

NEW ISSUE - BOOK ENTRY ONLY

In the opinion of Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance by the State of Connecticut with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, interest on the 2002 Series B Bonds is not includable in the gross income of the owners thereof for purposes of Federal income taxation and will not be treated as a preference item for purposes of computing the Federal alternative minimum tax for individuals and corporations. Interest on the 2002 Series B Bonds may be included in the calculation of certain taxes, including the Federal alternative minimum tax on corporations, as described under "Tax Exemption" herein. In the opinion of Bond Counsel, under existing statutes, interest on the 2002 Series B 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. For a discussion of the inclusion of interest income on the 2002 Series B Bonds in the definition of "gross income" for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes and other Federal and State tax consequences of ownership or disposition of the 2002 Series B Bonds, see "Tax Exemption" herein.

\$215,000,000
State of Connecticut
Special Tax Obligation Bonds
Transportation Infrastructure Purposes,
2002 Series B

Dated: November 1, 2002

Due: December 1, as shown herein

The 2002 Series B Bonds (the "2002 Series B Bonds") are issuable only as fully registered bonds, without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, N.Y. DTC will act as securities depository for the 2002 Series B Bonds. Purchases of the 2002 Series B Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the 2002 Series B Bonds. So long as Cede & Co. is the Bondowner, as nominee for 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 2002 Series B Bonds. See "Book-Entry Only System" herein.

Principal of and semiannual interest on the 2002 Series B Bonds will be paid directly to DTC by State Street Bank and Trust Company, Trustee, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. Interest on the 2002 Series B Bonds will be payable semiannually on June 1 and December 1 of each year, commencing June 1, 2003. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct and Indirect Participants, as more fully described herein. The 2002 Series B Bonds are subject to redemption prior to maturity as more fully described herein.

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

The scheduled payment of principal of and interest on the 2002 Series B Bonds maturing on December 1 of the years 2007 through 2022, inclusive (the "Insured Bonds") when due will be insured by a financial guaranty insurance policy to be issued by AMBAC ASSURANCE CORPORATION simultaneously with the delivery of the of the Insured Bonds.

Ambac

The 2002 Series B Bonds will be issued on a parity with earlier series of Senior Bonds (as defined herein) issued by the State for the Infrastructure Program (as defined herein) under a Senior Indenture of Trust by and between the State and the Trustee, as supplemented and amended, and as further supplemented by the Supplemental Indenture for the 2002 Series B Bonds. **Bonds issued pursuant to the Senior Indenture, including the 2002 Series B Bonds, are special obligations of the State payable solely from the taxes and other revenues of the State pledged therefor. The Bonds (as defined herein) shall not be payable from nor charged upon any funds other than such pledged revenues, nor shall the State or any political subdivision thereof be subject to any liability thereon except to the extent of such pledged revenues. The issuance of the Bonds pursuant to the Indentures (as defined herein) shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation (except for taxes included in such pledged revenues) whatever therefor or to make any additional appropriations for their payment.**

The 2002 Series B Bonds are offered, when, as and if issued and received by the Underwriters, subject to the approval of legality by Updike, Kelly & Spellacy, P.C., Hartford, Connecticut, Bond Counsel and Lewis & Munday, A Professional Corporation, Detroit, Michigan, as Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriters by their Counsel, Squire, Sanders & Dempsey L.L.P., New York, New York. It is expected that the 2002 Series B Bonds in definitive form will be available for delivery in New York, New York, on or about November 26, 2002.

Treasurer of the State of Connecticut

Lehman Brothers

Goldman, Sachs & Co.

Ramirez & Co., Inc.

Salomon Smith Barney

**Apex Pryor Securities
RBC Dain Rauscher Inc.
Gates Capital
Melvin Securities, L.L.C.
Raymond James & Associates**

**Bear, Stearns & Co. Inc.
David Lerner Associates, Inc.
Janney Montgomery Scott LLC
Merrill Lynch & Co.**

**The Chapman Company
Fahnestock & Co., Inc.
M. R. Beal & Company
Prudential Securities Incorporated
Roosevelt & Cross, Incorporated**

**CIBC World Markets
Fidelity Capital Markets
May Davis Group, Inc.
Quick & Reilly, Inc.
William Blair & Company LLC**

\$215,000,000
State of Connecticut

Special Tax Obligation Bonds
Transportation Infrastructure Purposes, 2002 Series B

MATURITY SCHEDULE

<u>December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
2003	\$ 7,255,000	3.000%	1.270%	2014*†	\$ 10,115,000	5.250%	3.850%
2004	7,475,000	3.000	1.550	2015*	1,185,000	3.900	3.970
2005	7,705,000	3.000	1.850	2015*†	10,390,000	5.250	3.970
2006	5,110,000	2.500	2.170	2016*	1,500,000	4.100	4.100
2006	2,265,000	3.000	2.170	2016*†	10,665,000	5.000	4.100
2007*	5,185,000	3.000	2.530	2017*	620,000	4.200	4.200
2007*	13,540,000	5.000	2.530	2017*†	12,160,000	5.000	4.200
2008	---	---	---	2018*	350,000	4.300	4.300
2009*	5,305,000	3.000	3.000	2018*†	13,080,000	5.000	4.300
2010*	9,160,000	3.300	3.250	2019*	360,000	4.400	4.400
2011*	1,800,000	3.400	3.440	2019*†	13,775,000	5.250	4.330
2011*	7,735,000	5.000	3.440	2020*	1,065,000	4.500	4.500
2012*	2,455,000	3.500	3.540	2020*†	13,810,000	5.000	4.500
2012*	7,535,000	5.000	3.540	2021*	805,000	4.600	4.600
2013*	2,265,000	3.625	3.710	2021*†	14,830,000	5.000	4.600
2013*†	8,200,000	5.000	3.710	2022*	7,545,000	4.650	4.680
2014*	880,000	3.800	3.850	2022*†	8,875,000	5.000	4.680

(plus accrued interest from November 1, 2002)

*Payment of the principal and interest on such maturities of these bonds will be insured under an insurance policy to be issued concurrently with the delivery of such bonds by Ambac Assurance Corporation.

†Priced to the December 1, 2012 par call.

No dealer, broker or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Connecticut or the Underwriters. This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the securities offered hereby or any offer or solicitation of the securities offered hereby to any person in any jurisdiction where such offer or solicitation would be unlawful. The delivery of this Official Statement at any time does not imply that the information herein is correct as of any time subsequent to its date.

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

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	The State Transportation System	27
THE TRANSPORTATION		Organization and Responsibilities	28
INFRASTRUCTURE PROGRAM	2	Implementation of and Funding for	
NATURE OF OBLIGATION	3	the Infrastructure Program	29
Legal Authority - State Bond Commission	3	Financial Controls	32
Source of Payment	3	SUMMARY OF CERTAIN PROVISIONS	
Refunding Bonds	6	OF THE SENIOR INDENTURE	33
Additional Bonds	6	SUMMARY OF CERTAIN PROVISIONS	
Bond Anticipation Notes and Subordinated		OF THE SECOND LIEN INDENTURE	44
Indebtedness	7	LITIGATION	46
State General Taxing Power Not Pledged	8	DOCUMENTS ACCOMPANYING	
THE 2002 SERIES B BONDS	8	DELIVERY OF THE BONDS	47
Purpose of the 2002 Series B Bonds -		Continuing Disclosure Agreement	47
The Public and Special Acts	8	Absence of Litigation	47
Description of the 2002 Series B Bonds	8	Certain Legal Matters	47
Optional Redemption	8	Certificate of State Officials	47
Notice of Redemption	9	LEGALITY FOR INVESTMENT	47
Sources and Uses of Funds	9	TAX EXEMPTION	48
BOND INSURANCE	9	RATINGS	49
BOOK-ENTRY-ONLY SYSTEM	11	FINANCIAL ADVISORS	50
TOTAL BONDS OUTSTANDING	14	UNDERWRITING	50
DEBT SERVICE ON OUTSTANDING BONDS	15	MISCELLANEOUS	50
Accreted Interest on Outstanding		Appendix A - State of Connecticut	A-1
Capital Appreciation Bonds	16	Appendix B - Budget Appropriations of the	
THE OPERATIONS OF THE SPECIAL		State Special Transportation Fund for	
TRANSPORTATION FUND	16	Fiscal Years 2001-2002 and 2002-2003	B-1
Introduction	16	Appendix C - Independent Auditors' Report on the	
Discussion of Projected Pledged Revenues	18	Financial Statements of the Special Transportation	
Description of Revenue Sources of		Fund of the State of Connecticut as of and for the Year	
the Special Transportation Fund	20	Ended June 30, 2002	C-1
Debt Service Coverage	23	Appendix D - Form of Bond Counsel Opinion	D-1
Expenses of the Special Transportation Fund	24	Appendix E - Form of Continuing	
2002 Legislative Changes	25	Disclosure Agreement	E-1
THE TRANSPORTATION STRATEGY BOARD	27	Appendix F - Form of Municipal Bond	
THE DEPARTMENT OF TRANSPORTATION	27	Insurance Policy	F-1

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\$215,000,000
State of Connecticut

Special Tax Obligation Bonds
Transportation Infrastructure Purposes, 2002 Series B

INTRODUCTION

This Official Statement (including the cover page and appendices) provides certain information in connection with the issuance by the State of Connecticut (the "State") of its \$215,000,000 Special Tax Obligation Bonds, Transportation Infrastructure Purposes, 2002 Series B (the "2002 Series B Bonds"). The State has authorized the issuance of special tax obligation bonds for transportation infrastructure purposes pursuant to Public Act No. 84-254 of the General Assembly of the State of Connecticut, February Session of 1984, as amended, and other public and special acts adopted by the General Assembly (the "Act"). The State has heretofore authorized the issuance of special tax obligation bonds pursuant to the Act pursuant to an Indenture of Trust entered into by the State and The Connecticut National Bank, as Trustee, dated as of September 15, 1984, as supplemented by the First through the Thirty-Second Supplemental Indentures entered into by the State and the Trustee and amended by the Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 and entered into by the State and the Trustee (the foregoing herein collectively the "Senior Indenture"). State Street Bank and Trust Company, Hartford, Connecticut, is the successor trustee (the "Trustee") under the Senior Indenture. State Street Bank and Trust Company has signed an agreement with U.S. Bank, N.A. ("U.S. Bank") for the sale of substantially all of its corporate trust business to U.S. Bank. It is contemplated that this transaction will close on or before December 31, 2002. In such event, U.S. Bank would succeed to State Street Bank and Trust Company's rights and duties as Trustee. Bonds issued under the Senior Indenture are referred to herein as "Senior Bonds." The Act and the Senior Indenture further authorize the issuance of refunding bonds having equal rank and on a parity with the Senior Bonds. The 2002 Series B Bonds will be the thirty-fifth series of Senior Bonds issued under the Senior Indenture.

The Senior Indenture constitutes a contract between the State and the holders of all bonds issued thereunder. Pursuant to the Senior Indenture, all bonds issued thereunder are equally and ratably secured by the pledges and covenants contained therein.

The State has also authorized and issued special tax obligation bonds (the "Second Lien Bonds") junior in right of payment of principal and interest to the Senior Bonds, pursuant to a Second Lien Indenture of Trust entered into by the State and The Connecticut National Bank, as Trustee, dated as of December 1, 1990, as supplemented by the First Supplemental Indenture of Trust, dated as of December 1, 1990 and the Second Supplemental Indenture of Trust, dated as of September 1, 2000, entered into by the State and the Trustee and amended by the Second Lien Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 and entered into by the State and the Trustee (the foregoing referred to collectively as the "Second Lien Indenture"). State Street Bank and Trust Company, Hartford, Connecticut is the successor trustee (the "Trustee") under the Second Lien Indenture. The Second Lien Indenture was established principally to facilitate the issuance of bonds bearing interest at a variable rate and the entry by the State into interest rate swap agreements in respect thereto.

The Second Lien Bonds, 2000 Series 1 represented the first issuance of variable rate bonds since the issuance of the Second Lien Series 1 Bonds in 1990 (the "Second Lien Bonds, 1990 Series 1") and served to vary the debt structure of the Special Transportation Fund through the issuance of variable rate bonds under the Second Lien Indenture. The State has interest swaps in effect with respect to the currently outstanding \$156,100,000 Second Lien Bonds, 1990 Series 1. Although the Second Lien Bonds, 1990 Series 1 were issued as variable rate bonds, the interest rate swaps synthetically provide the practical effect of fixed rate bonds. The State did not obtain an interest rate swap with respect to the Second Lien Bonds, 2000 Series 1.

Special tax obligation bonds authorized by the State for issuance from time to time may be issued under either the Senior Indenture or the Second Lien Indenture upon the terms and subject to the conditions stated in such Indentures. The Senior Bonds and the Second Lien Bonds are herein called collectively the "Bonds," and the Senior Indenture and the Second Lien Indenture are herein called collectively the "Indentures."

There follows in this Official Statement a description of the transportation infrastructure program, the nature of the obligation and the security therefor, the terms of the 2002 Series B Bonds, the establishment and maintenance of a special fund of the State (the

“Special Transportation Fund”), including the transportation related revenues of the State to be credited to the Special Transportation Fund and the method of accounting therefor, and the Department of Transportation (the “Department”), which is charged with the management of the transportation infrastructure program. Also included are summaries of certain provisions of the Indentures. All references herein to the Act and the Indentures are qualified in their entirety by reference to the complete text of each such Act and Indenture, copies of which are available from the State, and all references to the 2002 Series B Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Senior Indenture.

THE TRANSPORTATION INFRASTRUCTURE PROGRAM

The Infrastructure Program was established in 1984 and is a continuous program which finances the ongoing requirements of the State for the planning, acquisition, removal, construction, equipping, reconstruction, repair, rehabilitation and improvement of, and acquisition of easements and rights-of-way with respect to, State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program (the “interstate trade-in 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, 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 (all such projects being collectively herein called the “Infrastructure Program”). The Infrastructure Program is administered by the Department. For a more detailed description of the Department and the Infrastructure Program, see “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 \$15.8 billion. The State's share of such cost, 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 special tax obligation bonds. The portion of State program costs not financed by the 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 Bonds is currently estimated at \$5.3 billion. The issuance of such special tax obligation bonds has eliminated the need for the authorization of additional general obligation bonds of the State for transportation purposes. Special tax obligation bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

During fiscal years 1985-2003, \$13.7 billion of the total Infrastructure Program was approved. The remaining \$2.1 billion is required for fiscal years 2004-2006. The \$2.1 billion is comprised of \$517.9 million from the anticipated issuance of new special tax obligation bonds, \$38.4 million in anticipated revenues, and \$1.59 billion in anticipated federal funds.

The aggregate of motor fuels taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, Oil Companies Tax Payments (as hereinafter defined), Sales Tax - DMV Payments (as hereinafter defined), motor vehicle related fines, penalties and other charges and other transportation related revenue sources, including enacted adjustments in 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 or previously authorized and to be issued for transportation purposes and for the payment of annually budgeted expenses of the Department and the Department of Motor Vehicles (the “DMV”).

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 Bonds. See “The Operations of the Special Transportation Fund.” In addition, the State has established an Infrastructure Improvement Fund to account for the net proceeds of bonds and bond anticipation notes (the “Notes”) issued under public and special acts adopted annually by the General Assembly authorizing such bonds. The 2002 Series B Bonds are neither payable from nor secured by the Infrastructure Improvement Fund.

NATURE OF OBLIGATION

Legal Authority - State Bond Commission

The State issues the Bonds pursuant to the Act, the Indentures and special legislation enacted annually authorizing additional Bonds. Under the terms and provisions of the Act, the State Bond Commission (established pursuant to Section 3-20 of the General Statutes of Connecticut, as amended) is empowered to authorize special tax obligation bonds of the State for transportation infrastructure projects and uses, subject to the annual legislative authorizations (the "Special Acts"). The Act also authorizes the issuance of special tax obligation bonds to refund outstanding special tax obligation bonds and authorizes the execution of the Indentures as contracts of the State with the holders of the Bonds. The Act expressly provides that holders of Bonds may sue the State upon such express contract in the Connecticut Superior Court for the Judicial District of Hartford.

The State Bond 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 of the State and the Co-chairpersons and the 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.

Source of Payment

Special Transportation Fund

The Bonds are special obligations of the State and are payable solely from the revenues of the State pledged therefor as provided in the Act (the "Pledged Revenues") and other receipts, funds or moneys pledged therefor pursuant to the Act and the Indentures. Pursuant to the Act and under the Indentures, all Pledged Revenues received or collected are promptly credited to the Special Transportation Fund established pursuant to Public Act 83-30 of the June 1983 Special Session of the General Assembly, as amended. Pledged Revenues consist of taxes, fees, charges and other receipts of the State credited to the Special Transportation Fund. These include motor fuels taxes; motor vehicle receipts; motor vehicle related licenses, permits and fees; Oil Companies Tax Payments (as hereinafter defined), Sales Tax - DMV Payments (as hereinafter defined); motor vehicle related fines, penalties and other charges more particularly defined in the Act, including enacted adjustments in all of the foregoing sources; and certain transportation related federal revenues of the State credited to the Fund.¹ Other receipts, funds or moneys pledged under the Indentures include investment earnings and moneys in the funds and accounts established thereunder, subject to the application thereof as provided for in the Indentures.

The Act further provides that the Treasurer shall apply the resources in the Special Transportation Fund first to pay or to provide for the payment of debt service requirements (the "Debt Service Requirements") on the Bonds or on Notes in such amount or amounts and in such manner as required by the Indentures. The Debt Service Account, the Note Repayment Account and the Reserve Account, which are accounted for as part of the Special Transportation Fund, are maintained and held in trust by the Trustee under the Senior Indenture and are the accounts from which payments of Principal and Interest Requirements on all Senior Bonds, and Interest Requirements on Senior Notes (as defined in the Senior Indenture), will be paid. The remaining resources of the Special Transportation Fund, pursuant to the proper appropriation thereof and subject to approval by the Governor of allotment thereof, are available for (i) payment of principal on Senior Notes, (ii) payment of amounts required to be deposited with the Trustee under the Second Lien Indenture, (iii) payment of the principal of and interest on "General Obligation Bonds of the State issued for Transportation Purposes," as defined in the Act, or any general obligations refunding the same, and (iv) payment of State budget appropriations for the Department and the DMV.

The Act provides that as part of the contract with bondholders, upon authorization of the issuance of the Bonds, all amounts necessary for the punctual payment of Debt Service Requirements are deemed appropriated from the Pledged Revenues and the Treasurer is required to pay such principal and interest as the same shall accrue, but only from the Pledged Revenues and other receipts,

¹ Certain transportation related federal revenues, presently consisting of Federal Transit Administration ("FTA") operating assistance grants, are not subject to the lien in favor of the Bonds until such revenues are credited to the Special Transportation Fund and are available for payment of debt service on Bonds and Notes and program expenses. See "Description of Revenue Sources of the Special Transportation Fund-Other Revenues."

funds or moneys pledged to repay the Bonds. In the opinion of Bond Counsel, such amounts are validly deemed to be appropriated from such sources and such payment does not require further legislative approval.

The Act also provides that the obligation of the State to pay the Debt Service Requirements, in addition, will be secured by: (i) a first call upon the Pledged Revenues as they are received by the State and credited to the Special Transportation Fund (such a requirement whereby the Pledged Revenues are first applied to debt service is commonly referred to as a gross pledge); and (ii) a lien upon any and all amounts held to the credit of the Special Transportation Fund from time to time, provided such lien shall not extend to amounts credited to such Fund representing proceeds of (A) short term State notes or (B) transportation related federal revenues of the State. The Act provides that any pledge made by the State shall be valid and binding from the time when the pledge is made, and that any revenues or other receipts, funds or moneys so pledged or thereafter received by the State shall be subject immediately to the lien of such pledge without any physical delivery thereof or further act. In the opinion of Bond Counsel, the pledge in the Senior Indenture granting a first call on Pledged Revenues and a lien upon and security interest in amounts held to the credit of the Special Transportation Fund and other receipts, funds, or moneys pledged in the Senior Indenture, in the manner and to the extent set forth therein, is valid and binding upon the State and against all parties having claims of any kind in tort, contract, or otherwise against the State (including holders of general obligation debt of the State).

Effective October 1, 2001, Connecticut adopted changes to Article 9 of the Uniform Commercial Code which governs the creation and perfection of security interests in collateral. As part of the legislation which makes such changes to Article 9, the State has opted to continue to exclude the applicability of Article 9 of the Uniform Commercial Code to transfers by a government or government subdivision or agency of the State. Accordingly, the changes to Article 9 of the Uniform Commercial Code as adopted in Connecticut do not change the pledges, liens and security interests granted by the State to secure the Bonds, as described above.

Agreements of the State

Pursuant to the Act and under the Senior Indenture, the State has covenanted with the bondholders to impose, charge, raise, levy, collect and apply the Pledged Revenues and other receipts, funds or moneys pledged for the payment of Debt Service Requirements, in such amounts as may be necessary to pay the Debt Service Requirements in each year in which the Senior Bonds or Senior Notes are outstanding. In addition, the State has covenanted that it will not limit, or otherwise alter, the rights or obligations of the appropriate officers of the State with respect to the application of the Pledged Revenues or to impose, maintain, charge or collect the taxes, fees, charges and other receipts constituting the Pledged Revenues as may be necessary to fulfill the terms of the proceedings authorizing the issuance of the Senior Bonds, including the Pledged Revenue coverage requirement described below.

With respect to such Pledged Revenue coverage requirement, the Senior Indenture includes the covenant of the State to provide Pledged Revenues, in each fiscal year, after deducting payments out of Pledged Revenues for reserves required under the Senior Indenture, and computed as of the final business day of such fiscal year, in an amount equal to at least two (2) times the aggregate Principal and Interest Requirements on Senior Bonds and Interest Requirements on Senior Notes in such fiscal year.

The Senior Bonds are secured by a Reserve Account established and required to be maintained in an amount equal to the maximum Principal and Interest Requirements on Senior Bonds for the current or any future fiscal year (the "Debt Service Reserve Requirement").

In the event the State does not meet the foregoing coverage requirement, such a failure does not constitute an event of default under the Senior Indenture unless the State shall not enact legislation such that the conditions contained in the Senior Indenture would be satisfied if Additional Bonds were then to be issued. See Events of Default subsection under "Summary of Certain Provisions of Senior Indenture" for a more detailed description.

In the opinion of Bond Counsel, the foregoing covenants are valid and enforceable covenants of the State, except as enforceability thereof may be limited by insolvency, moratorium and other laws affecting creditors' rights generally heretofore or hereafter enacted and by law applicable to relief in equity and by the reserved police powers of the State; no opinion is expressed as to the availability of a right in equity to specific performance of any covenant requiring legislative action with respect to taxes not presently enacted when an adequate remedy at law for damages is available or another such limitation exists and is applied.

So long as Second Lien Bonds are outstanding under the Second Lien Indenture, the State is also obligated pursuant to the Second Lien Indenture to provide Pledged Revenues, in each fiscal year, after deducting payments out of Pledged Revenues for reserves required under the Indentures and computed as of the final business day of such fiscal year, in an amount equal to at least two (2) times the aggregate Principal and Interest Requirements on all Bonds and Notes outstanding in such fiscal year. For this purpose, Principal

and Interest Requirements on Senior Bonds and Senior Notes issued under the Senior Indenture are calculated differently from Principal and Interest Requirements on Second Lien Bonds and Second Lien Notes issued under the Second Lien Indenture. See “Summary of Certain Provisions of the Second Lien Indenture.” So long as Second Lien Bonds are outstanding under the Second Lien Indenture, the effect of the Pledged Revenue coverage requirement under the Second Lien Indenture is to require the maintenance of greater Pledged Revenue coverage for Senior Bonds than is required under the Senior Indenture.

Pursuant to the Act, the Senior Indenture provides that the State may limit, modify, rescind, repeal or otherwise alter the character or amount of such Pledged Revenues or substitute like or different sources of taxes, fees, charges or other receipts as Pledged Revenues if, for the ensuing fiscal year of the State, the projected revenues meet or exceed the estimated expenses of the Special Transportation Fund, including accumulated deficits, if any, the Debt Service Requirements on the Senior Bonds and Senior Notes and such Pledged Revenue coverage requirement.

The State does not presently have a constitutional restriction on its power of taxation other than that the State may not tax to provide funds for private purposes as distinguished from public purposes.

Flow of Funds under Senior Indenture

All Pledged Revenues collected by the State or any officer thereof, along with other revenues of the State (such as sales tax revenues), are deposited in various bank accounts of the State throughout the State. The Pledged Revenues will be credited to the Special Transportation Fund held by the State, and, as provided by the Senior Indenture, will be transferred monthly to the extent required to meet Debt Service Requirements for the Senior Bonds and the Senior Notes to the credit of the following accounts or sub-accounts the following sums in the following order:

- (i) to the credit of the Bond Service Sub-Account, the Note Repayment Account and the Redemption Sub-Account, respectively, such amounts thereof, if any (or the entire sum so withdrawn if less than the required amount, in which case such sum shall be allocated among the purposes set forth in this subparagraph on a pro rata basis), as may be required (A) to make the amount then held to the credit of the Bond Service Sub-Account equal to the sum of the aggregate unpaid principal accruing on outstanding serial bonds through the dates in the next ensuing month which are the respective anniversary dates of such bonds, assuming the principal of any serial bond accrues ratably over the twelve months preceding its maturity, plus the unpaid interest accruing on each of the Senior Bonds then outstanding through the dates in the next ensuing month which are the respective anniversary dates of such Senior Bonds, plus the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal on Senior Bonds, plus one-twelfth (1/12) of the Principal and Interest Requirements on Senior Bonds for the next ensuing twelve (12) months; (B) to make the amount then held to the credit of the Note Repayment Account held for payment of interest equal to the unpaid interest on Senior Notes accruing through the end of the next ensuing month and unpaid interest accruing pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Senior Notes; and (C) to make the amount then held to the credit of the Redemption Sub-Account equal to the aggregate Amortization Requirements, if any, accruing through the respective anniversary dates of the Senior Bonds in the next ensuing month for each of the term bonds then outstanding (plus a ratable portion of the premium, if any, which would be payable on principal amounts of term bonds equal to the amount of such Amortization Requirements if such principal amount of term bonds should be called for mandatory redemption); provided, however, that if the amount so deposited to the credit of the Redemption Sub-Account in any month shall be less than such amount, the requirement therefor shall nevertheless be cumulative and the amount of any deficiency in any month shall be added to the amount otherwise required to be deposited in each subsequent month thereafter until such time as such deficiency shall have been made up;
- (ii) to the credit of the Reserve Account, out of any balance remaining after making the deposits under subparagraph (i) above (or the entire balance if less than the required amount), the amount, if any, necessary to maintain the Reserve Account at the Debt Service Reserve Requirement.

Following the monthly transfers described above, the Pledged Revenues of the Special Transportation Fund may be applied to the payment of principal on Senior Notes or other obligations of the State subordinate to the Senior Bonds, to the payment of amounts required to be deposited with the Trustee under the Second Lien Indenture and, subject to appropriation and allotment, payment of the debt service on general obligation bonds of the State issued for transportation purposes and to the payment of State budget appropriations for the Department and the DMV.

If at any time any amounts required to be paid to the Trustee under the Senior Indenture have not been so paid, no payments shall be made from the Special Transportation Fund except with respect to the Senior Bonds and Senior Notes and the Trustee shall be entitled to notify the Treasurer that such amounts are accrued and unpaid, whereupon any Pledged Revenues received by the State and credited to the Special Transportation Fund are required by the Act and Senior Indenture to be paid by the Treasurer forthwith to the Trustee, and shall not be diverted to any other purpose, until such accrued and unpaid amounts have been paid in full.

The Senior Indenture also provides that the State shall at all times do and perform all acts and things permitted by law and necessary to assure that the Pledged Revenues received by the State and credited to the Special Transportation Fund shall be applied first to the payment of Debt Service Requirements. Such covenant provides, among other things, assurance that, if necessary, the State will implement procedures for immediate segregation, upon collection, of Pledged Revenues from other cash receipts of the State.

Refunding Bonds

Refunding Bonds are authorized under the Act and the Senior Indenture to be issued by the State having equal rank and on a parity with the Senior Bonds heretofore issued. Refunding Bonds may be issued at any time and from time to time, in such amounts as the State Bond Commission may deem necessary for the purpose of refunding the principal of the bonds to be refunded, any unpaid interest thereon to the date of redemption thereof, any premium necessary to be paid in connection therewith, and the costs and expenses of issuing such Refunding Bonds. Refunding Bonds shall be issued under and pursuant to a supplemental indenture (or supplemental indentures). The State is considering the issuance of Refunding Bonds in December, 2002 if market conditions are advantageous. The principal amount of any such Refunding Bonds is not ascertainable at this time.

Additional Bonds

Additional Bonds may be issued by the State having equal rank and on a parity with the Senior Bonds heretofore issued for the Infrastructure Program. Additional Bonds also may be issued junior in right of payment to the Senior Bonds and on a parity with the original \$250,000,000 Second Lien Bonds, 1990 Series 1 and the original \$100,000,000 Second Lien Bonds, 2000 Series 1 heretofore issued under the Second Lien Indenture. The Public and Special Acts currently provide for the issuance of Bonds for the Infrastructure Program in principal amounts not exceeding in the aggregate \$5,320,314,104 of which \$323,663,352 will be unissued after the issuance of the 2002 Series B Bonds. Of such \$323,663,352 unissued amount, \$308,663,352 has been authorized by the State Bond Commission. It is anticipated that Additional Bonds will be authorized by public and special acts annually in an amount necessary to finance and to complete the Infrastructure Program. Subject to such statutory authorization, issuance of Additional Bonds requires compliance with the conditions contained in the Senior Indenture and, so long as Second Lien Bonds are outstanding, with the conditions contained in the Second Lien Indenture. The Senior Indenture provides that such Additional Bonds for the Infrastructure Program shall be issued under and pursuant to a supplemental indenture (or supplemental indentures) and subject to compliance with the following conditions:

- (1) Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture for reserves required by the Senior Indenture, actually paid into the Special Transportation Fund for any period of twelve consecutive calendar months of the immediately preceding eighteen calendar months were equal to at least two (2) times the aggregate Principal and Interest Requirements on Senior Bonds and Interest Requirements on Senior Notes for such period; provided however, that this condition shall be deemed to be satisfied if such test is satisfied after adjusting such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture only to reflect any increase(s) or decrease(s) in taxes, fees or charges enacted to be in effect at the time of issuance of such Additional Bonds, and the Secretary of the Office of Policy and Management of the State shall deliver to the Trustee a certificate demonstrating such coverage; and
- (2) Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture for reserves required by the Senior Indenture, actually paid into the Special Transportation Fund for any period of twelve consecutive calendar months of the immediately preceding eighteen calendar months are equal to at least two (2) times the aggregate Principal and Interest Requirements on Senior Bonds with respect to the Senior Bonds, including the Additional Bonds to be issued, and Interest Requirements on Senior Notes not being refunded from the proceeds of such Additional Bonds, for the current and each succeeding State fiscal year, after adjusting such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture only to reflect any increase(s) or decrease(s) in taxes, fees or charges enacted

to be in effect for such current or such succeeding fiscal year, and the Secretary of the Office of Policy and Management of the State shall deliver to the Trustee a certificate demonstrating such coverage; and

- (3) The State shall have received a letter from the Accountant appointed by the State (i) substantially to the effect that in connection with its examination of the Special Transportation Fund pursuant to Section 7.4 of the Senior Indenture nothing came to their attention that caused them to believe that the State was not then in compliance with the requirement of (1) above and (ii) reporting on the certificates delivered by the State pursuant to the requirement of (1) and (2) above without material qualification; and
- (4) The State shall have determined that the principal amount of all Bonds, including the Additional Bonds to be issued, will not exceed any limitation imposed by law and that upon such issue, the amount credited to the Reserve Account will be not less than the Debt Service Reserve Requirement.

