

REMARKETING CIRCULAR DATED APRIL 22, 2003

This Remarketing Circular is being used in connection with the remarketing of the Series 1 Bonds resulting from the mandatory purchase of the Series 1 Bonds scheduled for May 15, 2003. 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 Series 1 Bonds is not includable in the gross income 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 Series 1 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 Series 1 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 Series 1 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 Series 1 Bonds, see "Corporation Business Tax as Applied to the Series 1 Bonds" and "Tax Exemption" herein.

NOT A NEW ISSUE

\$142,900,000 **State of Connecticut** **Second Lien Special Tax Obligation Bonds** **Transportation Infrastructure Purposes (Variable Rate Demand), Series 1**

Dated: Original Date of Authentication (December 19, 1990)

Due: December 1, 2010

The Series 1 Bonds were issued as fully registered bonds, without coupons, and are registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC is acting as securities depository for the Series 1 Bonds. Purchases of the Series 1 Bonds will be made in book-entry form, in the denomination of \$100,000 and integral multiples thereof while the Series 1 Bonds bear interest at a rate other than a Fixed Interest Rate or Rates, and in denominations of \$5,000 and integral multiples thereof for any Series 1 Bonds converted to a Fixed Interest Rate or Rates. Purchasers will not receive certificates representing their interest in the Series 1 Bonds. Payments of principal, redemption price, interest, and with respect to tendered Series 1 Bonds, purchase price of the Series 1 Bonds will be made to DTC. So long as Cede & Co. is the Bondowner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners (as defined herein) of the Series 1 Bonds.

Principal or the redemption price, if any, of the Series 1 Bonds will be payable upon presentation and surrender of each Series 1 Bond at the principal corporate trust office of the paying agent, which, with respect to the Series 1 Bonds bearing interest at a rate other than a Fixed Interest Rate or Rates, shall be U.S. Bank National Association, Hartford, Connecticut, or its duly qualified successor (the "Fiscal Agent") and, with respect to Series 1 Bonds converted to a Fixed Interest Rate or Rates, shall be U.S. Bank National Association, Hartford, Connecticut (the "Trustee"). So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 1 Bonds, principal and interest payments are to be made directly to DTC.

During a Weekly Rate Period or a Monthly Rate Period, the Series 1 Bonds are required to be purchased upon the demand of the holders upon at least seven (7) days irrevocable notice given to the Fiscal Agent, as more fully described herein. The Series 1 Bonds are subject to redemption prior to maturity, as more fully described herein. The Series 1 Bonds are subject to mandatory purchase upon (i) the establishment of a Semiannual Rate Period, Other Rate Period or a Fixed Rate Period, (ii) the last day of any Computation Period, (iii) provision of an Alternate Security, and (iv) the expiration of the Standby Bond Purchase Agreement or any existing Alternate Security, unless the holder elects to retain his or her Series 1 Bond, as more fully described herein.

The scheduled payment of principal of and interest on the Series 1 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the remarketing of the Series 1 Bonds by FINANCIAL SECURITY ASSURANCE INC.



The State will enter into a Standby Bond Purchase Agreement dated as of April 1, 2003 (the "Standby Bond Purchase Agreement") with Fleet National Bank (the "Bank") with respect to the Series 1 Bonds. The Standby Bond Purchase Agreement is a liquidity facility that requires the Bank to purchase the Series 1 Bonds tendered or deemed tendered to the extent not remarketed, subject to the provisions therefor set forth in the Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement is scheduled to expire on May 15, 2005 provided that the obligation of the Bank to purchase the Series 1 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events. See the section herein entitled "Standby Bond Purchase Agreement" and Appendix D attached hereto. The Bank is not providing credit support for the Series 1 Bonds.



The Series 1 Bonds were originally issued in the original principal amount of \$250,000,000 by the State of Connecticut (the "State") on December 19, 1990 pursuant to the terms and provisions of an Indenture of Trust, as amended, by and between the State and the then trustee, and the First Supplemental Indenture, by and between the State and the then trustee (the Indenture of Trust, as amended and supplemented is collectively referred to herein as the "Indenture"). Prior to conversion to a Monthly Rate Period, a Semiannual Rate Period, an Other Rate Period or a Fixed Rate Period, each as described herein, the Series 1 Bonds will bear interest at a Weekly Variable Rate determined by the Remarketing Agent on Tuesday of each week or, if Tuesday is not a Business Day, the next Business Day for the seven-day period commencing on Wednesday of such week. Interest will be payable by check or draft mailed to the registered owner on the first Business Day of each month, except as otherwise described herein.

