Expenditures.....</b>	<b>14,292,158</b>	<b>12,783,210</b>	<b>1,508,948</b>
Appropriations Lapsed.....	96,255	-	(96,255)
<b>Excess (Deficiency) of Revenues Over Expenditures.....</b>	<b>(598,530)</b>	<b>102,770</b>	<b>701,300</b>
<b>Other Financing Sources (Uses):</b>			
Resources for Debt Avoidance.....	-	265,474	265,474
Prior Year Appropriations Carried Forward.....	378,431	378,431	-
Appropriations Continued to Fiscal Year 2001-2002.....	-	(712,430)	(712,430)
Miscellaneous Adjustments.....	-	(3,585)	(3,585)
<b>Total Other Financing Sources (Uses).....</b>	<b>378,431</b>	<b>(72,110)</b>	<b>(450,541)</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses.....</b>	<b>\$ (220,099)</b>	<b>30,660</b>	<b>\$ 250,759</b>
<b>Budgetary Fund Balances (deficit) - July 1.....</b>		<b>1,267,562</b>	
Changes in Reserves.....		145,992	
<b>Budgetary Fund Balances - June 30.....</b>		<b>\$ 1,444,214</b>	

The accompanying notes are an integral part of the financial statements.

## STATE OF CONNECTICUT

<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>
\$ 513,500	\$ 516,073	\$ 2,573	\$ 9,228,800	\$ 9,223,166	\$ (5,634)
82,400	85,400	3,000	479,400	482,381	2,981
-	-	-	332,500	332,418	(82)
326,100	328,052	1,952	450,500	452,383	1,883
105,800	107,075	1,275	381,700	380,077	(1,623)
3,300	3,305	5	2,240,200	2,240,350	150
(3,000)	(3,000)	-	(88,400)	(88,400)	-
<u>1,028,100</u>	<u>1,036,905</u>	<u>8,805</u>	<u>13,024,700</u>	<u>13,022,375</u>	<u>(2,325)</u>
291,909	92,340	(199,569)	1,892,682	992,850	(899,832)
<u>1,320,009</u>	<u>1,129,245</u>	<u>(190,764)</u>	<u>14,917,382</u>	<u>14,015,225</u>	<u>(902,157)</u>
-	-	-	66,101	55,406	10,695
2,394	2,280	114	705,678	513,710	191,968
143,232	125,389	17,843	379,117	328,867	50,250
645	618	27	142,495	84,272	58,223
-	-	-	1,150,297	1,092,361	57,936
370,165	327,044	43,121	453,948	361,901	92,047
3,135	2,938	197	3,605,459	3,540,400	65,059
-	-	-	3,207,329	3,007,391	199,938
-	-	-	1,022,176	999,052	23,124
-	-	-	340,904	338,568	2,336
604,106	591,644	12,462	2,741,558	2,610,685	130,873
<u>1,123,677</u>	<u>1,049,913</u>	<u>73,764</u>	<u>13,815,062</u>	<u>12,932,613</u>	<u>882,449</u>
291,909	92,340	199,569	1,892,682	992,850	899,832
<u>1,415,586</u>	<u>1,142,253</u>	<u>273,333</u>	<u>15,707,744</u>	<u>13,925,463</u>	<u>1,782,281</u>
12,703	-	(12,703)	108,958	-	(108,958)
<u>(82,874)</u>	<u>(13,008)</u>	<u>69,866</u>	<u>(681,404)</u>	<u>89,762</u>	<u>771,166</u>
-	-	-	-	265,474	265,474
72,700	72,700	-	451,131	451,131	-
-	(55,243)	(55,243)	-	(767,673)	(767,673)
-	(350)	(350)	-	(3,935)	(3,935)
<u>72,700</u>	<u>17,107</u>	<u>(55,593)</u>	<u>451,131</u>	<u>(55,003)</u>	<u>(506,134)</u>
<u>\$ (10,174)</u>	4,099	<u>\$ 14,273</u>	<u>\$ (230,273)</u>	34,759	<u>\$ 265,032</u>
	444,536			1,712,098	
	(4,833)			141,159	
	<u>\$ 443,802</u>			<u>\$ 1,888,016</u>	

**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, 2001

(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type
	Enterprise	Internal Service	Nonexpendable Trust
<b>Operating Revenues:</b>			
Charges for Services.....	\$ 59,065	\$ 130,062	\$ -
Interest on Loans.....	642	-	11,638
Investment Earnings.....	-	264	29,274
Patient Service Revenue.....	94,359	-	-
Intergovernmental.....	-	-	35,993
Civic Center Lease Operations.....	-	-	-
Lottery Sales.....	839,712	-	-
Miscellaneous.....	5,640	70	-
<b>Total Operating Revenues.....</b>	<b>999,418</b>	<b>130,396</b>	<b>76,905</b>
<b>Operating Expenses:</b>			
Cost of Sales and Services.....	589,318	63,243	-
Administrative.....	59,628	47,883	2,509
Depreciation and Amortization.....	16,028	21,566	-
Interest on Debt.....	4,588	-	28,294
Patient Care.....	74,705	-	-
Other Program Expenses.....	5,023	-	1,513
Civic Center Lease Oper. (includes depreciation expense of \$1,898)...	-	-	-
Solid Waste Operations.....	-	-	-
<b>Total Operating Expenses.....</b>	<b>749,290</b>	<b>132,692</b>	<b>32,316</b>
<b>Operating Income (Loss).....</b>	<b>250,128</b>	<b>(2,296)</b>	<b>44,589</b>
<b>Nonoperating Revenues (Expenses):</b>			
Interest and Investment Income.....	54,696	-	-
Interest and Fiscal Charges.....	(50,180)	-	-
Other.....	5,123	-	-
<b>Total Nonoperating Income (Expense).....</b>	<b>9,639</b>	<b>-</b>	<b>-</b>
<b>Income (Loss) Before Operating Transfers.....</b>	<b>259,767</b>	<b>(2,296)</b>	<b>44,589</b>
<b>Operating Transfers:</b>			
Operating Transfers In.....	14,074	-	24,425
Operating Transfers Out.....	(252,003)	-	(10,933)
Operating Transfers In From Primary Government.....	-	-	-
<b>Net Income (Loss).....</b>	<b>21,838</b>	<b>(2,296)</b>	<b>58,081</b>
Add Items Affecting Contributed Capital:			
Depreciation on Equipment Acquired through Capital Grants.....	-	-	-
<b>Total Add Back Items.....</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Retained Earnings/Fund Balances-July 1(as restated).....</b>	<b>177,074</b>	<b>42,048</b>	<b>504,171</b>
<b>Retained Earnings/Fund Balances - June 30.....</b>	<b>\$ 198,912</b>	<b>\$ 39,752</b>	<b>\$ 562,252</b>

The accompanying notes are an integral part of the financial statements.

Total Primary Government (Memorandum only)	Proprietary Fund Type Component Units	Total Reporting Entity (Memorandum only)
\$ 189,127	\$ 164,977	\$ 354,104
12,280	219,792	232,072
29,538	-	29,538
94,359	-	94,359
35,993	-	35,993
-	14,649	14,649
839,712	-	839,712
5,710	20,399	26,109
<u>1,206,719</u>	<u>419,817</u>	<u>1,626,536</u>
652,561	-	652,561
110,020	43,810	153,830
37,594	20,901	58,495
32,882	197,115	229,997
74,705	-	74,705
6,536	22,393	28,929
-	17,945	17,945
-	124,624	124,624
<u>914,298</u>	<u>426,788</u>	<u>1,341,086</u>
<u>292,421</u>	<u>(6,971)</u>	<u>285,450</u>
54,696	90,651	145,347
(50,180)	(15,776)	(65,956)
5,123	68,627	73,750
<u>9,639</u>	<u>143,502</u>	<u>153,141</u>
302,060	136,531	438,591
38,499	-	38,499
(262,936)	-	(262,936)
-	7,246	7,246
<u>77,623</u>	<u>143,777</u>	<u>221,400</u>
-	122	122
-	122	122
<u>723,293</u>	<u>683,318</u>	<u>1,406,611</u>
<u>\$ 800,916</u>	<u>\$ 827,217</u>	<u>\$ 1,628,133</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, 2001

(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Total Primary Government
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum only)
<b>Cash Flows From Operating Activities:</b>				
Operating Income (Loss).....	\$ 250,128	\$ (2,296)	\$ 44,589	\$ 292,421
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>				
Amortization and Depreciation.....	16,028	21,566	-	37,594
Provision for Loan Losses.....	2,261	-	-	2,261
Investment Income.....	-	(264)	(29,274)	(29,538)
Interest Expense.....	4,588	-	28,294	32,882
<b>Changes in Assets and Liabilities:</b>				
(Increase) Decrease in Receivables.....	6,150	(2,776)	(15,230)	(11,856)
(Increase) Decrease in Due From Other Funds.....	(82)	(233)	-	(315)
(Increase) Decrease in Receivable From Other Governments.....	(636)	-	-	(636)
(Increase) Decrease in Inventories and Prepaid Expenses.....	(656)	(1,053)	-	(1,709)
Increase (Decrease) in Accounts Payable and Accrued Liabilities.....	14,318	6,082	(1,401)	18,999
Increase (Decrease) in Due To Other Funds.....	11,264	122	-	11,386
Issuance of Loans, Notes & Installment Contracts Receivable.....	-	-	(27,471)	(27,471)
Collection of Loans, Notes & Installment Contracts Receivable.....	2,209	-	-	2,209
Miscellaneous Operating Activities.....	459	(1,847)	-	(1,388)
<b>Net Cash Provided by (Used in) Operating Activities.....</b>	<b>306,031</b>	<b>19,301</b>	<b>(493)</b>	<b>324,839</b>
<b>Cash Flows From Noncapital Financing Activities:</b>				
Contributed Capital.....	-	-	-	-
Proceeds From Sale of Bonds and Notes.....	-	-	101,667	101,667
Retirement of Bonds and Notes Payable.....	(46,800)	-	(24,915)	(71,715)
Interest on Bonds and Notes Payable.....	(43,314)	-	(27,668)	(70,982)
Transfers From Other Funds.....	14,074	-	24,425	38,499
Transfers To Other Funds.....	(252,003)	-	(10,933)	(262,936)
Bond Issuance and/or Redemption Costs.....	-	-	-	-
Miscellaneous Noncapital Financing Activities-Deletions.....	-	-	-	-
<b>Net Cash Provided by (Used in) Noncapital Financing Activities.....</b>	<b>(328,043)</b>	<b>-</b>	<b>62,576</b>	<b>(265,467)</b>
<b>Cash Flows From Capital And Related Financing Activities:</b>				
Purchase of Fixed Assets.....	(56,600)	(24,562)	-	(81,162)
Proceeds From Sale of Bonds and Notes.....	213,180	-	-	213,180
Retirement of Bonds and Notes Payable.....	(6,785)	-	-	(6,785)
Interest on Bonds and Notes Payable.....	(8,637)	-	-	(8,637)
Capital Contributions or Grants.....	4,098	-	-	4,098
Miscellaneous Capital and Related Financing Activities-Additions.....	-	-	-	-
Miscellaneous Capital and Related Financing Activities-Deletions.....	(21)	-	-	(21)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities.....</b>	<b>145,235</b>	<b>(24,562)</b>	<b>-</b>	<b>120,673</b>
<b>Cash Flows From Investing Activities:</b>				
Proceeds From Sales of Investment Securities.....	52,932	-	-	52,932
Purchase of Investment Securities.....	(234,381)	-	(93,755)	(328,136)
Interest and Income on Investments.....	46,315	264	29,072	75,651
Miscellaneous Capital and Related Investing Activities-net.....	-	-	-	-
<b>Net Cash Provided by (Used in) Investing Activities.....</b>	<b>(135,134)</b>	<b>264</b>	<b>(64,683)</b>	<b>(199,553)</b>
<b>Increase (Decrease) in Cash.....</b>	<b>(11,911)</b>	<b>(4,997)</b>	<b>(2,600)</b>	<b>(19,508)</b>
<b>Cash and Cash Equivalents - July 1 (as restated).....</b>	<b>168,803</b>	<b>20,429</b>	<b>8,769</b>	<b>198,001</b>
<b>Cash and Cash Equivalents - June 30.....</b>	<b>\$ 156,892</b>	<b>\$ 15,432</b>	<b>\$ 6,169</b>	<b>\$ 178,493</b>
<b>Reconciliation of Cash and Cash Equivalents to Balance Sheet:</b>				
Cash and Cash Equivalents - June 30 (Balance Sheet).....	\$ 68,522	-	\$ 240,106	-
Plus-Cash and Cash Equivalents in Restricted Assets.....	88,370	-	-	-
Less-Cash and Cash Equivalents in Other Fiduciary Fund Types.....	-	-	233,937	-
<b>Cash and Cash Equivalents - June 30.....</b>	<b>\$ 156,892</b>	<b>-</b>	<b>\$ 6,169</b>	<b>-</b>