The Second Lien Indenture provides that the State may not issue Senior Bonds under the Senior Indenture unless such Senior Bonds could have been issued under the Second Lien Indenture. The conditions stated in the Second Lien Indenture are essentially similar to those in the Senior Indenture, except that the coverage tests referred to in (1) and (2) above must be met with respect to all Bonds and Notes outstanding. For this purpose, Principal and Interest Requirements on Second Lien Bonds and Second Lien Notes are calculated differently than for Senior Bonds and Senior Notes. See "Summary of Certain Provisions of the Second Lien Indenture."

In addition, issuance of Additional Bonds under the Senior Indenture is conditioned upon the State having made all monthly payments to the Trustee required to be made and having deposited in the Bond Service Sub-Account an amount equal to one-twelfth (1/12) of the Principal and Interest Requirements on such Additional Bonds for the ensuing twelve months in which such Senior Bonds are to be outstanding.

Bond Anticipation Notes and Subordinated Indebtedness

Pursuant to the Act and the Senior Indenture, interest on Senior Notes issued in accordance with the Senior Indenture and in anticipation of the receipt of the proceeds of Additional Bonds is payable on a parity with principal and interest on the Senior Bonds. See "Source of Payment-Flow of Funds." No such Senior Notes, under the terms of the Senior Indenture, shall be issued (i) unless the Senior Bonds in anticipation of which they are to be issued have been duly authorized in accordance with the Act and the Senior Indenture, and (ii) if the aggregate principal amount of all Senior Notes then outstanding and to be issued exceeds \$50,000,000, unless, as of the date of issuance of such Senior Notes, the State could have issued under the terms of the Senior Indenture an equivalent aggregate principal amount of serial bonds, maturing in equal annual installments of principal and interest, the last installment of which shall mature not later than thirty years after such date, and bearing interest at such rate as the State shall determine in its best judgment to be equivalent to the average interest rate which would have been paid had such Senior Bonds been issued at such time. Said Senior Notes shall be special obligations of the State payable solely from the proceeds of the Senior Bonds and, to the extent provided in the Senior Indenture or deemed necessary or desirable by the State, from the Special Transportation Fund. The Senior Indenture provides that any obligation of the State to pay the unrefunded principal of Senior Notes, including for this purpose any obligation of the State under a reimbursement agreement entered into in connection with a credit facility providing for payment of the unrefunded principal of Senior Notes, shall be subordinate to any obligation of the State to pay the principal and interest with respect to the Senior Bonds or interest with respect to Senior Notes. The Senior Indenture further provides that the State may not enter into any contract with any noteholder inconsistent with the terms of the Senior Indenture. The full faith and credit of the State shall not be pledged to the repayment of such Senior Notes and the State shall not be obligated to make appropriations from its general fund for the repayment of such Senior Notes.

So long as the Second Lien Bonds are outstanding, the State has covenanted in the Second Lien Indenture not to issue Senior Notes.

Nothing in the Senior Indenture prohibits the State (i) from issuing other indebtedness for any use or purpose of the State payable as to principal and interest from the Special Transportation Fund subject and subordinate to the deposits and credits required to be made to the Debt Service Account, the Senior Note Repayment Account, or the Reserve Account, or (ii) from securing other indebtedness and the payment thereof by a call upon the Pledged Revenues and a lien on and pledge of the Special Transportation Fund junior and inferior to the first call on the Pledged Revenues and to the lien on and pledge of the Special Transportation Fund created in the Indenture for the payment and security of the Senior Bonds. The State may issue notes in anticipation of federal grants and, to the extent any such grants when received are credited to the Fund, the repayment obligation with respect to such notes will be subordinate to any obligation of the State to pay Debt Service Requirements on Senior Bonds and Senior Notes.

State General Taxing Power Not Pledged

Pursuant to the Act, the Bonds shall be special obligations of the State and shall not be payable from nor charged upon any funds other than the Pledged Revenues or other receipts, funds or moneys pledged therefor as provided in the Act, nor shall the State or any political subdivision thereof be subject to any liability thereon, except to the extent of the Pledged Revenues and such other receipts, funds or moneys pledged therefor. The issuance of the Bonds under the Act and Indentures shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor (except for taxes included in the Pledged Revenues), or to make any additional appropriation for their payment. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the State or of any political subdivision thereof, other than the Pledged Revenues and other receipts, funds or moneys pledged therefor. The Bonds shall not be subject to any statutory limitation on the indebtedness of the State and, when issued, shall not be included in computing the aggregate indebtedness of the State with respect to and to the extent of any such limitation.

THE 2002 SERIES B BONDS

Purpose of the 2002 Series B Bonds - The Public and Special Acts

The Public and Special Acts currently provide for the issuance of \$5,320,314,104 in special tax obligation bonds, in one or more series, to fund, together with anticipated federal grants, a portion of the costs of various purposes of the Infrastructure Program. The 2002 Series B Bonds are issued under the authorized but unissued balance for Bonds of \$523,663,352 currently remaining pursuant to the Public and Special Acts and authorization by the State Bond Commission. It is expected that in each year special legislation will empower the State Bond Commission to authorize additional special tax obligation bonds to finance the Infrastructure Program.

On September 27, 2002, the State Bond Commission authorized the issuance and sale by the Treasurer of the 2002 Series B Bonds to fund a portion of the projects and uses authorized in the Public and Special Acts and to refund certain outstanding Senior Bonds as well as the execution of the Thirty-Second Supplemental Indenture by the Governor, the Treasurer, and the Comptroller, the Official Statement, a Continuing Disclosure Agreement and a Certificate of Determination executed by the Treasurer and filed with the Secretary of the State Bond Commission.

Description of the 2002 Series B Bonds

The 2002 Series B Bonds will be dated November 1, 2002, and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. Interest on the 2002 Series B Bonds is payable on June 1 and December 1 of each year, commencing June 1, 2003. The 2002 Series B Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

Principal of and interest on the 2002 Series B Bonds will be paid directly to The Depository Trust Company ("DTC") by State Street Bank and Trust Company, the Trustee under the Senior Indenture, as Paying Agent so long as DTC or its nominee, Cede & Co., is the Bondowner. (See "Book-Entry-Only System" herein.)

Optional Redemption

The 2002 Series B Bonds maturing on or after December 1, 2013 will be subject to redemption, at the election of the Treasurer, on or after December 1, 2012 at any time, in whole or in part and by lot within a maturity, in such amounts as the Treasurer may determine, at the redemption price (expressed as a percentage of the principal amount of bonds to be redeemed) set forth in the following table, together with interest accrued and unpaid to the redemption date:

<u>Redemption Period</u>	<u>Redemption Price</u>
December 1, 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, by registered mail, to the registered owner of such 2002 Series B Bonds at the address as it appears on the books of registry or at such address as such owner may have filed with the registrar for that purpose. So long as Cede & Co., as nominee of DTC, is the registered owner of the 2002 Series B Bonds, all notices of redemption will be sent only to DTC, and delivery of such notices of redemption to DTC's Participants and Indirect Participants and Beneficial Owners of 2002 Series B Bonds will be governed by the customary practices and procedures of DTC and said Participants and Indirect Participants. 2002 Series B Bonds called for redemption shall, on the redemption date designated in the notice of redemption, become due and payable only if moneys for the payment of such 2002 Series B Bonds called for redemption together with the applicable redemption premium, if any, and the interest to accrue to the redemption date on such 2002 Series B Bonds are held for the purpose of payment by the Trustee or Paying Agent.

Sources and Uses of Funds

The proceeds to be derived from the sale of the 2002 Series B Bonds are estimated to be applied as follows:

Sources

Principal Amount of 2002 Series B Bonds	\$215,000,000
Net Original Issue Premium	<u>11,935,243</u>
Total	\$226,935,243

Uses

Deposit into Infrastructure Improvement Fund to pay a portion of the costs for the Infrastructure Program.....	\$208,399,306
Deposit into Debt Service Reserve Account.....	16,835,565
Underwriting Discount.....	1,156,563
Bond Insurance.....	<u>543,809</u>
Total	\$226,935,243

Accrued interest received upon the delivery of the 2002 Series B Bonds is to be deposited with the Trustee under the Senior Indenture in the Bond Service Sub-Account, and may be used to pay costs of issuance.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2002 Series B Bonds, Ambac Assurance Corporation ("Ambac Assurance") will issue its Municipal Bond Insurance Policy for the 2002 Series B Bonds maturing on December 1 of the years 2007 through 2022 inclusive (the "Obligations"). The Policy guarantees the scheduled payment of principal of and interest on the Obligations when due as set forth in the form of the Policy included as Appendix F to this Official Statement.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Obligations effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee or Paying Agent. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Obligations become subject to

mandatory redemption and insufficient funds are available for redemption of all outstanding Obligations, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Obligations on the originally scheduled interest and principal payments dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Obligations, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

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

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

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

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Obligations to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Obligations to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation, and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the Connecticut Insurance Guaranty Association.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately **\$5,802,000,000** (unaudited) and statutory capital of approximately **\$3,564,000,000** (unaudited) as of **September 30, 2002**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations.

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;
- 2) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
- 3) The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
- 4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
- 5) The Company's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;
- 6) The Company's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002;
- 7) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002;
- 8) The Company's Current Report on Form 8-K dated October 16, 2002 and filed on October 17, 2002; and
- 9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2002 and filed on November 14, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information.**"

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2002 Series B Bonds (such 2002 Series B Bonds being referred to in this section as the "Securities"). The Securities will be issued as fully-registered bonds, without coupons, registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond Security certificate will be issued for each maturity (with the same interest rate) of the Securities in the aggregate principal amount of such maturity (with the same interest rate), 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.

Purchases of the Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Principal, premium, if any, and interest payments on the Securities 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments 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 Securities at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security 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, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. Neither the State, the Trustee nor any Underwriter has any responsibility or obligation to DTC's Participants or Indirect Participants or Beneficial Owners with respect to (1) the accuracy of any records maintained by DTC or its Participants or Indirect Participants, (2) the payments by DTC or its Participants or Indirect Participants with respect to the principal of or premium, if any, or interest on the 2002 Series B Bonds, (3) any notice which is permitted or required to be given to Bondowners, (4) any consent given by DTC or other action taken by DTC on behalf of Cede & Co. as Bondowner or (5) the selection by DTC or any of its Participants or any Indirect Participants or any Beneficial Owners to receive payment in the event of a partial redemption of the 2002 Series B Bonds.

For so long as Cede & Co. is the registered owner of the 2002 Series B Bonds, all references herein to the owner or owners of the 2002 Series B Bonds shall mean Cede & Co. and shall not mean any Beneficial Owner or Beneficial Owners of the 2002 Series B Bonds nor any DTC Participant or Indirect Participant, unless specific exception has been expressed herein.

TOTAL BONDS OUTSTANDING

The following table sets forth all Bonds outstanding as of the date of delivery of the 2002 Series B Bonds.

<u>Series</u>	<u>Amount Originally Issued</u>	<u>Original Issuance Amount Outstanding</u>	<u>Dated Date</u>	<u>True Interest Cost</u>
Senior Bonds:				
1988 Series B ⁽¹⁾	\$74,998,187	\$3,417,825	June 1, 1988 ⁽²⁾	7.328%
1990 Series A ⁽¹⁾	250,000,000	43,985,000	May 15, 1990	7.155%
1991 Series B ⁽¹⁾	266,000,000	77,655,000	September 15, 1991	6.553%
1992 Series A (Refunding) ⁽¹⁾⁽³⁾	125,715,000	24,710,000	January 1, 1992	6.098%
1992 Series B ⁽¹⁾	275,000,000	116,290,000	September 1, 1992	6.056%
1993 Series A (Refunding) ⁽³⁾	560,750,000	461,490,000	March 1, 1993	5.338%
1993 Series B (Refunding) ⁽³⁾	254,770,000	102,365,000	September 1, 1993	4.444%
1993 Series C ⁽¹⁾	175,000,000	21,875,000	September 15, 1993	4.882%
1994 Series A ⁽¹⁾	150,000,000	14,035,000	March 1, 1994	5.521%
1994 Series B ⁽¹⁾	200,000,000	8,925,000	September 15, 1994	6.031%
1995 Series A ⁽¹⁾	125,000,000	16,750,000	May 15, 1995	5.508%
1995 Series B ⁽¹⁾	175,000,000	15,545,000	September 1, 1995	5.432%
1995 Series C (Refunding) ⁽³⁾	160,630,000	37,205,000	September 1, 1995	4.660%
1996 Series A ⁽¹⁾	150,000,000	19,460,000	June 1, 1996	5.705%
1996 Series B ⁽¹⁾	150,000,000	61,560,000	October 1, 1996	5.493%
1996 Series C (Refunding) ⁽³⁾	79,795,000	79,490,000	October 1, 1996	5.246%
1997 Series A ⁽¹⁾	150,000,000	112,385,000	October 15, 1997	5.098%
1997 Series B (Refunding) ⁽³⁾	65,415,000	55,525,000	October 15, 1997	4.711%
1998 Series A (Refunding) ⁽³⁾	197,500,000	196,695,000	April 15, 1998	4.831%
1998 Series B	225,000,000	192,405,000	September 15, 1998	4.686%
1999 Series A	150,000,000	138,025,000	November 15, 1999	5.461%
2000 Series A	125,000,000	111,500,000	July 15, 2000	5.042%
2001 Series A	175,000,000	165,660,000	September 15, 2001	4.706%
2001 Series B (Refunding) ⁽³⁾	533,335,000	533,335,000	September 15, 2001	4.086%
2002 Series A	112,000,000	112,000,000	May 1, 2002	4.741%
2002 Series B	215,000,000	215,000,000	November 1, 2002	4.230%
SUB-TOTAL		\$2,937,287,825		
Second Lien Bonds:				
1990 Series 1	\$250,000,000	\$156,100,000	December 19, 1990	Variable ⁽⁴⁾
2000 Series 1	100,000,000	100,000,000	September 15, 2000	Variable
TOTAL		\$3,193,387,825		

(1) Certain maturities of Bonds in this series have been refunded or defeased.

(2) June 15, 1988 with respect to Capital Appreciation Bonds.

(3) Refunding Bonds do not constitute Additional Bonds.

(4) The State entered into Qualified Swaps (see definition in Summary of Certain Provision of the Second Lien Indenture) at the time the 1990 Series 1 Bonds were issued. Pursuant to the Second Lien Indenture, Principal and Interest Requirements on Second Lien Bonds with respect to the 1990 Series 1 Bonds are calculated based on the fixed interest rates payable by the State in connection with the Qualified Swaps.

SOURCE: Office of the State Treasurer

DEBT SERVICE ON OUTSTANDING BONDS

The following schedule sets forth the debt service payments to be made in each State fiscal year on the \$3,193,387,825 Bonds issued and outstanding as of the date of delivery of the 2002 Series B Bonds, excluding principal and interest on previously refunded Bonds and interest on any Capital Appreciation Bonds (prior to the year of maturity of such bonds). The anticipated issuance of Additional Bonds to finance the Infrastructure Program for State fiscal years 2004-2006 is reflected in Tables 7 and 8.

Fiscal Year Ending June 30th	Outstanding Bonds(a)			2002 Series B Bonds			Total Debt Service(d)
	Principal	Interest(b)(c)	Subtotal(d)	Principal	Interest(c)	Subtotal(d)	
2003(e)	49,795,000	84,986,956	134,781,956	---	5,640,859	5,640,859	140,422,815
2004	226,125,000	148,468,309	374,593,309	7,255,000	9,561,219	16,816,219	391,409,528
2005	223,460,000	136,702,196	360,162,196	7,475,000	9,340,269	16,815,269	376,977,465
2006	247,205,000	124,967,290	372,172,290	7,705,000	9,112,568	16,817,568	388,989,858
2007	235,143,825	118,127,733	353,271,558	7,375,000	8,899,144	16,274,144	369,545,702
2008	231,579,000	106,359,404	337,938,404	18,725,000	8,385,019	27,110,019	365,048,423
2009	247,310,000	88,725,621	336,035,621	---	7,968,744	7,968,744	344,004,365
2010	238,740,000	75,515,245	314,255,245	5,305,000	7,889,169	13,194,169	327,449,414
2011	206,180,000	62,458,973	268,638,973	9,160,000	7,658,454	16,818,454	285,457,427
2012	176,920,000	51,824,561	228,744,561	9,535,000	7,283,339	16,818,339	245,562,900
2013	184,190,000	41,779,653	225,969,653	9,990,000	6,828,026	16,818,026	242,787,679
2014	143,870,000	32,810,618	176,680,618	10,465,000	6,350,635	16,815,635	193,496,253
2015	124,720,000	25,720,132	150,440,132	10,995,000	5,822,344	16,817,344	167,257,476
2016	103,785,000	19,627,453	123,412,453	11,575,000	5,244,260	16,819,260	140,231,713
2017	82,485,000	14,832,800	97,317,800	12,165,000	4,651,040	16,816,040	114,133,840
2018	73,660,000	10,877,669	84,537,669	12,780,000	4,036,645	16,816,645	101,354,314
2019	64,960,000	7,366,018	72,326,018	13,430,000	3,385,100	16,815,100	89,141,118
2020	49,560,000	4,459,123	54,019,123	14,135,000	2,681,061	16,816,061	70,835,184
2021	38,285,000	2,255,791	40,540,791	14,875,000	1,942,335	16,817,335	57,358,126
2022	22,010,000	970,500	22,980,500	15,635,000	1,183,858	16,818,858	39,799,358
2023	8,405,000	210,125	8,615,125	16,420,000	397,296	16,817,296	25,432,421
Total(d)	<u>\$ 2,978,387,825</u>	<u>\$ 1,159,046,170</u>	<u>\$ 4,137,433,995</u>	<u>\$ 215,000,000</u>	<u>\$ 124,261,384</u>	<u>\$ 339,261,384</u>	<u>\$ 4,476,695,379</u>

- (a) Outstanding Senior and Second Lien Bonds, as of the date of delivery of the 2002 Series B Bonds (debt service on the refunded bonds is not included).
- (b) Does not reflect accretion of interest on the 1988 Series B Capital Appreciation Bonds, prior to the year of maturity of such bonds. The 1988 Series B Capital Appreciation Bonds mature in the years 2007-2008.
- (c) The State entered into Qualified Swaps at the time the 1990 Series 1 Bonds were issued. Pursuant to the Second Lien Indenture, Principal and Interest Requirements on the 1990 Series 1 Bonds are calculated based on the fixed interest rates payable by the State in connection with the Qualified Swaps. Interest on the 1990 Series 1 Bonds for purposes of this table is also calculated based on such fixed interest rates. Actual interest payments of the 1990 Series 1 Bonds at the interest rate currently borne by the 1990 Series 1 Bonds are lower than such fixed rate or rates. Interest on the 2000 Series 1 Bonds for the purpose of this table is calculated based on projecting a 3.50% per annum interest rate during Fiscal Year 2003 and a 4.50% per annum interest rate for the remaining life of the issue. The actual rate of interest borne by the 2000 Series 1 Bonds over the life of the issue may be materially different from such projected interest rate.
- (d) Principal and Interest may not add to Totals due to rounding.
- (e) Reflects principal and interest payments on all Outstanding Bonds as of the date of delivery of the 2002 Series B Bonds to the end of the current fiscal year.

SOURCE: Office of the State Treasurer

Accreted Interest on Outstanding Capital Appreciation Bonds

The following schedule sets forth the annual and cumulative accreted interest on outstanding capital appreciation bonds as of July 1, 2002. These Senior Bonds mature in fiscal years 2007 and 2008, and the cumulative accreted values are adjusted for such maturities. Amounts sufficient to pay the capital appreciation bonds are required to be deposited in the Bond Service Sub-Account during the 12-month period prior to their maturity.

<u>Interest Accreted During Fiscal Year Ended June 30</u>	<u>Annual Total</u>	<u>Cumulative Accreted Value</u>
2003.	\$780,591	\$7,243,318
2004.	\$842,259	\$8,085,577
2005.	\$908,800	\$8,994,377
2006.	\$980,598	\$9,497,794
2007.	\$1,058,068	\$4,818,869
2008.	\$549,131	\$0

SOURCE: Office of the State Treasurer

THE OPERATIONS OF THE SPECIAL TRANSPORTATION FUND

Introduction

Pledged Revenues, which are credited to the Special Transportation Fund, consist of (i) the Motor Fuels Tax (which includes the gasoline tax and the special fuels tax, which formerly were levied as separate taxes, and the motor carrier road tax); (ii) Motor Vehicle Receipts (e.g., fee for registration of motor vehicles); (iii) License, Permit and Fee (“LPP”) Revenue (e.g., fee for license to sell or repair motor vehicles); (iv) specific amounts of the Petroleum Products Gross Earnings Tax beginning in fiscal year 1998-99 (such tax is commonly, and hereinafter, referred to as the “Oil Companies Tax” and such payments are hereinafter referred to as the “Oil Companies Tax Payments.” See “Oil Companies Tax Payments” for a more detailed discussion); (v) specific amounts of the tax imposed on casual sales of motor vehicles, vessels, snowmobiles and aircraft pursuant to Section 12-431 of the Connecticut General Statutes attributable to motor vehicles beginning for the fiscal year ending June 30, 2000 and all of such tax for the fiscal year beginning July 1, 2000 (such tax hereinafter referred to as the “Sales Tax - DMV” and such payments are hereinafter referred to as the “Sales Tax - DMV Payments.” See “Sales Tax - DMV Payments” for a more detailed discussion); (vi) moneys received by the State from the Federal Transit Administration (“FTA”), pursuant to Section 9 of the Urban Mass Transportation Act of 1964 (the lien which secures payment of the Bonds does not extend to these transportation related federal revenues until such revenues are credited to the Special Transportation Fund and are available for payment of debt service on Bonds and Notes and program expenses); and (vii) other receipts, funds, and moneys credited to the Special Transportation Fund. See “Description of Revenue Sources of the Special Transportation Fund” for a more detailed discussion of these revenues. Other receipts, funds or moneys pledged under the Indentures include investment earnings and moneys in the funds and accounts established thereunder, subject to the application thereof as permitted by the Indentures.

The following table displays a ten-year history of collections, as well as the projected collections, which include the tax, fee and charge adjustments enacted as shown on Table 2, for the Motor Fuels Tax, Motor Vehicle Receipts, and LPF Revenue:

TABLE 1
Historical Collections(a)
(In Millions \$)

State Fiscal Year Ending <u>June 30</u>	Motor Fuels <u>Tax</u>	Motor Vehicle <u>Receipts</u>	LPF <u>Revenue</u>
1993.....	397.8	167.6	75.3
1994.....	435.7	174.2	79.9
1995.....	468.6	172.8	87.8
1996.....	504.7	172.8	86.5
1997.....	550.6	175.9	88.3
1998.....	530.6	186.0	107.9
1999.....	499.9	187.0	112.9
2000.....	506.4	190.3	112.6
2001.....	417.5	196.3	115.2
2002.....	430.3	200.7	130.7

Projected Collections at Current Rates(b)
(In Millions \$)

State Fiscal Year Ending <u>June 30</u>	Motor Fuels <u>Tax</u>	Motor Vehicle <u>Receipts</u>	LPF <u>Revenue</u>
2003.....	462.5	203.6	135.4
2004.....	466.5	210.0	138.7
2005.....	471.1	213.0	140.6
2006.....	475.8	209.4	142.5

(a) Prior to refunds of taxes. For a discussion of the specific sources of collections and the underlying taxes, fees and charges, see "Description of Revenue Sources of the Special Transportation Fund."

(b) Prior to refunds of taxes. For a discussion of the assumptions and enacted tax, fee and charge adjustments underlying these projections, see "Discussion of Projected Pledged Revenues."

SOURCE: Office of Policy and Management

All Pledged Revenues, as collected by the State or any officer thereof, along with all other revenues of the State (such as sales tax revenues), are deposited in bank accounts maintained by the State in several banks throughout the State. The Pledged Revenues are promptly identified and credited to the Special Transportation Fund.

The Special Transportation Fund utilizes the following basis of accounting for budgetary purposes: the Motor Fuels Tax and the Oil Companies Tax Payments are recorded as revenue under the modified accrual method of accounting; Motor Vehicle Receipts, LPF Revenue, Sales Tax - DMV Payments and moneys received from FTA grants are recorded as revenue when received by the State; and interest income from investments held by the Trustee is recorded under the accrual method. Expenditures of the Special Transportation Fund are recorded when the obligation is paid. The foregoing basis of accounting is consistent with that utilized by other funds of the State.

Motor Vehicle Receipts and LPF Revenue received throughout the year as collections are dependent upon transactions, such as car registrations and new license requests. Distributors are required to pay the Motor Fuels Tax, however, on the twenty-fifth calendar day of each month (on the basis of gallons of fuel used or sold during the preceding month), thus providing a constant monthly stream of revenues to be credited to the Special Transportation Fund.

Discussion of Projected Pledged Revenues

The projections of Pledged Revenues provided herein reflect the adjusted taxes, fees and charges enacted in the Act and which have or will become effective during State fiscal years 1997-2006. The following table summarizes the tax, fee and charge adjustments in three categories of revenues which have been enacted in the Act, and which have been or will be credited to the Special Transportation Fund:

**TABLE 2
Summary of Enacted Tax and Fee Adjustments**

	State Fiscal Year Ended June 30(a)									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Motor Fuels Tax (Adjustments per gallon)(b)	3¢	(3¢)	(4¢)	0¢	(7¢)	0¢	0¢	0¢	0¢	0¢
Motor Vehicle Receipts (% Increase)	0	0	0	0	0	0	0	0	0	0
LPF Revenue (% Increase)	0	0	0	0	0	0	0	0	0	0

- (a) Except as noted in footnote (b), each tax, fee or charge adjustment is effective on the first day (July 1) of each State fiscal year; all modifications through July 1, 2000 are still in effect.
 - (b) The Motor Fuels Tax adjustments for fiscal years 1997-2001 are effective as follows: July 1, 1996, 1¢; October 1, 1996, 1¢; January 1, 1997, 1¢; July 1, 1997, -3¢; July 1, 1998, -4¢; July 1, 2000, -7¢. The Motor Fuels Tax on diesel fuels was increased from 18¢ to 26¢ effective on August 1, 2002.
- SOURCE: Office of Policy and Management

In making the projections of the Motor Fuels Tax provided herein for fiscal years 2003-2006 (the “Projection Period”), the State considered a variety of sources of economic data, including economic forecasts prepared by the State and outside economic forecasting services. The projections of the Motor Fuels Tax are based on estimates of a variety of economic variables for the State and the nation as a whole, including real disposable income, employment and size of the fleet of commercial and passenger vehicles.

Other important variables used to determine the projections of the Motor Fuels Tax include the anticipated price of motor fuels, the fuel efficiency of commercial and passenger vehicle fleets, and economic activity as expressed by the United States index of industrial production. These variables are expected to have an overall favorable impact on motor fuel consumption.

The Motor Fuels Tax is projected to grow at the rate of 1.3% in 2003, 0.8% in 2004, and 1.0% for the balance of the Projection Period. Motor Vehicle Receipts and LPF Revenue, aside from the effect of enacted tax and fee adjustments and after the effect of the enacted biennial budget, are projected to grow at the rate of 1.5% per year during the Projection Period. FTA grants and interest income are projected as set forth in footnotes (f) and (g) to Table 3.

While the State believes that the assumptions which underlie its projections are appropriate, actual achievement of amounts projected may be affected by less favorable economic conditions than those assumed, and is dependent upon the occurrence of future events. For example, political unrest or war in oil producing regions could substantially reduce petroleum supplies and increase prices. Thus, actual results achieved may vary from the projections and such variations may be materially adverse. The accompanying projected financial information from 2003 to 2006 was prepared by the State and was not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information (the AICPA Audit and Accounting Guide for Prospective Financial Information). The prospective financial information is based on assumptions which the State believes to be reasonable; however, there is no assurance that the prospective financial information will prove to be accurate. There will usually be differences between forecasted or projected results and actual results, and those differences may be material. Neither the Special Transportation Fund’s independent auditors, nor any other independent accountants, have compiled or examined the prospective financial information. As such, no opinion or any other form of assurance has been expressed thereon and no responsibility for such prospective financial information has been assumed by the Special Transportation Fund’s independent auditors.

Historical collections, enacted tax, fee and charge adjustments and economic projections provide the basis for the projections of the major categories of Pledged Revenues that are to be credited to the Special Transportation Fund. The following table summarizes the level of revenue that each category of Pledged Revenues and other receipts is projected to produce through State fiscal year 2006, based upon enacted rates.