The State may direct that all or any part of the Series 1 Bonds bear interest at a Weekly Variable Rate, a Monthly Variable Rate, a Semiannual Rate or an Other Rate, or that the Series 1 Bonds be converted, in whole or in part, to a Fixed Interest Rate or Rates as determined in accordance with the Indenture; provided, however, that in no event will the interest rate on the Series 1 Bonds while bearing interest at a rate other than a Fixed Interest Rate (other than Series 1 Bonds held by the Bank or its designee) exceed twelve percent (12%).

The Series 1 Bonds were issued for the purpose of financing, together with anticipated federal grants and State taxes and other State revenues, a portion of the costs of the State's transportation infrastructure program. The Series 1 Bonds were issued on a parity, with certain exceptions described herein, with all other Bonds (as defined herein) issued by the State for the transportation infrastructure program under the Indenture and are junior in right of payment and interest to the Prior Bonds, as defined herein. Bonds issued pursuant to the Indenture, including the Series 1 Bonds, are special obligations of the State payable solely from the taxes and other revenues of the State pledged therefor. The Bonds shall not be payable from nor charged upon any funds other than such pledged revenues, nor shall the State or any other political subdivision thereof be subject to any liability thereon except to the extent of such pledged revenues. The issuance of the Series 1 Bonds pursuant to the Indenture does 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 payment of the Bonds.

Honorable Denise L. Nappier
Treasurer of The State of Connecticut

JPMorgan

No dealer, broker or other person has been authorized to give any information or to make any representations other than those contained in this Remarketing Circular, 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. This Remarketing Circular 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 Remarketing Circular at any time does not imply that the information herein is correct as of any time subsequent to its date.

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained in the section herein entitled “Bond Insurance” and the Appendix F specimen “Municipal Bond Insurance Policy” herein, none of the information in this Remarketing Circular has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 1 Bonds; or (iii) the tax exempt status of the interest on the Series 1 Bonds.

IN CONNECTION WITH THIS OFFERING, THE REMARKETING AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 1 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>
SUMMARY STATEMENT	ii
INTRODUCTION	1
THE TRANSPORTATION	
INFRASTRUCTURE PROGRAM	1
NATURE OF OBLIGATION	2
Legal Authority - State Bond Commission	2
Source of Payment	3
Additional Bonds	6
Refunding Bonds	6
Qualified Swaps	7
Bond Anticipation Notes and Subordinated Indebtedness.....	7
State General Taxing Power Not Pledged	8
CORPORATION BUSINESS TAX AS APPLIED TO THE	
SERIES 1 BONDS	8
THE SERIES 1 BONDS	9
Introductory Note	9
General	9
Book-Entry-Only System	10
Interest on the Series 1 Bonds	11
Maturities	14
Redemption and Purchase of Series 1 Bonds	14
Notice of Redemption	16
BOND INSURANCE	17
SUMMARY OF STANDBY BOND PURCHASE	
AGREEMENT	17
TOTAL BONDS OUTSTANDING	21
DEBT SERVICE ON OUTSTANDING BONDS	22
Accreted Interest on Outstanding Capital	
Appreciation Bonds	23
THE OPERATIONS OF THE SPECIAL	
TRANSPORTATION FUND	23
Introduction	23
Discussion of Projected Pledged Revenues	25
Description of Revenue Sources of the	
Special Transportation Fund	27
Debt Service Coverage	30
Expenses of the Special Transportation Fund	31
2003 Legislative Changes	32
Governor’s Proposed 2003 Legislative Changes	32
THE TRANSPORTATION STRATEGY BOARD	34
THE DEPARTMENT OF TRANSPORTATION	35
The State Transportation System	35
Organization and Responsibilities	35
Implementation of and Funding for the	
Infrastructure Program	36
Financial Controls	40
SUMMARY OF CERTAIN PROVISIONS OF	
THE INDENTURE	41
REMARKETING AGENT	56
LITIGATION	56
CONTINUING DISCLOSURE AGREEMENT	57
LEGALITY FOR INVESTMENT	57
TAX EXEMPTION	58
RATINGS	59
FINANCIAL ADVISORS	59
MISCELLANEOUS	59
APPENDIX A – State of Connecticut	A-1
APPENDIX B – Budget Appropriations of the State	
Special Transportation Fund for Fiscal Years	
2001-2002 and 2002-2003	B-1
APPENDIX C – 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	C-1
APPENDIX D – Certain Information Regarding	
the Bank	D-1
APPENDIX E – Form of Bond Counsel Opinion	E-1
APPENDIX F – Form of Municipal Bond	
Insurance Policy	F-1
APPENDIX G – Form of Continuing Disclosure	
Agreement	G-1