The accompanying notes are an integral part of the financial statements.

Proprietary Fund Type Component Units	Total Reporting Entity (Memorandum only)
\$ (6,971)	\$ 285,450
22,799	60,393
8,158	10,419
-	(29,538)
197,948	230,830
14,285	2,429
(554)	(869)
-	(636)
(541)	(2,250)
2,133	21,132
-	11,386
(431,410)	(458,881)
306,687	308,896
68,961	67,573
<u>181,495</u>	<u>506,334</u>
26,307	26,307
526,581	628,248
(202,650)	(274,365)
(198,074)	(269,056)
-	38,499
-	(262,936)
(3,467)	(3,467)
(532,094)	(532,094)
<u>(383,397)</u>	<u>(648,864)</u>
(53,176)	(134,338)
23,084	236,264
(29,443)	(36,228)
(15,542)	(24,179)
-	4,098
58	58
<u>(3,739)</u>	<u>(3,760)</u>
<u>(78,758)</u>	<u>41,915</u>
575,592	628,524
(433,147)	(761,283)
88,760	164,411
6,931	6,931
<u>238,136</u>	<u>38,583</u>
(42,524)	(62,032)
453,648	651,649
<u>\$ 411,124</u>	<u>\$ 589,617</u>
\$ 284,450	
126,674	
-	
<u>\$ 411,124</u>	

## Statement of Plan Net Assets

### Pension Trust Funds (Defined Benefit Pension Plans)

June 30, 2001

(Expressed in Thousands)

	State Employees	State Teachers	Judicial
<b>Assets:</b>			
Cash and Cash Equivalents.....	\$ -	\$ -	\$ -
<b>Receivables:</b>			
Accounts, Net of Allowances.....	2,339	10,656	11
Interest.....	344	922	21
<b>Total Receivables.....</b>	<b>2,683</b>	<b>11,578</b>	<b>32</b>
<b>Investments:</b>			
Equity in Combined Investment Fund.....	7,785,126	11,203,967	135,740
<b>Total Investments.....</b>	<b>7,785,126</b>	<b>11,203,967</b>	<b>135,740</b>
Securities Lending Collateral.....	567,567	802,472	9,497
Due From Other Funds.....	4,811	-	-
Receivable From Other Governments.....	-	1,203	-
<b>Total Assets.....</b>	<b>\$ 8,360,187</b>	<b>\$ 12,019,220</b>	<b>\$ 145,269</b>
<b>Liabilities and Equity:</b>			
<b>Liabilities:</b>			
Accounts Payable and Accrued Liabilities.....	\$ 17	\$ -	\$ -
Due To Other Funds.....	1,499	9,662	-
Securities Lending Obligation.....	567,567	802,472	9,497
<b>Total Liabilities.....</b>	<b>569,083</b>	<b>812,134</b>	<b>9,497</b>
<b>Fund Balance:</b>			
Reserved for Employees' Pension Benefits.....	7,791,104	11,207,086	135,772
<b>Total Fund Balance.....</b>	<b>7,791,104</b>	<b>11,207,086</b>	<b>135,772</b>
<b>Total Liabilities and Fund Balances.....</b>	<b>\$ 8,360,187</b>	<b>\$ 12,019,220</b>	<b>\$ 145,269</b>

The accompanying notes are an integral part of the financial statements.



<u>Connecticut Municipal Employees</u>	<u>Probate Judges</u>	<u>State's Attorneys/ Public Defender</u>	<u>Total</u>
\$ 201	\$ 9	\$ 68	\$ 278
2,265	6	6	15,283
155	10	-	1,452
2,420	16	6	16,735
1,297,728	66,679	733	20,489,973
1,297,728	66,679	733	20,489,973
90,235	5,201	31	1,475,003
-	-	-	4,811
-	-	-	1,203
<b>\$ 1,390,584</b>	<b>\$ 71,905</b>	<b>\$ 838</b>	<b>\$ 21,988,003</b>
\$ -	\$ -	\$ -	\$ 17
-	-	-	11,161
90,235	5,201	31	1,475,003
90,235	5,201	31	1,486,181
1,300,349	66,704	807	20,501,822
1,300,349	66,704	807	20,501,822
<b>\$ 1,390,584</b>	<b>\$ 71,905</b>	<b>\$ 838</b>	<b>\$ 21,988,003</b>

## Statement of Changes in Net Assets Pension Trust Funds and Investment Trust Fund

For the Fiscal Year Ended June 30, 2001

(Expressed in Thousands)

	Pension Trust		
	State Employees	State Teachers	Judicial
<b>Additions:</b>			
<b>Contributions:</b>			
Plan Participants.....	\$ 46,089	\$ 169,420	\$ 1,148
State.....	375,623	214,666	9,837
Municipalities.....	-	3,215	-
<b>Total Contributions.....</b>	<b>421,712</b>	<b>387,301</b>	<b>10,985</b>
Investment Income.....	(242,954)	(346,516)	(3,167)
Less: Investment Expenses.....	(60,163)	(85,951)	(783)
<b>Net Investment Income.....</b>	<b>(303,117)</b>	<b>(432,467)</b>	<b>(3,950)</b>
Pool's Share Transactions.....	-	-	-
Operating Transfers In.....	-	-	-
Miscellaneous.....	376	-	-
<b>Total Additions.....</b>	<b>118,971</b>	<b>(45,166)</b>	<b>7,035</b>
<b>Deductions:</b>			
Administrative.....	340	-	7
Benefit Payments and Refunds.....	619,174	697,103	12,499
Distributions to Pool Participants.....	-	-	-
Other Program Expenses.....	-	-	-
<b>Total Deductions.....</b>	<b>619,514</b>	<b>697,103</b>	<b>12,506</b>
<b>Net Increase (Decrease) in Net Assets.....</b>	<b>(500,543)</b>	<b>(742,269)</b>	<b>(5,471)</b>
<b>Net assets held in trust for pension benefits and pool participants:</b>			
July 1, 2000.....	8,291,647	11,949,355	141,243
<b>June 30, 2001.....</b>	<b>\$ 7,791,104</b>	<b>\$ 11,207,086</b>	<b>\$ 135,772</b>

The accompanying notes are an integral part of the financial statements.

Pension Trust				
Connecticut Municipal Employees	Probate Judges	State's Attorneys/ Public Defender	External Investment Pool	Total
\$ 9,996	\$ 235	\$ 37	\$ -	\$ 226,925
-	-	-	-	600,126
15,527	-	-	-	18,742
<u>25,523</u>	<u>235</u>	<u>37</u>	<u>-</u>	<u>845,793</u>
(38,682)	(1,790)	(13)	98,914	(534,208)
(9,570)	(444)	(4)	(459)	(157,374)
<u>(48,252)</u>	<u>(2,234)</u>	<u>(17)</u>	<u>98,455</u>	<u>(691,582)</u>
-	-	-	329,500	329,500
-	991	-	-	991
-	-	5	-	381
<u>(22,729)</u>	<u>(1,008)</u>	<u>25</u>	<u>427,955</u>	<u>485,083</u>
7	4	-	-	358
53,915	2,060	186	-	1,384,937
-	-	-	98,455	98,455
-	1,009	-	-	1,009
<u>53,922</u>	<u>3,073</u>	<u>186</u>	<u>98,455</u>	<u>1,484,759</u>
(76,651)	(4,081)	(161)	329,500	(999,676)
<u>1,377,000</u>	<u>70,785</u>	<u>968</u>	<u>1,084,580</u>	<u>22,915,578</u>
<u>\$ 1,300,349</u>	<u>\$ 66,704</u>	<u>\$ 807</u>	<u>\$ 1,414,080</u>	<u>\$ 21,915,902</u>