TABLE 3
Projected Pledged Revenues
Special Transportation Fund
(In Millions \$)

	Fiscal Year Ending June 30			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Motor Fuels Tax(a)	462.5	466.5	471.1	475.8
Sales Tax - DMV Payments(b).....	64.1	67.1	70.8	74.7
Oil Companies Tax Payments(c).....	20.0	21.0	21.0	21.0
Motor Vehicle Receipts(d).....	203.6	210.0	213.0	209.4
LPF Revenue(e).....	135.4	138.7	140.6	142.5
FTA Grants(f).....	3.3	3.0	3.0	3.0
Interest Income(g).....	31.5	32.9	32.9	32.9
Transfers to Other Funds(h).....	<u>(8.5)</u>	<u>(9.5)</u>	<u>(9.5)</u>	<u>(9.5)</u>
TOTAL.....	911.9	929.7	942.9	949.8
Refunds of Taxes(i).....	<u>(11.2)</u>	<u>(11.5)</u>	<u>(11.8)</u>	<u>(12.0)</u>
TOTAL NET PLEDGED REVENUES.....	900.7	918.2	931.1	937.8

- (a) Pursuant to Section 71 of Public Act 02-01 of the May Special Session, the Motor Fuel Tax rate on diesel is increased by 8 cents from 18 cents per gallon to 26 cents per gallon effective 8/1/02.
- (b) Pursuant to Section 12 of Public Act 00-170, the Commissioner of Motor Vehicles shall deposit all funds from the tax imposed under Section 12-431 of the General Statutes attributable to motor vehicles to the Special Transportation Fund.
- (c) Pursuant to Section 11 of Public Act 00-170, \$46 million from the tax collected on Gross Earnings from the sale of petroleum products attributable to the sale of motor vehicle fuel will be transferred annually to the Special Transportation Fund effective 7/1/00. However, Section 73 of Public Act 02-01 of the May Special Session reduced the Petroleum Tax transfer to the Special Transportation Fund from \$46 million to \$20 million effective 9/30/02 and then increases the transfer to \$21 million effective 9/30/03 and thereafter.
- (d) Pursuant to Sections 74-78 of Public Act 01-06 of the June Special Session and Sections 47 & 51 of Public Act 01-09 of the June Special Session, effective 7/1/01, the renewal period for an operator's license will transition from four years to six years. During the four year transition period, a one-time \$20.0 million revenue benefit will be realized.
- (e) Pursuant to Section 79 of Public Act 01-06 of the June Special Session effective 7/1/01, the Federal Clean Air Act Fee on registration renewals is increased from \$4 to \$10 and applied to new registrations as well. Effective with the fee increase, 57.5% of the revenue collected will be deposited into the Special Transportation Fund. Moreover, pursuant to Sections 42 & 43 of Public Act 01-09 of the June Special Session, effective 7/1/02, a new \$40 "Exempt Emission Sticker Fee" for new, exempt motor vehicles is imposed and the revenue from the fee is deposited into the Special Transportation Fund. Finally, due to the expected increase in emission testing compliance, it is anticipated that Emission Late Fee revenues, which is deposited into the Special Transportation Fund, will decline beginning in fiscal 2003.
- (f) The State has projected that annual FTA grants received by the State will remain stable during the Projected Period. The lien which secures payment of the Bonds does not extend to these transportation related federal revenues until such revenues are credited to the Special Transportation Fund. See "Description of Revenue Sources of the Special Transportation Fund-Other Revenues."
- (g) Amounts recorded as interest represent (i) expected investment earnings on the following amounts: (A) Bond proceeds held in the Infrastructure Improvement Fund and not applied for program costs or temporarily utilized for other State purposes, (B) amounts expected to be held by the Trustee in the Debt Service Account under the Senior Indenture and the trustee in the Debt Service Account under the Second Lien Indenture, and (C) balances in the Special Transportation Fund plus (ii) expected investment earnings on amounts held in the Reserve Account under the Senior Indenture and the Reserve Account under the Second Lien Indenture, plus (iii) accrued interest expected to be received upon the delivery of each series of Bonds.
- (h) Pursuant to Section 13 of Special Act 99-1 of the June Special Session, \$2 million annually will be deposited into the State's Conservation Fund. Pursuant to Section 37 of Public Act 00-170, an additional \$1 million will be added to the annual transfer beginning on 7/1/00. However, Section 72 of Public Act 02-01 of the May Special Session directed that the transfer to the State's Conservation Fund be reduced by \$1 million for one year, fiscal 2003. Finally, pursuant to Section 44 of Public Act 01-09 of the June Special Session, effective 7/1/01, an additional \$6.5 million will be transferred annually from the Special Transportation Fund to the Emission Enterprise Fund.
- (i) Represents refunds for Motor Fuel Taxes and Motor Carrier Road Taxes when an overpayment of tax liability has been made. Pursuant to Section 9 & 10 of Public Act 01-06 of the June Special Session, effective 7/1/01, Refunds of Payments in the Special Transportation Fund will be funded with revenue similar to Refunds of Taxes.

SOURCE: Office of Policy and Management

Description of Revenue Sources of the Special Transportation Fund

The Special Transportation Fund receives its moneys from the three categories of transportation related revenues shown in Table 1, from Oil Companies Tax Payments and Sales Tax - DMV Payments, from FTA grants received by the State, and from other sources including investment earnings. The Act provides for periodic adjustments in the transportation related taxes, fees and charges, in the amounts and percentages previously described in Table 2 (see “Discussion of Projected Pledged Revenues”).

Motor Fuels Tax

The first category of transportation related revenues is the Motor Fuels Tax, which was credited to the Special Transportation Fund commencing July 1, 1984, and which consists of three taxes: the gasoline tax, the special fuels tax, and the motor carrier road tax. The ten year history of collections of the Motor Fuels Tax is shown in the following table.

TABLE 4
Ten-Year History of Motor Fuels Tax Collections

	State Fiscal Year Ended June 30									
	<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>
Totals										
Amount collected (millions \$).....	397.8	435.7	468.6	504.7	550.6	530.6	499.9	506.4	417.5	430.3
Unit total (millions \$)(a).....	15.487	15.746	15.997	15.807	15.753	16.095	16.870	17.123	17.586	18.047
Unit percentage growth (%).....	1.24	1.67	1.59	(1.19)	(0.35)	2.17	4.82	1.50	2.70	2.62
Gasoline Tax										
Amount collected (millions \$).....	357.6	391.0	421.8	460.5	504.5	481.9	448.6	453.1	362.4	376.6
Unit total (millions \$)(a).....	13.253	13.261	13.397	13.353	13.193	13.385	14.019	14.158	14.497	15.063
Unit percentage growth (%).....	1.76	0.06	1.03	(0.33)	(1.20)	1.46	4.74	1.00	2.40	3.91
Special Fuels Tax										
Amount collected (millions \$).....	30.2	34.7	36.2	36.2	37.6	39.6	41.8	43.6	45.1	45.2
Unit total (millions \$)(a).....	1.678	1.928	2.011	2.010	2.090	2.199	2.322	2.422	2.506	2.512
Unit percentage growth (%).....	(0.24)	14.90	4.31	(0.05)	3.98	5.22	5.60	4.31	3.40	0.24
Motor Carrier Road Tax										
Amount collected (millions \$).....	10.0	10.0	10.6	8.0	8.5	9.2	9.5	9.8	10.0	8.5
Unit total (millions \$)(a).....	0.556	0.557	0.589	0.444	0.470	0.511	0.529	0.543	0.556	0.472
Unit percentage growth (%).....	(6.08)	0.18	5.75	(24.62)	5.86	8.72	3.53	2.65	2.04	(15.11)

(a) The unit total represents millions of dollars of revenue collected per penny of tax.
SOURCE: Office of Policy and Management

The motor fuel tax rate on gasoline is 25¢ per gallon, on gasohol is 24¢ per gallon, and on diesel fuel is 26¢ per gallon.

The first two Motor Fuels Taxes are the gasoline tax and the special fuels tax, which are levied under Connecticut General Statutes (“C.G.S.”) Section 12-458 on gallons of fuel used or sold by distributors. The principal fuel subject to the tax is gasoline, but the taxes also are levied on any combustible gas or liquid, including diesel fuel and gasohol, which is used or is suitable for use to generate power for propelling motor vehicles. The distributors liable for these taxes are those entities which distribute fuel within the State, import fuel into the State for distribution within the State, or produce or refine fuels within the State.

There are only six types of transactions that are exempted from these taxes: (i) sales to the United States government and to the State; (ii) sales to a municipality for use by private contractors in the course of performing services for the municipality; (iii) sales (other than at retail outlets) to municipalities or State transit districts for use in vehicles owned by or leased to those governmental units; (iv) interdistributor sales; (v) transfers from a State storage site to an out-of-state site; and (vi) sales to a licensed exporter for transfer and sale outside the State.

The third Motor Fuels Tax is the motor carrier road tax imposed by C.G.S. Sections 12-479 and 12-483 upon gallons of fuel used by business entities (“motor carriers”) which operate any of the following vehicles in the State: (i) passenger vehicles seating more than nine persons; (ii) road tractors or tractor trucks; or (iii) trucks having a registered gross weight in excess of eighteen thousand (18,000) pounds. Such motor carriers pay the tax on the gallons of fuel which they use while operating such vehicles in the State. The number of gallons subject to the tax is determined by multiplying the total number of gallons of fuel used by the motor carrier during each year by

a fraction, the numerator of which is the total number of miles traveled by the motor carrier's vehicles within the State during the year, and the denominator of which is the total number of miles traveled by the motor carrier's vehicles both within and outside the State during the year.

Motor Vehicle Receipts

The second category of transportation related revenues credited to the Special Transportation Fund commencing July 1, 1984 is Motor Vehicle Receipts and the normalized collections are adjusted to that date. The Motor Vehicle Receipts category consists of most revenues collected by the Commissioner of Motor Vehicles under forty-eight (48) statutory sections which levy transportation related charges for licenses and services provided by the Department of Motor Vehicles. The ten-year history of collections of Motor Vehicle Receipts is shown in the following table.

**TABLE 5
Ten-Year History of Motor Vehicle Receipts**

	<u>State Fiscal Year Ending</u>									
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total Collections (millions \$)	167.6	174.2	172.8	172.8	175.9	186.0	187.0	190.3	196.3	200.7
Adjustments (millions \$)(a).....	(73.0)	(75.8)	(74.3)	(74.4)	(74.7)	(76.8)	(76.9)	(77.1)	(77.0)	(80.9)
Total Normalized Collections (millions \$)(b)	94.6	98.4	98.5	98.4	101.2	109.2	110.1	113.2	119.3	119.8
Percent Change In Normalized Collections	(0.4)%	4.0%	0.1%	(0.1)%	2.9%	7.8%	0.9%	2.8%	5.4%	0.5%

- (a) Adjusted for: (1) the 25% increase in motor vehicle receipts effective July 1, 1984 and adjusted for the 24% increase in motor vehicle receipts effective July 1, 1986; (2) fee increases effective July 1, 1991 under Public Act 91-13 of the June Special Session; (3) the 12.9% increase in motor vehicle receipts effective July 1, 1992; (4) the elimination of the additional vanity plate renewal fees of \$30 effective July 1, 1994 under Public Act 93 - 74; (5) the transfer of safety plate fees from the General Fund effective July 1, 1995; (6) the collection of truck registration fees under the International Registration Plan commencing fiscal year 1997-98; and (7) extends license duration from 4 years to 6 years.
- (b) Total Normalized Collections for each State fiscal year equals Total Collections minus the amount of the Adjustments as described in footnote (a) for each such period. By subtracting the amount of such Adjustments from Total Collections it is possible to view more accurately the annual changes in Motor Vehicle Receipts during the period covered by the table.

SOURCE: Office of Policy and Management

License, Permit and Fee Revenue

The third category of transportation related revenues that is credited to the Special Transportation Fund is that of LPF Revenue. The following table sets forth the ten-year history of LPF Revenue and reflects both growth and the effect of increased fees and charges.

TABLE 6
Ten-Year History of License, Permit and Fee Revenue
(In Millions \$)

	State Fiscal Year Ending June 30									
	<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>
Motor vehicle fines, penalties and surcharges	22.4	22.1	23.2	25.9	26.1	28.3	27.6	30.8	28.4	31.5
Filing and reproduction fees.....	13.0	16.5	17.2	17.4	18.4	18.9	19.5	20.9	20.7	22.0
Motor carrier registration fee.....	5.6	6.1	7.0	10.2	0.3	0.3	0.3	0.3	0.3	0.3
Motor carrier permits	4.4	3.4	3.7	3.7	3.7	3.7	3.7	3.8	3.5	3.2
Operator license examination fee..	4.0	4.2	3.7	3.9	4.9	4.9	5.6	5.8	5.8	6.0
Vehicle inspection fee	3.5	4.6	5.1	5.2	5.8	6.2	6.8	3.0	3.1	3.6
Other(a)	<u>22.4</u>	<u>23.0</u>	<u>27.9</u>	<u>29.3</u>	<u>29.1</u>	<u>45.6</u>	<u>49.4</u>	<u>48.0</u>	<u>53.4</u>	<u>64.1</u>
Total.....	<u>75.3</u>	<u>79.9</u>	<u>87.8</u>	<u>86.5</u>	<u>88.3</u>	<u>107.9</u>	<u>112.9</u>	<u>112.6</u>	<u>115.2</u>	<u>130.7</u>

(a) Amounts listed as "Other" LPF Revenue represent collections for (i) gasoline handling charges; (ii) fees for license plates, and for certificates or licenses to repair or sell motor vehicles, relocate site for selling motor vehicles, register new car dealers and repairers, sell gasoline, and locate site for selling fuels; (iii) special vehicle permits; (iv) rental of airport passenger terminals (other than at Bradley International Airport); (v) royalties from gasoline outlets on State property; (vi) miscellaneous rentals; (vii) searches for and copies of motor vehicle records; (viii) tolls on ferries; (ix) airport landing charges (other than at Bradley International Airport); (x) operator license information and licenses for drivers' education instructors; (xi) sales of excess State property; (xii) emission inspection late fee; (xiii) registration of weighing devices; (xiv) sale of commercial information; and (xv) clean air fee.

SOURCE: Office of Policy and Management

LPF Revenue consists of amounts levied for certain permits issued and services provided by the State for transportation purposes, for the right to use certain transportation related State property, and for certain traffic fines. The largest such source of LPF Revenue is motor vehicle related fines, penalties, or other charges. The Act requires that traffic fines levied under numerous statutory sections be credited to the Special Transportation Fund as LPF Revenue.

There are a large number of permits which generate LPF Revenue. For example, the fees charged for certification of bus routes (C.G.S. Section 14-49(v)) and for licensing of drivers' education instructors (C.G.S. Section 14-16a) are treated under the Act as LPF Revenue.

In addition to these permit and license fees, LPF Revenue includes what the Act terms Aeronautics, Waterways, and Other Fees and Charges. These are amounts received by the State in connection with the sale or lease of property controlled by the Commissioner of Transportation, including rights-of-way above or below State highways and properties at airports (other than at Bradley International Airport) owned or leased by the State, and charges for pilotage on State waterways.

Beginning in State fiscal year 1985, the Act began crediting to the Special Transportation Fund three other types of LPF Revenue: (i) fees for documents and services provided under C.G.S. Section 14-192(a); (ii) royalty payments for retail sales of gasoline pursuant to C.G.S. Section 13a-80; and (iii) gasoline handling charges which the Department receives from other State agencies for handling motor fuel consumed by State vehicles. All other LPF Revenue was credited to the Special Transportation Fund starting in fiscal year 1986. Commencing on July 1, 1997, per Section 2 of Public Act 97-309, transportation related revenue such as the sale of commercial information by the Department of Motor Vehicles and from other user fees and licenses previously deposited in the General Fund, will now be credited to the Special Transportation Fund as LPF Revenue.

Oil Companies Tax Payments

Section 5 of Public Act 97-309 provided that beginning in fiscal year 1998-99, \$20 million in Oil Companies Tax revenue received from the tax imposed on the gross earnings from the sale of petroleum products attributable to sales of motor vehicle fuel was to be deposited by the Commissioner of Revenue Services into the Special Transportation Fund over four equal installments. In each fiscal year thereafter, \$36 million was earmarked for the Special Transportation Fund. Section 11 of Public Act 00-170 amended Section 5 of Public Act 97-309 and provides that beginning in fiscal year 2000-01 and each fiscal year thereafter, \$46 million in Oil Companies Tax revenue received from such tax will be deposited into the Special Transportation Fund over four equal installments. Commencing on September 30, 2002, per Section 73 of Public Act 02-01 of the May Special Session, the Oil Companies Tax transfer to the State Transportation Fund is reduced from \$46 million to \$20 million. Beginning on September 30, 2003, \$21 million in Oil

Companies Tax revenue will be deposited thereafter over four equal installments. Through fiscal year 1997-98, revenue from the Oil Companies Tax was deposited exclusively in either the General Fund or the Underground Storage Tank (UST) Petroleum Clean Up Account pursuant to Section 22a-449b of the C.G.S.

The Oil Companies Tax is levied, pursuant to Section 12-587 of the C.G.S., at a rate of 5% of the gross earnings from the sale of petroleum products in the State. The principal petroleum product subject to the tax is motor vehicle fuel, but the gross earnings tax is also levied on the sale of aviation fuel, kerosene, diesel fuel, crude oil, and derivatives of petroleum such as paint, fertilizers and asphalt. In the most recently completed 2001-2002 fiscal year, the Oil Companies Tax generated gross collections of \$94.3 million. The Office of Policy and Management estimates that for the 2002-2003 fiscal year, the Oil Companies Tax will generate gross collections of approximately \$105.5 million. It is assumed that the tax revenue received by the Commissioner of Revenue Services on the gross earnings from the sales of petroleum products attributable to sales of motor vehicle fuel will be sufficient to enable the Commissioner to make all required payments to the Special Transportation Fund when due.

Sales Tax - DMV Payments

Section 2 of Public Act 98-128 required that the Commissioner of Motor Vehicles deposit into the Special Transportation Fund funds received by the State from the tax imposed on casual sales of motor vehicles, vessels, snowmobiles and aircraft pursuant to Section 12-431 of the Connecticut General Statutes attributable to motor vehicles in accordance with the following schedule: (1) \$10,000,000 of the amount received by the State for the fiscal year ending June 30, 2000; (2) \$20,000,000 of the amount received by the State for the fiscal year ending June 30, 2001; (3) \$30,000,000 of the amount received by the State for the fiscal year ending June 30, 2002; and (4) \$40,000,000 of the amount received by the State for the fiscal year ending June 30, 2003, and each fiscal year thereafter.

Section 12 of Public Act 00-170 amended Section 2 of Public Act 98-128 and provides that beginning in fiscal year 2000-01 and each fiscal year thereafter, the Commissioner of Motor Vehicles deposit into the Special Transportation Fund all funds received by the State from such tax.

Other Revenues

In addition to the above categories of transportation related revenues, moneys received as operating assistance grants from FTA and interest earnings also are credited to the Special Transportation Fund.

The State applies for the FTA grant at the beginning of each federal government fiscal year in October. The FTA operating assistance grant is included in Pledged Revenues upon receipt and is generally available for payment of debt service or program expenses. Such grant is treated by the State as a reimbursement for mass transit operating expenses previously budgeted and generally paid from other available State cash. (See also footnote (e) to Table 3.)

Interest earnings accruing on the funds and accounts created under the Indenture are to be credited to the Special Transportation Fund, with the exception of interest earnings accruing on amounts in the Note Repayment Account. The State expects to invest available amounts credited to the Special Transportation Fund from time to time in the Short Term Investment Fund of the State and other permitted investments. See "Appendix A-Cash Management and Investment Procedures."

Debt Service Coverage

Under the Senior Indenture, the State has covenanted to provide Pledged Revenues in each fiscal year equal to two (2) times the aggregate Principal and Interest Requirements on Senior Bonds and Interest Requirements on Senior Notes in such fiscal year. So long as Second Lien Bonds are outstanding, the State also has covenanted in the Second Lien Indenture to provide Pledged Revenues in each fiscal year equal to two (2) times the aggregate Principal and Interest Requirements on all Bonds and Notes in such fiscal year. Principal and Interest Requirements on Second Lien Bonds are calculated according to the Second Lien Indenture. The following table indicates the actual and projected calculation of such coverage tests. The debt service requirements shown in Table 7 do not include several items that are included in Debt Service Requirements on the Bonds in Table 8, including estimated rebate, trustee fees and allowance for basis risk on the interest rate swap for the Second Lien Bonds, 1990 Series 1. (See Table 8 footnote f.)

TABLE 7
Actual and Projected Debt Service Coverage
(In Millions \$)

	State Fiscal Year Ending June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Actual and Projected Pledged Revenues(a).....	854.2	859.1	855.8	905.4	871.8	896.9	900.7	918.2	931.1	937.8
2. Principal and Interest Requirements for the 1984-2002B Senior Bonds(b).....	289.3	318.0	306.0	321.1	339.8	349.3	366.6	371.3	365.5	355.1
3. Actual and Projected Principal and Interest Coverage for the 1984-2002B Senior Bonds(c)	3.0x	2.7x	2.8x	2.8x	2.6x	2.6x	2.5x	2.5x	2.5x	2.6x
4. Principal and Interest Requirements on the Outstanding Second Lien Bonds(d)	22.3	22.3	22.4	21.4	23.4	23.2	26.2	27.2	27.4	27.5
5. Actual and Projected Principal and Interest Coverage for All Outstanding Senior Bonds and Outstanding Second Lien Bonds(e)	2.7x	2.5x	2.6x	2.6x	2.4x	2.4x	2.3x	2.3x	2.4x	2.5x
6. Projected Principal and Interest Requirements for Additional Bonds(f) ..	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.1	28.2	46.3
7. Actual and Projected Aggregate Debt Service Coverage for all Bonds(g).....	2.7x	2.5x	2.6x	2.6x	2.4x	2.4x	2.3x	2.2x	2.2x	2.2x

- (a) For a discussion of the assumptions and enacted tax, fee, and charge adjustments underlying these projections, see "Discussion of Projected Pledged Revenues."
- (b) Reflects actual Principal and Interest Requirements on the Senior Bonds as paid to the Trustee on a one-sixth interest and one-twelfth principal monthly deposit basis. Does not reflect accretion of interest on the 1988 Series B Capital Appreciation Bonds or the 1989 Series B Capital Appreciation Bonds prior to the year of maturity of such bonds.
- (c) Line 1 divided by Line 2.
- (d) Reflects actual Principal and Interest Requirements on the Second Lien Bonds, 1990 Series 1 assuming the continuation of Qualified Swaps. Includes debt service on the Second Lien Bonds, 2000 Series 1 calculated at a projected interest rate of 3.5% per annum for fiscal year 2003 and 4.5% thereafter. Does not include letter of credit or remarketing fees, but it does include an additional \$1 million per year basis risk assumption.
- (e) Line 1 divided by the sum of Lines 2 and 4.
- (f) Assumes issuance of Additional Bonds (whether under the Senior Indenture or the Second Lien Indenture), authorized and to be authorized by Special Acts, with level debt service, a twenty year final maturity and in the principal amounts and at the average net interest costs listed below for each of the following State fiscal years: 2004 - \$100 million at 6.0% and \$100 million at 6.5%; and 2005-2006 - \$200 million each year at 6.5%. See "The Department of Transportation—Implementation of and Funding for the Infrastructure Program." Includes debt service on 2000 Series 1 Bonds calculated at a projected interest rate of 3.5% per annum for fiscal year 2003 and 4.5% thereafter. Assumes no issuance of Notes.
- (g) Line 1 divided by the sum of Lines 2, 4 and 6.

SOURCE: Office of Policy and Management

Expenses of the Special Transportation Fund

Moneys in the Special Transportation Fund not held by the Trustee or otherwise required to pay principal and interest on the Senior Bonds and interest on the Senior Notes may be used to pay (i) principal on Senior Notes, (ii) amounts required to be deposited with the Trustee under the Second Lien Indenture, (iii) debt service on transportation related general obligation bonds of the State, and (iv) the operating expenses of the Department, including both the annual budgeted expenses of the Department and the portion of the costs of the Infrastructure Program not financed by the Bonds but paid from current operations, and operating expenses of the Department of Motor Vehicles. See "The Transportation Infrastructure Program." The Special Transportation Fund appropriations included in the budget for the 2001-2002 and 2002-2003 fiscal years are set forth in Appendix B.

Under the provisions of Section 3 of PA 97-309, for fiscal years 1998-2000, the State Treasurer was required to use any year-end balance in the Special Transportation Fund that exceeded \$20 million dollars to decrease outstanding indebtedness or to pay debt service requirements of the State. In September 1997 the Treasurer's Office used \$84,855,654 from the Special Transportation Fund to cash defease \$80,810,000 of the 1991 Series A and 1991 Series B special tax obligation bonds. In May 1998 the Treasurer's Office used \$9,765,296 of the remaining surplus in the Special Transportation Fund from fiscal year 1997 to pay debt service on Bonds in fiscal year 1999. In December 1999, the Treasurer's Office used \$81.8 million of the combined surplus from fiscal years 1998 and 1999 to cash defease \$84.9 million in special tax obligation bonds, including some of the capital appreciation bonds. In June 2000, the Treasurer's

Office directed that the remaining surplus in the Special Transportation Fund from fiscal year 1999 of \$1,530,937.48 be used to pay debt service on Bonds in fiscal year 2001. Section 13 of PA 00-170 repealed the provision that required balances in excess of \$20 million to be directed toward debt reduction or for the payment of debt service requirements on special tax obligation bonds, thereby allowing surplus balances to be carried forward as had been the practice prior to PA 97-309.

The Special Transportation Fund budget includes unallocated lapses to recognize that not all budget expenditures will be fully expended and will lapse for budget purposes. The unallocated lapse is reduced in a corresponding amount as agency lapses are identified within specific accounts.

2002 Legislative Changes

Public Act 02-01 of the 2002 May Special Session made changes to the revenues and expenses of the Special Transportation Fund. Regarding revenue changes, the Diesel Fuel Tax was raised from 18 cents per gallon to 26 cents per gallon effective August 1, 2002, for a projected annual net revenue increase of approximately \$25 million. To offset the increase in revenues to the Special Transportation Fund, a corresponding reduction of \$26 million was made to the transfer of Oil Companies Tax revenue from the General Fund beginning in fiscal 2003, reducing it from \$46 million to \$20 million. In each fiscal year thereafter, \$21 million in Oil Companies Tax revenue will be transferred from the General Fund to the Special Transportation Fund. Finally, for fiscal 2003 only, the annual transfer from the Special Transportation Fund to the Conservation Fund will be reduced by \$1 million, from \$3 million to \$2 million.

The most significant expenditure change was the funding of Town Aid Road grants from the Special Transportation Fund in fiscal 2003. These grants were transferred to the General Fund in fiscal 2001. Funding for Town Aid Road grants from the Special Transportation Fund is not included in the projection period of fiscal 2004 to 2006.

**Summary of Recent Legislative Changes Included in Table 8
(In Millions of Dollars)**

	<u>State Fiscal Year Ending June 30</u>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Revenue Changes</u>				
Diesel Fuel Tax – 8 Cent Increase.....	25.5	25.7	25.9	26.1
Oil Companies – Decrease Transfer.....	(26.0)	(25.0)	(25.0)	(25.0)
Transfers – Eliminate Conservation Fund (One-Time)...	1.0	---	--	---
Refunds – Increase for Diesel Fuel	<u>(0.5)</u>	<u>(0.7)</u>	<u>(0.8)</u>	<u>(0.8)</u>
Total	---	---	0.1	0.3
<u>Expenditure Changes</u>				
Town Aid Road	<u>25.0</u>	---	---	---
Total	25.0	---	---	---
Net Impact on State Transportation Fund.....	(25.0)	---	0.1	0.3

TABLE 8
Actual and Projected Revenues, Debt Service and Expenditures
Of the Special Transportation Fund
(In Millions \$)

	State Fiscal Year Ending June 30									
	1997(a)	1998(a)	1999(a)	2000(a)	2001(a)	2002(a)	2003(b)	2004	2005	2006
Actual and Projected Revenues										
Motor Fuels Tax, Motor Vehicle										
Receipts, Licenses, Permits, Fees(c)	814.8	824.5	799.9	809.3	729.0	761.7	801.5	815.2	824.7	827.7
Sales Tax – DMV Payments(d).....	-	-	-	10.0	60.1	65.2	64.1	67.1	70.8	74.7
Oil Companies Tax Payments(d).....	-	-	20.0	36.0	46.0	46.0	20.0	21.0	21.0	21.0
Federal Transit Administration (FTA)										
Grants(d)	3.6	3.1	3.1	3.0	3.3	3.3	3.3	3.0	3.0	3.0
Interest Income(d).....	42.0	35.4	38.5	37.7	43.9	40.5	31.5	32.9	32.9	32.9
Transfers - Other Funds	(0.2)	(0.2)	(0.5)	(2.0)	(3.0)	(9.5)	(8.5)	(9.5)	(9.5)	(9.5)
Release from Reserve Account(e).....	-	3.0	-	16.8	-	-	-	-	-	-
Total.....	<u>860.2</u>	<u>865.8</u>	<u>861.0</u>	<u>910.8</u>	<u>879.3</u>	<u>907.2</u>	<u>911.9</u>	<u>929.7</u>	<u>942.9</u>	<u>949.8</u>
Refunds of Taxes	<u>(6.0)</u>	<u>(6.7)</u>	<u>(5.2)</u>	<u>(5.4)</u>	<u>(7.5)</u>	<u>(10.3)</u>	<u>(11.2)</u>	<u>(11.5)</u>	<u>(11.8)</u>	<u>(12.0)</u>
Total Net Revenues.....	<u>854.2</u>	<u>859.1</u>	<u>855.8</u>	<u>905.4</u>	<u>871.8</u>	<u>896.9</u>	<u>900.7</u>	<u>918.2</u>	<u>931.1</u>	<u>937.8</u>
Actual and Projected Debt Service and Expenditures										
Expenditures										
Debt Service Requirements on the										
Bonds(f).....	313.6	341.1	319.6	344.3	366.1	374.9	397.0	413.8	426.1	434.0
Debt Service on Transportation Related										
General Obligation Bonds(g).....	45.0	46.4	44.8	31.4	29.2	21.1	17.3	13.8	4.5	4.6
DOT Budgeted Expenses(h)	269.5	271.4	289.3	306.2	296.8	303.4	347.5	331.5	340.8	349.7
DMV Budgeted Expenses(i).....	43.4	43.6	57.9	49.1	49.6	51.5	54.7	58.1	59.7	60.2
Other Budget Expenses(j)	79.2	59.6	71.8	43.9	68.6	76.0	85.4	88.2	91.3	94.5
Program Costs Paid from Current										
Operations(k)	18.8	19.6	20.5	60.3	16.0	16.0	16.0	16.4	16.9	17.3
Highway Patrol Budgeted Expenses(l).....	41.8	46.0	-	-	-	-	-	-	-	-
Estimated Unallocated Lapses(m)	-	-	-	-	-	-	(17.3)	(14.0)	(13.9)	(13.7)
Total.....	<u>811.3</u>	<u>827.7</u>	<u>803.9</u>	<u>835.2</u>	<u>826.3</u>	<u>842.9</u>	<u>900.6</u>	<u>907.8</u>	<u>925.4</u>	<u>946.6</u>
Excess (Deficiency).....	<u>42.9</u>	<u>31.4</u>	<u>51.9</u>	<u>70.2</u>	<u>45.5</u>	<u>54.0</u>	<u>0.1</u>	<u>10.4</u>	<u>5.7</u>	<u>(8.8)</u>
Cumulative Excess (Deficiency)	<u>114.6</u>	<u>51.4</u>	<u>71.9</u>	<u>90.2</u>	<u>135.7</u>	<u>189.7</u>	<u>189.8</u>	<u>200.2</u>	<u>205.9</u>	<u>197.1</u>
Year End Adjustments(n)										
Transfer to Debt Service Escrow										
Account.....	(84.9)	-	-	-	-	-	-	-	-	-
Reserve for Debt Service Reduction	(9.7)	(31.4)	(51.9)	-	-	-	-	-	-	-
Post Closing Balance.....	20.0	20.0	20.0	90.2	135.7	189.7	189.8	200.2	205.9	197.1

(a) Actual per Comptroller's September 1997 through 2002 Reports, presented in a format to conform to budgetary categories.