SUMMARY STATEMENT

The following presents a summary regarding the terms of the Series 1 Bonds and does not purport to be comprehensive. Such information is qualified in its entirety by reference to more detailed descriptions appearing in this Remarketing Circular including the appendices hereto and should be read together therewith. The offering of the Series 1 Bonds is made only by means of the entire Remarketing Circular. No person is authorized to make offers to sell, or solicit offers to buy, the Series 1 Bonds unless the entire Remarketing Circular is delivered in connection therewith. Except as otherwise indicated, all capitalized terms used herein have the meanings set forth in the section herein entitled “Summary of Certain Provisions of the Indenture – Definitions.”

PURPOSE OF THE SERIES 1 BONDS AND USE OF PROCEEDS

The Series 1 Bonds were issued to provide funds for specific transportation projects as enumerated in Chapter 243 of the Connecticut General Statutes including the acquisition, construction, equipping, repair, rehabilitation and improvement of the State’s highways and bridges, waterway facilities, mass-transportation and transit facilities, aeronautic facilities, the highway safety program, maintenance garages and administrative facilities of the Department of Transportation. For a more detailed description of the Department of Transportation and Infrastructure Program see the section herein entitled “The Department Of Transportation.”

SEPARATE SERIES OF BONDS

The Series 1 Bonds, issued in December, 1990, constituted the first issue of Bonds pursuant to the Indenture, as hereinafter defined. Since then, three additional series of bonds have been issued under the Indenture: the second series of Bonds were issued in September, 2000, in the original principal sum of \$100,000,000, and the third and fourth series of Bonds were issued on January 23, 2003 in the original aggregate principal sum of \$421,980,000. All Bonds issued under the Indenture to date have been variable rate bonds, and the Series 1 Bonds and the third and fourth series of the Second Lien Bonds are the subject of Qualified Swaps, which synthetically provide for the practical effect of fixed rate bonds. Bonds of each series issued pursuant to the Indenture share on a parity basis, with certain exceptions described herein, the lien on the Trust Estate created under the Indenture upon the Pledged Revenues and other portions of the Trust Estate and are junior in right of payment of principal and interest to the Prior Bonds, as hereinafter defined. The Series 1 Bonds are subject to redemption and purchase independently of the other series as herein described. See “Security For The Series 1 Bonds.”

DENOMINATION OF SERIES 1 BONDS

The Series 1 Bonds are being remarketed in denominations of \$100,000 and any integral multiple thereof, and each Series 1 Bond will remain in such denominations while such Series 1 Bond bears interest at a rate other than a Fixed Interest Rate. Upon the conversion of any Series 1 Bond to a Fixed Interest Rate, such converted Series 1 Bond shall be in denominations of \$5,000 and any integral multiple thereof.

REDEMPTION OF SERIES 1 BONDS

The Series 1 Bonds are subject to optional redemption and mandatory Amortization Requirements as described herein. See “The Series 1 Bonds – Redemption and Purchase of Series 1 Bonds” herein.