## Combined Statement of Changes in Fund Balances Higher Education Funds

For The Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	Current Funds		Endowment and Similar Funds
	Unrestricted	Restricted	
<b>Revenues and Other Additions:</b>			
Current Funds Revenues and Additions.....	\$ 702,083	\$ 192,314	\$ -
Private Gifts and Grants.....	-	-	154
Investment Earnings.....	-	-	(1,064)
Interest on Loans Receivable.....	-	-	-
Expended for Plant Facilities.....	-	-	-
Retirement of Indebtedness.....	-	-	-
Sale of Bonds.....	-	-	-
Foundation Revenues.....	-	-	-
Miscellaneous.....	-	-	3
<b>Total Revenues and Other Additions.....</b>	<b>702,083</b>	<b>192,314</b>	<b>(907)</b>
<b>Expenditures and Other Deductions:</b>			
Education and General.....	1,095,707	176,054	-
Auxiliary Enterprises.....	124,213	3	-
Patient Care.....	147,201	1,823	-
Indirect Costs Recovered.....	-	18,241	-
Loan Cancellations and Write-offs.....	-	-	-
Interest on Indebtedness.....	-	-	-
Capital Expenditures.....	-	-	-
Disposal of Plant Facilities.....	-	-	-
Depreciation.....	-	-	-
Administrative Costs.....	-	-	-
Retirement of Indebtedness.....	-	-	-
Foundation Expenditures.....	-	-	-
Other.....	4,109	300	115
<b>Total Expenditures and Other Deductions.....</b>	<b>1,371,230</b>	<b>196,421</b>	<b>115</b>
<b>Transfers Among Funds - Additions (Deductions)</b>			
Mandatory:			
Retirement of Indebtedness.....	(14,275)	-	-
Nonmandatory:			
Transfer From Foundation.....	10,687	2,662	-
Transfer To Foundation.....	(3,352)	-	-
Other.....	(7,628)	292	72
<b>Total Transfers Among Funds</b>	<b>(14,568)</b>	<b>2,954</b>	<b>72</b>
Operating Transfers from the State's			
Governmental Funds.....	677,797	-	-
<b>Net Increase (Decrease) in Fund Balances.....</b>	<b>(5,918)</b>	<b>(1,153)</b>	<b>(950)</b>
<b>Fund Balances (deficit) - July 1 (as restated).....</b>	<b>82,133</b>	<b>35,348</b>	<b>9,100</b>
<b>Fund Balances (deficit) - June 30.....</b>	<b>\$ 76,215</b>	<b>\$ 34,195</b>	<b>\$ 8,150</b>

The accompanying notes are an integral part of the financial statements.

STATE OF CONNECTICUT

Loan Funds	Plant Funds	Affiliated Organization	Total
\$ -	\$ -	\$ -	\$ 894,397
176	1,250	-	1,580
276	10,104	-	9,316
489	-	-	489
-	326,037	-	326,037
-	9,526	-	9,526
-	100,000	-	100,000
-	-	15,096	15,096
369	19,565	-	19,937
<u>1,310</u>	<u>466,482</u>	<u>15,096</u>	<u>1,376,378</u>
-	-	-	1,271,761
-	-	-	124,216
-	-	-	149,024
-	-	-	18,241
61	-	-	61
-	15,736	-	15,736
-	291,441	-	291,441
-	6,769	-	6,769
-	52,577	-	52,577
260	220	-	480
-	9,526	-	9,526
-	-	16,021	16,021
536	6,692	-	11,752
<u>857</u>	<u>382,961</u>	<u>16,021</u>	<u>1,967,605</u>
-	14,275	-	-
-	1,641	3,352	18,342
-	-	(14,990)	(18,342)
430	6,834	-	-
<u>430</u>	<u>22,750</u>	<u>(11,638)</u>	<u>-</u>
-	80,106	-	757,903
<u>883</u>	<u>186,377</u>	<u>(12,563)</u>	<u>166,676</u>
<u>34,297</u>	<u>2,018,346</u>	<u>249,392</u>	<u>2,428,616</u>
<u>\$ 35,180</u>	<u>\$ 2,204,723</u>	<u>\$ 236,829</u>	<u>\$ 2,595,292</u>

## Combined Statement of Revenues, Expenditures, and Other Changes Higher Education Funds

For The Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	Current Funds		Total
	Unrestricted	Restricted	
<b>Revenues and Transfers from Foundation:</b>			
Student Tuition and Fees.....	\$ 309,138	\$ -	\$ 309,138
Federal Grants and Contracts.....	25,423	118,615	144,038
State Grants and Contracts.....	21,091	26,816	47,907
Private Gifts and Grants.....	3,492	24,830	28,322
Patient Service.....	120,801	-	120,801
Sales and Services.....	189,137	-	189,137
Investment Earnings.....	15,829	1,136	16,965
Miscellaneous.....	17,172	1,119	18,291
<b>Total Revenues.....</b>	<b>702,083</b>	<b>172,516</b>	<b>874,599</b>
Transfer from Foundation.....	10,687	2,662	13,349
<b>Total Revenues and Transfer from Foundation.....</b>	<b>712,770</b>	<b>175,178</b>	<b>887,948</b>
<b>Expenditures and Mandatory Transfers:</b>			
Education and General:			
Instruction.....	\$ 470,176	\$ 9,308	\$ 479,484
Research.....	16,086	92,303	108,389
Public Service.....	25,074	8,199	33,273
Academic Support.....	131,054	3,072	134,126
Student Services.....	97,122	2,547	99,669
Institutional Support.....	188,883	-	188,883
Scholarship and Fellowships.....	61,616	60,604	122,220
Plant Operations and Maintenance.....	105,696	21	105,717
<b>Total Educational and General Expenditures.....</b>	<b>1,095,707</b>	<b>176,054</b>	<b>1,271,761</b>
Patient Care.....	147,201	1,823	149,024
Auxiliary Enterprises.....	124,213	3	124,216
Other Self-Supporting Enterprises.....	4,109	-	4,109
Mandatory Transfers:			
Retirement of Indebtedness.....	14,275	-	14,275
<b>Total Expenditures and Mandatory Transfers.....</b>	<b>1,385,505</b>	<b>177,880</b>	<b>1,563,385</b>
<b>Other Transfers - Additions (Deductions):</b>			
Operating Transfers from the State's			
Governmental Funds.....	677,797	-	677,797
Transfer to Foundation.....	(3,352)	-	(3,352)
Other Non-mandatory Transfers.....	(7,628)	292	(7,336)
Excess of Restricted Receipts over Transfers			
to Revenues.....	-	1,557	1,557
Refunded to Grantors.....	-	(300)	(300)
<b>Total Other Transfers and Additions (Deductions)..</b>	<b>666,817</b>	<b>1,549</b>	<b>668,366</b>
<b>Net Increase (Decrease) in Fund Balances.....</b>	<b>\$ (5,918)</b>	<b>\$ (1,153)</b>	<b>\$ (7,071)</b>

The accompanying notes are an integral part of the financial statements.

## Statement of Cash Flows

### Affiliated Organization

For The Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

#### Cash Flows From Operating Activities:

Change in Fund Balance..... \$ (12,563)

#### Adjustments to Reconcile Change in Fund Balance to Net Cash

##### Used in Operating Activities:

Receipts to Establish or Increase Permanent Endowments..... (20,306)  
Net Realized and Unrealized Gains on Investments..... 31,935  
Gifts of Marketable Securities..... (6,405)  
Funds Held in Trust by Others..... (2,434)  
Loss on Sale of Donated Property and Collections..... (1,294)  
Depreciation and Other..... 389

##### Changes in Assets and Liabilities:

(Increase) in Pledges and Contributions Receivable, Net..... (3,107)  
(Increase)/Decrease in Other Assets..... 1,362  
Increase in Accounts Payable and Accrued Expenses..... 457  
Increase in Trusts and Annuities Payable..... (214)  
**Total Adjustments..... 374**

**Net Cash Used in Operating Activities..... (12,189)**

#### Cash Flows From Investing Activities:

Purchases of Investments..... (91,702)  
Sales of Investments..... 82,733  
Net proceeds from sale of Property and Equipment..... 1,154  
Purchases of Property and Equipment..... (328)  
**Net Cash Used in Investing Activities..... (8,143)**

#### Cash Flows From Financing Activities:

Receipts to Establish or Increase Permanent Endowments..... 20,306  
Payments on Long Term Debt..... (100)  
**Net Cash Used in Financing Activities..... 20,206**

**Net Decrease in Cash and Cash Equivalents..... (126)**

**Cash and Cash Equivalents - July 1..... 1,801**

**Cash and Cash Equivalents - June 1..... \$ 1,675**

The accompanying notes are an integral part of the financial statements.

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# Notes to the Financial Statements

## June 30, 2001

### 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 its exclusion 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, 2000.

#### *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, tradeshow, 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

## STATE OF CONNECTICUT

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 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

for 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 treatment 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 collected within the current period or within 60 days of the end of the current period. Expenditures are recorded when the related fund liability is incurred 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, special fuel taxes, federal grants, and casino gaming payments.

**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 Autho	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.

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### *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.
- 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. Carry 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 the 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. Infrastructure assets (highways, bridges, etc.) are not capitalized. No depreciation 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 revenues considered measurable but not available during the current period. In subsequent periods, 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*

The portion of the net pension obligation, workers’ compensation claims, capital leases, claims and

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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 certain bond proceeds (rebtable 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***

Taxes are recognized as revenues in the period when the underlying exchange transaction has occurred and the resources are available. (see Note 1d).

#### ***Licenses, Permits, and Fees***

These items are not susceptible to accrual and are recognized as revenues when the cash is collected.

#### ***Intergovernmental***

Federal grants (and other aid) are recognized as revenues in the period when all applicable eligibility requirements imposed by the federal government have been met and the resources are available (see Note 1d).

#### ***Casino Gaming Payments***

Casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred and the resources are available (see Note 1d).

#### ***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)	\$ 30,660	\$ 4,099
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(27,498)	4,884
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(23,357)	3,054
Salaries and Fringe Benefits Payable	(14,142)	(193)
Increases (decreases) in continuing appropriations	334,000	(17,457)
Reclass of fund balance adjustments to operating expenditures	(964)	(1,532)
Eliminate portion of prior year surplus	(265,474)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis) - budgeted funds	33,225	(7,145)
To record excess (deficiency) of revenues and other sources over expenditures and other uses for nonbudgeted funds	-	636
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis)	<u>\$ 33,225</u>	<u>\$ (6,509)</u>

### Note 3 Fund Deficits

The following funds have deficit balances at June 30, 2001, none of which constitutes a violation of statutory provisions (amounts in thousands).

#### Special Revenue

Consumer Counsel and Public Utility Control \$ 960

#### Enterprise

Other \$ 963

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.

### 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, 2001, the reported amount of the State's deposits was \$(130.7) for the Primary Government and \$9.2 for the Component Units. The corresponding bank balance for such deposits was \$126.2 for the Primary Government and \$12.3 for the Component Units. Of the bank balance for the Primary Government \$28.0 was insured by the Federal Deposit Insurance Corporation or held by the State's agent in the State's name (Category 1), and \$98.2 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, \$5.2 was insured by the Federal Deposit Insurance Corporation (Category 1), and \$7.1 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.