(b) Per the Comptroller's monthly report for the period ending September 30, 2002.

(c) Motor Fuels Taxes, Motor Vehicle Receipts, and LPF Revenue. For a discussion of the assumptions and enacted tax, fee and charge increases underlying these revenue projections, see "Discussion of Projected Pledged Revenues."

(d) See footnotes to Table 3.

(e) The amount in fiscal year 1998 reflects the \$84.9 million defeasance of certain maturities of the 1991 Series A and 1991 Series B Bonds. The amount in fiscal year 2000 reflects the release from the Reserve Account under the Senior Indenture resulting from the 1999 cash defeasance of special tax obligations bonds.

(f) These figures represent Principal and Interest Requirements on special tax obligation bonds, and letter of credit fees and remarketing fees for such Bonds, and include the Bonds listed in the table under "Debt Service On Outstanding Bonds" excluding Principal and Interest Requirements on the Refunded Bonds after the date of such refunding as adjusted for the carryforward of 1998 appropriated debt service into 1999 in the amount of \$15 million. These figures do not reflect accretion of interest on the portion of the 1988 Series B Bonds issued as Capital Appreciation Bonds or on the portion of the 1989 Series B Bonds issued as Capital Appreciation Bonds prior to the year of maturity of such bonds. Interest on 2000 Series 1 Bonds is calculated based on a projected rate of 3.5% for fiscal year 2003 and 4.5% thereafter. The figures also reflect the issuance of additional bonds with level debt service and a twenty year final maturity in the principal amount and at the average net interest costs listed below for each of the following State fiscal years: 2004 - \$100 million at 6.0% and \$100 million at 6.5%; and 2005-2006 - \$200 million each year at 6.5%. See "The Department of Transportation-Implementation of and Funding for the Infrastructure Program." Includes actual and estimated rebate liability on the Bonds under the Internal Revenue Code. Assumes no issuances of Notes.

- (g) Represents payment of that portion of debt service on outstanding general obligation bonds which bears the same ratio to all such debt services as the sum of the amount of bond authorization allocated to the Department by the State Bond Commission in each year that such bonds were issued bears to the total amount of general obligation bonds authorized by the State Bond Commission during all such years.
- (h) The major components of the Department's annual budgeted and projected expenses are payments for (i) the rail and bus subsidy; (ii) State highway maintenance costs; (iii) aid to towns for local highway and repair maintenance in fiscal years 1997-2000 and 2003; (iv) salaries, data processing and other general administrative costs, aeronautics and waterways operations. Certain contingent liabilities arising from defective highway lawsuits are not included in the projected amounts of annual budgeted expenses. See "Litigation." Fiscal year 1999 expenses include a one-time charge of \$3.9 million for the payment of DOT settlement litigation costs.
- (i) 1999 expenses include a one-time charge of \$12.9 million for the issuance of reflectorized license plates, includes increases due to legislative changes which become effective in fiscal year 2004.
- (j) Represents the cost of fringe benefits, pension costs and salary adjustments for DMV and the Department, and for Highway Patrol in fiscal years 1997 through 1999. Also, savings from the 1997 Early Retirement Incentive Program (ERIP) in the amount of \$10.4 million in fiscal year 1998, and \$8.3 million each year thereafter. Includes \$6.3 million for the 27th payroll expenses in fiscal year 2000 and includes \$1.9 million transferred to various agencies for non-transportation purposes.
- (k) Fiscal Year 2000 expenses include a one-time charge of \$35.0 million for the purchase of new rail cars for the New Haven Line service.
- (l) Represents the operating expenses of the highway patrol, for fiscal years 1997 through 1998.
- (m) The Special Transportation Fund budget includes amounts for unallocated lapses to recognize that not all budget expenditures will be fully expended and will lapse for budget purposes. The unallocated lapse is reduced in a corresponding amount as agency lapses are identified within specific accounts.
- (n) Section 3 of PA 97-309 requires the State Treasurer to use any year-end balance in the Special Transportation Fund that exceeds \$20 million dollars to decrease outstanding indebtedness or to pay debt service requirements of the State. In September 1997 the Treasurer's Office used \$84,855,654 from the Special Transportation Fund to cash defease \$80,810,000 of the 1991 Series A and 1991 Series B special tax obligation bonds. In May 1998 the Treasurer's Office used \$9,765,296 of the remaining surplus in the Special Transportation Fund from fiscal year 1997 to pay debt service on Bonds in fiscal year 1999. In December 1999, the Treasurer's Office used \$81.8 million of the combined surplus from fiscal years 1998 and 1999 to cash defease \$84.9 million in special tax obligation bonds, including some of the capital appreciation bonds. In June 2000, the Treasurer's Office directed that the remaining surplus in the Special Transportation Fund from fiscal year 1999 of \$1,530,937.48 be used to pay debt service on Bonds in fiscal year 2001. Section 13 of PA 00-170 repeals the provision that required balances in excess of \$20 million to be directed toward debt reduction or for the payment of debt service requirements on special tax obligation bonds, thereby allowing surplus balances to be carried forward as had been the practice prior to PA 97-309.

SOURCES: Office of Policy and Management and Department of Transportation

THE TRANSPORTATION STRATEGY BOARD

The Transportation Strategy Board (TSB) was established under Public Act 01-5 of the 2001 June Special Session to propose a transportation strategy, an implementation cost estimate and funding approaches to the Governor and the General Assembly. The initial transportation strategy was presented on January 15, 2002. The Act also requires that the first revised strategy be submitted by December 15, 2002. Implementation of the Board's December 2002 recommendations requires actions by the General Assembly and the Governor. The TSB consists of fifteen members and five working groups. The TSB's five strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement of goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the state economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system. The General Assembly authorized approximately \$17 million from General Fund appropriated surplus and \$27 million in Special Transportation Fund bond authorizations to implement the projects included in Section 16 of Public Act 01-5.

THE DEPARTMENT OF TRANSPORTATION

The State Transportation System

The State's transportation system includes approximately 20,040 miles of improved roads (of which approximately 3,732 are maintained by the Department), 5,436 state and local bridges; Bradley International Airport, which is New England's second largest airport, and five other State-owned airports together with numerous municipally and privately owned airports; rail commuter service between New Haven and New York City and related points, provided by Metro-North Commuter Railroad Company which operates 263 trains daily; Shore Line East Rail Commuter Service between New London and New Haven and on to Stamford, which operates 22 trains daily; and publicly and privately owned bus systems which operate 1,103 vehicles.

Organization and Responsibilities

The Department was established in 1969 and replaced the Connecticut Highway Department. The Department, as of October 1, 2002, had 3,458 employees. The Department's major responsibility is to provide transportation services and facilities to State residents.

The Department is headed by a Commissioner appointed by and directly responsible to the Governor. The Commissioner's office has 36 employees, who perform communications, management and legislative services, and other related functions of that office.

The Commissioner exercises direct supervision of all Department activities. As head of the Department, the Commissioner acts as the executive officer of the Governor for achieving the purposes, and supervising the activities, of the Department. The Commissioner, in order to promote economy and efficiency, may organize the Department and any agency therein into such divisions, bureaus, or other units as necessary and may from time to time abolish, transfer, or consolidate such divisions, bureaus, or other units within the Department. Among other functions, the Commissioner has the power, duty, and responsibility (i) to provide for the planning and construction of capital facilities that may be required for the development and operation of a safe and efficient transportation system, (ii) to study the operations of existing transportation facilities to determine the need for changes in such facilities, (iii) to formulate and implement plans and programs to improve transportation facilities and services, and (iv) to report to the General Assembly on an annual basis regarding such matters.

Mr. James F. Byrnes, Jr. has been serving as Acting Commissioner of the Department of Transportation since January 31, 2002. Prior to that time, Mr. Byrnes, a registered Professional Engineer, who began his career with the Department of Transportation in 1968, served in various executive positions including Planning Director, Deputy Commissioner of the Bureau of Public Transportation, Chief Engineer, and Bureau Chief of the Bureau of Engineering and Highway Operations.

Mr. James A. Adams was appointed Deputy Commissioner of the Department of Transportation on August 15, 1997, and previous to that served as Deputy Transportation Commissioner of the Bureau of Engineering and Highway Operations. Prior to joining the Department Mr. Adams served in various executive positions in the heavy and highway construction industry, and the building construction industry. As Deputy Commissioner of Transportation he is responsible for the operation of its five bureaus.

The Department is currently composed of five Bureaus, each of which is directed by a Deputy Commissioner or a Bureau Chief.

Bureau of Engineering and Highway Operations

The Bureau of Engineering and Highway Operations has 2,760 employees and is the Department's largest Bureau. Under the supervision of a Bureau Chief and the Chief Engineer, this Bureau is responsible for the design of new and improved facilities, the acquisition of rights-of-way, the construction and reconstruction of roads and bridges, the maintenance of State highways and bridges, and all Department research and materials testing.

Bureau of Finance and Administration

The Bureau of Administration has 392 employees. This Bureau provides administrative, service, personnel and support functions, which include budget preparation and control, auditing, purchasing, programming and control of the Department's capital program, external audit, information systems management and equal employment opportunity/affirmative action programs. This Bureau provides the administration and oversight of the Infrastructure Program.

Bureau of Policy and Planning

The Bureau of Policy and Planning has 115 employees and is responsible for coordination of transportation policy, strategic planning, monitoring federal and state laws and regulations, maintaining all transportation statistics and estimates, project planning and environmental analysis for all modes of State transportation supervised by the Department, and systems analysis. This Bureau has primary input in the determination of the major projects to be accomplished under the Infrastructure Program.

Other Bureaus

The other two bureaus of the Department are the Bureau of Public Transportation, which administers the operations of the State's bus services, rail commuter services, ridesharing programs, handicapped and elderly services and regulates taxi, livery and other transit activities; and the Bureau of Aviation and Ports, which is responsible for the operation and management of Bradley International

Airport, the five other State-owned airports, regulation of the State's harbor masters and harbor pilots, Connecticut River ferries and the operation of the State Pier in New London.

Implementation of and Funding for the Infrastructure Program

The Infrastructure Program began on July 1, 1984. In the first twelve years (State fiscal years 1985 through 1996) \$8.8 billion was authorized, consisting of \$3.6 billion in Bonds, \$407 million in State appropriations, \$4.7 billion in federal funds and \$110 million in other resources.

The following is a brief description of the components of the Infrastructure Program for State fiscal years 1997 through 2006. The sources of funding for this period of the program are set forth in Table 9 below. Actual annual funding amounts for the Infrastructure Program components can be expected to vary from the projected amounts because a major portion of the program is dependent upon the availability of federal funds. The federal figures presented in Table 9 for 2001 through 2006 are projections based upon the federal Transportation Equity Act for the 21st Century (TEA-21).

Interstate

The Interstate program provides for the maintenance and enhancement of the State's portion of the nationwide system of interstate highways. The Interstate program is projected to cost approximately \$1.0 billion of which \$927 million is expected to be paid by federal funds and the remainder, or \$115 million, is expected to be paid by State funds.

Intrastate

The Intrastate program provides for improvements to the State's primary and secondary roads. The costs of this program are estimated at \$1.766 billion. A portion of the program is eligible for federal funding, which is currently projected at \$1.441 billion. State funds are expected to pay for \$325 million of the Intrastate program.

State Bridges

The State bridge restoration program includes the cost of rehabilitating, reconstructing, repairing, or replacing the bridges on the State highway system which have been identified as being in poor or fair condition and in need of repair. The State bridge restoration program is estimated to cost \$901 million. The State's share of such costs is estimated to be \$200 million, with the balance of \$701 million to be met from federal funds.

Local Bridges

The State local bridge program will assist municipalities throughout the State in undertaking the rehabilitation, restoration, replacement and reconstruction of local bridges. To finance the local bridge program, the State has legislated a loan program and a grants-in-aid program that would provide an incentive to municipalities to complete repairs to their bridges. The loan program consists of a revolving fund established by the State for the purpose of providing below market rate loans to municipalities for up to 50% of the cost of the project. Loan repayments by municipalities will be returned to the revolving fund. None of the funds in the revolving fund will constitute security for the Bonds or be used to pay Debt Service Requirements on the Bonds or Notes. The grants-in-aid program provides grants to municipalities on the basis of their economic ability to pay. The grants are made on a sliding scale of 10% to 33% of project costs. The cost of this program is estimated to be \$14 million. These are anticipated federal funds which will be used in combination with revolving fund resources to finance new local bridge projects.

Transit

The Transit capital program is composed of bus operations and commuter rail operations. The bus portion includes replacement of aged buses on all fixed-route systems, construction of new and rehabilitated bus maintenance and storage facilities, renovation and improvement of bus depots, and improvements within downtown areas to better accommodate bus service. The commuter rail portion of the Transit capital program is a continuation of the New Haven Line rail modernization program which was started in the early 1970's. The program costs reflect the cost sharing requirements between New York and Connecticut which resulted from arbitration rulings. The commuter rail program also includes investments in the Shore Line East passenger service. The total Transit capital program is estimated to cost \$1.24 billion of which \$864 million is estimated to be supported by federal funds, \$340 million is estimated to be funded from State bond proceeds and \$35.0 million from State appropriations.

Aviation

The Aviation program includes the costs of capital improvements to the major airport facilities in the State excluding Bradley International Airport. Capital projects have been scheduled for the five State-owned airports in Windham, Oxford, Groton, Danielson, and Hartford as well as improvements at municipal airports in New Haven, Meriden, Danbury, and Bridgeport. The Aviation program is estimated to cost \$69.7 million and will require approximately \$22 million in State funds.

Resurfacing

The Resurfacing program consists of resurfacing and restoring the State highway system. The Department currently anticipates resurfacing approximately 330 two-lane miles of highway per year. Over the period, the cost of the program is estimated to be \$990 million, of which \$490 million is expected to be paid from bond proceeds, \$10 million from other Department budget appropriations, and \$490 million from federal funds.

Department Facilities

This program includes the costs of renovating, repairing and expanding maintenance garages and other administrative facilities of the Department, and the costs of purchasing leased facilities. The total cost of this program is estimated at \$51.8 million, which will be completely borne by the State because no federal funds are available.

Other

The Infrastructure Program also provides funding for STP/Urban Systems, Hazardous Waste, Special Projects and Waterways. The estimated cost of these programs is \$646 million, of which \$221 million is expected to be paid from bond proceeds and \$425 million from federal funds.

Other components of the Infrastructure Program are not financed by proceeds of special tax obligation bonds and include safety programs and other road and bridge maintenance. The State's costs of these programs are funded from State budget appropriations for the Department.

The following table sets forth the actual and projected sources of funding, including legislative authorizations for Bonds, for various components of the Infrastructure Program over the ten-year period 1997-2006 and includes projections of amounts to be appropriated as current expenses of the Special Transportation Fund for such purposes:

TABLE 9
Sources of Funding for the Infrastructure Program* (In Millions \$)

	State Fiscal Year Ending June 30										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Interstate											
Bonds	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	115.0
Federal	84.3	70.6	79.2	78.3	103.5	103.5	103.5	103.5	103.5	97.0	<u>926.9</u>
											1,041.9
Intrastate											
Bonds	29.9	31.5	31.5	31.5	31.5	31.5	31.5	35.5	35.5	35.5	325.4
Federal	141.4	143.3	167.5	124.9	177.3	152.7	126.0	139.8	138.2	130.0	<u>1,441.1</u>
											1,766.5
State Bridges											
Bonds	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	200.0
Federal	55.4	22.6	51.7	47.8	66.9	97.2	74.0	71.9	138.2	75.0	<u>700.7</u>
											900.7
Local Bridges											
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations(a)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal	7.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>14.0</u>
											14.0
Transit											
Bonds	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	340.0
Appropriations	0.0	0.0	0.0	35.0	0.0	0.0	0.0	0.0	0.0	0.0	35.0
Federal	73.2	56.0	68.4	106.8	97.9	92.7	94.3	134.3	57.6	82.6	<u>863.8</u>
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.0</u>
											1,238.8
Aviation(b)											
Bonds	2.0	5.0	2.0	1.2	2.0	2.0	2.0	2.0	2.0	2.0	22.2
Federal	3.0	7.7	7.0	1.9	2.0	5.6	5.1	6.1	4.8	4.0	<u>47.2</u>
Other	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.3</u>
											69.7
Resurfacing											
Bonds	49.0	48.9	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	489.9
Appropriations	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	10.0
Federal	36.0	50.8	71.3	44.7	44.9	58.7	49.0	54.1	36.0	45.0	<u>490.5</u>
											990.4
Dept. Facilities											
Bonds	7.0	0.0	0.0	6.4	6.4	6.4	6.4	6.4	6.4	6.4	51.8
Safety											
Appropriations	0.7	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	11.8
Federal	4.6	10.6	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	<u>87.2</u>
											99.0
STP/Urban Systems											
Bonds	12.0	12.0	12.0	12.0	12.0	12.0	12.0	8.0	8.0	8.0	108.0
Appropriations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal	54.3	42.8	39.8	48.0	48.0	48.0	48.0	32.0	32.0	32.0	<u>424.9</u>
Other(c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.0</u>
											532.9
Other Road and Bridge											
Appropriations	7.5	7.2	8.0	9.4	9.8	9.8	9.8	10.2	10.6	11.0	93.3
Federal	5.2	4.8	11.2	11.2	11.6	13.9	15.1	13.9	15.1	15.1	<u>117.1</u>
											210.4
Hazardous Waste											
Bonds	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	60.0
Special Projects											
Bonds						12.0	15.0				27.0
Waterways											
Bonds	0.3	0.2	0.3	16.0	8.3	0.2	0.3	0.2	0.3	0.2	<u>26.3</u>
											26.3
Totals											
Bonds(d)	171.7	169.1	166.3	187.6	180.7	184.6	187.7	172.6	172.7	172.6	1,765.6
Appropriations	9.2	9.7	10.2	46.6	12.0	12.0	12.0	12.4	12.8	13.2	150.1
Federal	464.4	416.2	505.1	472.6	561.1	581.3	524.0	564.6	534.4	489.7	<u>5,113.4</u>
Other	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.3</u>
											7,029.4
Issuance and Reserve	18.1	15.6	20.2	20.4	23.5	23.3	23.3	21.3	21.3	21.3	

* All line items in this Table captioned "Bonds" refer to legislative bond authorizations not bond issuances. Federal funding after September 30, 2002 is subject to Congressional action. For a discussion of the assumptions and enacted tax, fee and charge adjustments underlying these projections, see "Discussion of Projected Pledged Revenues."

(a) Deposits to the Local Bridge Revolving Fund.

(b) Excluding Bradley International Airport.

(c) Local funds.

(d) 1998 includes \$39.9 million in previously authorized general obligation transportation related bond authority.

SOURCE: Department of Transportation

The following table sets forth the amount of special tax obligation bond proceeds used and projected to be required to finance capital program project commitments and the annual amount of special tax obligation bonds issued and estimated to be issued each year for Infrastructure Program expenditures and other expenses through fiscal year 2006.

TABLE 10
Program Project Commitments and Actual and Projected Annual Bond Issuances
(In Millions \$)

	State Fiscal Year Ending June 30											
	1985- 1996(a)	1997(a)	1998(a)	1999(a)	2000(a)	2001(a)	2002(a)	2003	2004	2005	2006	Total
Program Project Commitments	3,547.2(d)	171.7	129.2(e)	166.3	187.6	180.7	184.6	187.7	172.6	172.7	172.6	5,272.9
Issuance and Reserve Authority	420.8	18.1	15.6	20.2	20.4	23.5	23.3	23.3	21.3	21.3	21.3	629.1
Actual and Projected Annual Issuances(b)(c)	3,594.7	150.0	150.0	225.0	150.0	225.0	287.0	215.0	200.0	200.0	200.0	5,596.7

- (a) Actual authorized program commitments and bonds issued.
 - (b) Actual and Projected annual issuances of special tax obligation bonds do not include any special tax obligation bonds which have or may be issued to refund special tax obligation bonds or general obligation bonds of the State issued for transportation purposes.
 - (c) After 2006 additional special tax obligation bonds in an amount estimated at \$305.3 million are expected to be issued to pay the balance of the costs of program commitments through 2006 and to fund reserves, if necessary.
 - (d) Does not include \$21.1 million in previously authorized general obligation transportation related bond authority used in fiscal year 1996.
 - (e) Does not include \$39.9 million in previously authorized general obligation transportation related bond authority.
- SOURCES: Office of Policy and Management and Department of Transportation

The annual projected issuances of special tax obligation bonds for any future fiscal year may vary from amounts expected to be required to fund program project commitments in each fiscal year. This results primarily from estimates of the timing of the Department's capital cash flow needs and because a portion of the special tax obligation bond proceeds in each fiscal year are expected to fund Reserve Accounts and issuance costs.

Financial Controls

The Infrastructure Program is administered by the Department and is subject to the standard control procedures of the State and the Department.

In accordance with federal budgeting procedures, the Department has developed annual projections of federal aid for the next three years for the Infrastructure Program, consistent with other capital programs, and an annual program for implementing the Infrastructure Program in accordance with the availability of State and federal funds.

The primary project control mechanisms within the Department are quarterly schedules for awarding construction contracts, monthly project status review meetings to coordinate the activities of various areas, and project cost controls to monitor cost estimates and expenditures against available funds.

The following discussion outlines the manner in which the Department accounts for State and federal funds to insure the proper disbursement thereof.

State Funds

Following the allocation of funds by the State Bond Commission, subject to approval by the Governor of allotment thereof, work orders with respect to each project are prepared by the operational units of the Department and reviewed by the fiscal services office of the Department to insure that amounts requested are within the allocated amounts.

If a project, or a portion of a project, is to be accomplished with Department staff, the staff is required to keep account of the time spent on each project and to fill out requisitions for materials and equipment used on such project. Controls are in place and are designed to insure that payments are not authorized if the requested amount is in excess of that approved for the project.

If the project is to be designed by an outside consultant, the selection process is in accordance with statutory requirements, and the cost is negotiated by the Department. Proposed contracts are subject to review by the Office of Policy and Management and the Attorney General. In addition, proposed contracts for projects other than highways are subject to review by the State Properties Review Board. Except in emergencies, construction contracts above a certain size are awarded as a result of sealed bids. The Department is usually billed monthly by outside contractors and to insure proper progress of the project, Department liaisons make site checks. The Department's office of fiscal services must approve all outside bills and verify billed amounts against internal payment lists to insure that expenditures are within the amount of the contract. The Comptroller, after review and upon a warrant to the Treasurer, then disburses the appropriate funds.

Federal Funds

The Department expects to receive approximately \$7.9 billion in federal funds with respect to the Infrastructure Program projects that have been approved by the State Bond Commission. An additional \$272.5 million in federal funds is expected to be received for projects to be paid from approved State appropriations for the Department.

Most of such federal funds are expected to be received from the Federal Highway Administration (the "FHWA"). Upon notification from FHWA of the annual apportionment of federal highway funds, the Department provides FHWA with an annual program of projects. The Department may update the program during the fiscal year, but requested changes must be approved by FHWA. After FHWA approval is granted, a federal-aid receivable account is established by the Comptroller. Once the State and federal funds are approved, a project initiation memorandum is circulated to notify the operating units within the Department that work on the project may commence. The Department has an extensive cost accounting system for accumulating expenditures by project. The Department bills the FHWA for the federal share of project costs every two weeks through the Concurrent Audit Billing System, an automated system which has been used to bill the FHWA since the early 1970's. Within a few days, reimbursement is received by the Department through an electronic transfer process.

The Department also expects to receive project capital grants for the Infrastructure Program from the Federal Transit Administration (the "FTA") and project capital grants for rail freight projects from the Federal Railroad Administration. As with FHWA grants, all capital FTA billing requests also are processed through the Concurrent Audit Billing System.

In addition to processing reimbursement requests, the billing system has built-in controls to assure compliance with federal cost limits and other federal requirements. The system also produces various reports, such as listings of all active projects and detailed summaries of expenditures.

The Division of Internal Audits of the Department regularly monitors the billing system to verify the validity of reimbursement requests. A primary purpose of the billing system audits is to maximize federal cost participation by identifying coding errors or other mistakes that misstate reimbursable costs and by insuring that corrective action is taken.

Only federal transportation related operating assistance grants (currently comprised only of FTA operating assistance grants) are credited to the Special Transportation Fund. Federal transportation related capital grants are credited to the Infrastructure Improvement Fund.

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE

The following statements are summaries of certain provisions of the Senior Indenture. All such summary statements do not purport to be complete and are subject to and qualified in their entirety by reference to the Senior Indenture.

Definitions

The following are definitions of certain terms as used in the Senior Indenture:

"Accountant" means the independent accountant or firm of independent accountants appointed by the State pursuant to Section 7.4 of the Senior Indenture.

“Act” means collectively, Public Act No. 84-254, Special Act No. 84-52 and any other action of the General Assembly of the State, authorizing Senior Bonds to be issued under the Senior Indenture, as the same may be amended from time to time.

“Additional Bonds” means one or more series of additional Bonds, other than the Bonds initially issued under the Senior Indenture in 1984, authorized and issued by the State pursuant to the Senior Indenture, provided that the term “Additional Bonds” does not include Refunding Bonds issued pursuant to Section 2.5 of the Senior Indenture.

“Amortization Requirement” for any period (as applied to term bonds issued under the provisions of Sections 2.2, 2.4 and 2.5 of the Senior Indenture), means the respective amount of principal of term bonds to be amortized in such period with respect to such Senior Bonds as fixed by resolution of the State Bond Commission prior to the delivery of such Senior Bonds. Such Amortization Requirement shall be accrued ratably over the period for which such Amortization Requirement was fixed, and the Amortization Requirement on term bonds of any series accruing for any period other than that for which the State Bond Commission shall have fixed an Amortization Requirement shall be the total of the Amortization Requirement for term bonds of such series accruing in such period. The aggregate amount of such Amortization Requirements for the term bonds of any series shall be equal to the principal amount of the term bonds of such series. The Amortization Requirements for the term bonds of any series shall begin in such year as the State Bond Commission shall determine and shall not end later than the year immediately preceding the maturity of such term bonds.

“Debt Service Requirements” means for any period, the sum of (A) the principal and interest accruing during such period with respect to Senior Bonds, the interest accruing during such period with respect to Senior Notes and the unrefunded principal accruing during such period with respect to Senior Notes, (B) the purchase price of Senior Bonds and Senior Notes which are subject to purchase or redemption at the option of the holder of such Senior Bond or Senior Note, (C) the amounts, if any, required during such period to establish or maintain the funds or accounts existing under the Senior Indenture at the respective levels required to be established or maintained as provided in the Senior Indenture, (D) expenses of issuance and administration with respect to Senior Bonds and Senior Notes, as determined by the State Treasurer, (E) the amounts, if any, becoming due and payable under a reimbursement agreement or similar agreement entered into pursuant to the proceedings authorizing the issuance of Senior Bonds or Senior Notes and (F) any other costs or expenses deemed by the State Treasurer to be necessary or proper to be paid in connection with the Senior Bonds and Senior Notes, including, without limitation, the cost of any credit facility, including but not limited to a letter of credit or policy of bond insurance, issued by a financial institution pursuant to an agreement approved by the proceedings authorizing the issuance of Senior Bonds or Senior Notes.

“Debt Service Reserve Requirement” means an amount equal to the maximum Principal and Interest Requirements on Senior Bonds for the current or any succeeding Fiscal Year on account of all Senior Bonds then outstanding.

“Fiscal Year” means the fiscal year of the State, as it may be established by the State from time to time and initially beginning on July 1 and ending June 30 in each year.

“Infrastructure Improvement Fund” means the Infrastructure Improvement Fund of the State, as provided in Section 5.8 of the Senior Indenture.

“Interest Requirements on Senior Notes”, for any period, means the sum of (i) the amount of interest on all Senior Notes accruing in such period; plus (ii) the amount required to pay interest accruing in such period pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Senior Notes. In computing the interest payable in any future period on any Senior Note bearing interest at a variable rate, the interest shall be calculated on the basis of the interest rate actually borne by such Senior Note at the time of calculation.

“Pledged Revenues” means the taxes, fees, charges and other receipts of the State credited to the Special Transportation Fund pursuant to Section 13b-61 of the General Statutes of the State, as amended from time to time.

“Principal and Interest Requirements on Senior Bonds”, for any period, as applied to Senior Bonds of any series, means the sum of:

(i) the amount of interest accruing on all Senior Bonds of such series in such period; plus

(ii) the amount of principal accruing in such period with respect to all serial bonds of such series then outstanding, assuming the principal of any serial bond accrues ratably over the year preceding the maturity of such serial bond; plus

(iii) the Amortization Requirement accruing for the term bonds of such series for such period; plus

(iv) any other amortization or accrual of original issue discount or principal with respect to Senior Bonds of such series required to be made for such period pursuant to the proceedings authorizing Senior Bonds of such series; plus

(v) the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Senior Bonds.