INTEREST ON SERIES 1 BONDS

So long as the Weekly Rate Period exists with respect to any Series 1 Bonds, such Series 1 Bonds will bear interest at a Weekly Variable Rate determined by the Remarketing Agent, which rate will be the lowest rate of interest which, in the reasonable judgment of the Remarketing Agent, would enable it to sell such Series 1 Bonds at a price equal to the principal amount thereof plus accrued interest thereon. Thereafter, the interest rate on such Series 1 Bonds will be determined as described in “The Series 1 Bonds – Interest on the Series 1 Bonds.” In no event will the interest rate on the Series 1 Bonds (other than Series 1 Bonds held by the Bank or its designee) exceed twelve percent (12%). Interest on the Series 1 Bonds will be payable as described in “The Series 1 Bonds – Interest on the Series 1 Bonds.”

CONVERSION AMONG INTEREST RATE ADJUSTMENT PERIODS

The State has the discretion to select from time to time, but subject to the holders' rights to tender Series 1 Bonds for purchase, the interest rate period applicable to one or more Series 1 Bonds from among Weekly Rate Periods, Monthly Rate Periods, Semiannual Rate Periods and Other Rate Periods and the amount of Series 1 Bonds to be converted to any such Interest Period or Periods, as described in "The Series 1 Bonds – Interest on the Series 1 Bonds – Establishment of and Conversion to a Weekly Variable Rate, Monthly Variable Rate, Semiannual Rate or Other Rate."

CONVERSION TO FIXED INTEREST RATE

The interest rate on the Series 1 Bonds is subject to conversion, in whole or in part, at the State's option, but subject to the holders' right to tender Series 1 Bonds for purchase, to a Fixed Interest Rate or Rates payable on the Series 1 Bonds to maturity as described in the "The Series 1 Bonds – Interest on the Series 1 Bonds – Fixed Interest Rate."

OPTIONAL REDEMPTION OF SERIES 1 BONDS

Unless a Series 1 Bond has been converted to a Fixed Interest Rate or Rates, such Series 1 Bond is subject to optional redemption upon not less than thirty (30) nor more than sixty (60) days prior to the redemption date in whole or in part at the principal amount thereof, without premium, at the option of the State, on any Interest Payment Date prior to the establishment of a Fixed Interest Rate or Rates therefor.

Series 1 Bonds bearing interest at a Fixed Interest Rate or Rates are subject to redemption at the option of the State, in whole or in part, at a designated premium amount plus accrued interest to the date of redemption, subject to revision by the State at the time of conversion to a Fixed Interest Rate or Rates, all as described under "The Series 1 Bonds – Redemption and Purchase of Series 1 Bonds – Optional Redemption."

MANDATORY REDEMPTION AND MANDATORY TENDER FOR PURCHASE

The Series 1 Bonds are subject to mandatory redemption pursuant to the Amortization Requirements, mandatory purchase upon expiration or termination of the Standby Bond Purchase Agreement, as hereinafter defined or any existing Alternate Security, mandatory purchase upon provision of an Alternate Security, mandatory purchase upon establishment of a Semiannual Rate Period, an Other Rate Period or Fixed Rate Period, and mandatory purchase on the last day of any Computation Period; provided, however, the mandatory purchase, upon establishment of a Semiannual Rate Period, an Other Rate Period or Fixed Rate Period or expiration of the Standby Bond Purchase Agreement or any existing Alternate Security or upon provision of an Alternate Security or upon the last day of any Computation Period, is subject to the right of the holders of such Series 1 Bonds to elect, under certain circumstances, to continue to hold the Series 1 Bonds. See "The Series 1 Bonds – Redemption and Purchase of Series 1 Bonds." The Series 1 Bonds are also subject to mandatory tender upon the occurrence of a "Last Put Termination Event" under the below-defined Standby Bond Purchase Agreement. See the subsection titled "Summary of Standby Bond Purchase Agreement – Termination of Standby Bond Purchase Agreement with Notice and Mandatory Tender."

BONDHOLDERS' RIGHT TO TENDER SERIES 1 BONDS

With respect to Series 1 Bonds bearing interest at Weekly Variable or Monthly Variable Rate, any holder of such Series 1 Bonds has the right to tender such Series 1 Bonds to the Fiscal Agent for purchase by the close of business on any Business Day at the principal amount thereof plus accrued interest, if any, upon at least seven (7) days' written notice to the Fiscal Agent and delivery of such Series 1 Bonds to the Fiscal Agent. See "The Series 1 Bonds - Redemption and Purchase of Series 1 Bonds - Purchase of Series 1 Bonds Upon Demand by Holder." The right of a Bondholder to optionally tender its Series 1 Bonds is subject to suspension upon the occurrence of an "Immediate Termination Event" under the Standby Bond Purchase Agreement. See the subsection titled "Summary of Standby Bond Purchase Agreement – Immediate Termination of Standby Bond Purchase Agreement."