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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, commercial 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, 2001. 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		
Certificates of Deposit-Negotiable	\$	400,002	\$ 400,002
Commercial Paper		3,254,336	3,255,571
Corporate Notes		242,681	242,681
Bankers' Acceptances		9,840	9,840
Bank Notes		409,707	410,111
Federal Agency Securities		241,931	242,334
<b>Total Investments</b>	<b>\$</b>	<b>4,558,497</b>	<b>\$ 4,560,539</b>

### Investments-Primary Government

#### Combined Investment Funds

(amounts in thousands)

Reported Amount (Fair Value)

Investment Type	Reported Amount (Fair Value)		
	Category 1	Category 3	Total
Certificates of Deposit-Negotiable	\$ -	\$ 15,004	\$ 15,004
Asset Backed Securities	661,460	-	661,460
U.S. Government and Agency Securities:			
Not on Securities Loan	1,617,090	-	1,617,090
On Securities Loan for Securities or			
Letter of Credit Collateral	-	48,250	48,250
Mortgage Backed Securities	663,290	-	663,290
Corporate Debt	2,990,531	1,303,255	4,293,786
Convertible Securities	239,576	-	239,576
U. S. Corporate Stock:			
Not on Securities Loan	7,758,085	-	7,758,085
On Securities Loan for Securities or			
Letter of Credit Collateral	-	55,193	55,193
International Equity Securities:			
Not on Securities Loan	1,746,200	-	1,746,200
On Securities Loan for Securities or			
Letter of Credit Collateral	-	5,226	5,226
Short-term Investments	-	165,519	165,519
Preferred Stock	117,574	-	117,574
	<b>\$ 15,793,806</b>	<b>\$ 1,592,447</b>	<b>\$ 17,386,253</b>

#### Investments not categorized

because they are not evidenced by securities that exist in physical or book entry form.

Real Estate Investment Trusts	55,179
Mutual Funds	54,701
Limited Liability Corporations	65,908
Trusts	55,147
Limited Partnerships	2,898,994
Annuities	14,895
Securities Held by Brokers-Dealers under Sec. Loans for Cash Collateral:	
U. S. Government and Agency Securities	541,764
U. S. Corporate Stock	209,794
International Equity Securities	527,311
Domestic Fixed Securities	151,423
International Fixed Securities	5,205
	<b>\$ 21,966,574</b>

The pension trust funds own approximately 100 percent of the investments that are in categories 1 and 3.



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## Investments-Primary Government

## Other

(amounts in thousands)

Investment Type	Reported Amount			Total	Fair Value
	Category 1	Category 2	Category 3		
Collateralized Investment Agreements	\$ 451,032	\$ 33,579	\$ -	\$ 484,611	\$ 484,611
State/Municipal Bonds	215,393	-	-	215,393	215,393
U.S. Government & Agency Securities	384,896	154	-	385,050	385,050
Repurchase Agreements	5,683	801	-	6,484	6,484
Common Stock	33,451	1,060	2,002	36,513	36,513
Corporate Bonds	11,274	21,857	-	33,131	33,131
Other	81,201	-	1,035	82,236	82,236
	<u>\$ 1,182,930</u>	<u>\$ 57,451</u>	<u>\$ 3,037</u>	<u>\$ 1,243,418</u>	<u>\$ 1,243,418</u>

Investments not categorized because they are not evidenced  
by securities that exist in physical or book entry form:

Annuity Contracts	511,215	511,215
Mutual Funds	115,481	115,481
Guaranteed Investment Contracts	16,679	16,679
Tax Exempt Proceeds Fund	114,591	114,591
Other	14,048	14,048
Total Investments	<u>\$ 2,015,432</u>	<u>\$ 2,015,432</u>

The Special Assessment fund owns approximately 60 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	\$ 221,852	\$ 8,696	\$ 8,444	\$ 238,992	\$ 238,721
Common Stock	135,973	-	-	135,973	135,973
Repurchase Agreements	43,408	-	-	43,408	43,408
Collateralized Investment Agreements	2,441	-	26,160	28,601	28,601
Mortgage Backed Securities	330,555	-	-	330,555	330,555
Corporate Bonds	38,333	-	-	38,333	38,333
Other	66,155	-	9,591	75,746	75,746
	<u>\$ 838,717</u>	<u>\$ 8,696</u>	<u>\$ 44,195</u>	<u>891,608</u>	<u>891,337</u>

Investments not categorized because they are not evidenced  
by securities that exist in physical or book entry form:

Guaranteed Investment Contracts	137,217	137,217
Fidelity Funds	117,922	117,922
Limited Partnerships	5,238	5,238
Other	36,146	36,146
Total Investments	<u>\$ 1,188,131</u>	<u>\$ 1,187,860</u>

CHFA owns approximately 80 percent and CHESLA owns approximately 75 percent of the investments that are in categories 1 and 3, respectively.

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### *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 and bank notes whose interest rates 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 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, 2001, the fund held MBSs of \$608 million and ABSs of \$192 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, 2001, the IOs had a value of \$7.4 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, 2001, the International Stock Fund reported an unrealized gain of \$32 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 38 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, 2001, consisted of the following (amounts in thousands):

	Primary Government					Component Units
	General	Special Revenue	Enterprise	Trust and Agency	Higher Education	
Mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,034,055
Industrial	-	-	-	-	-	139,950
Housing	-	135,303	82,693	-	-	-
Clean Water	-	49,866	-	572,630	-	-
Education	-	-	-	-	30,719	92,143
Other	1,636	128,515	-	18,839	-	-
Less Allowance for Losses	-	-	2,687	-	-	57,652
Loans Receivable Net	\$ 1,636	\$ 313,684	\$ 80,006	\$ 591,469	\$ 30,719	\$ 3,208,496

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 9.0 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 9.0 percent.

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, 2001, loans in the amount of \$28.3 million (including loans of \$6.9 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 \$8.2 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, 2001 (amounts in thousands):

	Funds	
	General	Special Revenue
Sales and Use	\$ 603,044	\$ -
Income Taxes	161,899	-
Corporations	32,356	-
Gasoline and Special Fuel	-	37,885
Various Other	109,391	-
Less:		
Allowance for Uncollectibles	(15,519)	(26)
Taxes Receivable	\$ 891,171	\$ 37,859

**Note 7 Restricted Assets**

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2001, restricted assets for the primary government and its component units were comprised of the following (amounts in thousands):

	Primary Government						Component Units					Total Component Units
	Enterprise			Trust and Agency			Connecticut Housing Finance Authority (12-31-00)	Connecticut Resources Recovery Authority	Connecticut Higher Education Supplemental Loan Authority	Connecticut Health & Educational Facilities Authority		
	Bradley	John Dempsey	Other	Clean Water Fund	Drinking Water Fund	Connecticut Development Authority						
	Debt Service	Intl Airport	Hospital									
Cash & Cash Equivalents	\$ 278,650	\$ 76,708	\$ 9,804	\$ 1,858	\$ -	\$ -	\$ 21,477	\$ -	\$ 102,826	\$ -	\$ 2,371	\$ 126,674
Investments	276,166	195,841	1,028	16,678	462,140	43,712	29,663	334,597	-	9,076	260,386	633,722
Interest Receivable	7,315	863	-	-	-	-	-	1,766	587	-	620	2,973
Other	-	2,540	-	-	-	-	-	-	-	-	3,964	3,964
Total	\$ 562,131	\$ 275,952	\$ 10,832	\$ 18,536	\$ 462,140	\$ 43,712	\$ 51,140	\$ 336,363	\$ 103,413	\$ 9,076	\$ 267,341	\$ 767,333

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Note 8 Property, Plant, and Equipment

(1) A summary of changes in general fixed assets is as follows (amounts in thousands):

	Restated Balance 7/1/00	Additions	Retirements	Balance 6/30/01
Land	\$ 371,484	\$ 19,940	\$ 1,683	\$ 389,741
Buildings	2,062,263	58,084	25,060	2,095,287
Improvements Other Than Buildings	243,236	35,892	583	278,545
Machinery & Equipment	1,253,910	112,223	261,917	1,104,216
Construction in Progress	278,935	157,464	243,307	193,092
<b>Total</b>	<b>\$ 4,209,828</b>	<b>\$ 383,603</b>	<b>\$ 532,550</b>	<b>\$ 4,060,881</b>

(2) Property, plant, and equipment for the primary government and its component units consisted of the following as of June 30, 2001 (amounts in thousands)

	Primary Government			Component Units
	Enterprise	Internal Service	Higher Education	
Land	\$ 2,840	\$ -	\$ 39,047	\$ 24,833
Buildings	189,065	-	1,638,016	188,314
Improvements other than Buildings	141,542	95	153,882	236
Machinery & Equipment	56,198	161,648	658,703	224,538
Construction in Progress	33,930	-	214,822	10,314
Subtotal	423,575	161,743	2,704,470	448,235
Less: Accumulated Depreciation	173,618	111,535	459,446	187,294
<b>Total</b>	<b>\$ 249,957</b>	<b>\$ 50,208</b>	<b>\$ 2,245,024</b>	<b>\$ 260,941</b>

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 6/30/00	JRS 6/30/00
Retirees and beneficiaries receiving benefits	32,101	20,724	199
Terminated plan members entitled to but not yet receiving benefits	1,137	-	1
Active plan members	54,616	46,553	209
<b>Total</b>	<b>87,854</b>	<b>67,277</b>	<b>409</b>

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 supervisor 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 10-183pp 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 2001, the annual required contribution (ARC) was \$252.5 million; however, the State contributed \$214.7 million to the plan, reflecting a reduction of \$37.8 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	\$ 375,623	\$ 252,548	\$ 9,837
Interest on net pension obligation	160,640	83,867	3
Adjustment to annual required contribution	(96,946)	(49,888)	(1)
Annual pension cost	439,317	286,527	9,839
Contributions made	375,623	214,666	9,837
Increase (decrease) in net pension obligation	63,694	71,861	2
Net pension obligation beginning of year	1,889,886	985,967	37
Net pension obligation end of year	\$ 1,953,580	\$ 1,057,828	\$ 39

Three-year trend information is as follows (amounts in thousands):

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	1999	\$ 389,508	81.0%	\$ 1,826,719
	2000	405,927	84.4%	1,889,886
	2001	439,317	85.5%	1,953,580
TRS	1999	\$ 251,960	74.7%	\$ 921,555
	2000	268,857	76.0%	985,967
	2001	286,527	74.9%	1,057,828
JRS	1999	\$ 9,284	100%	\$ 35
	2000	9,326	100%	37
	2001	9,839	100%	39

#### **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 \$18.4 million and \$29.5 million, respectively.

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**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 6/30/00	CPJERS 12/31/00
Retirees and beneficiaries receiving benefits	4,446	229
Terminated plan members entitled to but not receiving benefits	150	26
Active plan members	7,980	367
<b>Total</b>	<u>12,576</u>	<u>622</u>
Number of participating employers	160	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 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.