In computing the Principal and Interest Requirements on Senior Bonds for any period for the Senior Bonds of any series, the Trustee assumes that an amount of the term bonds (if any) of such series equal to the Amortization Requirement for the term bonds of such series for such period will be retired by purchase or redemption on or before the last day of such period. In computing the interest payable in any future period on any Senior Bond bearing interest at a variable rate, the interest shall be calculated on the basis of the interest rate actually borne by such Senior Bond at the time of calculation.

“Refunding Bonds” means any one or more series of Senior Bonds authorized and issued by the State pursuant to Section 2.5 of the Senior Indenture.

“Senior Bond” means any bond issued pursuant to the Senior Indenture.

“Senior Note” means any note issued in anticipation of Senior Bonds pursuant to Section 2.6 of the Indenture, including any renewal and replacement Senior Notes.

“Special Transportation Fund” means the Special Transportation Fund of the State created under Section 1 of Public Act No. 83-30 of the State, as amended.

“Supplemental Indenture” means any indenture entered into by the Trustee and the State pursuant to and in compliance with the provisions of Article X of the Senior Indenture providing for the issuance of Additional Bonds or Refunding Bonds, and also means any other indenture between the same parties entered into pursuant to and in compliance with the provisions of Article X of the Senior Indenture amending or supplementing the provisions of the Senior Indenture as originally executed or as theretofore amended or supplemented.

“Trustee” means State Street Bank and Trust Company successor to The Connecticut National Bank, original trustee, and its successor or successors hereafter appointed in the manner provided in the Senior Indenture.

Pledge of Trust Estate

To secure the payment of the Debt Service Requirements on the Senior Bonds and Senior Notes, and all other amounts due in connection therewith and the performance and observance by the State of all the covenants expressed or implied in the Senior Indenture and in the Senior Bonds and Senior Notes, the State, in the Senior Indenture, has granted to the Trustee a first call on Pledged Revenues as they are received by the State and credited to the Special Transportation Fund, and has granted to the Trustee a lien upon and a security interest in (1) any and all amounts held to the credit of the Special Transportation Fund from time to time, exclusive of amounts held to the credit of such Special Transportation Fund which represent (a) amounts borrowed by the Treasurer of the State in anticipation of revenues pursuant to Section 3-16 of the General Statutes of Connecticut, and (b) transportation related federal revenues of the State, and (2) any and all amounts held by the Trustee to the credit of any fund or account created under the Senior Indenture (collectively, the “Trust Estate”).

The Senior Bonds, including the principal thereof and interest and premium, if any, thereon, are payable solely from the Pledged Revenues or other receipts, funds or moneys pledged therefor pursuant to the Senior Indenture. The Senior Bonds shall be equally and ratably secured under the Senior Indenture by the assignments, pledges and charges made or created in the Senior Indenture of or on the properties of the Trust Estate for the payment and security of the Senior Bonds and by a co-equal lien thereon. The aforesaid lien and charge of the Senior Bonds shall constitute a prior and paramount lien and charge on the Special Transportation Fund and the other receipts, funds and moneys pledged to the payment of the Senior Bonds and from time to time held under the Senior Indenture, subject only to the provisions of the Senior Indenture permitting the application of moneys in the Special Transportation Fund and such other receipts, funds and moneys for the purposes and on the terms and conditions thereof, over and ahead of any parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice of the foregoing lien and charge and over and ahead of all other indebtedness payable from or secured by the Pledged Revenues and such other receipts, funds and moneys

which may there after be created or incurred. The pledges, liens, charges and assignments to the Trustee of the Trust Estate made in the Senior Indenture are to be valid and binding from the time of the delivery of and payment for the first series of Senior Bonds issued under the Senior Indenture and the moneys representing the Pledged Revenues and other receipts, funds or moneys so pledged received by the State are to be subject immediately to the lien of such pledge, upon receipt thereof by the State or the Trustee or a Paying Agent under the Senior Indenture without any physical delivery thereof or further act.

The Senior Bonds and Senior Notes are special obligations of the State and are not payable from nor charged upon any funds other than the Pledged Revenues or other receipts, funds or moneys pledged therefor pursuant to the Senior Indenture. Neither the State nor any political subdivision thereof is subject to any liability on the Senior Bonds and Senior Notes except to the extent of the Pledged Revenues, or other receipts, funds and moneys pledged under the Senior Indenture to secure the same. See "Nature of Obligation-State General Taxing Power Not Pledged" above.

Funds and Accounts

Under the Senior Indenture, the following funds and accounts are to be administered as follows:

1. *Special Transportation Fund.* On or before the last day of each month in which Senior Bonds are outstanding, the State shall withdraw from moneys held by it to the credit of the Special Transportation Fund, and deposit with the Trustee to the credit of the following accounts or sub- accounts the following sums in the following order:

(i) to the credit of the Bond Service Sub-Account, the Note Repayment Account and the Redemption Sub-Account, respectively, such amounts thereof, if any (or the entire sum so withdrawn if less than the required amount, in which case such sum shall be allocated among the purposes set forth in this subparagraph on a pro rata basis), as may be required (A) to make the amount then held to the credit of the Bond Service Sub-Account equal to the sum of the aggregate unpaid principal accruing on outstanding serial bonds through the dates in the next ensuing month which are the respective anniversary dates of such bonds, assuming the principal of any serial bond accrues ratably over the twelve months preceding its maturity, plus the unpaid interest accruing on each of the Senior Bonds then outstanding through the dates in the next ensuing month which are the respective anniversary dates of such Senior Bonds, plus the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal on Senior Bonds, plus one-twelfth (1/12) of the Principal and Interest Requirements on Senior Bonds for the next ensuing twelve (12) months; (B) to make the amount then held to the credit of the Note Repayment Account held for payment of interest equal to the unpaid interest on Senior Notes accruing through the end of the next ensuing month and unpaid interest accruing pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Senior Notes; and (C) to make the amount then held to the credit of the Redemption Sub-Account equal to the aggregate Amortization Requirements, if any, accruing through the respective anniversary dates of the Senior Bonds in the next ensuing month for each of the term bonds then outstanding (plus a ratable portion of the premium, if any, which would be payable on principal amounts of term bonds equal to the amount of such Amortization Requirements if such principal amount of term bonds should be called for mandatory redemption); provided, however, that if the amount so deposited to the credit of the Redemption Sub-Account in any month shall be less than such amount, the requirement therefor shall nevertheless be cumulative and the amount of any deficiency in any month shall be added to the amount otherwise required to be deposited in each subsequent month thereafter until such time as such deficiency shall have been made up;

(ii) to the credit of the Reserve Account, out of any balance remaining after making the deposits under subparagraph (i) above (or the entire balance if less than the required amount), the amount, if any, necessary to maintain the Reserve Account at the Debt Service Reserve Requirement.

To the extent not required from time to time for the foregoing purposes, amounts held to the credit of the Special Transportation Fund may be used by the State for any proper purpose, including deposits to the Unrefunded Note Sub-Account from time to time.

2. *Note Repayment Account.* Proceeds of Additional Bonds in respect of which Senior Notes have been issued, proceeds of renewal or replacement Senior Notes issued pursuant to the Senior Indenture, and the monthly deposit described above, shall be deposited by the Trustee to the credit of the Note Repayment Account in the amounts specified in Sections 2.3(a), 2.4(c)(1), 2.6(a) and 5.1(a) of the Senior Indenture. Moneys held to the credit of the Note Repayment Account are to be used by the Trustee for the purpose of paying the interest on outstanding Senior Notes, interest pursuant to any reimbursement agreement entered into with respect to a credit facility for the payment of principal of Senior Notes, and principal on refunded Senior Notes. Upon such deposit to the credit of the Note Repayment Account of amounts to refund Senior Notes, the principal of Senior Notes in respect of which such deposit is made shall be deemed refunded, and until such a deposit is made to the credit of the Note Repayment Account in respect of a Senior Note the

principal of such Senior Note shall be deemed for purposes of the Senior Indenture to be unrefunded. Any moneys remaining in the Note Repayment Account after the last maturity date of such outstanding Senior Notes in excess of the amount of principal due and payable thereon are to be transferred to the credit of the Special Transportation Fund. All proceeds realized from the investment of moneys held to the credit of the Note Repayment Account are to remain therein.

3. *Debt Service Account.* Within the Debt Service Account are three separate sub-accounts known as the “Bond Service Sub-Account”, the “Redemption Sub-Account” and the “Unrefunded Note Sub-Account.” Moneys held to the credit of the Bond Service Sub-Account, the Redemption Sub-Account, and the Unrefunded Note Sub-Account are to be held in trust and disbursed by the Trustee, as more particularly described below, for (a) the payment of the interest on Senior Bonds as such interest becomes due, (b) the payment of principal on Senior Bonds at their respective maturities, (c) the payment of the purchase or redemption price of the Senior Bonds before maturity, (d) the payment of the unrefunded principal on Notes at their respective maturities, or (e) the payment of principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Senior Bonds, and interest pursuant to such a reimbursement agreement entered into with respect to payment of principal of Senior Notes, and under the Senior Indenture such moneys are pledged to and charged with such payments as follows:

a. *Bond Service Sub-Account.* The Trustee, from time to time as required, is to withdraw from the Bond Service Sub-Account and, if necessary, from the Reserve Account and the Unrefunded Note Sub-Account, and is to deposit in trust with the Paying Agent sufficient moneys for paying the principal of and the interest on the Senior Bonds as the same shall become due, and shall pay principal and interest pursuant to any reimbursement agreement entered into with respect to payment of principal of Senior Bonds. To the extent necessary to comply with Section 7.6 of the Senior Indenture, the Bond Service Sub-Account is to be depleted, and in order to comply with this requirement, the Trustee, from time to time, is to withdraw such moneys as may be necessary from the Bond Service Sub-Account and deposit said moneys to the credit of the Special Transportation Fund. Accrued interest deposited to the Bond Service Sub-Account on the sale of Senior Bonds may be used to pay costs of issuance of such Senior Bonds as directed by the Treasurer.

b. *Redemption Sub-Account.* Moneys held to the credit of the Redemption Sub-Account are to be applied to the retirement of Senior Bonds issued under the provisions of the Indenture as follows:

(1) Subject to the provisions of (3) below, the Trustee is to endeavor to purchase Senior Bonds secured by the Senior Indenture and then outstanding, whether or not such Senior Bonds are subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to the interest rate and price, such price, including brokerage expenses, not to exceed the principal of such Senior Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Senior Bonds under the provisions of Article IV of the Senior Indenture if such Senior Bonds should be called for redemption on such date. The Trustee is to pay the interest accrued on such Senior Bonds to the date of delivery thereof from the Bond Service Sub-Account and the purchase price from the Redemption Sub-Account, but no such purchase shall be made within the period of forty-five (45) days next preceding any interest payment date on which such Senior Bonds are subject to call for redemption under the provisions of the Senior Indenture except from moneys in excess of the amounts set aside or deposited for the redemption of Senior Bonds.

(2) Subject to the provisions of (3) below, the Trustee is to call for redemption on each interest payment date on which Senior Bonds are subject to redemption from moneys in the Debt Service Account such amount of Senior Bonds then subject to redemption as, with the redemption premium, if any, will exhaust the Redemption Sub-Account as nearly as may be; provided, however, that not less than One Hundred Thousand Dollars (\$100,000.00) in principal amount of Senior Bonds are to be called for redemption at any one time. Such redemption is to be made pursuant to Article IV of the Senior Indenture. Not less than five (5) days before the redemption date the Trustee shall withdraw from the Bond Service Sub-Account and from the Redemption Sub-Account and set aside in separate accounts on deposit with the Paying Agents the respective amounts required for paying the interest on the Senior Bonds so called for redemption and the principal of, and the premium on, such Senior Bonds.

(3) Moneys in the Redemption Sub-Account are to be applied to the purchase or redemption of Senior Bonds in the following order: (a) term bonds of each series, if any, issued under the Senior Indenture, in the order of maturity as the State shall determine, to the extent of the Amortization Requirement, if any, fixed for the then current period for such term bonds and any deficiency in preceding periods in the purchase or redemption of such term bonds; provided, however, that if none of the term bonds of a series is subject to redemption from moneys in the Debt Service Account and if the Trustee is at any time unable to exhaust the moneys applicable to the Senior Bonds of such series in the purchase of such Bonds, such moneys or the balance of such moneys, as the case may be, is to be retained and, as soon as feasible, applied to the retirement of the Senior Bonds of such series; (b) to the purchase of any Senior Bonds secured by the Senior Indenture and then outstanding whether or not such Senior Bonds are subject to redemption; (c)

to the redemption of the term bonds of each series in proportion (as nearly as practicable) to the aggregate principal amount of the Senior Bonds of such series originally issued; and (d) after the retirement of all term bonds, to the redemption of the serial bonds issued under the provisions of the Senior Indenture in the manner provided therein or in the Supplemental Indenture providing for the issuance of such serial bonds, and to the extent that serial bonds of different series mature on the same date, in proportion (as nearly as practicable) to the principal amount of each series maturing on such date.

c. *Unrefunded Note Sub-Account.* The State shall withdraw from moneys held by it to the credit of the Special Transportation Fund and deposit with the Trustee to the credit of the Unrefunded Note Sub-Account any and all amounts required from time to time to pay unrefunded principal of Senior Notes becoming due and payable; provided, however, that no such withdrawal and credit shall be made unless all amounts required to be deposited by the State to the Debt Service, Reserve and Note Repayment Accounts have been so deposited. Moneys held to the credit to the Unrefunded Note Sub-Account will be used by the Trustee for the purpose of paying the unrefunded principal on outstanding Senior Notes becoming due and payable from time to time; provided, however, that no such application shall be made unless all amounts required to be deposited by the State to the Debt Service, Reserve and Note Repayment Accounts have been so deposited. Any moneys remaining in the Unrefunded Note Sub-Account after the last maturity date of outstanding Senior Notes will be transferred to the credit of the Special Transportation Fund.

4. *Reserve Account.* Moneys held to the credit of the Reserve Account are to be used for the purpose of paying the principal and interest on the Senior Bonds and meeting the Amortization Requirements for any term bonds whenever and to the extent that the moneys held to the credit of the Bond Service Sub-Account and the Redemption Sub-Account, respectively, are insufficient for such purposes. To the extent that moneys held to the credit of the Reserve Account exceed the Debt Service Reserve Requirement, the Trustee shall withdraw such excess from the Reserve Account and deposit it with the State to the credit of the Special Transportation Fund. To the extent necessary to comply with Section 7.6 of the Senior Indenture, if at any time the moneys held for the credit of the Reserve Account (as calculated pursuant to the Senior Indenture) exceed fifteen percent (15%) of the original proceeds of the Senior Bonds then outstanding, then at the option of the State Treasurer either such excess is to be withdrawn by the Trustee from the Reserve Account and deposited to the credit of the Special Transportation Fund, or invested at restricted yield.

In lieu of any deposit required to be made to the Reserve Account by the terms of any provisions of the Senior Indenture, the State will be entitled to substitute a bond of insurance or indemnity in favor of the Trustee in like amount and issued by an insurer under the supervision of an agency of the United States or any State whose outstanding bonds of insurance or indemnity are rated "AA" or better by a nationally recognized rating agency at the time of issuance of such bonds of insurance or indemnity.

5. *Infrastructure Improvement Fund.* The proceeds of Senior Bonds and Senior Notes, to the extent required by the Senior Indenture, are to be deposited in this fund held and administered by the State. The moneys so deposited are to be applied by the State to the purposes for which the Bonds giving rise to such deposits were issued, as provided by applicable law and, pending such application, are not to be subject to any lien or pledge in favor of the holders of Bonds.

Application of Proceeds of Bonds and Notes

Issuance of Senior Bonds. From the net proceeds of the sale of the Senior Bonds received by or on behalf of the State, including the interest accrued thereon from the date thereof to the date of delivery thereof and payment therefor, and after any permitted payment of issuance costs, there will be deposited:

(a) to the credit of the Note Repayment Account an amount sufficient, when adjusted for investment earnings, and taking into account any other funds available or to be available for such purpose, to pay, when due, the principal and interest on all Senior Notes then outstanding and issued in anticipation of such Senior Bonds;

(b) to the credit of the Reserve Account that amount, if any, which when added to the amount then held for the credit of the Reserve Account, will make the total amount held for the credit of the Reserve Account equal to the Debt Service Reserve Requirement;

(c) with the Treasurer, an amount sufficient, when adjusted for investment earnings, and taking into account any other funds available or to be available for such purpose, to pay, when due, the principal and interest on general obligation bonds of the State issued for transportation purposes, for the refunding of which such Senior Bonds were issued;

(d) to the credit of such other Funds or accounts, such deposits or credits, if any, as shall be specified in the Supplemental Indenture providing for the issuance of such series of Senior Bonds; and

- (e) any balance of such proceeds to the credit of the Infrastructure Improvement Fund.

The amount received as accrued interest is to be deposited to the credit of the Bond Service Sub-Account.

Issuance of Senior Notes and Application of Note Proceeds. The Senior Indenture authorizes the issuance of one or more series of Senior Notes to provide temporary financing for transportation purposes pending the issuance of Senior Bonds. No Senior Notes shall be issued (i) unless the Senior Bonds in anticipation of which they are to be issued have been duly authorized in accordance with the Act and the Senior Indenture, and (ii) if the aggregate principal amount of all Senior Notes then outstanding and to be issued exceeds fifty million dollars (\$50,000,000), unless, as of the date of issuance of such Senior Notes, the State could have issued under the terms of the Senior Indenture an equivalent aggregate principal amount of serial bonds, coming due in equal annual installments of principal and interest, the last installment of which shall be due not later than thirty years after such date, and bearing interest at such rate as the State shall determine in its best judgment to be equivalent to the average interest rate which would have been paid had such Senior Bonds been issued at such time.

Said Senior Notes shall be special obligations of the State payable solely from the proceeds of the Senior Bonds issued under the Senior Indenture and, to the extent provided in the Senior Indenture or deemed necessary or desirable by the State, from the Special Transportation Fund. Any obligation of the State to pay the unrefunded principal of Senior Notes, including for this purpose any obligation of the State under a reimbursement agreement entered into in connection with a credit facility providing for payment of the unrefunded principal of Senior Notes, shall be subordinate to any obligation of the State to pay principal and interest with respect to Senior Bonds or interest with respect to Senior Notes. The Senior Indenture further provides that the State may not enter into any contract with any Senior Noteholder inconsistent with the terms of the Senior Indenture. The full faith and credit of the State will not be pledged to the repayment of such Senior Notes and the State will not be obligated to make appropriations from its general fund for the repayment of such Senior Notes. Such Senior Notes may be renewed and refunded from time to time as may be determined by the Treasurer. Said Senior Notes may be made redeemable. The proceeds of the sale of any issue of Senior Notes is to be applied as follows:

- (a) There will be deposited to the credit of the Note Repayment Account an amount sufficient, when adjusted for investment earnings as provided below, and taking into account any other funds available or to be available for such purpose, to pay when due, the principal of and the interest on all Senior Notes then outstanding which are to be renewed or refunded by the present issue. Any deposit made to the Note Repayment Account pursuant to this paragraph shall be adjusted to take into account the income, if any, which may be earned from investment of said deposit between the date of deposit and the maturity date of the Senior Notes then outstanding which are to be renewed or refunded.

- (b) There will be made such other deposits or credits, if any, as specified in the proceedings under which such Senior Notes are issued.

- (c) The balance of said proceeds will be deposited to the credit of the Infrastructure Improvement Fund.

Depositories of Moneys/Investments

All moneys held by the State under the provisions of the Senior Indenture are to be deposited in the name of the State in one or more funds and accounts with such depository or depositories as the State Treasurer shall designate, except that the Note Repayment Account, the Debt Service Account and the Reserve Account are to be held only by the Trustee. All moneys deposited under the provisions of the Senior Indenture with any depository, or held in a special trust fund prior to payment to the Trustee as aforesaid, are to be trust funds under the terms of the Senior Indenture and are not to the full extent permitted by law to be subject to any lien or attachment by any creditor of the State. Such moneys are to be held in trust and applied in accordance with the terms of the Senior Indenture.

Moneys on deposit in the Note Repayment Account, the Debt Service Account, and the Reserve Account and the sub-accounts in such accounts are to be invested and reinvested by the Trustee, at the direction of the State, to the extent reasonable and practicable in Investment Securities maturing in the amounts and at the times as determined by the State so that the payment required to be made from such funds and accounts may be made when due. In the absence of any direction from the State, the Trustee is to invest and reinvest moneys on deposit in the Note Repayment Account, the Debt Service Account, and the Reserve Account and the sub-accounts in such accounts in Investment Securities maturing in such amounts and at such times as the Trustee determines so that payments required to be made from such funds and accounts may be made when due.

Investment Securities include (i) such obligations, securities and investments as are set forth in subsection (f) of Section 3-20 of the Connecticut General Statutes, as the same may be amended from time to time, including without limitation, obligations of, or guaranteed by, the State or the United States, or agencies or instrumentalities of the United States, or in certificates of deposit, commercial paper, savings accounts and bank acceptances, and (ii) participation certificates in the short-term investment fund created and existing under Section 3-27a of the Connecticut General Statutes as amended.

Junior Lien Obligations

Nothing contained in the Senior Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the State from issuing bonds, notes, certificates, warrants or other evidences of indebtedness for any use or purpose of the State payable as to principal and interest from the Special Transportation Fund subject and subordinate to the deposits and credits required to be made to the Debt Service Account, Note Repayment Account, or the Reserve Account or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a call upon the Pledged Revenues and a lien on and pledge of the Special Transportation Fund junior and inferior to the first call on the Pledged Revenues and to the lien on and pledge of the Special Transportation Fund created in the Indenture for the payment and security of the Senior Bonds.

Covenants

The State covenants with the purchasers and holders of all Senior Bonds, among other things:

(1) *Amount of Pledged Revenues.* To impose, charge, raise, levy, collect and apply the Pledged Revenues and other receipts, funds or moneys pledged for the payment of Debt Service Requirements, in such amounts as may be necessary to pay such Debt Service Requirements in each year in which Senior Bonds or Senior Notes are outstanding;

(2) *Coverage Requirements.* To provide Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture in each Fiscal Year beginning in the first full Fiscal Year after the issuance of Senior Bonds, after deducting payments out of Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture for reserves required in the Senior Indenture, computed as of the final business day of such Fiscal Year, in an amount equal to at least two (2) times the aggregate Principal and Interest Requirements on all Senior Bonds outstanding in such Fiscal Year and the Interest Requirements on Senior Notes in such Fiscal Year.

(3) *First Call on Pledged Revenues.* (a) Unless at such time any and all amounts required to be paid from the Special Transportation Fund to the Trustee or any Bondholder pursuant to the terms of the Senior Indenture shall have been made, the State will not make any payments from the Special Transportation Fund on account of any obligation whatsoever other than the Senior Bonds and Senior Notes, except from amounts held to the credit of the Special Transportation Fund which represent amounts borrowed by the Treasurer of the State in anticipation of revenues pursuant to Section 3-16 of the Connecticut General Statutes. If at any time any such amounts required to be paid to the Trustee have not been so paid, the Trustee is entitled to notify the Treasurer that such amounts are accrued and unpaid, whereupon any Pledged Revenues received by the State and credited to the Special Transportation Fund will be paid by the Treasurer forthwith to the Trustee, and will not be diverted to any other purpose, until such accrued and unpaid amounts have been paid in full.

(b) At all times to do and perform all acts and things permitted by law and necessary to assure that the Pledged Revenues received by the State and credited to the Special Transportation Fund are applied first to the payment of Debt Service Requirements, including, but not limited to, procedures for immediate segregation of Pledged Revenues, upon collection, from other cash receipts of the State, if and to the extent requested by the Trustee or required by any Supplemental Indenture.

(4) *Payment of Principal of and Premium and Interest on Senior Bonds* To duly and punctually pay, or cause to be paid, but solely from the Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture, the principal of and interest and premium, if any, on each and every Senior Note and Senior Bond at the place, on the dates and in the manner provided in the Senior Indenture and in such Senior Notes and Senior Bonds according to the true intent and meaning of such Senior Notes and Senior Bonds and the Senior Indenture.

(5) *Books and Accounts; Audits.* To maintain and keep (or cause to be maintained and kept) proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Special Transportation Fund and the Infrastructure Improvement Fund. Such accounts are to show the amount of Pledged Revenues available for the purposes

of the Senior Indenture and the application of such Pledged Revenues and amounts in the Infrastructure Improvement Fund to the purposes specified in the Indenture and the Act.

The State is to prepare balance sheets and statements of revenues, expenditures and changes in fund balances for each of the above specified funds and is to cause the Special Transportation Fund to be audited by the Accountant, with such restrictions on audit procedures performed by the Accountant with respect to operating expenses and program costs of the Department as the State may request, provided the State shall cause such operating expenses and program costs to be subject to the customary audit procedures of the State Auditor. Such Accountant is to be selected with special reference to his general knowledge, skill and experience in auditing books and accounts. Such audit is to be made annually and the audit report of the Accountant is to be delivered to the State within one hundred twenty (120) days after the close of each Fiscal Year. A copy of each such annual audit is to be open for public inspection, and is to be mailed to any holder of Senior Bonds filing with the State Treasurer a request for the same. The Trustee is to cooperate fully with the Accountant in completing such audit, and is to make available all books and accounts in its possession pertaining to the Senior Bonds for this purpose.

At the time of delivery of each audit report, the Accountant is also to deliver to the Trustee and the State a letter as to compliance with the coverage covenant described in (2) above.

(6) *Prosecution and Defense of Suits.* To defend, or cause to be defended, against every suit, action or proceeding at any time brought against any Bondholder by a person other than the State upon any claim arising out of the receipt, application or disbursement of any of the Pledged Revenues or any other moneys received, applied or disbursed under the Senior Indenture, or involving the rights of any Bondholder under the Senior Indenture and to indemnify and save harmless all Bondholders against any and all liability claimed or asserted by any person whomsoever, arising out of such receipt, application or disbursement or involving the Pledged Revenues; provided, however, that any Bondholder at his election may appear in and defend any suit, action or proceeding. This covenant is to remain in full force and effect even though the Senior Bonds are no longer outstanding and all indebtedness and obligations secured by the Senior Indenture may have been fully paid and satisfied and the lien, pledge and charge of the Senior Indenture may have been released and discharged.

(7) *State Taxation.* To keep principal and interest of the Senior Notes and Senior Bonds at all times free from taxation, except for estate and gift taxes, imposed by the State or by any political subdivision thereof, provided that interest paid on the Senior Notes or Senior Bonds shall be included in the definition of "gross income" for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes. See "Tax Exemption."

In addition, the State covenants:

(1) not to limit or alter the duties imposed on the Treasurer and other officers of the State by the Act and by the proceedings authorizing the issuance of Senior Bonds with respect to application of Pledged Revenues or other receipts, funds or moneys pledged for the payment of Debt Service Requirements as provided in the Senior Indenture and in the Act;

(2) not to issue any bonds, notes or other evidences of indebtedness, other than the Senior Bonds or Senior Notes, having any rights arising out of the Act or secured by any pledge of, or other lien or charge on, the Pledged Revenues or other receipts, funds or moneys pledged for the payment of Senior Bonds or Senior Notes;

(3) not to create or cause to be created any lien or charge on such pledged amounts, other than a lien or pledge created thereon pursuant to the Act, provided nothing in the Senior Indenture prevents the State from issuing evidences of indebtedness (i) which are secured by a pledge or lien which is and shall on the face thereof be expressly subordinate and junior in all respects to every lien and pledge created by or pursuant to the Act; or (ii) for which the full faith and credit of the State is pledged and which are not expressly secured by any specific lien or charge on such pledged amounts or (iii) which are secured by a pledge of or lien on moneys or funds derived on or after such date as every pledge or lien thereon created by or pursuant to the Act shall be discharged and satisfied;

(4) to carry out and perform, or cause to be carried out and performed, each and every promise, covenant, agreement or contract made or entered into by the State or on its behalf with the holders of any Senior Bonds or Senior Notes;

(5) not to in any way impair the rights, exemptions or remedies of the holders of any Senior Bonds or Senior Notes;

and

(6) not to limit, modify, rescind, repeal or otherwise alter the rights or obligations of the appropriate officers of the State to impose, maintain, charge or collect the taxes, fees, charges and other receipts constituting the Pledged Revenues as may be necessary to produce sufficient revenues to fulfill the terms of the proceedings authorizing the issuance of the Senior Bonds, including Pledged Revenue coverage requirements set forth in Section 2.4 of the Senior Indenture, and provided nothing in the Indenture precludes the State from exercising its power through a change in law, to limit, modify, rescind, repeal or otherwise alter the character or amount of such Pledged Revenues or to substitute like or different sources of taxes, fees, charges or other receipts as Pledged Revenues if, for the ensuing Fiscal Year, as evidenced by the proposed or adopted budget of the State with respect to the Special Transportation Fund, the projected revenues meet or exceed the estimated expenses of the Special Transportation Fund including accumulated deficits, if any, Debt Service Requirements, and any Pledged Revenue coverage requirement set forth in Section 2.4 of the Senior Indenture.

Events of Default

Each of the following constitutes an Event of Default under the Senior Indenture:

(a) the State fails to pay the principal of any Senior Bonds when the same becomes due and payable, either at maturity or by proceedings for redemption; or

(b) the State fails to pay any installment of interest on Senior Bonds when the same becomes due and payable or within thirty (30) days thereafter; or

(c) the State defaults in the due and punctual performance of any other covenants, conditions, agreements and provisions contained in the Senior Bonds, the Senior Indenture or any Supplemental Indenture on the part of the State to be performed, other than required deposits to the Debt Service Account, and such default continues for ninety (90) days after written notice specifying such failure and requiring the same to be remedied has been given to the State by the Trustee or by the holders of not less than twenty percent (20%) in principal amount of the Senior Bonds then outstanding; provided that if any such failure is such that it cannot be cured or corrected within such ninety (90) day period, it does not constitute an Event of Default if curative or corrective action is instituted within such period and diligently pursued until the failure of performance is cured or corrected; and provided further, that no failure to observe the covenant as to the amount of Pledged Revenues shall constitute an Event of Default unless within one year after written notice by the Trustee of such failure the State shall not have enacted legislation such that the conditions contained in the Senior Indenture could have been satisfied if Additional Bonds were then to be issued; or

(d) the State is adjudged insolvent by a court of competent jurisdiction; or

(e) any proceedings are instituted with the consent or acquiescence of the State for the purpose of effecting a composition between the State and its creditors and if the claim of such creditors is in any circumstance payable from the Pledged Revenues or any other moneys or assets pledged and charged in the Senior Indenture, or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or State statute now or hereafter enacted; or

(f) the State is for any reason rendered incapable of fulfilling its obligations under the Indenture.