LIQUIDITY FOR THE SERIES 1 BONDS

The State will enter into a Standby Bond Purchase Agreement dated as of April 1, 2003 (the "Standby Bond Purchase Agreement") with Fleet National Bank (the "Bank") with respect to the Series 1 Bonds. The Standby Bond Purchase Agreement is a liquidity facility that requires that Bank to purchase the Series 1 Bonds tendered or deemed tendered to the extent not remarketed, subject to the provisions therefor set forth in the Standby Bond Purchase Agreement.

The Standby Bond Purchase Agreement is scheduled to expire on May 15, 2005, provided that the obligation of the Bank to purchase the Series 1 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events. See the section herein entitled “Standby Bond Purchase Agreement” and Appendix D attached hereto. The Bank is not providing credit support for regularly scheduled principal and interest on the Series 1 Bonds.

SECURITY FOR THE SERIES 1 BONDS

The scheduled payment of principal and interest on the Series 1 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the remarketing of the Series 1 Bonds by Financial Security Assurance Inc. See “Bond Insurance.”

The Series 1 Bonds are also payable from and secured by the revenues of the State pledged under the Act (the “Pledged Revenues”) and other receipts, funds and monies pledged therefor pursuant to the Act and the Indenture. 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; license permit and fee revenues; motor vehicle related fines, penalties and other charges as defined in the Act, including enacted increases of all the foregoing sources; and certain transportation related federal revenues of the State. All Pledged Revenues received and collected are promptly credited to the Special Transportation Fund created by the General Assembly. The Act provides that the Treasurer shall apply the resources in the Special Transportation Fund first to pay or to provide for payment of all Debt Service Requirements on the Prior Bonds and the Bonds in such amount or amounts and in such manner as required by the Prior Indenture and the Indenture. See “Nature Of Obligation.”

PRIOR BONDS

The Series 1 Bonds are secured by a second lien on the Pledged Revenues and are junior in right of payment to the Prior Bonds, as hereinafter defined in the section entitled “Introduction”, issued under the Prior Indenture, as hereinafter defined in the section entitled “Introduction.” Amounts that can be issued under the Prior Indenture are not limited except as set forth hereafter. In the Indenture, the State covenants that additional Prior Bonds will not be issued unless such Prior Bonds can be issued in compliance with the tests for the issuance of Bonds under the Indenture. These tests require that (i) Pledged Revenues actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months were equal to at least two (2) times the aggregate Principal and Interest Requirements on Prior Bonds, Principal and Interest Requirements on Bonds and Interest Requirements on Notes for such period, after deducting payments for reserves as required, and (ii) Pledged Revenues actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months also were equal to at least two (2) times the aggregate Principal and Interest Requirements on Prior Bonds, Principal and Interest Requirement on Bonds and Interest Requirements on Notes for the current and each succeeding State fiscal year for all Prior Bonds, Bonds and Notes then outstanding and the Bonds to be issued, in each case after certain adjustments and after deducting payments for reserves as required.

The Prior Indenture provides that the Pledged Revenues be applied monthly to the debt service requirements for the Prior Bonds as follows: (1) To the bond service sub-account under the Prior Indenture, an amount equal to the sum of the aggregate unpaid principal accruing on prior serial bonds in the next ensuing month, plus the unpaid interest accruing on outstanding Prior Bonds in the next ensuing month, plus one-twelfth (1/12th) of the aggregate Principal and Interest Requirements on Prior Bonds for the next ensuing twelve months; (2) To the redemption sub-account under the Prior Indenture, the aggregate Amortization Requirements (as defined in the Prior Indenture), accruing in the next ensuing month for each of the term bonds under the Prior Indenture then outstanding; and (3) To the reserve account under the Prior Indenture, an amount equal to the debt service reserve requirement under the Prior Indenture. All of these payments under the Prior Indenture must be met before any payments are made to any accounts under the Indenture. See “Nature Of Obligation.”