As of June 30, 2000, 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 retirement, 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, 2001, \$174 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):

2002	\$	30,534
2003		31,004
2004		28,454
2005		22,960
2006		18,008
Thereafter		<u>4,830</u>
<b>Total</b>	<b>\$</b>	<b><u>135,790</u></b>

Contingent revenues for the year ended June 30, 2001, were \$2.6 million.

**b. State as Lessee**

Obligations under capital leases and operating leases as of June 30, 2001, were \$96.9 million for capital leases

and \$102.4 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, 2001 (amounts in thousands):

Rental and lease payments for equipment charged to expenditures during the year ended June 30, 2001, totaled \$46.3 million.

	Operating Leases	Capital Leases General Long-term
2002	\$ 23,459	\$ 8,441
2003	21,198	8,170
2004	16,786	6,636
2005	12,764	5,435
2006	7,371	5,359
Thereafter	20,860	62,897
Total future minimum payments	<u>\$ 102,438</u>	96,938
Less: Imputed interest		<u>32,692</u>
Present value of net minimum lease payments		<u>\$ 64,246</u>

### 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, 2001 (amounts in thousands):

General Long-Term Debt Account Group	Balance	Issuances	Retirements	Increase	Balance
	July 1, 2000	and Other Increases	and Other Decreases	(Decrease) Accreted Value	June 30, 2001
General Obligation Bonds	\$ 7,221,893	\$ 1,596,305	\$ 1,099,513	\$ 11,550	\$ 7,730,235
Transportation Related Bonds	3,069,525	225,000	195,140	736	3,100,121
Expendable Trust Fund Obligations	610,065	144,100	505,615	-	248,550
Net Pension Obligation	2,875,890	735,683	600,126	-	3,011,447
Compensated Absences	294,091	26,992	12,496	-	308,587
Worker's Compensation	283,600	105,270	62,453	-	326,417
Capital Leases	49,406	20,588	5,748	-	64,246
Claims and Judgements	15,079	7,139	9,108	-	13,110
Total General Long-Term Debt Account Group	<u>\$ 14,419,549</u>	<u>\$ 2,861,077</u>	<u>\$ 2,490,199</u>	<u>\$ 12,286</u>	<u>\$ 14,802,713</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 \$1,908.8 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 \$41.1 million.

Included in retirements of general obligation and transportation related bonds are \$505.1 million of bonds which were defeased by refunding bonds of \$494.5 million.

Additionally, \$1,596.3 million of issuances and other increases for general obligation bonds include \$100 million of bonds issued by the University of Connecticut and \$7.8 million of bonds issued by CHEFA for which

the State of Connecticut will pay the principal and interest.

As of June 30, 2001 a liability of \$10.6 million for rebatable arbitrage is included in the liability for claims and judgements.

### 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, 2001, were as follows (amounts in thousands):

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Purpose of Bonds	Final	Original	Amount Outstanding	Authorized
	Maturity Dates	Interest Rates		But Unissued
Capital Improvements	2001-2021	2.95-7.525%	\$ 2,244,126	\$ 351,465
School Construction	2001-2020	3-9.75%	1,089,332	70,671
Municipal & Other				
Grants & Loans	2001-2021	3.25-8.5%	1,699,501	624,110
Elderly Housing	2003-2011	7-7.5%	19,905	-
Elimination of Water Pollution	2002-2022	4.5-7.525%	280,790	98,335
General Obligation				
Refunding	2001-2016	2.4-7%	1,784,798	-
Miscellaneous	2001-2031	3.5-9.5%	99,123	4,837
			<u>7,217,575</u>	<u>\$ 1,149,418</u>
Accretion-Various Capital Appreciation Bonds			512,660	
			<u>Total</u>	<u>\$ 7,730,235</u>

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2001, were as follows:

Year Ending	Principal	Interest	Total
June 30,			
2002	\$ 621,038	\$ 394,746	\$ 1,015,784
2003	543,532	370,349	913,881
2004	554,857	357,281	912,138
2005	562,507	344,963	907,470
2006	502,897	322,087	824,984
Thereafter	4,432,744	1,886,363	6,319,107
Total	<u>\$ 7,217,575</u>	<u>\$ 3,675,789</u>	<u>\$ 10,893,364</u>

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2001, were as follows:

Year Ending	Principal	Interest	Total
June 30,			
2002	\$ 202,860	\$ 159,613	\$ 362,473
2003	216,010	150,982	366,992
2004	215,810	140,226	356,036
2005	213,799	129,285	343,084
2006	237,240	117,345	354,585
Thereafter	2,008,084	581,397	2,589,481
Total	<u>\$ 3,093,803</u>	<u>\$ 1,278,848</u>	<u>\$ 4,372,651</u>

**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, 2001, were as follows (amounts in thousands):

Purpose of Bonds	Final	Original	Amount Outstanding	Authorized
	Maturity Dates	Interest Rates		But Unissued
Specific Highways	2012-2017	4.25-5.50%	\$ 14,408	\$ 3,902
Infrastructure				
Improvements	2001-2020	2.65-10.0%	3,061,533	455,763
General Obligation				
Refunding	2004	5.15-9.75%	17,249	-
Other	2005-2013	4.6-7.525%	613	165
			<u>3,093,803</u>	<u>\$ 459,830</u>
Accretion-Various Capital Appreciation Bonds			6,318	
			<u>Total</u>	<u>\$ 3,100,121</u>

**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.



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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.

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 repayment of loans made by the United States to Connecticut, which were used for the payment of unemployment compensation benefits and assisting the State in meeting a portion of its unemployment compensation benefit obligations. 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 requisitioned funds specifically pledged for their payment. As of June 30, 2001 these bonds have been fully retired with \$183.9 million having been retired through a cash defeasance.

In November 1996, the State issued \$100 million and in October 2000, \$124.1 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 2015, 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
2002	\$ 5,595	\$ 11,978	\$ 17,573
2003	13,070	10,157	23,227
2004	13,705	9,492	23,197
2005	14,345	8,845	23,190
2006	15,050	8,134	23,184
Thereafter	143,085	34,973	178,058
Total	<u>\$ 204,850</u>	<u>\$ 83,579</u>	<u>\$ 288,429</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, 2001, the fund had \$43.7 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.

**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	\$ 168,500	variable	2010
General Obligation	\$ 20,000	variable	2012

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 difference in interest payments is 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.	\$ 101,100	5.75%	65% of 1-month LIBOR* rate
Sumitomo Bank	\$ 67,400	5.71%	65% of 1-month LIBOR* rate
Morgan Stanley	\$ 20,000	4.33%	CPI(adj semi-annual)

\*The primary fixed income index reference rates used in the Euro-markets.

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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. As of June 30, 2001, the AIG, Sumitomo, and Morgan Stanley interest rate swaps had unfavorable positions of \$8.9 million, \$5.8 million, and \$0.3 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, 2001, were as follows:

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding
<b>Primary Government:</b>			
<b>Enterprise:</b>			
Bradley Airport	2012-2031	3.25-7.65%	\$ 284,395
Rental Housing	2001-2002	5.25-9%	81,820
John Dempsey Hospital	2002-2009	7.125%	1,109
Other	2006-2024	6.125-8%	53,800
<b>Nonexpendable:</b>			
Clean Water Fund	2009-2022	3.45-11.0%	595,350
Drinking Water Fund	2022	4-5.5%	29,615
<b>Higher Education:</b>			
Plant and Affiliated Org.	2001-2029	3.55-8.25%	294,819
<b>Premiums:</b>			
Clean & Drinking Water bonds			7,408
Bradley Airport and Other			902
		<b>Total</b>	<b>\$ 1,349,218</b>
<b>Component Units:</b>			
CT Development Authority	2003-2019	4.6-8.75%	\$ 96,230
CT Housing Finance Authority (as of 12-31-00)	2001-2042	3.6-9.5%	3,136,575
CT Resources Recovery Authority	2001-2016	3.4-7.7%	259,782
CT Higher Education Supplemental Loan Authority	2001-2021	4-7.5%	121,770
CT Health & Educational Facilities Authority	2001-2004	4.32-14.94%	5,395
Discount on CHFA Bonds sold			(28,551)
		<b>Total</b>	<b>\$ 3,591,201</b>

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 Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2001, the following bonds were outstanding:

- a) Airport revenue refunding bonds in the amount of \$71.2 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.
- b) On March 1, 2001 the airport issued Bradley International Airport Revenue Bonds in the amount of \$194 million and Bradley International Airport Refunding Bonds in the amount of \$19.2 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

Bradley Parking Garage Bonds were issued, in 2000, in the amount of \$53.8 million. These bonds were issued 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, 2001 were \$44.7 million. Assets totaling \$46.2 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 \$51.5 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, 2000, bonds outstanding under the bond resolution and the indenture were \$3,116.4 million and \$20.2 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 (\$276.3 million at 12/31/00) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds (\$3,839 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 2000, the Authority has entered into interest rate swap agreements for \$284 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swap agreements section of this note.

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 \$5.4 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 \$220.3 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, 2001 were as follows:

Ending June 30,	Primary Government							
	Enterprise Funds		Nonexpendable Trust		Higher Education		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 4,939	\$ 24,561	\$ 31,040	\$ 30,265	\$ 12,975	\$ 15,651	\$ 133,238	\$ 208,884
2003	86,818	21,201	27,050	29,487	14,157	14,946	135,884	201,431
2004	6,340	18,692	36,475	27,963	15,459	14,213	140,589	193,979
2005	10,853	18,162	42,025	26,027	13,973	13,407	137,581	186,042
2006	11,449	17,474	32,125	24,124	14,673	12,712	152,489	177,779
Thereafter	300,725	196,226	456,250	162,940	223,582	123,291	2,919,971	1,860,064
	<u>\$ 421,124</u>	<u>\$ 296,316</u>	<u>\$ 624,965</u>	<u>\$ 300,806</u>	<u>\$ 294,819</u>	<u>\$ 194,220</u>	<u>\$ 3,619,752</u>	<u>\$ 2,828,179</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 unit section of this note. These bonds were paid solely from payments received from

participating companies (or from proceeds of the sale of the specific projects in the event of a 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, 2001 were \$1,153.3 million.

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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 arrangements between the Authority and the operators. Letters of credit secure some 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 a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2001 were \$262.7 million. Of this amount, \$71.8 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 a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2001, were \$3,895.0 million, of which \$241.5 million was secured by special capital reserve funds.