Remedies for Defaults

Upon the happening and continuance of any of the Events of Default, and in addition to other remedies provided in the Senior Indenture, the Trustee, for and on behalf of the holders of the Senior Bonds (A) shall have the same rights under the Senior Indenture which are possessed by any of the holders of the Senior Bonds; (B) is authorized to proceed in its own name and as trustee of an express trust; (C) may and, upon the written request of the holders of not less than ten percent (10%) in aggregate principal amount of the Senior Bonds then outstanding, is required to pursue any available remedy by action at law or suit in equity to enforce the payment of the principal of interest and premium, if any, on the Senior Bonds; and (D) may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of the Senior Bonds allowed in any judicial proceeding relative to the State, or its creditors, its property, or the Senior Bonds.

Defeasance

The obligations of the State under the Senior Indenture and the liens, pledges, charges, trusts and assignments, covenants and agreements of the State therein made or provided for, are to be fully discharged and satisfied as to any Senior Bond and such Senior Bond is no longer to be deemed to be outstanding and will be deemed to have been paid for all purposes of Section 11.2 of the Senior Indenture:

(i) when such Senior Bond is canceled, or surrendered for cancellation and is subject to cancellation, or has been purchased by the Trustee from moneys in the Debt Service Account held by it under the Senior Indenture; or

(ii) as to any Senior Bond not canceled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal of and the applicable redemption premium, if any (or the applicable redemption price) on such Senior Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise), either (A) has been made or caused to be made in accordance with the terms of the Senior Indenture, or (B) has been provided by irrevocably depositing with the Trustee or Paying Agent for such Senior Bond, in trust, and irrevocably appropriated and set aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Governmental Obligations, as defined in the Senior Indenture, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, or (3) a combination of both such moneys and such Governmental Obligations, whichever the State deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Trustee and the Paying Agents for the Senior Bond with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee and such Paying Agent; provided, however, that nothing shall require or be deemed to require the State to redeem term bonds in accordance with any optional fund installment schedule specified in the Senior Indenture or any Supplemental Indenture authorizing the issuance of Senior Bonds.

At such time as a Senior Bond is deemed to be no longer outstanding, such Senior Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity, or upon redemption or prepayment, or otherwise) and, except for the purpose of any payment from such moneys or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Senior Indenture.

Supplemental Indentures

The Trustee and the State, from time to time and at any time and without the consent or concurrence of any holder of any Senior Bond, may enter into Supplemental Indentures (i) for the purpose of providing for the issuance of Additional Bonds and Refunding Bonds, (ii) to make any changes to or modifications of the Senior Indenture, or amendments, additions or deletions to the Senior Indenture which may be required to permit the Senior Indenture to be qualified under the Trust Indenture Act of 1939, as amended, (iii) to provide for the issuance of Senior Bonds or any series of Senior Bonds in book-entry form, in coupon form or registered as to principal only, and (iv) if the provisions of such Supplemental Indenture do not adversely affect the rights of the holders of Senior Bonds then outstanding, for any one or more of the purposes enumerated in Section 10.1 of the Senior Indenture. Except for Supplemental Indentures of the type referred to in (i) to (iii) above, the State and the Trustee will not enter into any Supplemental Indenture authorized by the above unless (A) in the opinion of counsel, the adoption of such Supplemental Indenture is permitted by the foregoing provisions, (B) the provisions of such Supplemental Indenture do not adversely affect the rights of the holders of the Senior Bonds then outstanding, and (C) except for a Supplemental Indenture which has no effect as to any Senior Bond or Senior Bonds then outstanding, the provisions of such Supplemental Indenture are not contrary to or inconsistent with the covenants or agreements of the State contained in the Senior Indenture as originally executed by the State and the Trustee or as amended or supplemented with the consent of the holders of the Senior Bonds.

The Senior Indenture may be amended, by the State and the Trustee, upon the consent of not less than sixty percent (60%) of the Senior Bonds then outstanding in aggregate principal amount, for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Senior Indenture, or modifying or amending the rights and obligations of the State and the Trustee thereunder, or modifying in any manner the rights of the holders of the Senior Bonds then outstanding; provided, however, that, without the specific consent of the holder of each such Senior Bond which would be affected thereby, no such Supplemental Indenture amending or supplementing the provisions of the Senior Indenture may: (1) change the fixed maturity date for the payment of the principal of any Senior Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Senior Bond or the rate of interest thereon or the redemption premium payable upon the redemption or prepayment thereof; or (2) reduce the aforesaid percentage of Senior Bonds, the holders of which are required to consent to any such Supplemental Indenture amending or supplementing the provisions of the Senior Indenture; or (3) give to any Senior Bond or Senior

Bonds any preference over any other Senior Bond or Senior Bonds; or (4) authorize the creation of any pledge or prior call on the moneys and other assets of the Trust Estate or any lien or charge thereof prior, superior or equal to the pledge of and lien and charge thereon created in the Indenture for the payment of the Senior Bonds; or (5) deprive any holder of the Senior Bonds of the security afforded by the Senior Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE

The provisions of the Senior Indenture are established by the State for the benefit of the Senior Bonds. The Senior Indenture permits the State to issue additional special tax obligation bonds junior in right of payment of principal and interest to the Senior Bonds. As permitted thereby, the State has established the Second Lien Indenture and issued bonds junior in right of payment to the Senior Bonds. While the provisions of the Second Lien Indenture are entered into by the State for the benefit of the Second Lien Bonds, so long as any such Second Lien Bonds are outstanding, holders of Senior Bonds are indirectly benefited thereby.

The following statements are summaries of certain provisions of the Second Lien Indenture. Such summary statements do not purport to be complete and are subject to and qualified in their entirety by reference to the Second Lien Indenture.

Definitions

The following are definitions of certain terms used in the Second Lien Indenture.

“Base Interest Rate” means, with respect to any series of Second Lien Notes or Second Lien Bonds bearing interest at a variable rate, the average interest rate borne by such series of Second Lien Notes or Second Lien Bonds for the twelve full calendar months (or such lesser number of full calendar months as such series of Second Lien Notes or Second Lien Bonds shall be outstanding) preceding the date of calculation.

“Debt Service Requirements” means for any period, the sum of (A) the principal and interest accruing during such period with respect to Second Lien Bonds, the interest accruing during such period with respect to Second Lien Notes and the unrefunded principal accruing during such period with respect to Second Lien Notes, (B) the purchase price of Second Lien Bonds and Second Lien Notes which are subject to purchase or redemption at the option of the holder of such Second Lien Bond or Second Lien Note, (C) the amounts, if any, required during such period to establish or maintain the funds or accounts existing under the Second Lien Indenture at the respective levels required to be established or maintained as provided in the Second Lien Indenture, (D) expenses of issuance and administration with respect to Second Lien Bonds and Second Lien Notes, as determined by the State Treasury, (E) the amounts, if any, becoming due and payable under a reimbursement agreement or similar agreement entered into pursuant to the proceeding authorizing the issuance of Second Lien Bonds or Second Lien Notes and (F) any other costs or expenses deemed by the State Treasurer to be necessary or proper to be paid in connection with the Second Lien Bonds and Second Lien Notes, including, without limitation, the cost of any credit facility, including but not limited to a letter of credit or policy of bond insurance, issued by a financial institution pursuant to an agreement approved by the proceedings authorizing the issuance of Second Lien Bonds or Second Lien Notes.

“Debt Service Reserve Requirement” means an amount equal to (A) the maximum for the current or any succeeding Fiscal Year, of the sum of (i) “Principal and Interest Requirements on Senior Bonds” under the Senior Indenture and (ii) Principal and Interest Requirements on Second Lien Bonds under the Second Lien Indenture for such Fiscal Year, less (B) the amount on deposit in the “Reserve Account” established under the Senior Indenture. For purposes of this definition only, Principal and Interest Requirements on Second Lien Bonds for Second Lien Bonds bearing interest at a variable rate shall be established or reestablished (i) at the date of issuance of such Second Lien Bonds on the basis of the initial interest rate borne by such Second Lien Bonds, (ii) at the date a Qualified Swap is entered into with respect to such Second Lien Bonds on the basis of the fixed rate payable by the State under such Qualified Swap, (iii) at the date a Qualified Swap is no longer in effect with respect to such Second Lien Bonds on the basis of the Base Interest Rate for such Second Lien Bonds, and shall remain in effect until so reestablished, and shall otherwise not be recalculated from time to time.

“Interest Requirements on Second Lien Notes”, for any period means the sum of (i) the amount required to pay interest on all Notes which is payable in such period, plus (ii) the amount required to be paid pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Second Lien Notes. In computing the interest payable in providing any future period on any Second Lien Notes bearing interest at a variable rate, the interest shall be calculated on the basis of the initial interest rate for such Second Lien Notes.

“Principal and Interest Requirements on Second Lien Bonds”, for any period, as applied to Second Lien Bonds of any series, means the sum of:

- (i) the amount of interest payable on all Second Lien Bonds of such series within such period; plus
- (ii) the amount of principal payable within such period with respect to all serial bonds of such series then outstanding; plus
- (iii) the Amortization Requirement established for the term bonds of such series for a period ending within such period; plus
- (iv) any other amortization or accrual of interest, original issue discount or principal with respect to Second Lien Bonds of such series required to be made for such period pursuant to the proceedings authorizing Second Lien Bonds of such series; plus
- (v) the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal, purchase price, or interest on Second Lien Bonds.

In computing Principal and Interest Requirements on Second Lien Bonds for any period for the Second Lien Bonds of any series, the Trustee shall assume that an amount of the term bonds (if any) of such series equal to the Amortization Requirement for the term bonds of such series for such period will be retired by purchase or redemption on or before the last day of such period. If any amount is or has been included for any period under clause (iv) above, such amount shall not be included under clause (i), (ii), or (iii) above for any subsequent period. In computing the interest payable in any future period on any Second Lien Bond bearing interest at a variable rate the interest shall be calculated on the basis of the Base Interest Rate of such Second Lien Bond except that if the State shall have entered into one or more Qualified Swaps with respect to such series of Second Lien Bonds for such period, then the Second Lien Bonds of such series in a principal amount equal to the Swap Amount shall be treated for purposes of this definition as bearing interest for such period at the fixed rate payable by the State under such Qualified Swap.

“Principal and Interest Requirements on Senior Bonds” for any period, shall mean the “Principal and Interest Requirements on Senior Bonds,” as defined in the Senior Indenture, with respect to all Senior Bonds.

“Qualified Swap” shall mean any financial arrangement (i) that is entered into by the State with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (ii) which provides that the State shall pay to such entity an amount based on the interest accruing at a fixed rate on an amount (the “Swap Amount”) equal to all or part of the outstanding principal amount of a series of Second Lien Bonds issued hereunder, and that such entity shall pay to the State an amount based on the interest accruing on such principal amount at a variable rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by such series of Second Lien Bonds), or that one shall pay to the other any net amounts due under such arrangement; and (iii) which has been designated in writing to the Trustee by an Authorized Officer as a Qualified Swap with respect to a series of Second Lien Bonds.

“Qualified Swap Provider” shall mean a financial institution whose long term debt obligations, or whose obligations under a Qualified Swap are guaranteed by a financial institution whose long term debt obligations, are rated at least as high by at least two nationally recognized rating agencies as the greater of (i) the State’s general obligation debt and (ii) A3, in the case of Moody’s Investors Service; A-, in the case of Standard & Poor’s Corporation, or the equivalent thereto in the case of any other rating agency.

Covenants

The State covenants with the purchasers and holders of all Second Lien Bonds, among other things:

(1) *Amount of Pledged Revenues.* To impose, charge, raise, levy, collect and apply the Pledged Revenues and other receipts, funds or moneys pledged for the payment of Debt Service Requirements, in such amounts as may be necessary to pay such Debt Service Requirements in each year in which Second Lien Bonds or Second Lien Notes are outstanding.

(2) *Coverage Requirements.* To provide Pledged Revenues and other receipts, funds or moneys pledged under the Second Lien Indenture in each Fiscal Year beginning in the first full Fiscal Year after the issuance of Second Lien Bonds or Second Lien Notes, after deducting payments out of Pledged Revenues and other receipts, funds or moneys pledged under the Second Lien Indenture for reserves required in the Indenture, computed as of the final business day of such Fiscal Year, in an amount equal to at least two (2) times the aggregate Principal and Interest Requirements on Senior Bonds for all Senior Bonds outstanding in such Fiscal Year, Principal

and Interest Requirements on Second Lien Bonds for all Second Lien Bonds outstanding in such Fiscal Year and Interest Requirements on Second Lien Notes in such Fiscal Year.

(3) *Issuance of Prior Bonds.* To not issue Senior Bonds under the Senior Indenture unless Second Lien Bonds could have been issued under the Second Lien Indenture upon the same terms and in the same principal amount.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits relating to the operations of the Department. The Attorney General's office has reviewed the status of pending lawsuits in which a financial judgment adverse to the State would be payable from the Special Transportation Fund. Any amounts payable from the Fund to meet such financial judgments are subject to the prior lien of the Bondholders granted under the Act and the Indenture. It is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially adversely affect the financial condition of the Special Transportation Fund, except that in the cases described below under the headings "Eminent Domain Lawsuits" and "Defective Highway Lawsuits" adverse judgments in a number of such cases could, in the aggregate and in certain circumstances, have a significant fiscal impact. The fiscal impact of adverse judgments in the cases described below under the heading "Other Lawsuits" is not determinable at this time but might be significant. The cases described under "Other Lawsuits" generally do not include any individual case where the fiscal impact of an adverse judgment is expected to be less than \$10 million.

Eminent Domain Lawsuits

There are approximately 160 eminent domain appeals affecting real estate pending in the State courts. In each case there is the exposure to a monetary award in excess of the State's original condemnation amount. In budgeting and appropriating funds for the respective Department projects, the Department takes into account a reasonable exposure value.

Defective Highway Lawsuits

State statutes permit lawsuits against the Commissioner of Transportation for alleged highway defects. The State carries insurance for these matters, and for each pending lawsuit, defense counsel are retained by the insurance carrier providing coverage.

There are approximately 500 defective highway lawsuits presently pending in State courts. It is not possible to evaluate each individual case to determine if there is a real exposure over and above the insurance policy limits, nor can such an evaluation be made in the aggregate.

Other Lawsuits

With regard to any other pending litigation, the most notable matter involves the White Oak Corp., which has brought demands for arbitration against the State of Connecticut, Department of Transportation, pursuant to Section 4-61 of the Connecticut General Statutes, alleging breaches of contract in connection with both the Tomlinson Bridge construction project in New Haven and a separate construction project in Bridgeport. The two claims are both being arbitrated, and for the two claims together White Oak seeks approximately \$140 million in damages. In addition, George Campbell Painting Corp. v. State of Connecticut is a matter in arbitration before the American Arbitration Association. The plaintiff is seeking approximately \$50 million in damages for the alleged breach of contract in connection with the Gold Star Bridge project.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Continuing Disclosure Agreement

The State will enter into a Continuing Disclosure Agreement with respect to the 2002 Series B Bonds, substantially in the form attached as Appendix E to this Official Statement (the “Continuing Disclosure Agreement”), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12 (the “Rule”), (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the 2002 Series B Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information and operating data on or before the date specified in the Continuing Disclosure Agreement. The underwriters’ obligation to purchase the 2002 Series B Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2002 Series B Bonds, an executed copy of the Continuing Disclosure Agreement.

Under the Rule, the State must undertake to provide the required annual financial information and operating data commencing with its fiscal year ending June 30, 2002. The State has never failed to comply in all material respects with any previous undertaking made by the State pursuant to the Rule relating to the issuance of Bonds.

Absence of Litigation

Upon delivery of the 2002 Series B Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the 2002 Series B Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened seeking to prohibit, restrain or enjoin the issuance, sale, execution or delivery of the 2002 Series B Bonds, or the levy or collection of the Pledged Revenues or other receipts, funds or monies pledged for the security of the 2002 Series B Bonds under the Act, the Special Acts and the Indentures, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2002 Series B 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 2002 Series B Bonds. In addition, such certificate shall state that there is no controversy or litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could materially adversely affect the power of the State to levy, collect and enforce the collection of the Pledged Revenues and other receipts, funds or monies pledged for the security of the 2002 Series B Bonds under the Act, the Special Acts and the Indentures which has not been disclosed in this Official Statement.

Certain Legal Matters

Legal matters related to the authorization, issuance and delivery of the 2002 Series B Bonds are subject to the approval of Updike, Kelly & Spellacy, P.C., Hartford, Connecticut, Bond Counsel and Lewis & Munday, A Professional Corporation, Boston, Massachusetts, Co-Bond Counsel. The opinions of Bond Counsel and Co-Bond Counsel will be attached to the Bonds in substantially the form included in this Official Statement as Appendix D. Certain legal matters will be passed upon for the Underwriters by their Counsel, Squire, Sanders & Dempsey L.L.P., New York, New York. Squire, Sanders & Dempsey L.L.P. also serves as one of the State’s Bond Counsel in certain other transactions.

Certificate of State Officials

The purchasers of the 2002 Series B Bonds shall receive a certificate, dated the date of delivery of the 2002 Series B Bonds, of the State Treasurer, the Secretary of the Office of Policy and Management and the Commissioner of the Department of Transportation, or their duly authorized deputies, stating that the Official Statement, as of its date, and as of the date of the certificate, does 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 (not 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.

LEGALITY FOR INVESTMENT

The Act provides that the Bonds shall be legal investments for funds in the hands of all public officers and public bodies of the State and its political subdivisions, all insurance companies, credit unions, building and loan associations, investment companies, banking associations, trust companies, executors, administrators, trustees and other fiduciaries and pension, profit-sharing and retirement funds in the State. Such Bonds may properly and legally be deposited with and received by any state or municipal officer or

any agency or political subdivision of the State for any purpose for which the deposit of bonds or obligations of the State is now, or may hereafter be, authorized by law.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to delivery of the 2002 Series B Bonds in order that interest on the 2002 Series B Bonds not be included in gross income of the owners thereof for Federal income tax purposes. Failure to comply with such continuing requirements may cause interest on the 2002 Series B Bonds to be includable in gross income for Federal income tax purposes retroactively to the date of their issuance irrespective of the date on which noncompliance occurs. The Tax Regulatory Agreement of the State which will be delivered concurrently with the delivery of the 2002 Series B Bonds will contain representations, covenants and procedures relating to compliance with such requirements of the Code. Pursuant to Section 13b-76 of the Connecticut General Statutes, the State agrees and covenants that it shall at all times perform all acts and things necessary or appropriate under any valid provision of law in order to ensure that interest on the 2002 Series B Bonds shall not be included in the gross income of the owners thereof for Federal income tax purposes under the Code.

In the opinion of Bond Counsel, under existing law, interest on the 2002 Series B Bonds is not included in gross income of the owners thereof for Federal income tax purposes, and, under existing law, interest on the 2002 Series B Bonds is not treated as a preference item in calculating the Federal alternative minimum tax that may be imposed on individuals and corporations. Interest on the 2002 Series B Bonds, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the Federal alternative minimum tax imposed on such corporations. In rendering the foregoing opinions, Bond Counsel has assumed compliance by the State with the Tax Regulatory Agreement. For other Federal tax information, see "Original Issue Discount", "Original Issue Premium" and "Certain Additional Tax Information" herein.

Further, in the opinion of Bond Counsel under existing statutes, interest on the 2002 Series B 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. Owners of the 2002 Series B Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the 2002 Series B Bonds and the disposition of the 2002 Series B Bonds. Notwithstanding any past covenants of the State relating to the exclusion of interest on any previously issued special tax obligation bonds from gross income for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes, Public Act 95-2 specifically requires the inclusion of interest on any State obligation, including the 2002 Series B Bonds, in gross income for purposes of the Corporation Business Tax.

Original Issue Discount

With respect to any of the 2002 Series B Bonds where the initial public offering price of such 2002 Series B Bonds is less than the amount payable on those 2002 Series B Bonds at maturity (the "Discount Bonds"), the difference between the initial public offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of any maturity are sold and the amount payable on such Discount Bonds at maturity constitutes original issue discount. Accrued original issue discount is excluded from gross income for Federal income tax purposes if interest on the Discount Bonds is excluded therefrom. Accrued original issue discount on a Discount 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.

Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any bond during each day it is owned is added to the adjusted basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bonds by such owner. Original issue discount on any bond is treated as accruing on the basis of economic accrual, computed by a constant semiannual compounding method using the yield to maturity on such bond, and the adjusted basis of such Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. A portion of such increase that accrues to the owners of Discount Bonds in each year, as described above, is, however, included in the calculation for determining a corporation's alternative minimum tax and may result in collateral Federal income tax consequences for certain owners referenced above in the year of accrual. Consequently, corporate owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or other collateral Federal income tax consequences although the owner may not have received cash in such year. Owners of the Discount

Bonds are advised to consult with their tax advisors with respect to the Federal, state and local tax consequences of owning the Discount Bonds.

Original Issue Premium

With respect to any of the 2002 Series B Bonds where the initial public offering price of such 2002 Series B Bonds is greater than the amount payable on those Bonds at maturity (the "Premium Bonds"), the excess of the price paid by the first owner of a Premium Bond over the principal amount payable at the maturity or the earlier call date, if any, of such Premium Bond constitutes original issue premium. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer's yield to maturity using the taxpayer's adjusted basis and a constant semiannual compounding method. The portion of such premium amortizing over the period the Premium Bond is held by the owner does not reduce taxable income for purposes of either the Federal income tax or the Connecticut income tax on individuals, trusts and estates and does not reduce 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, but it does reduce the owner's adjusted basis in the Premium Bond for purposes of determining gain or loss on its disposition. Owners of Premium Bonds are advised to consult with their tax advisors with respect to the Federal, state and local tax consequences of owning the Premium Bonds.

Certain Additional Tax Information

The following is a brief discussion of certain Federal income tax matters under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular Beneficial Owners. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2002 Series B Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the 2002 Series B Bonds is not treated as a preference item in calculating alternative minimum taxable income. The Code provides, however, that a portion of the adjusted current earnings of certain corporations not otherwise included in alternative minimum taxable income would be included for purposes of calculating the alternative minimum tax. The adjusted current earnings of a corporation includes the amount of any income accrued that is otherwise exempt from taxes, such as interest on the 2002 Series B Bonds.

Ownership of the 2002 Series B Bonds may result in collateral Federal income tax consequences to various categories of persons such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, and individuals otherwise eligible for the earned income credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. The foregoing is not intended to be an exhaustive list of potential tax consequences.

Legislation affecting municipal 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 2002 Series B Bonds will not have an adverse effect on the tax-exempt status or market price of the 2002 Series B Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2002 Series B Bonds may affect the tax status of interest on the 2002 Series B Bonds. No assurance can be given that future legislation, or amendments to the State income tax law, if enacted into law, will not contain provisions which could, directly or indirectly, reduce the benefit of the exclusion of the interest on the 2002 Series B Bonds or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates.

Bond Counsel expresses no opinion regarding any State or Federal tax consequences of ownership or disposition of the 2002 Series B Bonds not specifically described herein.

RATINGS

Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings have assigned ratings of "Aa3", "AA-" and "AA-", respectively, to the 2002 Series B Bonds with stated maturities of December 1, 2003 through December 1, 2006, inclusive. Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings have assigned ratings of "Aaa",

“AAA” and “AAA”, respectively, to the 2002 Series B Bonds with stated maturities of December 1, 2007 through December 1, 2022, inclusive, with the understanding that upon delivery of the 2002 Series B Bonds with stated maturities of December 1, 2007 through December 1, 2022, inclusive, the Insurer’s policy will be issued by Ambac Assurance Corporation. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, 99 Church Street, New York, New York 10007; Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The above ratings are not recommendations to buy, sell or hold the 2002 Series B Bonds. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2002 Series B Bonds.

FINANCIAL ADVISORS

The State has appointed Public Resources Advisory Group and A.C. Advisory, Inc. to serve as co-financial advisors to assist it in the preparation and revision of the Infrastructure Program and in the issuance of the 2002 Series B Bonds.

UNDERWRITING

The Underwriters have agreed to purchase the 2002 Series B Bonds at a purchase price of \$225,778,679 which is the sum of the purchase price of the 2002 Series B Bonds (representing the principal amount of the 2002 Series B Bonds plus net original issue premium of \$11,935,243 and less the underwriters’ discount of \$1,156,563) plus accrued interest from November 1, 2002 to the date of delivery of the 2002 Series B Bonds. The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the 2002 Series B Bonds to dealers and others (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the 2002 Series B Bonds into investment trusts) at prices lower than such public offering prices.

MISCELLANEOUS

The State has furnished the information in this Official Statement.

Information with respect to the Infrastructure Program may be obtained from James F. Byrnes, Jr., Acting Commissioner of the Department of Transportation of the State of Connecticut, located at 2800 Berlin Turnpike, Newington, Connecticut 06131-7546, (860) 594-3002. Copies of the Indentures and information with respect to the State may be obtained upon request from the office of the State Treasurer, Honorable Denise L. Nappier, Treasurer, Attn.: Catherine Boone, Assistant Treasurer, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3127.

This Official Statement is submitted in connection with the sale of the 2002 Series B Bonds and may not be reproduced or used as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the State and duly executed and delivered on its behalf by the officials signing below. The State’s independent auditors have agreed by letter to the State dated November 19, 2002 that the Independent Auditors’ Report dated October 9, 2002, which is Appendix C to this Official Statement, may be included in this Official Statement.

Any statements in this Official Statement involving matters of opinion, projections 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. The agreements of the State are fully set forth in the Indentures in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the State and the purchasers or owners of any of the 2002 Series B Bonds.

STATE OF CONNECTICUT

By: s/ Denise L. Nappier
Hon. Denise L. Nappier
Treasurer of the
State of Connecticut

By: s/ Marc S. Ryan
Hon. Marc S. Ryan
Secretary of the
Office of Policy and Management

By: s/ James F. Byrnes, Jr.
Hon. James F. Byrnes, Jr.,
Acting Commissioner of the
Department of Transportation

Dated at Hartford, Connecticut
This 19th day of November, 2002

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STATE OF CONNECTICUT

There follows in this Appendix A a brief description of the State of Connecticut (the “State” or “Connecticut”), together with certain information concerning its governmental organization, its economy and a description of certain State financial procedures. The description and information were compiled October 30, 2001, and have not been updated.

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

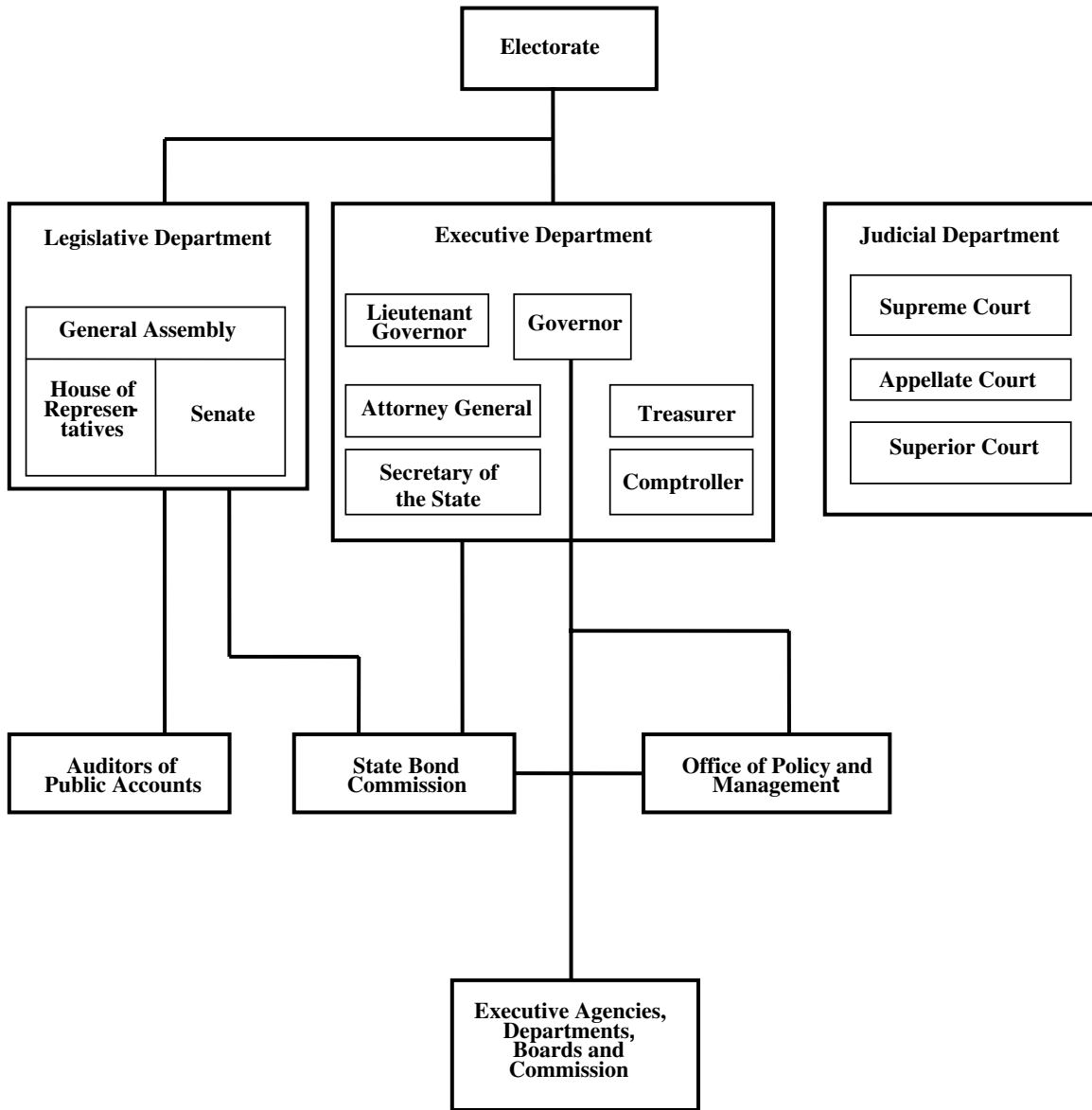
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General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

<u>Function Headings^(b)</u>	<u>1997^(c)</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>
Totals	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^(a)
By Function of Government and Fund Categories

<u>Function Headings</u>	<u>General Fund</u>	<u>Special Transportation Fund</u>	<u>Other Appropriated Funds</u>	<u>Special Funds – Non-Appropriated</u>	<u>Federal Funds</u>	<u>Private Contributions</u>	<u>TOTALS</u>
Legislative	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>
Totals	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
Collective Bargaining Units and
Those Not Covered by Collective Bargaining**

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented^(a)</u>	<u>Contract Status, if any</u>
<u>Covered by Collective Bargaining</u>		
Administrative Clerical	9.64%	Contract in place through 6/30/2002 ^(b)
Correction Officers	9.21%	Contract in place through 6/30/2004
Health Care Non-Professionals	8.34%	Contract in place through 6/30/2005
Maintenance and Service	8.21%	Contract in place through 6/30/2005
Social and Human Services	7.33%	Contract in place through 6/30/2002 ^(b)
Administrative and Residual	6.04%	Contract in place through 6/30/2003
Engineering, Scientific and Technical	4.95%	Contract in place through 6/30/2005
Health Care Professionals	4.80%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.45%	Contract in place through 6/30/2006
Judicial Employees	2.59%	Contract in place through 6/30/2002 ^(b)
University of Connecticut Faculty	2.38%	Contract in place through 6/30/2006
University of Connecticut Professional Employee Association	2.30%	Contract in place through 6/30/2005
Connecticut State University Faculty	2.29%	Contract in place through 6/30/2006
State Police	2.20%	Contract in place through 6/30/2004
Vocational Technical School Teachers	2.11%	Contract in place through 6/30/2003
Congress of Connecticut Community Colleges	2.08%	Contract in place through 6/30/2005
Judicial Professionals	1.78%	Contract in place through 6/30/2002 ^(b)
Education Professionals (Institutions)	1.73%	Contract in place through 6/30/2005
Protective Services	1.62%	Contract in place through 6/30/2004
Judicial Marshals	1.37%	Contract in place through 6/30/2004
<u>Connecticut State University Administrators</u>	<u>1.03%</u>	Contract in place through 6/30/2005
Other Bargaining Units (11 units)	2.02%	Varies by Unit
Total Covered by Collective Bargaining	87.46%	
<u>Not Covered by Collective Bargaining</u>		
Auditors of Public Accounts	0.18%	Not Applicable
<u>Other Employees</u>	<u>12.36%</u>	Not Applicable
Total Not Covered by Collective Bargaining	12.54%	
Total Full Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 54,058 filled full-time positions as of June 30, 2002.