REVENUE COVENANT

Pursuant to the Act and under the Indenture, the State has covenanted with Bondholders to impose, charge, raise, levy, collect and apply the Pledged Revenues and other receipts, funds or monies 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 Prior Bonds or Bonds 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 taxes, fees, charges or other receipts constituting the Pledged Revenues as may be necessary to fulfill the terms of the proceedings authorizing the issuance of the Bonds.

In addition, the State has covenanted in the Indenture to provide Pledged Revenues in each fiscal year beginning in the first full fiscal year after the issuance of Bonds, after deducting payments out of such revenues for reserves required thereunder, computed as of the final Business Day of such fiscal year, in an amount at least equal to two (2) times the aggregate Principal and Interest Requirements on Prior Bonds for all Prior Bonds outstanding in such fiscal year, Principal and Interest Requirements on Bonds for all Bonds outstanding in such fiscal year and Interest Requirements on Notes in such fiscal year.

The 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 the Prior Bonds and the Bonds for the current or any future fiscal year. See "Nature of Obligation."

	WEEKLY	MONTHLY	SEMIANNUAL	OTHER	FIXED
RATE PERIOD	Seven-day period commencing on each Wednesday	From the first Wednesday of a calendar month to and including the first day preceding the first Wednesday of the next month	From the first Business Day of a Computation Period to and including the first day preceding the first Business Day of the sixth succeeding calendar month	From the first Business Day of a Computation Period to a date stated in a notice by the State.	From conversion date to maturity or prior redemption
SCHEDULED INTEREST PAYMENT DATE	First Business Day of each calendar month	First Business Day of each calendar month	June 1 and December 1 or next succeeding Business Day	June 1 and December 1 or next succeeding Business Day	June 1 and December 1 or next succeeding Business Day
AUTHORIZED DENOMINATIONS	\$100,000 and integral multiples thereof	\$100,000 and integral multiples thereof	\$100,000 and integral multiples thereof	\$100,000 and integral multiples thereof	\$5,000 and integral multiples thereof
INTEREST RATE CALCULATION METHOD	Actual 365/366 days	Actual 365/366 days	360-day year of twelve 30-day months	360-day year of twelve 30-day months	360-day year of twelve 30-day months
RECORD DATE	Business Day preceding Interest Payment Date	Business Day preceding Interest Payment Date	15 th day of month preceding Interest Payment Date	15 th day of month preceding Interest Payment Date	15 th day of month preceding Interest Payment Date
INTEREST DETERMINATION DATE	Tuesday or next Business Day	Fourth Business Day prior to the first Wednesday of each month	On or before a Business Day not more than 15 nor less than 12 days prior to the beginning of each Computation Period	On or before a Business Day not more than 15 nor less than 12 days prior to the beginning of each Computation Period	As stated in notice of conversion to Fixed Rate
INTEREST ADJUSTMENT DATE	Wednesday of each week	First Wednesday of each calendar month	First day of each Computation Period	First day of each Computation Period	Interest Payment Date not less than 45 days after date of notice
FIRST INTEREST PAYMENT DATE AFTER CONVERSION	Any Interest Payment Date at least 40 days after date of notice	Any Interest Payment Date at least 40 days after date of notice	Any Interest Payment Date which is at least 55 days after date of notice	Any Interest Payment Date which is at least 55 days after date of notice	Any Interest Payment Date which is at least 45 days from notice.
MODE ADJUSTMENT NOTICE	Fiscal Agent to mail notice to owner not later than 30 days preceding the date set for change to Weekly Rate Period	Fiscal Agent to mail notice to owner not later than 30 days preceding the date set for change to Monthly Rate Period	Fiscal Agent to mail notice to owner not later than 45 days preceding the date set for change to Semiannual Rate Period	Fiscal Agent to mail notice to owner not later than 45 days preceding the date set for change to Other Rate Period	Fiscal Agent to mail notice to owner not less than 30 days preceding the date set as the proposed conversion date
OPTIONAL TENDER NOTICE AND DATE	Any Business Day upon receipt by Fiscal Agent of notice at least 7 days prior to such Business Day	Any Business Day upon receipt by Fiscal Agent of notice at least 7 days prior to such Business Day	No Optional Tender	No Optional Tender	No Optional Tender
MANDATORY TENDER DATE	Mandatory tender on (i) any proposed conversion to a Semiannual Rate Period, Other Rate Period or Fixed Rate Period; and (ii) any Expiration of Standby Bond Purchase Agreement or provision of Alternate Security or notice of default under Standby Bond Purchase Agreement	Mandatory tender on (i) any proposed conversion to a Semiannual Rate Period, Other Rate Period or Fixed Rate Period; and (ii) any Expiration of Standby Bond Purchase Agreement or provision of Alternative Security or notice of default under Standby Bond Purchase Agreement	Mandatory tender on (i) any proposed conversion to a Semiannual Rate Period, Other Rate Period or Fixed Rate Period; (ii) the day preceding the first day of any Computation Period; and (iii) any Expiration of Standby Bond Purchase Agreement or provision of Alternate Security or notice of default under Standby Bond Purchase Agreement	Mandatory tender on (i) any proposed conversion to a Semiannual Rate Period, Other Rate Period or Fixed Rate Period; (ii) the day preceding the first day of any Computation Period; and (iii) any Expiration of Standby Bond Purchase Agreement or provision of Alternate Security or notice of default under Standby Bond Purchase Agreement	Mandatory tender on any conversion to a Fixed Rate Period