The State may be contingently liable for those bonds that are secured by special capital reserve funds as discussed previously in the component units section of this note.

**Debt Refundings**

During the year, the State issued \$504.6 million of general obligation refunding bonds with an average interest rate of 5.34% to advance refund \$514.6 million of general obligation bonds with an average interest rate of 5.40%.

The proceeds of the refunding bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased and the liability for those bonds have been removed from the general long-term debt account group.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by \$22.9 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$18.0 million. As of June 30, 2001, \$1,942.1 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 6-30-99	\$ 5,753	\$ 280,074	\$ 63,873
Incurred claims	2,855	56,894	1,345
Paid claims	(283)	(53,368)	(65,218)
Balance 6-30-00	8,325	283,600	-
Incurred claims	2,026	105,270	-
Paid claims	(800)	(62,453)	-
Balance 6-30-01	\$ 9,551	\$ 326,417	\$ -

#### Note 16 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2001, were as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General	\$ 27,861	\$ 69,586
Special Revenue:		
Transportation	23,801	1,110
Workers' Compensation	189	161
Banking	-	160
Consumer Counsel & Public Utility Control	-	205
Insurance	75	197
Criminal Injuries	151	-
Mashatucket Pequot & Mohegan	-	-
Regional Market	-	7
Soldiers, Sailors, & Marines	-	541
Employment Security	1,213	953
Grant and Loan Programs	-	19,238
Environmental Programs	36	248
Housing Programs	-	14
Other	10	1,967
	<u>25,475</u>	<u>24,801</u>
Debt Service	-	5,409
Capital Projects:		
State Facilities	13,678	47,043
Infrastructure	-	942
Transportation	-	-
	<u>13,678</u>	<u>47,985</u>

#### Enterprise:

Bradley International Airport	-	2,475
Lottery Corporation	-	11,245
John Dempsey	1,061	1,061
Other	-	8
	<u>1,061</u>	<u>14,789</u>

#### Internal Service:

Correction Industries	634	4,953
Information & Technology	2,735	294
Administrative Services	406	93
	<u>3,775</u>	<u>5,340</u>

#### Expendable Trust:

Employment Security	34,092	5,187
Special Assessment	-	33,570
Retired Teachers	1,576	-
Other	431	-
	<u>36,099</u>	<u>38,757</u>

#### Nonexpendable Trust:

Soldiers, Sailors, & Marines	527	-
Other	3	216
	<u>530</u>	<u>216</u>

#### Pension Trust:

State Employees	4,811	1,499
State Teachers	-	9,662
	<u>4,811</u>	<u>11,161</u>

#### Agency:

Payroll & Fringe Benefit	4,990	-
Receipts & Pending Distribution	-	7,502
	<u>4,990</u>	<u>7,502</u>

#### Higher Education & University Hospital:

Current Unrestricted	48,127	7,209
Current Restricted	9	1,530
Loan	-	392
Plant Funds	85,177	10
Endowment	-	-
Agency Funds	125	176
	<u>133,438</u>	<u>9,317</u>

#### Component Units:

CT Development Authority	19,307	-
CT Health & Educational Facilities	-	36,215
CT Innovations, Incorporated	53	-
	<u>19,360</u>	<u>36,215</u>

#### Totals

\$ 271,078	\$ 271,078
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Note 17 Retatement of Fund Balances/Retained Earnings

As of June 30, 2001, the beginning fund balances/retained earnings for the following funds were restated as follows (amounts in thousands):

Fund	Balance 6/30/00 Previously Reported	Fund Reclass	GASB No. 33	Correction of Reported Assets/ Liabilities	Balance 6/30/00 as Restated
General	\$ 554,915	\$ -	\$ 228,712	\$ (2,619)	\$ 781,008
Special Revenue:					
Enviroment. Prog.	155,261	(1,536)	-	-	153,725
Capital Projects:					
State Facilities	(154,133)	-	-	(39,117)	(193,250)
Enterprise:					
Rental Housing	71,058	-	-	(6,334)	64,724
John Demp. Hosp. ( 9-30-00)	76,118	-	-	(22,432)	53,686
Internal Service:					
Information/Tech.	16,967	-	-	(61)	16,906
Administrative Svc	20,322	-	-	471	20,793
Expendable:					
Employment Security	842,089	-	77,514	-	919,603
Other	42,329	-	-	(1,819)	40,510
Nonexpendable:					
Drinking Water	-	1,536	-	49	1,585
Other	36,569	-	-	(4,884)	31,685
Higher Education					
Plant	2,117,793	-	-	(99,447)	2,018,346

The restatements were made because of the following reasons:

- The implementation of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement requires that (a) taxes and other assessments should be recognized as revenues in the period when the underlying exchange transactions has occurred and the resources are available and (b) grants and other financial aid should be recognized as revenue when all eligibility requirements imposed by the provider have been met and the resources are available.
- A change in the reporting period used by John Dempsey Hospital from September 30 to June 30, which was implemented this year. Because the combined financial statements for last year included John Dempsey Hospital's financial statements as of September 30, 1999, the above restatement includes an operating loss of \$13,841 for the period September 30, 1999 through September 30, 2000.
- The recording of accumulated depreciation of \$138,186 in the Plant funds of the Health Center (a higher education unit). In prior years, the Health Center did not record depreciation in its Plant funds.
- The recognition of unexpended bond allotments as an interfund receivable (\$38,739) and payable in the Plant funds and in the State Facilities fund, respectively. In prior years, unexpended bond allotments were not recognized in the combined financial statements.

**Note 18 Reserved Retained Earnings, Contributed Capital, and Reserved Fund Balances**

**Reserved Retained Earnings**

Bradley International Airport, an enterprise fund, has \$28.6 million restricted for debt service requirements and other programs of the airport. The Connecticut Lottery Corporation, an enterprise fund, has \$1.9 million restricted for programs of the Corporation. The Connecticut Housing Finance Authority, a component unit, has \$571.9 million restricted for debt service requirements and other programs of the Authority. The Connecticut Resources Recovery Authority, a component unit, has \$21.5 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, 2001 (amounts in thousands):

	Primary Government		Component Units	
	Bradley Airport		Connecticut	
			Resources Recovery Authority	Connecticut Innovations, Incorporated
Balance July 1, 2000	\$ 103,874	\$ 1,713	\$ 85,569	
Contributions-State	-	-	12,337	
Contributions-Other	4,098	-	13,970	
Items added back to retained earnings	-	(123)	-	
Balance June 30, 2001	<u>\$ 107,972</u>	<u>\$ 1,590</u>	<u>\$ 111,876</u>	

**Reserved Fund Balances**

These balances are comprised as follows (amounts in thousands):

Reserved For	Fund Type			
	General	Special Revenue	Trust and Agency	Higher Education
Petty Cash	\$ 1,043	\$ -	\$ -	\$ -
Budget Reserve	594,698	-	-	-
Advances to Other Funds	4,950	-	-	-
Inventories	36,232	13,142	-	-
Continuing Appropriations	687,027	55,243	-	-
Debt Service	20,696	-	-	77,883
Restricted Purposes	249,273	-	-	275,313
Loans	1,636	313,684	-	26,996
Employees' Pension Benefits	-	-	20,501,822	-
Trust Activities	-	-	480,753	-
Pool Participants	-	-	1,414,080	-
	<u>\$ 1,595,555</u>	<u>\$ 382,069</u>	<u>\$ 22,396,655</u>	<u>\$ 380,192</u>

Reserved for continuing appropriations represents amounts of unexpended appropriations legally carried forward and available for encumbrances and expenditures in the succeeding year.

Reserved for restricted purposes in the General and Higher Education funds represents amounts restricted for specific purposes by federal grants, restricted revenues, and private gifts and endowments.

**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 other services. Segment information for the year ended June 30, 2001, is as follows (amounts in thousands):

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	Rental Housing	Bradley Airport	John Dempsey Hospital	CT Lottery Corporation	Other
Operating Revenue	\$ 642	\$ 41,196	\$ 99,999	\$ 839,712	\$ 17,869
Depreciation and Amortization Expense	1	9,915	4,158	984	970
Operating Income (Loss)	(4,099)	6,593	(2,578)	250,029	183
Operating Transfers In	14,074	-	-	-	-
Operating Transfers Out	-	-	-	252,003	-
Net Non-Operating Revenues (Expenses)	5,917	3,877	-	1,656	(1,811)
Net Income (Loss)	15,892	10,470	(2,578)	(318)	(1,628)
Capital Contributions	-	4,098	-	-	-
Property, Plant & Equipment Additions (Deletions)	-	32,793	3,123	277	20,407
Net Working Capital	162,436	5,223	14,377	444,726	(1,057)
Total Assets	164,550	473,972	92,154	576,649	55,339
Bond and Other Long-Term Liabilities	81,820	285,115	17,384	451,339	54,014
Total Equity	80,616	174,180	51,108	1,943	(613)

## Note 20 Condensed Financial Statements – Component Units (amounts in thousands)

	Balance Sheets					
	Connecticut Housing Finance Development Authority	Connecticut Health & Educational Facilities Authority	Connecticut Resources Recovery Authority	Connecticut Health & Educational Facilities Authority	Other	Total
Assets:						
Current Assets	\$ 201,214	\$ 3,473,318	\$ 99,835	\$ 19,012	\$ 320,977	\$ 4,114,356
Property, Plant, and Equipment	20,262	2,629	237,665	152	233	260,941
Restricted Assets	51,140	336,363	103,413	267,341	9,076	767,333
Other Assets	5,051	26,875	12,665	-	2,046	46,637
Total Assets	\$ 277,667	\$ 3,839,185	\$ 453,578	\$ 286,505	\$ 332,332	\$ 5,189,267
Liabilities and Equity:						
Liabilities:						
Current Liabilities	\$ 10,675	\$ 27,913	\$ 27,583	\$ 39,285	\$ 14,055	\$ 119,511
Revenue Bonds	96,230	3,108,024	259,782	5,395	121,770	3,591,201
Other Liabilities	-	127,551	24,160	223,321	-	375,032
Total Liabilities	106,905	3,263,488	311,525	268,001	135,825	4,085,744
Equity:						
Contributed Capital	162,840	-	1,590	-	111,876	276,306
Retained Earnings	7,922	575,697	140,463	18,504	84,631	827,217
Total Equity	170,762	575,697	142,053	18,504	196,507	1,103,523
Total Liabilities and Equity	\$ 277,667	\$ 3,839,185	\$ 453,578	\$ 286,505	\$ 332,332	\$ 5,189,267



## Statements of Revenues, Expenses, and Changes in Equity

	Connecticut		Connecticut		Other	Total
	Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-00)	Connecticut Resources Recovery Authority	Connecticut Health & Educational Facilities Authority		
Operating Revenues	\$ 25,570	\$ 208,394	\$ 171,518	\$ 4,014	\$ 10,321	\$ 419,817
Operating Expenses:						
Depreciation and Amortization	277	3,615	16,710	56	243	20,901
Other	29,152	212,408	137,056	2,646	24,625	405,887
Operating Income (Loss)	(3,859)	(7,629)	17,752	1,312	(14,547)	(6,971)
Nonoperating Revenues (Expenses)	5,421	67,353	58,313	1,007	11,408	143,502
Operating Transfer in from Pri. Govt.	-	-	-	-	7,246	7,246
Net Income (Loss) for the Year	1,562	59,724	76,065	2,319	4,107	143,777
Equity-Beginning	169,200	515,973	65,988	16,185	166,093	933,439
Capital Contributions	-	-	-	-	26,307	26,307
Equity-Ending	\$ 170,762	\$ 575,697	\$ 142,053	\$ 18,504	\$ 196,507	\$ 1,103,523

**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, 2001, 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 \$1,851.4 million of which \$993.1 million is expected to be reimbursed by federal grants or other payments.
- 2) School construction and alteration grants with various towns for \$3,148.2 million and interest costs of \$326.9 million for a total of \$3,475.1 million. Funding for these projects is expected to come from bond sales.
- 3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately \$580.9

million. Funding for these programs is expected to come from bond sales.