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

SOURCE: Office of Policy and Management

Governmental Services

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

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

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

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 A-6

**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 A-7

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> ^(a)	<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 A-8
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 A-9
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 A-10
Gross State Product
(In Millions of Dollars)

<u>Year</u>	<u>Connecticut</u>		<u>New England^(a)</u>		<u>United States^(b)</u>	
	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>	<u>Dollars</u>	<u>% Growth</u>
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 A-11
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 A-12
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 ^(a)	4,131	3,544	3,493	3,594	3,670	3,904	3,929	4,285	4,675	5,067
Agriculture ^(b)	701	660	734	819	802	771	845	874	965	1,038
Utilities ^(c)	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 ^(d)	23,814	25,258	26,607	29,173	29,797	32,221	34,073	37,892	40,765	43,623
Services ^(e)	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 A-13
Non-agricultural Employment^(a)
(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 A-14
Connecticut Non-agricultural Employment, 2000
(In Thousands)

	Connecticut		United States	
	Total	%	Total	%
Services ^(a)	537.1	31.72	40,460	30.71
Trade ^(b)	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 ^(c)	141.2	8.34	7,563	5.74
Utilities ^(d)	79.2	4.68	7,017	5.33
Construction ^(e)	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 A-15

**Connecticut Non-agricultural Employment
(Annual Averages In Thousands)**

<u>Year</u>	<u>Manufacturing</u>	<u>Trade</u> ^(a)	<u>Services</u> ^(b)	<u>Government</u>	<u>Finance</u> ^(c)	<u>Utilities</u> ^(d)	<u>Construction</u> ^(e)	<u>Total Non-agricultural Employment</u> ^(f)
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 A-16
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 A-17
Manufacturing Employment
By Industry
(In Thousands)

Calendar	Transportation	Fabricated	Nonelectrical	Electrical	Other^(a)	Total
<u>Year</u>	<u>Equipment</u>	<u>Metals</u>	<u>Machinery</u>	<u>Machinery</u>		<u>Employment</u>
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 A-18
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>
A. Manufacturing Products								
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>
Total	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. Gross State Product^(a)	118,645	124,157	134,968	143,191	151,779	163,405 ^(b)		
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 A-19
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 A-20
**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 A-21
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 ^(a)	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 ^(b)	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 ^(c)	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 A-22
Retail Trade In Connecticut
(In Millions)

	Fiscal Year <u>1996</u>	Fiscal Year <u>1997</u>	Fiscal Year <u>1998</u>	Fiscal Year <u>1999</u>	Fiscal Year <u>2000</u>	% Of Fiscal Year 2000 Total	Average % Growth Fiscal Year <u>1996-2000</u>
SIC52 Hardware Stores	1,371	1,436	1,512	2,320	2,418	5.7	16.9
SIC53 General Merchandise	3,618	3,636	3,793	3,742	3,744	8.8	0.9
SIC54 Food Products	6,128	6,127	6,479	6,922	7,139	16.7	3.9
SIC55 Automotive Products	6,935	7,488	7,654	7,963	8,712	20.4	5.9
SIC56 Apparel & Accessory	1,586	1,696	1,896	2,047	2,195	5.1	8.5
SIC57 Furniture & Appliances	3,156	3,724	4,333	4,011	4,299	10.1	8.5
SIC58 Eating & Drinking	2,546	2,685	2,799	2,966	3,148	7.4	5.5
SIC59 Misc. Shopping Stores	<u>7,857</u>	<u>8,579</u>	<u>9,425</u>	<u>9,865</u>	<u>10,975</u>	<u>25.7</u>	<u>8.7</u>
Total^(a)	\$33,197	\$35,371	\$37,891	\$39,836	\$42,630	100.0	6.5
% Change from Previous Year	4.8	6.5	7.1	5.1	7.0		
Durables (SIC 52,55,57)	\$11,462	\$12,648	\$13,499	\$14,294	\$15,429	36.2%	7.7%
% Change from Previous Year	4.8	10.3	6.7	5.9	7.9		
Non Durables (all other SICs)	\$21,735	\$22,723	\$24,392	\$25,542	\$27,201	63.8%	5.8%
% Change from Previous Year	4.7	4.5	7.3	4.7	6.5		

(a) Totals may not agree with detail due to rounding.

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State rose to a high of 7.6% in 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 2002. Connecticut's unemployment rate of 3.6% for the first half of 2001 is below the national average of 5.8%.

TABLE A-23
Unemployment Rate

Year	Unemployment Rate		
	Connecticut	New England	United States
1991	6.8	8.0	6.9
1992	7.6	8.0	7.5
1993	6.3	6.8	6.9
1994 ^(a)	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	3.3	3.7	4.8
2002 ^(b)	3.6	4.2	5.8

- (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

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.

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.

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**BUDGET APPROPRIATIONS OF THE STATE SPECIAL TRANSPORTATION FUND FOR
FISCAL YEARS 2001-2002 AND 2002-2003**

APPROPRIATIONS	RECOMMENDED	
	2001-2002	2002-2003
I. DEPARTMENT OF TRANSPORTATION		
A. Personal Services.....	\$124,871,748	\$131,450,727
B. Other Expenses.....	31,194,864	33,770,518
C. Equipment.....	1,500,000	1,500,000
D. Highway Planning and Research.....	2,715,778	2,768,418
E. Minor Capital Projects.....	350,000	350,000
F. Highway and Bridge Renewal Equipment.....	4,000,000	4,000,000
G. Handicapped Access Program.....	7,828,800	8,259,400
H. Hospital Transit for Dialysis.....	113,000	113,000
I. Rail Operations.....	65,795,592	69,659,185
J. Bus Operations.....	67,461,199	72,128,068
K. Highway and Bridge Renewal.....	12,000,000	12,000,000
L. Payments to Local Governments - Town Aid.....	0	25,000,000
M. Airport Payment in Lieu of Taxes.....	0	0
N. Tweed New Haven Airport.....	0	0
O. Dial-A-Ride.....	2,500,000	2,500,000
P. Transit Equipment.....	0	0
AGENCY TOTAL TRANSPORTATION FUND.....	\$320,330,981	\$363,499,316
II. MOTOR VEHICLE DEPARTMENT		
A. Personal Services.....	\$37,878,038	\$39,524,863
B. Other Expenses.....	13,349,549	13,981,550
C. Equipment.....	664,979	641,064
D. Graduated Licenses.....	0	0
E. Insurance Enforcement.....	459,542	574,403
AGENCY TOTAL.....	\$52,352,108	\$54,721,880
III. STATE INSURANCE AND RISK MANAGEMENT BOARD		
Other Expenses.....	\$2,252,000	\$2,457,000
AGENCY TOTAL.....	\$2,252,000	\$2,457,000
IV. NON-FUNCTIONAL		
DEBT SERVICE-STATE TREASURER		
Debt Service - State Treasurer.....	\$406,139,466	\$414,608,531
DEPARTMENT OF ADMINISTRATIVE SERVICES		
Worker's Compensation Claims.....	3,227,296	3,374,737
APPROPRIATIONS ADMINISTERED BY THE COMPTROLLER		
Unemployment Compensation.....	269,000	275,000
STATE EMPLOYEES RETIREMENT CONTRIBUTIONS		
Other Expenses.....	36,676,000	40,214,000
INSURANCE - GROUP LIFE		
Other Expenses.....	240,000	240,000
EMPLOYERS SOCIAL SECURITY TAX		
Other Expenses.....	12,775,600	13,432,000
STATE EMPLOYEES HEALTH SERVICE COST		
Other Expenses.....	20,030,200	22,075,300
TOTAL NON-FUNCTIONAL.....	\$479,357,562	\$494,219,568
TOTAL - Special Transportation Fund.....	\$854,292,651	\$914,897,764
Plus: Reserve for Salary Adjustments.....	1,454,600	3,264,400
Less: Estimated Lapse.....	(15,000,000)	(15,000,000)
NET- SPECIAL TRANSPORTATION FUND.....	\$840,747,251	\$903,162,164

SOURCES: Office of Policy and Management
Department of Transportation

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**INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE
SPECIAL TRANSPORTATION FUND OF THE STATE OF CONNECTICUT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2002**

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**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2002**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
TABLE OF CONTENTS
JUNE 30, 2002**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Governmental Fund Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balances	4
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Non-GAAP Budgetary Basis - Transportation Fund	5
Notes to Financial Statements	6

**INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS**

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INDEPENDENT AUDITORS' REPORT

To the Honorable John G. Rowland
Governor of the State of Connecticut

We have audited the accompanying financial statements of each major fund of the Special Transportation Fund (the "Fund") of the State of Connecticut (the "State") as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Special Transportation Fund of the State are intended to present the financial position and the changes in financial position of each major fund of the State that is attributable to the transactions of the Special Transportation Fund. They do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2002, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Special Transportation Fund of the State of Connecticut, as of June 30, 2002, and the respective changes in financial position thereof and the respective budgetary comparison for the Transportation Fund for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, the Special Transportation Fund of the State of Connecticut has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2001.

As discussed in Note 12, the State is currently a defendant in numerous lawsuits relating to the operations of the Fund and payments of any adverse financial judgments, if rendered, may be made by the Fund if so directed by the State.

As discussed in Note 1, the Special Transportation Fund of the State of Connecticut has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

DiSanto Bertolini & Company, P.C.

Glastonbury, Connecticut
October 9, 2002

FINANCIAL STATEMENTS

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
(Amounts Expressed in Thousands)**

	Transportation Fund	Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	\$ 163,159	\$ -	\$ 163,159
Restricted investments held by Trustee	-	590,374	590,374
Receivables:			
Taxes	38,084	-	38,084
Accounts, net of allowance for doubtful accounts of \$1,780	4,211	-	4,211
Interest	160	4,418	4,578
Restricted federal grants	20,642	-	20,642
Restricted non-federal grants	6,555	-	6,555
Due from other funds of the State	15,918	-	15,918
Inventories	14,859	-	14,859
Total assets	\$ 263,588	\$ 594,792	\$ 858,380
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 27,913	-	27,913
Deferred revenue	16,426	-	16,426
Due to other funds of the State	1,021	4,418	5,439
Total liabilities	45,360	4,418	49,778
 FUND BALANCES			
Reserved for:			
Inventories	14,859	-	14,859
Debt service	-	590,374	590,374
Continuing appropriations	28,192	-	28,192
Unreserved	175,177	-	175,177
Total fund balances	218,228	590,374	808,602
Total liabilities and fund balances	\$ 263,588	\$ 594,792	\$ 858,380

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Amounts Expressed in Thousands)**

	Transportation Fund	Debt Service Fund	Total
REVENUES			
Motor fuel taxes	\$ 468,480	\$ -	\$ 468,480
Sales taxes	65,224	-	65,224
License, permit and fee revenues	287,427	-	287,427
Investment income	4,738	33,950	38,688
Intergovernmental	101,924	-	101,924
Fines and rents	24,165	-	24,165
Sales and other services	10,956	-	10,956
Miscellaneous	9,630	-	9,630
Total revenues	<u>972,544</u>	<u>33,950</u>	<u>1,006,494</u>
EXPENDITURES			
Current:			
General government	1,673	-	1,673
Regulation and protection	74,092	-	74,092
Transportation	511,098	-	511,098
Debt service:			
Principal retirement	17,884	193,585	211,469
Interest and fiscal charges	5,018	155,654	160,672
Total expenditures	<u>609,765</u>	<u>349,239</u>	<u>959,004</u>
Excess (deficiency) of revenues over expenditures	362,779	(315,289)	47,490
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	-	533,335	533,335
Payment to refunded bond escrow agent	-	(574,893)	(574,893)
Premium on bonds issued	-	39,044	39,044
Operating transfers from other state funds	38,660	388,455	427,115
Operating transfers to other state funds	(382,577)	(35,094)	(417,671)
Total other financing sources (uses)	<u>(343,917)</u>	<u>350,847</u>	<u>6,930</u>
Net change in fund balances	18,862	35,558	54,420
FUND BALANCE, beginning of year, as adjusted	197,649	554,816	752,465
CHANGE IN RESERVE FOR INVENTORIES	<u>1,717</u>	<u>-</u>	<u>1,717</u>
FUND BALANCE, end of year	<u>\$ 218,228</u>	<u>\$ 590,374</u>	<u>\$ 808,602</u>

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
NON-GAAP BUDGETARY BASIS - TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Amounts Expressed in Thousands)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Budgeted:				
Taxes, net of refunds	\$ 514,400	\$ 534,400	\$ 533,734	\$ (666)
Licenses, permits, and fees	320,300	331,400	331,400	-
Other	37,000	40,500	40,480	(20)
Federal grants	3,000	3,300	3,305	5
Refunds of payments	(2,800)	(2,500)	(2,525)	(25)
Operating transfers out	(9,500)	(9,500)	(9,500)	-
Total budgeted	862,400	897,600	896,894	(706)
Federal and other restricted	199,569	308,272	103,225	(205,047)
Total revenues	1,061,969	1,205,872	1,000,119	(205,753)
EXPENDITURES				
Budgeted:				
General government	2,252	2,252	1,673	(579)
Regulation and protection	63,866	63,902	55,757	(8,145)
Transportation	359,838	365,612	347,043	(18,569)
Non-functional	484,540	486,495	468,182	(18,313)
Total budgeted	910,496	918,261	872,655	(45,606)
Federal and other restricted	199,569	308,272	103,225	(205,047)
Total expenditures	1,110,065	1,226,533	975,880	(250,653)
Appropriations lapsed	15,000	16,641	-	(16,641)
Excess (deficiency) of revenues over expenditures	(33,096)	(4,020)	24,239	28,259
OTHER FINANCING SOURCES (USES)				
Prior year appropriations carried forward	54,748	54,748	54,748	-
Appropriations continued to fiscal year 2002-2003	-	-	(28,192)	(28,192)
Miscellaneous adjustments	-	3,167	3,167	-
Total other financing sources (uses)	54,748	57,915	29,723	(28,192)
Net change in fund balance	\$ 21,652	\$ 53,895	53,962	\$ 67
BUDGETARY FUND BALANCE, beginning of year			390,038	
CHANGE IN RESERVE			(21,078)	
BUDGETARY FUND BALANCE, end of year			<u>\$ 422,922</u>	

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Special Transportation Fund of the State of Connecticut (the "Fund") have been prepared in conformity with U.S. generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB"). Following is a summary of significant accounting policies of the Fund:

REPORTING ENTITY

The Special Transportation Fund of the State of Connecticut was established pursuant to Public Act 83-30 (the "Act") of the June 1983 Special Session of the General Assembly of the State of Connecticut (the "State") as amended to date, to account for the transportation related taxes, revenues and fees pledged for payment of special tax obligation bonds (the "Bonds") issued by the State for transportation infrastructure purposes.

After providing for debt service requirements of the Bonds, the balance of the revenues and other financing sources of the Fund will be applied for the payment of debt service on general obligation bonds of the State issued for transportation purposes, for the payment of certain expenditures of the State Department of Motor Vehicles, and for the payment of expenditures of the State Department of Transportation, including both the annually budgeted operating expenditures and the State's share of infrastructure improvement program costs not financed separately by other sources.

The Fund is included in the basic financial statements of the State of Connecticut as a major governmental fund. The accompanying financial statements are prepared only for the accounts and transactions of the Fund. Accordingly, they do not purport to, and do not, present fairly the financial position of the State of Connecticut, as of June 30, 2002, and the changes in its financial position and budgetary comparisons for the year then ended in accordance with U.S. generally accepted accounting principles.

BASIS OF PRESENTATION

Implementation of New Pronouncements

During 2002, the Fund implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The primary effect of the implementation of GASB Statement No. 34 on the Fund's financial statements is that general long-term obligations previously presented in a general long-term debt account group in the governmental funds balance sheet are no longer presented in the fund financial statements prepared in accordance with GASB Statement No. 34. However, disclosure of these amounts is presented in Notes 6 through 8.

In addition, GASB Statement No. 34 requires the presentation of budgetary comparison information for certain major funds with legally adopted budgets, either as required supplemental information or as a basic financial statement. The budgetary comparison information for the Transportation Fund has been presented as a basic financial statement for the year ended June 30, 2002.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Implementation of New Pronouncements (Continued)

The fund has not presented a management's discussion and analysis ("MD&A") in accordance with GASB Statement No. 34 and GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* because the focus of an MD&A is on a primary government. The State of Connecticut, the primary government, will provide an MD&A in its annual report that will include analysis of the Fund. The accompanying financial statements are prepared only for the accounts and transactions of the Fund, which do present the financial position, changes in its financial position and budgetary comparisons of the State of Connecticut.

The accounts and transactions of the Fund do not represent the financial position and changes in financial position of a general-purpose government or of a special-purpose government. Accordingly, only the provisions of GASB No. 34 and related pronouncements that are applicable to fund financial statements have been considered in the accompanying financial statements. Consequently, no government-wide financial statements are included in the accompanying financial statements.

There were no fund reclassifications or adjustments to fund equities as a result of the implementation of the above GASB statements.

Fund Financial Statements

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The financial activities of the Fund are accounted for in individual funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts. Funds are utilized for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial activities of the Fund are reported in the following major governmental funds in the accompanying fund financial statements:

- **Transportation Fund** - This fund is used to account for motor vehicle taxes, transportation related federal revenues and other receipts collected for the payment of debt service requirements of special tax obligation bonds and transportation related general obligation bonds issued by the State for transportation infrastructure purposes, for the payment of certain expenditures of the State Department of Motor Vehicles, and for the payment of budgeted appropriations made by the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State of Connecticut.
- **Debt Service Fund** - This fund is used to account for the accumulation of resources for, and the payment of, principal and interest on special tax obligation bonds and transportation related general obligation bonds issued by the State for transportation infrastructure purposes.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the current period. Significant revenue sources that are considered to be susceptible to accrual include motor fuel taxes and sales taxes. Revenue recognition policies are as follows:

- Motor Fuel Taxes and Sales Taxes - Motor fuel taxes and sales taxes are recognized as revenue in the period when the underlying exchange has occurred and when the resources are available. Resources received in advance are reported as deferred revenue.
- Intergovernmental Grants and Similar Items - Intergovernmental grants and similar items are recognized as revenue in the period when all applicable eligibility requirements imposed by funding sources have been met and when the resources are available. Resources received in advance are reported as deferred revenue.
- Investment income - Investment income from restricted funds held by the Trustee in the bond service account and the debt service reserve account, and from other investments is recognized when earned.
- Licenses, Permits, and Fees and Other Revenues - Licenses, permits and fees and all other revenues are recognized as revenue when received because they are considered to be measurable and available only when the cash is actually received.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

Expenditures are recorded when the related fund liability is incurred except for debt service expenditures and expenditures related to compensated absences and claims and judgments, which are recorded as expenditures when payment is due.

CASH AND CASH EQUIVALENTS (amounts expressed in thousands)

Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents consisted of investments in the State Treasurer's Short-Term Investment Fund which totaled \$146,728 as of June 30, 2002.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Fund presents all investments at fair value, except for non-participating investment contracts which are recorded at accreted value.

The fair value of investments traded on public markets is determined using quoted market prices. The Fund invests in the State Treasurer's Short-Term Investment Fund, which is an investment pool managed by the State Treasurer's Office. The fair value of the Fund's position in the pool is the same as the value of the pool shares.

There were no significant investment losses for the year ended June 30, 2002.

INVENTORIES

Inventories are reported at cost using the first-in first-out (FIFO) method. Inventories 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 are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

DEFERRED REVENUE

Deferred revenue consists of funds received from local governments and other sources to fund their share of specific program costs which have not yet been incurred, and accounts and other receivables which are not available to pay liabilities of the current period.

COMPENSATED ABSENCES

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 or her accrued sick leave up to a maximum payment equivalent to sixty days.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTEREST RATE SWAP AGREEMENTS

The Fund entered into interest rate swap agreements to modify interest rates on the 1990B variable rate bonds (see Note 6). Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

NOTE 2 - BUDGETARY INFORMATION AND LEGAL COMPLIANCE

By statute, the Governor of the State of Connecticut 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 several funds of the State, including the Special Transportation 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 demonstrating compliance with the legally adopted budget is necessary because the legal level of control is more detailed than reflected in the accompanying statement of revenues, expenditures and changes in fund balances - budget and actual. 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 State Comptroller upon request by the agency. Such funds can then be expended by the State Treasurer only upon a warrant, draft or order of the State Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over 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.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 2 - BUDGETARY INFORMATION AND LEGAL COMPLIANCE (Continued)

All funds use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for 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. Continuing appropriations are reported as reservations of fund balance in the fund 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 which are recognized when earned. 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 accompanying statement of revenues, expenditures and changes in fund balances - budget and actual. A reconciliation between budgetary amounts and GAAP amounts is as follows (amounts expressed in thousands):

	<u>Transportation Fund</u>
Net change in fund balance - budgetary basis	\$ 53,962
Increases (decreases) in revenue items:	
Due from other governments	164
Deferred revenue	(55)
Accounts receivable	(132)
Interest receivable	(647)
Grants receivable	(724)
Due from other funds of the State	(1,879)
Increases (decreases) in expenditure items:	
Due to other funds of the State	69
Accounts payable and accrued liabilities	(5,340)
Decrease in continuing appropriations	<u>(26,556)</u>
Net change in fund balance - GAAP basis	<u>\$ 18,862</u>

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002

NOTE 3 - RESTRICTION OF FUND REVENUES

Under the terms and provisions of special acts of the General Assembly of the State of Connecticut, the State Bond Commission is empowered to authorize the issuance of special tax obligation bonds in one or more series to fund a portion of the costs of the State's infrastructure improvement projects. The bonds issued to date are described more fully in Note 6. The bonds are payable solely from, and secured by, a first pledge on the revenues of the Fund pursuant to the Act and the Indenture of Trust dated September 15, 1984, as supplemented, and the Indenture of Trust dated December 1, 1990, as supplemented (the "Indentures").

Included in intergovernmental revenues are certain restricted grants. These grants represent amounts received from federal and local governments and other sources specifically to fund their share of certain program costs incurred. These revenues totaled \$98.5 million for the year ended June 30, 2002 and are not available for debt service.

NOTE 4 - CASH DEPOSITS

The Fund's cash deposits are commingled with those of other funds of the State of Connecticut. The State's cash deposits are categorized pursuant to Statement No. 3 of the Governmental Accounting Standards Board, *Deposits with Financial Institutions, Investments, and Repurchase Agreements*. Category 1 includes amounts which are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 includes amounts which are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 includes amounts which are uninsured and uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the State's name.

The carrying value of the Fund's cash deposits totaled \$16.4 million as of June 30, 2002. Because the Fund's cash deposits are commingled with those of other funds of the State, the categorization of the Fund's cash deposits in accordance with GASB Statement No. 3 is not readily determinable as of June 30, 2002.

Investments in the Short-Term Investment Fund totaling \$146.7 million are included in cash and cash equivalents in the accompanying balance sheet. Such investments are not required to be categorized by risk category in accordance with GASB Statement No. 3.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 5 - RESTRICTED INVESTMENTS HELD BY TRUSTEE

Restricted investments held by the Trustee in the bond service account and the debt service reserve account are invested by the Trustee pursuant to the terms of the Indentures. Connecticut General Statutes permit the Fund to invest in bonds or obligations of, or guaranteed by, the State or the United States, or agencies or instrumentalities of the United States, commercial paper, banker's acceptances, certificates of deposit, savings accounts, highly rated obligations of any state of the United States or any political subdivision, authority or agency thereof, highly rated obligations of any regional school district, municipality or metropolitan district of the State of Connecticut or any money market fund which invests in United States government obligations or the State of Connecticut Short-Term Investment Fund.

In accordance with the provisions of Statement No. 3 of the Governmental Accounting Standards Board, the Fund's investments must be categorized to give an indication of the level of risk assumed at year-end. Category 1 includes securities that are insured or registered in the Fund's name or are held by the Fund or by its agent in the Fund's name. Category 2 includes uninsured and unregistered securities, which are held by the counterparty's trust department or by its agent in the Fund's name. Category 3 includes uninsured and unregistered securities, which are held by the counterparty, its trust department or its agent, but not held in the Fund's name. A summary of restricted investments held by Trustee as of June 30, 2002 is as follows (amounts expressed in thousands):

	Risk Category	Accreted Value	Fair Value
Bond service account:			
Short-Term Investment Fund	*	\$ 211,607	\$ 211,607
Total bond service account		<u>211,607</u>	<u>211,607</u>
Debt service reserve account:			
Short-Term Investment Fund	*	26,602	26,602
Municipal bonds maturing through 2009, various rates from 5.625% to 7.20%	1	73,575	72,165
Federal Home Loan Bank Securities	1	280,000	280,000
Total debt service reserve account		<u>380,177</u>	<u>378,767</u>
Total restricted investments		<u>\$ 591,784</u>	<u>\$ 590,374</u>

* Not required to be categorized by risk category.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS

A summary of special tax obligation bonds issued, pursuant to the State Bond Commission's authorization, and the outstanding principal balances as of June 30, 2002 is as follows:

Issue	Interest Rates	Dated Date	Maturing Annually Through Fiscal Year	Amount of Original Issue	Principal Balance at June 30, 2002
1988B Bonds	5.10% - 7.75%	June 1, 1988	2008	\$ 74,998,187	\$ 3,417,825
1990A Bonds	6.10% - 7.75%	May 15, 1990	2010	250,000,000	43,985,000
1990B Bonds	1.30% **	December 19, 1990	2011	250,000,000	156,100,000
1991B Bonds	5.00% - 6.50%	September 15, 1991	2012	266,000,000	77,655,000
1992A Bonds*	2.75% - 6.18%	January 1, 1992	2008	125,715,000	24,710,000
1992B Bonds	3.00% - 6.15%	September 1, 1992	2013	275,000,000	128,740,000
1993A Bonds*	2.65% - 5.40%	March 1, 1993	2011	560,750,000	508,365,000
1993B Bonds*	3.20% - 4.60%	September 1, 1993	2006	254,770,000	135,930,000
1993C Bonds	4.40% - 5.00%	September 15, 1993	2013	175,000,000	30,010,000
1994A Bonds	4.75% - 5.65%	March 1, 1994	2014	150,000,000	14,035,000
1994B Bonds	5.50% - 6.25%	September 15, 1994	2015	200,000,000	17,410,000
1995A Bonds	5.10% - 5.60%	May 15, 1995	2015	125,000,000	16,750,000
1995B Bonds	3.60% - 5.63%	September 1, 1995	2016	175,000,000	22,815,000
1995C Bonds*	3.60% - 5.63%	September 1, 1995	2006	160,630,000	51,360,000
1996A Bonds	4.13% - 6.00%	June 1, 1996	2016	150,000,000	19,460,000
1996B Bonds	4.25% - 6.00%	October 1, 1996	2016	150,000,000	66,290,000
1996C Bonds*	4.00% - 6.00%	October 1, 1996	2009	79,795,000	79,555,000
1997A Bonds	4.00% - 6.00%	October 15, 1997	2017	150,000,000	117,910,000
1997B Bonds*	4.00% - 5.50%	October 15, 1997	2017	65,415,000	55,660,000
1998A Bonds*	4.25% - 5.50%	April 15, 1998	2014	197,500,000	196,695,000
1998B Bonds	4.00% - 5.50%	September 15, 1998	2018	225,000,000	201,275,000
1999A Bonds	4.10% - 5.50%	November 15, 1999	2019	150,000,000	138,025,000
2000A Bonds	4.35% - 5.625%	July 15, 2000	2020	125,000,000	118,420,000
2000B Bonds	1.15% **	September 15, 2000	2020	100,000,000	100,000,000
2001A Bonds	2.00% - 5.375%	September 15, 2001	2021	175,000,000	175,000,000
2001B Bonds*	3.25% - 5.375%	September 15, 2001	2015	533,335,000	533,335,000
2002A Bonds	3.00% - 5.375%	May 1, 2002	2022	112,000,000	112,000,000
					<u>\$ 3,144,907,825</u>

* Represents refunding bonds that were not issued against the State Bond Commission's authorization.