**B. Contingent Liabilities**

The State 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

**STATE OF CONNECTICUT**

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adverse decisions may have on the future expenditures or revenue sources of the State.

**Note 23 Subsequent Events**

In September, \$708.3 million of special tax obligation bonds for transportation infrastructure programs were issued. These consisted of \$135 million of serial bonds, \$40 million of term bonds, and \$533.3 million of refunding serial bonds maturing on various dates through 2021 and bearing interest rates of 2% to 5.375%.

In November, \$832.4 million of general obligation bonds were issued which included \$432.8 million of refunding bonds which were issued for the purpose of advance refunding \$437.2 million. These bonds will mature at various dates through 2021, and bear interest rates of 3% to 5.125%.

In December, \$175 million of general obligation bonds were issued, maturing at various dates through 2011 and bearing interest rates of 3% to 5%.

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*Required*  
*PERS*  
*Supplementary*  
*Information*

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## 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
<b>SERS</b>						
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						
<b>TRS</b>						
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 *	-	-	-	-	-	-
6/30/00	\$9,605.9	\$11,797.6	\$2,191.7	81.4%	\$2,501.5	87.6%
*No actuarial valuations were performed as of June 30, 1995, 1997 and 1999						
<b>JRS</b>						
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%
<b>MERS</b>						
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)%
6/30/00	\$1,251.6	\$1,153.2	\$(98.4)	108.5%	\$290.3	(33.9)%

**PJRS**

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	SERS		TRS		JRS		MERS		PJRS	
	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
1996	\$501.1	66.9%	\$164.7	85.0%	\$9.2	100.0%	\$23.2	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%	\$0.35	100.0%
1999	\$315.6	100.0%	\$221.6	85.0%	\$9.3	100.0%	\$18.1	100.0%	\$0.32	100.0%
2000	\$342.8	100.0%	\$240.5	85.0%	\$9.3	100.0%	\$32.0	100.0%	\$-	-
2001	\$375.6	100.0%	\$252.5	85.0%	\$9.8	100.0%	\$15.5	100.0%	\$-	-

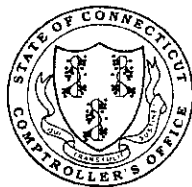
**Note:** During 1996, 2000 and 2001 the only contributions to the Probate Judges Retirement System were the required member contributions.

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.

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/00	6/30/00	6/30/00	6/30/00	12/31/00
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	32 Years	13-32 Years	30 Years	14-22 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	5-8.1%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	5%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	4%	3-5.5%	2.5-5%	3%

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**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

February 22, 2002

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, 1997-2001. 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, 1997-2001.

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.

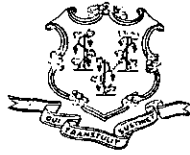
Sincerely,

A handwritten signature in cursive script that reads "Nancy Wyman".

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, 1997, 1998, 1999, 2000 and 2001, 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.

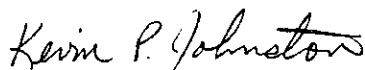
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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.

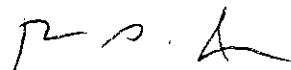
As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 accounting principles generally accepted in the United States of America.

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, 1997, 1998, 1999, 2000 and 2001, 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 31, 2001  
State Capitol  
Hartford, Connecticut

**GENERAL FUND<sup>(a)</sup>**

**Balance Sheet  
As of June 30  
(In Thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Assets</b>					
Cash and Short-Term Investments .....	\$ -	\$ 106,204	\$ 263,256	\$ 150,871	\$ 178,428
Accrued Taxes Receivable .....	632,854	641,845	664,504	667,036	751,329
Accrued Accounts Receivable .....	19,949	22,828	24,378	26,285	30,897
Federal and Other Grants Receivable and Unexpended.....	464,061	568,067	704,982	656,289	745,655
Investments .....		44,250	54,867	47,705	50,460
Due from Other Funds .....	<u>4,532</u>	<u>5,070</u>	<u>4,753</u>	<u>4,692</u>	<u>4,499</u>
Total Assets.....	<u>\$ 1,121,396</u>	<u>\$ 1,388,264</u>	<u>\$ 1,716,740</u>	<u>\$ 1,552,878</u>	<u>\$ 1,761,268</u>
<b>Liabilities, Reserves and Surplus</b>					
<b>Liabilities</b>					
Deficiency in Cash and Short-Term Investments .....	\$ 144,554	\$ -	\$ -	\$ -	\$ -
Deferred Restricted Accounts and Federal and Other Grant Revenue .....	91,596	189,738	319,484	266,260	301,801
Due to Other Funds .....	<u>15,232</u>	<u>8,486</u>	<u>13,643</u>	<u>13,707</u>	<u>15,254</u>
Total Liabilities .....	<u>\$ 251,382</u>	<u>\$ 198,224</u>	<u>\$ 333,127</u>	<u>\$ 279,967</u>	<u>\$ 317,055</u>
<b>Reserves</b>					
Petty Cash Funds.....	\$ 995	\$ 1,052	\$ 1,088	\$ 1,092	\$ 1,043
Statutory Surplus Reserves .....	262,639	312,911	71,759	300,435	30,660
Appropriations Continued to Following Year.....	<u>606,380</u>	<u>876,077</u>	<u>1,310,766</u>	<u>971,384</u>	<u>1,412,510</u>
Total Reserves.....	\$ 870,014	\$ 1,190,040	\$ 1,383,613	\$ 1,272,911	\$ 1,444,213
<b>Unappropriated Surplus (Deficit).....</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities, Reserves and Surplus.....	<u>\$ 1,121,396</u>	<u>\$ 1,388,264</u>	<u>\$ 1,716,740</u>	<u>\$ 1,552,878</u>	<u>\$ 1,761,268</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. Beginning in 2001, there is no longer a hospital gross receipts tax. 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>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Unappropriated Surplus (Deficit), July 1 .....	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ -0-
Resources from Reserve for Debt Avoidance					265,474
Total Revenues (per Appendix III-D-8).....	10,262,342	10,922,192	11,360,260	12,151,287	12,885,980
Total Expenditures (per Appendix III-D-9) .....	9,880,241	10,429,797	10,994,680	12,138,545	12,783,210
Operating Balance.....	382,101	492,395	365,580	12,742	368,244
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward.....	(110,974)	(180,520)	(294,077)	289,764	(333,999)
Transferred In (Out) or Reserved for:					
Budget Reserve Fund.....	(95,939)	(161,694)	(30,474)	(34,960)	(30,660)
Economic Recovery Note Debt					
Retirement Fund .....	(166,700)	--	--	--	--
Reserve for Debt Retirement/Avoidance	--	(151,217)	(41,285)	(265,474)	--
Other Adjustments .....	<u>(8,488)</u>	<u>1,036</u>	<u>256</u>	<u>(2,072)</u>	<u>(3,585)</u>
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>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Taxes:					
Personal Income .....	\$ 3,110,868	\$ 3,596,224	\$ 3,820,837	\$ 4,238,228	\$ 4,744,233
Sales and Use .....	2,611,456	2,772,109	2,932,191	3,096,780	3,125,078
Corporations.....	677,883	663,672	619,539	587,756	550,509
Insurance Companies .....	193,072	192,756	196,195	201,225	191,107
Inheritance and Estate .....	227,984	279,236	237,573	228,072	252,802
Alcoholic Beverages .....	39,671	39,772	40,281	40,965	41,145
Cigarettes .....	126,576	127,174	123,345	122,045	119,476
Admissions, Dues, Cabaret .....	25,887	24,955	26,942	26,716	25,811
Oil Companies.....	80,362	61,858	22,170	54,285	64,497
Public Service Corporations.....	179,365	170,418	167,704	166,263	180,547
Real Estate Conveyance .....	75,082	93,596	106,813	114,565	112,282
Hospital Gross Receipts .....	173,738	140,930	128,079	69,180	-
Miscellaneous.....	28,509	28,044	40,635	40,227	35,088
Refunds of Taxes.....	(490,548)	(580,830)	(645,000)	(713,359)	(735,482)
Other Revenue:					
Licenses, Permits, Fees .....	124,833	123,156	122,062	127,544	124,331
Sales of Commodities and Services .....	39,053	29,491	30,110	32,941	31,312
Transfer - Special Revenue .....	258,682	267,323	280,529	259,785	258,181
Investment Income .....	39,623	54,716	60,856	53,371	67,868
Transfers — To Other Funds .....	(85,000)	(180,000)	(90,000)	(180,000)	(85,400)
Fines, Escheats and Rents .....	33,130	37,097	55,763	45,659	48,228
Miscellaneous.....	112,736	118,373	112,962	125,498	125,594
Federal Grants .....	1,795,514	1,824,595	1,938,271	2,078,914	2,237,045
Indian Gaming Payments .....	203,601	257,576	288,532	318,986	332,418
Statutory Transfers From Other Funds.....	-	-	-	78,000	138,800
Total Unrestricted Revenue.....	<u>9,582,077</u>	<u>10,142,241</u>	<u>10,616,389</u>	<u>11,213,646</u>	<u>11,985,470</u>
Restricted Accounts and Federal and Other Grants .....	<u>680,265</u>	<u>779,951</u>	<u>743,871</u>	<u>937,641</u>	<u>900,510</u>
<b>Total Revenues<sup>(a)</sup> .....</b>	<b><u>\$ 10,262,342</u></b>	<b><u>\$ 10,922,192</u></b>	<b><u>\$ 11,360,260</u></b>	<b><u>\$ 12,151,287</u></b>	<b><u>\$ 12,885,980</u></b>