** Represents the variable interest rate in effect as of June 30, 2002. These variable rate bonds bear interest at a weekly variable rate determined by the Fund's remarketing agent on Tuesday of each week, and become effective on the following Wednesday.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

Proceeds from the sale of special tax obligation bonds were used to fund restricted investments held by the trustee (*see Note 5*), with the remainder deposited into the State's Infrastructure Improvement Fund. The Infrastructure Improvement Fund was established by the State to account for the net bond proceeds to be used for infrastructure improvement projects and is a separate capital project fund of the State and is not part of the Special Transportation Fund.

Revenues are credited to the Fund and transferred to the Fund's debt service account to the extent required to meet debt service requirements as provided by the Indentures. In addition, the Fund is required to maintain the reserve account at a level equal to the maximum annual principal and interest requirements on the Bonds as defined in the Indentures, for the current or any fiscal year.

The 1988B outstanding bonds consist of capital appreciation bonds that are not subject to redemption prior to their respective maturities.

The 1990A Bonds, maturing on June 1, 2007, are subject to partial redemption on June 1 of each of the years 2005-2007 by payment of principal plus accrued interest on the date of redemption. The 1990A Bonds maturing on June 1, 2010 are subject to partial redemption on each June 1 in each of the years 2008-2010 by payment of principal plus accrued interest on the date of redemption. In addition, the 1990A Bonds maturing on any date on or after June 1 in each of the years 2002-2004, both inclusive, and on July 1, 2007, may be redeemed in whole or in part prior to their maturity on any interest payment due date on or after June 1, 2001, at the option of the State, in the inverse order of maturity and pursuant to the Indentures. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 percent of principal.

The 1990B Bonds (variable rate issue) are subject to partial redemption at any interest payment date at the redemption price unless the interest rate thereof has been converted to a fixed interest rate. These bonds may be redeemed at the option of the State, by payment and accrued interest thereon, with no premium. Bonds that are converted to a fixed interest rate are subject to redemption at any interest payment date, subject to the requirement that on the day of conversion the remaining term of the last maturity be at least five years. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

The 1991B Bonds, maturing on or after October 1, 2002 (other than the 1991B Bonds maturing on or after October 1, 2007 and October 1 in each of the years 2010-2012), may be redeemed prior to their respective maturities, at the option of the State, in whole or in part, on any interest payment date not earlier than October 1, 2001, in the inverse order of their maturities and lot within a maturity. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

The 1992A Bonds, maturing on February 15, 2008, are subject to partial redemption on February 15 in each of the years 2006-2008 by payment of principal plus accrued interest on the date of redemption. In addition, the 1992A Bonds maturing on any date after February 15, 2003 may be redeemed in whole or in part prior to their maturity on any interest payment date on or after February 15, 2002, at the option of the State, in any order as the State shall determine and pursuant to the Indentures. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

The 1992B Bonds, maturing on September 1, 2012, are subject to partial redemption on September 1 in each of the years 2010-2012 by payment of principal plus accrued interest on the date of redemption. In addition, the 1992B Bonds maturing on September 1 in each of the years 2003, 2004, and 2007 may be redeemed in whole or in part prior to their maturity on any interest payment date on or after September 1, 2002, at the option of the State, in any order as the State shall determine and pursuant to the Indentures. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

The 1993A Bonds, maturing on and after September 1, 2004, except for the bonds maturing in 2007 and 2008, may be redeemed in whole or in part prior to their maturity on any interest payment date on or after September 1, 2003, at the option of the State, in any order as the State shall determine and pursuant to the Indentures. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

The 1993B Bonds, maturing on and after October 1, 2004, may be redeemed in whole or in part prior to their maturity on any interest payment date on or after October 1, 2003, at the option of the State, in any order as the State shall determine and pursuant to the Indentures. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

The 1993C Bonds, maturing on October 1, 2013, are subject to partial redemption on October 1 in each of the years 2012 and 2013 by payment of principal plus accrued interest on the date of redemption. In addition, the 1993C Bonds maturing on or after October 1, 2004 may be redeemed in whole or in part prior to their maturity on any interest payment date on or after October 1, 2003, at the option of the State, in any order as the State shall determine. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 1/2 percent of principal.

The 1994A Bonds, maturing on or after April 1, 2005, may be redeemed at any time in whole or in part prior to their maturity on or after April 1, 2004, at the option of the State in any order, as the State shall determine. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 1/2 percent of principal.

The 1994B Bonds, maturing on or after June 1, 2005, may be redeemed at any time, in whole or in part, prior to their maturity on or after October 1, 2004. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 percent of principal.

The 1995A Bonds maturity on or after June 1, 2006, may be redeemed at any time, in whole or in part, prior to their maturing on or after October 1, 2005. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 percent of principal.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

The 1995B Bonds, maturing on or after October 1, 2005, may be subject to redemption, in whole or in part, on or after October 1, 2004 at the option of the State. The bonds may be redeemed by payment of principal, accrued interest thereon, and a premium. The premium is not to exceed 1 percent for the time period from October 1, 2004 through September 30, 2005 and ½ percent for the time period from October 1, 2005 through September 30, 2006.

The 1995C Bonds, maturing on or after October 1, 2005, may be subject to redemption, in whole or in part, on or after October 1, 2004 at the option of the State. The bonds may be redeemed by payment of principal, accrued interest thereon, and a premium. The premium is not to exceed 1 percent for the time period from October 1, 2004 through September 30, 2005 and ½ percent for the time period from October 1, 2005 through September 30, 2006.

The 1996A Bonds maturing on or after June 1, 2007 may be subject to redemption, in whole or in part, on or after June 1, 2006 at the option of the State. The bonds may be redeemed by the payment of principal, accrued interest thereon and a premium. The premium is not to exceed 1 percent through May 31, 2007.

The 1996B Bonds maturing on or after October 1, 2007 may be subject to redemption, in whole or in part, on or after October 1, 2006 at the option of the State. The bonds may be redeemed by the payment of principal, accrued interest thereon and a premium. The premium is not to exceed 1 percent for the time period from October 1, 2006 through September 30, 2007 and ½ percent for time period from October 1, 2007 through September 30, 2008.

The 1996C Bonds are not subject to redemption prior to maturity.

The 1997A Bonds maturing on or after November 1, 2008 will be subject to redemption, at the election of the State, on or after November 1, 2007, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent for the period from November 1, 2007 through October 31, 2008 and ½ percent for the time period November 1, 2008 through October 31, 2009.

The 1997B Bonds maturing on or after November 1, 2008 will be subject to redemption, at the election of the State, on or after November 1, 2007, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent for the period from November 1, 2007 through October 31, 2008 and ½ percent for the time period November 1, 2008 through October 31, 2009.

The 1998A Bonds maturing on or after October 1, 2014 will be subject to redemption, at the option of the State, on or after October 1, 2008, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent of the principal for the period from October 1, 2008 through September 30, 2009 and ½ percent for the time period October 1, 2009 through September 30, 2010.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

The 1998B Bonds maturing on or after November 1, 2014 will be subject to redemption, at the election of the State, on or after November 1, 2008, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent of the principal for the period from November 1, 2008 through October 31, 2009 and ½ percent for the time period November 1, 2009 through October 31, 2010.

The 1999A Bonds maturing on or after December 1, 2010 will be subject to redemption, at the election of the State, on or after December 1, 2009, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent of the principal for the period from December 1, 2009 through November 30, 2010.

The 2000A Bonds maturing on or after September 1, 2011 will be subject to redemption, at the election of the State, on or after September 1, 2010, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent of the principal for the period from September 1, 2010 through August 31, 2011.

The 2000 Series 1 Bonds (variable rate issue) are subject to optional redemption prior to maturity at the election of the State, in whole on any business day or in part on the first business day of any calendar month; at a redemption price equal to 100 percent of the principal amount of the 2000 Series 1 Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium.

The 2001 Series A and B Bonds maturing on or after October 1, 2012 will be subject to redemption, at the election of the State, on or after October 1, 2011 at any time, in whole or in part by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on October 1, 2011 and thereafter.

The 2002A Bonds maturing on or after July 1, 2013 will be subject to redemption, at the election of the State, on or after July 1, 2012 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on July 1, 2012 and thereafter.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

The aggregate principal and interest maturities on the bonds (scheduled payments to bondholders) are as follows (amounts expressed in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 216,315	\$ 157,889	\$ 374,204
2004	226,125	148,941	375,066
2005	223,460	137,175	360,635
2006	247,205	125,440	372,645
2007	235,144	118,601	353,745
2008 - 2012	1,100,729	387,248	1,487,977
2013 - 2017	639,050	136,849	775,899
2018 - 2022	248,475	26,427	274,902
2023	8,405	210	8,615
	<u>\$ 3,144,908</u>	<u>\$ 1,238,780</u>	<u>\$ 4,383,688</u>

DEBT REFUNDINGS (amounts expressed in thousands)

During the year ended June 30, 2002, the State issued \$533,335 of special tax obligation refunding bonds with an average interest rate of 5.07% to advance refund \$543,375 of special tax obligation revenue bonds with an average interest rate of 5.39%.

The proceeds of the refunding bonds were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by \$34,257 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$24,681. As of June 30, 2002, \$955,615 of outstanding special tax obligation revenue bonds, including prior year's refundings, are considered defeased.

BONDS AUTHORIZED BUT NOT ISSUED

As of June 30, 2002, the State Bond Commission has authorized but not issued \$376.6 million of special tax obligation bonds. These bonds would be payable from the revenues of the Fund if issued.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

INTEREST RATE SWAP AGREEMENTS

The State entered into two interest rate swap agreements in December 1990 to modify interest rates of its variable rate 1990B Bonds. The original notional amount was \$250 million which decreases in proportion to the outstanding debt on the 1990B Bonds. As of June 30, 2002, the notional amount and the outstanding principal on the 1990B Bonds were \$156.1 million. The interest rate swap agreements were executed with AIG Financial Products ("AIG") and SMBC Capital Markets ("SMBC"), formerly known as Sumitomo Bank Capital Markets, and as of June 30, 2002, the interest rate swap agreements had notional amounts of \$93.7 million and \$62.4 million for AIG and SMBC, respectively. Per the AIG and SMBC interest rate swap agreements, the Fund owes interest calculated at a fixed rate of approximately 5.75% and 5.71%, respectively. In return, AIG and SMBC owe the Fund interest based on a variable rate that approximates the rate required by the 1990B Bonds. Only the net difference of interest payments is exchanged with the counterparties. The notional amount is not exchanged; it is only the basis on which the swap payments are calculated. As of June 30, 2002, the AIG and SMBC interest rate swap agreements had unfavorable positions of \$10.9 million and \$7.2 million, respectively. The net interest cost incurred in connection with the interest rate swap agreements totaled \$6.6 million for the year ended June 30, 2002.

The Fund continues to pay interest to the bondholders at the variable rate provided by the 1990B Bonds. However, during the term of the interest rate swap agreements, the Fund effectively pays a fixed rate on the 1990B Bonds. The debt service to maturity for these bonds are based on the fixed rates. The Fund will be exposed to variable rates if the counterparties to the interest rate swap agreements default or if the agreements are terminated. A termination of the interest rate swap agreements may also result in the Fund making or receiving a termination payoff amount. Both AIG and SMBC have guaranteed their agreements. In addition, the interest rate swap agreement with AIG contains a collateral agreement that becomes effective if the credit rating of AIG falls below a defined level. The Fund evaluates the credit worthiness of the counterpartys' financial condition and does not expect default by the counterparties.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 7 - TRANSPORTATION RELATED GENERAL OBLIGATION BONDS

Public Act 84-254 of the General Assembly of the State of Connecticut requires the principal and interest payments of the transportation related general obligation bonds outstanding to be paid from the revenues of the Fund. However, the general obligation bonds remain the general liability of the State. These bonds mature in various amounts through fiscal year 2018 and bear interest at rates from 4.22% to 7.53%.

The aggregate principle and interest maturities on the transportation general obligation bonds are as follows (amounts expressed in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 9,035	\$ 947	\$ 9,982
2004	530	666	1,196
2005	530	641	1,171
2006	530	614	1,144
2007	609	803	1,412
2008 - 2012	2,918	3,376	6,294
2013 - 2017	8,205	627	8,832
2018	525	14	539
	<u>\$ 22,882</u>	<u>\$ 7,688</u>	<u>\$ 30,570</u>

The above table does not include amounts for debt service that the State will charge the Fund for various non-transportation related general obligation refunding bonds and cash defeasements. The proceeds of these bonds were used to refund or defease transportation related general obligation bonds. Aggregate principal and interest maturities related to the non-transportation related general obligation refunding bonds used to retire transportation related general obligation bonds are as follows (amounts expressed in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 5,773	\$ 1,097	\$ 6,870
2004	11,644	748	12,392
2005	2,794	374	3,168
2006	2,650	251	2,901
2007	2	86	88
2008 - 2012	564	102	666
2013	27	1	28
	<u>\$ 23,454</u>	<u>\$ 2,659</u>	<u>\$ 26,113</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 8 - CHANGES IN LONG TERM OBLIGATIONS

Although the Fund does fund certain long-term obligations, such obligations have not been reported in the accompanying fund financial statements in accordance with GASB Statement No. 34. A summary of changes in long-term obligations of the Fund for the year ended June 30, 2002 is as follows (amounts expressed in thousands):

Description	Balance, July 1, 2001	Additions	Reductions	Balance, June 30, 2002
Special tax obligation bonds	\$ 3,061,533	\$ 820,335	\$ 736,960	\$ 3,144,908
General obligation bonds	32,271	-	9,389	22,882
Compensated absences	36,442	3,911	-	40,353
Arbitrage liability	6,787	1,282	1,145	6,924
	<u>\$ 3,137,033</u>	<u>\$ 825,528</u>	<u>\$ 747,494</u>	<u>\$ 3,215,067</u>

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following as of June 30, 2002:

Accounts payable	\$ 18,386
Salaries and wages payable	7,149
Fringe benefits payable	527
Contracts payable - retainage	1,851
	<u>\$ 27,913</u>

NOTE 10 - ADJUSTMENT OF FUND BALANCE

Unreserved fund balance of the Transportation Fund as of July 1, 2001 has been adjusted as follows (amounts expressed in thousands):

Fund balance, beginning of year, as originally reported	\$ 193,889
Adjustments:	
Understatement of due from other funds of the State	1,879
Overstatement of accounts payable	1,881
Fund balance, beginning of year, as restated	<u>\$ 197,649</u>

The effect of the above adjustments for the year ended June 30, 2001 is to increase the excess of revenues and other financing sources over expenditures and other financing uses by \$3,760.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 11 - INTERFUND BALANCES

INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables as of June 30, 2002 is as follows (amounts expressed in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Transportation Fund	Debt Service Fund	\$ 4,418
	Other funds of the State	11,500
		<u>\$ - 15,918</u>
Other funds of the State	Transportation Fund	<u>\$ 1,021</u>

INTERFUND TRANSFERS

A summary of interfund transfers for the year ended June 30, 2002 is as follows (amounts expressed in thousands):

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Transportation Fund	Debt Service Fund	\$ 35,094
	Other funds of the State	3,566
		<u>\$ 38,660</u>
Debt Service Fund	Transportation Fund	373,077
	Other funds of the State	15,378
		<u>\$ 388,455</u>
Other funds of the State	Transportation Fund	<u>\$ 9,500</u>

Transfers are used primarily to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 12 - COMMITMENTS AND CONTINGENCIES

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits relating to the operations of the Fund. The State of Connecticut, Office of the Attorney General (the "Attorney General") has reviewed the status of pending lawsuits in which a financial judgment adverse to the State may be paid from the Fund, subject to a prior lien in favor of the Bonds.

With regard to litigation, the most notable cases are: (1) George Campbell Painting Corporation v. State of Connecticut in which the plaintiff is seeking approximately \$40 million in damages for delay and other claims arising out of a major bridge rehabilitation project; (2) White Oak Corporation v. State of Connecticut, Department of Transportation in which the plaintiff is seeking approximately \$100 million in damages for a wrongful termination action in connection with the reconstruction of the Tomlinson Bridge; and (3) White Oak Corporation v. State of Connecticut, Department of Transportation in which the plaintiff is seeking approximately \$50 million in damages for alleged delays and other damages in connection with an I-95 bridge project in Bridgeport, Connecticut. It is the opinion of the Attorney General that these cases and other pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially and adversely affect the operations of the Fund.

ARBITRAGE REBATE REQUIREMENTS (amounts expressed in thousands)

Section 148 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986, requires 90% of the earnings from the investment of tax-exempt bond proceeds that exceed the yield on tax-exempt bonds be remitted to the federal government. In accordance with this regulation, the Fund is required to rebate a portion of its investment earnings on the proceeds of the Bonds to the federal government. Rebate payments of \$1,145 were made during the year ended June 30, 2002. The total estimated liability for arbitrage rebates totaled \$6,924 as of June 30, 2002.

CONTRACTUAL COMMITMENTS

The State entered into a contractual agreement with H.N.S. Management Company, Inc. to manage and operate the bus transportation for the State. The State shall pay all expenditures 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. Upon termination of the agreement, the State shall assume all of the existing obligations of the management company, including all pension liabilities described above. Although the Fund has no liability related to these costs, payments may be made by the Fund if so directed by the State.

In addition, the Fund has other contractual commitments for various transportation related operating and project costs.

As of June 30, 2002, the aggregate contractual commitments totaled approximately \$123.7 million. Funding of these expenditures is expected to be received from Federal and other grants and other revenues to be received by the Fund.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2002**

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

PENSIONS

Certain employees of the Fund participate in the State Employees' Retirement System ("SERS") which is administered by the State Employees' Retirement Commission. The Fund has no liability for these pension costs other than the annual contribution, pursuant to Public Act 83-30 of the June 1983 Special Session of the General Assembly of the State of Connecticut as amended to date. In addition, the actuarial study was performed on the Plan as a whole and does not provide separate information for employees of the Fund. Therefore, certain pension disclosures cannot be provided. Information on the total Plan funding status and progress, required contributions and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report.

The Fund's contribution is determined by applying a State mandated percentage to eligible salaries and wages. The contribution made by the Fund totaled \$33.7 million for the year ended June 30, 2002.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Fund is one of many funds within the State of Connecticut financial reporting entity. As a result, certain transactions of the Fund, including operating transfers and certain allocations of expenses among funds, are under the direction of management of the State.

ALLOCATION OF FRINGE BENEFIT COSTS (amounts expressed in thousands)

Fringe benefit costs incurred at the State level are allocated to all benefiting funds based on each fund's share of total salaries and wages of the State. Fringe benefit costs allocated to the Fund totaled \$527,010 for the year ended June 30, 2002.

ALLOCATION OF BANK CHARGES (amounts expressed in thousands)

The Fund invests in the State Treasurer's Short-Term Investment Fund (*see Note 5*), which is a money market investment pool administered by the State Treasurer. In addition, the Fund's cash balances are managed by the State of Connecticut, Office of the Treasurer. Bank charges allocated to the Fund totaled \$484,488 for the year ended June 30, 2002.

RISK MANAGEMENT

The State of Connecticut, through its State Insurance and Risk Management Board, is responsible for risk management of the Fund's activities through the use of commercial and self-insurance.

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FORM OF OPINION OF
UPDIKE, KELLY & SPELLACY, P.C.
Bond Counsel
and
LEWIS & MUNDAY, A PROFESSIONAL CORPORATION
Co-Bond Counsel

[Date of Closing]

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

Dear Madam Treasurer:

We have examined (i) the Constitution and laws of the State of Connecticut, including Public Act No. 84-254 of the February 1984 Session of the General Assembly, as amended (the "Act"), (ii) an Indenture of Trust, by and between the State of Connecticut (the "State") and The Connecticut National Bank (successor trustee is now State Street Bank and Trust Company), as Trustee, dated September 15, 1984, as amended by the Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 by and between the State of Connecticut and Shawmut Bank Connecticut, National Association, (successor trustee is now State Street Bank and Trust Company), as Trustee, as supplemented by the Thirty-Second Supplemental Indenture by and between the State of Connecticut and State Street Bank and Trust Company, as Trustee, dated as of November 1, 2002 (the "Senior Indenture") and (iii) a record of proceedings relative to the issuance of \$215,000,000 State of Connecticut Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2002 Series B (the "2002 Series B Bonds"). Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Senior Indenture.

The 2002 Series B Bonds mature on December 1 in each of the years and in the principal amounts and bear interest payable semiannually on June 1 and December 1 in each year, commencing June 1, 2003, until maturity at the respective rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2003	\$ 7,255,000	3.000%	2015	\$ 1,185,000	3.900%
2004	7,475,000	3.000	2015	10,390,000	5.250
2005	7,705,000	3.000	2016	1,500,000	4.100
2006	5,110,000	2.500	2016	10,665,000	5.000
2006	2,265,000	3.000	2017	620,000	4.200
2007	5,185,000	3.000	2017	12,160,000	5.000
2007	13,540,000	5.000	2018	350,000	4.300
2009	5,305,000	3.000	2018	13,080,000	5.000
2010	9,160,000	3.300	2019	360,000	4.400
2011	1,800,000	3.400	2019	13,775,000	5.250
2011	7,735,000	5.000	2020	1,065,000	4.500
2012	2,455,000	3.500	2020	13,810,000	5.000
2012	7,535,000	5.000	2021	805,000	4.600
2013	2,265,000	3.625	2021	14,830,000	5.000
2013	8,200,000	5.000	2022	7,545,000	4.650
2014	880,000	3.800	2022	8,875,000	5.000
2014	10,115,000	5.250			

The 2002 Series B Bonds are issuable as fully registered bonds in the denomination of \$5,000, or any integral multiple thereof. Principal of the 2002 Series B Bonds will be payable at the principal corporate office of State Street Bank and Trust Company, Trustee. Interest on the 2002 Series B Bonds is payable to the registered owner as of the close of business on the fifteenth day of May and November in each year or the preceding business day if such fifteenth day is not a business day, by check mailed to the registered owner at such address as appears on the registration books of the State kept for such purpose under the Senior Indenture.

The 2002 Series B Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the Senior Indenture.

The 2002 Series B Bonds including the principal thereof and interest and premium, if any, thereon are payable solely from the Pledged Revenues (as defined in the Act and in the Senior Indenture) and other receipts, funds or moneys pledged therefor and credited to the Special Transportation Fund of the State pursuant to the Act and the Senior Indenture.

From such examination we are of the opinion that:

1. The Act is valid, and the State has the legal right and power to authorize, and has duly authorized, executed and delivered the Senior Indenture, and the Senior Indenture is a legal, valid and binding obligation of the State enforceable in accordance with its terms.

2. The 2002 Series B Bonds have been duly authorized and issued under the Constitution and laws of the State, particularly the Act, and under proceedings duly had and taken in conformity therewith.

3. The 2002 Series B are valid and binding special obligations of the State payable from the Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Senior Indenture and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Senior Indenture.

4. The 2002 Series B Bonds are secured in the manner and to the extent set forth in the Act and the Senior Indenture. Pursuant to the Act, the Senior Indenture creates a valid first call upon Pledged Revenues and lien upon any and all amounts held to the credit of said Special Transportation Fund from time to time, to the extent set forth in the Senior Indenture, including moneys and securities held by the Trustee in the Debt Service Account and Reserve Account established thereunder, which the Senior Indenture purports to create, subject only to the provisions of the Senior Indenture permitting the application thereunder for or to the purposes and on the terms and conditions set forth in the Senior Indenture. Such first call and lien are valid and binding against all parties having claims of any kind in tort, contract or otherwise against the State (including holders of general obligation debt of the State). All amounts necessary

for the punctual payment of the Debt Service Requirements (as defined in the Act) with respect to the 2002 Series B Bonds are validly deemed to be appropriated by the Act from the Pledged Revenues and other receipts, funds or moneys pledged therefor and the Treasurer is required under the Act to pay such Debt Service Requirements as the same shall accrue, but only from such sources. Such payment by the Treasurer does not require further legislative approval.

5. The State is not obligated to pay the principal of, and interest and premium, if any, on the 2002 Series B Bonds except from Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Senior Indenture and neither the full faith and credit of the State or any political subdivision thereof is pledged to the payment of the principal of and interest and premium, if any, on the 2002 Series B Bonds.

6. Pursuant to the Act, the Senior Indenture validly incorporates the valid and enforceable covenants of the State to impose, charge, raise, levy, collect and apply the Pledged Revenues and other receipts, funds or moneys pledged for the payment of Debt Service Requirements in such amounts as may be necessary to pay such requirements in each year and not to limit or alter the duties imposed on the Treasurer or other officers of the State by the Act and the Senior Indenture with respect to the application of such Pledged Revenues and other such pledged receipts, funds or moneys.

7. Pursuant to the Act, the covenant of the State contained in the Senior Indenture to provide Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture in an amount at least equal to two times the aggregate Principal and Interest Requirements on Bonds and Interest Requirements on Notes in each Fiscal Year (as such terms are defined in the Senior Indenture) is valid and enforceable. Such covenant is subject to the right of the State to exercise its power, through a change in law, to limit, modify, rescind, repeal or otherwise alter the character or amount of such Pledged Revenues or to substitute like or different sources of taxes, fees, charges or other receipts as Pledged Revenues if, for the ensuing Fiscal Year as evidenced by the proposed or adopted budget of the State with respect to the Special Transportation Fund, the projected revenues meet or exceed the estimated expenses of the Special Transportation Fund including accumulated deficits, if any, Debt Service Requirements, and any Pledged Revenue coverage requirement set forth in Section 2.4 of the Senior Indenture.

8. Under existing law, (i) interest on the 2002 Series B Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) such interest will not be treated as a preference item for purposes of calculating the Federal alternative minimum tax for individuals or corporations; such interest is, however, includable in the adjusted current earnings of certain corporations for purposes of computing the Federal alternative minimum tax imposed on such corporations. We express no opinion regarding other Federal income tax consequences caused by ownership of, or receipt of interest on, the 2002 Series B Bonds.

9. Under existing law, interest on the 2002 Series B Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trust 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 Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2002 Series B Bonds in order that interest on the 2002 Series B Bonds not be includable in gross income under the Code. The State has covenanted in a Tax Regulatory Agreement (the "Tax Regulatory Agreement") that it will at all times perform all acts and things necessary or appropriate under any valid provision of law to ensure that interest on the 2002 Series B Bonds shall not be included in the gross income of the owners thereof for Federal income tax purposes under the Code.

In rendering the foregoing opinions regarding the Federal income tax treatment of interest on the 2002 Series B 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 Regulatory Agreement, and (ii) compliance by the State with covenants set forth in the Tax Regulatory Agreement as to such matters.

In rendering this opinion, we further advise you that the enforceability of rights and remedies with respect to the 2002 Series B Bonds may be limited by insolvency, moratorium and other laws affecting creditor's rights generally heretofore or hereafter enacted and by law applicable to relief in equity and by the reserved police powers of the State; no opinion is expressed as to the availability of a right in equity to specific performance of any covenant requiring legislative action with respect to taxes not presently enacted when an adequate remedy at law for damages is available or another such limitation exists and is applied.

We have examined the bond (or bonds, as may be the case) of each maturity and, in our opinion, the form of said bond or bonds, and its or their execution, are regular and proper.

Respectfully submitted,

FORM OF CONTINUING DISCLOSURE AGREEMENT

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the State of Connecticut (the "State") will agree, pursuant to a Continuing Disclosure Agreement for the 2002 Series B 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 2002 Series B 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 2002 Series B Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the ____ day of November, 2002 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of \$215,000,000 Special Tax Obligation Bonds, Transportation Infrastructure Purposes, 2002 Series B dated November 1, 2002 (the "Bonds"), and State Street Bank and Trust Company, as Trustee for the Bonds (the "Trustee") under the Indenture (as hereinafter defined), 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 November 19, 2002 prepared in connection with the Bonds.

"Indenture" means the Indenture of Trust entered into by the State and the Trustee, dated as of September 15, 1984, as supplemented and amended to date as the same may be further supplemented and amended from time to time.

"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, New Jersey 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@dpccdata.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 Special Transportation Fund 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 Appendix A to the Official Statement under the caption “Accounting Procedures”). As of the date of this Agreement, the State also prepares financial statements for the Special Transportation Fund 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 included in the material under the headings “TOTAL BONDS OUTSTANDING,” “DEBT SERVICE ON OUTSTANDING BONDS,” “THE OPERATIONS OF THE SPECIAL TRANSPORTATION FUND” and “THE DEPARTMENT OF TRANSPORTATION” and Appendices B and C in the Official Statement; provided, however, that reference to such headings in the 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.

(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.

In order to assist the State in complying with its undertaking in this Section 3, the Trustee agrees to use its best efforts promptly to notify the State in writing of the occurrence of any of the events listed in (a) - (k) above as to which any officer in the Corporate Trust Administration Department of the Trustee obtains actual knowledge in the course of the performance of the duties of the Trustee under the Indenture; provided, however, that the determination of whether any such occurrence is material shall be a determination to be made by the State and not the Trustee pursuant to its responsibilities under this Agreement.

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, including, without limitation, an Event of Default under the Indenture, or a breach of any duty or obligation of the Trustee under the Indenture.

Section 8. Miscellaneous.

(a) The State and the Trustee 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 pursuant to the terms of the Indenture. 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

STATE STREET BANK AND TRUST COMPANY,
as Trustee

By: _____
Authorized Officer

Ambac**Financial Guaranty Insurance Policy**

Ambac Assurance Corporation
 One State Street Plaza, 15th Floor
 New York, New York 10004
 Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

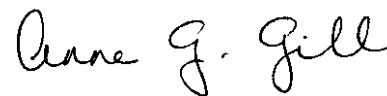
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President

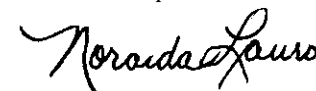
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

Endorsement

Policy for:

Attached to and forming part of Policy No.:

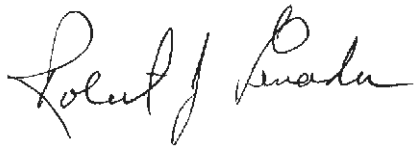
Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the Connecticut Insurance Guaranty Association.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative



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