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

**GENERAL FUND**  
**Statement of Expenditures**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Legislative .....	\$ 40,058	\$ 41,793	\$ 50,978	\$ 54,541	\$ 55,406
General Government					
Executive .....	7,234	8,022	8,731	9,929	10,018
Financial Administration .....	312,198	347,559	532,374	495,118	438,800
Legal .....	44,869	48,699	53,742	61,263	62,612
Total General Government .....	<u>364,301</u>	<u>404,280</u>	<u>594,847</u>	<u>566,310</u>	<u>511,430</u>
Regulation and Protection of Persons and Property					
Public Safety .....	56,270	57,327	107,942	129,216	130,051
Regulative .....	32,138	32,880	61,764	77,785	73,427
Total Regulation and Protection .....	<u>88,408</u>	<u>90,207</u>	<u>169,706</u>	<u>207,001</u>	<u>203,478</u>
Conservation and Development					
Agriculture .....	7,549	8,058	8,885	10,026	10,500
Environment .....	37,072	35,798	39,138	45,621	47,668
Historical Sites, Commerce and Industry	17,039	18,299	22,737	22,508	25,486
Total Conservation and Development .....	<u>61,660</u>	<u>62,155</u>	<u>70,760</u>	<u>78,155</u>	<u>83,654</u>
Health and Hospitals					
Public Health .....	63,080	63,170	70,334	79,445	82,225
Mental Retardation .....	514,368	540,359	579,290	627,435	654,698
Mental Health .....	184,899	214,248	255,905	298,353	355,438
Total Health and Hospitals .....	<u>762,347</u>	<u>817,777</u>	<u>905,529</u>	<u>1,005,233</u>	<u>1,092,361</u>
Transportation .....	-	-	-	-	34,857
Human Services .....	<u>3,277,044</u>	<u>3,371,318</u>	<u>3,231,095</u>	<u>3,430,561</u>	<u>3,537,462</u>
Education, Libraries and Museums					
Department of Education .....	1,507,614	1,557,271	1,683,536	1,825,305	2,169,762
Education of the Blind and Deaf .....	14,276	13,133	14,618	16,052	16,757
University of Connecticut .....	207,279	232,876	234,464	260,972	271,378
Higher Education and the Arts .....	24,719	30,860	39,385	55,326	61,888
Libraries .....	11,645	12,126	13,729	14,326	14,800
Teachers Retirement .....	152,781	184,714	201,105	215,396	226,663
Community--Technical Colleges .....	94,296	95,604	105,064	115,432	115,587
State University .....	109,620	113,853	119,578	134,709	130,556
Total Education, Libraries and Museums .....	<u>2,122,230</u>	<u>2,240,437</u>	<u>2,411,479</u>	<u>2,637,518</u>	<u>3,007,391</u>
Corrections .....	<u>757,341</u>	<u>762,917</u>	<u>845,239</u>	<u>957,555</u>	<u>999,052</u>
Judicial .....	<u>217,086</u>	<u>232,340</u>	<u>266,043</u>	<u>309,319</u>	<u>338,568</u>
Non-Functional					
Debt Service .....	726,065	790,164	848,391	926,365	973,554
Miscellaneous .....	783,436	836,458	856,742	1,028,346	1,045,487
Total Non-Functional .....	<u>1,509,501</u>	<u>1,626,622</u>	<u>1,705,133</u>	<u>1,954,711</u>	<u>2,019,041</u>
Totals .....	<u>9,199,976</u>	<u>9,649,846</u>	<u>10,250,809</u>	<u>11,200,904</u>	<u>11,882,700</u>
Restricted Accounts and Federal and Other Grants .....	680,265	779,951	743,871	937,641	900,510
<b>Total Expenditures<sup>(a)</sup> .....</b>	<u>\$ 9,880,241</u>	<u>\$ 10,429,797</u>	<u>\$ 10,994,680</u>	<u>\$ 12,138,545</u>	<u>\$ 12,783,210</u>

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

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**GENERAL FUND REVENUES AND EXPENDITURES  
ADOPTED BIENNIAL BUDGET FOR 2001-02 AND FOR 2002-03  
ACTUAL RESULTS (UNAUDITED) FOR 2000-01 AND  
ESTIMATED BUDGET FOR 2001-02**

(In Millions)

	<u>Actual Budget</u> <u>2000-01<sup>(d)</sup></u>	<u>Adopted Budget</u> <u>2001-02<sup>(e)</sup></u>	<u>Estimated Budget</u> <u>2001-02<sup>(g)</sup></u>	<u>Adopted Budget</u> <u>2002-03<sup>(e)</sup></u>
<b>Revenues</b>				
<u>Taxes</u>				
Personal Income Tax	\$4,744.2	\$4,841.4	\$4,762.0	\$5,109.9
Sales & Use	3,125.1	3,193.7 <sup>(f)</sup>	3,107.5 <sup>(f)</sup>	3,317.6 <sup>(f)</sup>
Corporation	550.5	501.2	501.2	531.5
Public Service	180.6	189.7	184.7	199.8
Inheritance & Estate <sup>(a)</sup>	252.8	210.0	165.0	166.0
Insurance Companies	191.1	192.0	192.0	198.3
Cigarettes	119.5	117.0	117.0	114.1
Real Estate Conveyance	112.3	110.0	105.0	111.1
Oil Companies	64.5	61.8	52.0	61.0
Alcoholic Beverages	41.2	41.0	41.0	41.0
Admissions, Dues, Cabaret	25.8	25.3	25.3	25.8
Miscellaneous	<u>35.1</u>	<u>36.1</u>	<u>36.1</u>	<u>35.3</u>
Total Taxes	\$9,442.7	\$9,519.2	\$9,288.8	\$9,911.4
Less Refunds	<u>(735.5)</u>	<u>(765.5)</u>	<u>(783.0)</u>	<u>(804.5)</u>
Net Taxes	\$8,707.2	\$8,753.7	\$8,505.8	\$9,106.9
<u>Other Revenues</u>				
Transfers- Special Revenues	258.2	265.2	279.2	270.5
Indian Gaming Payments	332.4	360.0	360.0	370.0
Licenses, Permits, Fees	124.3	128.2	128.2	124.2
Sales of Commodities & Services	31.3	28.8	28.8	30.0
Rents, Fines & Escheats	48.2	51.2	51.2	52.4
Investment Income	67.9	62.7	57.2	61.2
Miscellaneous	<u>125.6</u>	<u>128.0</u>	<u>115.1</u>	<u>136.2</u>
Total Other Revenue	\$987.9	\$1,024.1	\$1,019.7	\$1,044.5
<u>Other Sources</u>				
Federal Grants	2,237.0	2,144.3	2,154.2	2,266.6
Transfers from Tobacco Settlement Funds	138.8	120.0	120.0	121.0
Transfers to Other Funds <sup>(b)</sup>	<u>(85.4)</u>	<u>(148.0)</u>	<u>(148.0)</u>	<u>(107.0)</u>
Total Other Sources	<u>\$2,290.4</u>	<u>\$2,116.3</u>	<u>\$2,126.2</u>	<u>\$2,280.6</u>
Total Unrestricted Revenues	\$11,985.5	\$11,894.1	\$11,651.7	\$12,432.0
Restricted Accounts and Federal & Other Grants	<u>900.5</u>	<u>750.0</u>	<u>972.6<sup>(h)</sup></u>	<u>750.0</u>
Total Revenue	\$12,886.0	\$12,644.1	\$12,624.3	\$13,182.0

	<b>Actual Budget 2000-01<sup>(d)</sup></b>	<b>Adopted Budget 2001-02<sup>(e)</sup></b>	<b>Estimated Budget 2001-02<sup>(g)</sup></b>	<b>Adopted Budget 2002-03<sup>(e)</sup></b>
<b>Appropriations/Expenditures</b>				
Legislative	\$57.3	\$59.8	\$59.8	\$63.2
General Government	565.2	462.7	461.2	472.7
Regulation & Protection	212.8	224.7	226.7	231.7
Conservation & Development	126.1	75.1	75.6	79.6
Health & Hospitals	1,132.2	1,213.6	1,218.1	1,267.1
Transportation	83.7	35.0	35.0	35.0
Human Services	3,552.6	3,494.4	3,515.4	3,659.8
Education, Libraries & Museums	3,101.0	2,772.3	2,772.3	2,897.3
Corrections	992.8	1,085.5	1,092.5	1,137.7
Judicial	339.1	384.1	384.1	399.4
Non- Functional				
Debt Service	975.9	1,031.4	1,020.9	1,060.2
Miscellaneous	<u>1,078.0</u>	<u>1,159.1</u>	<u>1,178.1</u>	<u>1,234.5</u>
Subtotal	\$12,216.7	\$11,997.7	\$12,039.7	\$12,538.2
Unallocated Lapse	<u>(265.5)</u>	<u>(103.9)</u>	<u>(91.8)</u>	<u>(106.9)</u>
Net Appropriations/Expenditures	\$11,951.2	\$11,893.9	\$11,947.9	\$12,431.4
Surplus (or Deficit) from Operations	\$34.3	\$0.1	(\$296.3)	\$0.6
Miscellaneous Adjustments	<u>(3.6)</u>	<u>0.0</u>	<u>(5.4)</u>	<u>0.0</u>
Balance <sup>(c)</sup>	\$30.7	\$0.1	(\$301.7)	\$0.6

NOTE: Columns may not add due to rounding.

- (a) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256 and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16.
- (b) Transfer to Mashantucket Pequot and Mohegan Fund for Grants to towns.
- (c) 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.
- (d) Per the Comptroller's unaudited annual report for fiscal year ended June 30, 2001. Expenditure figures for fiscal year 2000-2001 include the disposition of \$576.2 million in surplus funds pursuant to Sections 47(a) and 47(w) of Special Act No. 01-1 of the June Special Session. 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.
- (e) Per Special Act No. 01-1 of the June Special Session.
- (f) Reflects Public Act No. 01-6 of the June Special Session which suspended the tax on hospital services for fiscal years 2001-02 and 2002-03.
- (g) Per the Comptroller's monthly report for the period ending September 30, 2001.
- (h) The figure reflected for Restricted Accounts and Federal & Other Grants reflects realized revenues through September 30, 2001 and does not reflect an estimate for the entire period. Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.

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.



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