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\$142,900,000
State of Connecticut
Second Lien Special Tax Obligation Bonds
Transportation Infrastructure Purposes (Variable Rate Demand)
Series 1

INTRODUCTION

This Remarketing Circular (including the cover page and appendices) provides certain updated information in connection with the State of Connecticut Second Lien Special Tax Obligation Bonds, Transportation Infrastructure Purposes (Variable Rate Demand), Series 1 (the "Series 1 Bonds") originally issued in the principal amount of \$250,000,000 by the State of Connecticut (the "State") on December 19, 1990. Special tax obligation bonds for transportation infrastructure purposes are authorized to be issued by Public Act No. 84-254 of the General Assembly of the State of Connecticut, February Session of 1984, as amended (the "Act") and other public and special acts adopted by the General Assembly. Acting pursuant to such authority, the State authorized the issuance of special tax obligation bonds as both senior lien bonds (referred to herein as "Prior Bonds" or "Senior Bonds") and junior lien bonds (referred to herein as the "Bonds" or "Second Lien Bonds"), of which the Series 1 Bonds were the first series.

The Prior Bonds are issued pursuant to the Act and under and 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 collectively, the "Prior Indenture" or "Senior Indenture"). U.S. Bank National Association, Hartford, Connecticut is the successor trustee under the Prior Indenture.

The Bonds are junior in right of payment of principal and interest to the Prior Bonds, and are issued pursuant to the Act and an Indenture of Trust entered into by the State and The Connecticut National Bank, the original trustee, dated as of December 1, 1990, as supplemented by the First through Third Supplemental Indentures, 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 collectively, the "Indenture"). U.S. Bank National Association, Hartford, Connecticut is the successor trustee (the "Trustee") under the Indenture.

The Indenture constitutes a contract between the State and the holders of all Bonds issued thereunder. Pursuant to the Indenture, all Bonds issued and to be issued thereunder are equally and ratably secured by the pledges and covenants contained therein, with certain exceptions. In particular, the credit enhancement and liquidity provided for one series of Bonds is not available for the other series of Bonds.

There follows in this Remarketing Circular a description of the transportation infrastructure program, the nature of the obligation and the security therefor, the terms of the Series 1 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 Indenture. All references herein to the Act and the Indenture 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 Series 1 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the 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 1985-2008, which is to be met from federal, State, and local funds, is currently estimated at \$17.6 billion. The State's share of such cost, estimated at \$6.3 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 Prior Bonds and 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 1985-2008 to be financed by the Prior Bonds and the Bonds is currently estimated at \$5.7 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 \$3.9 billion is required for fiscal years 2004-2008. The \$3.9 billion is comprised of \$877.2 million from the anticipated issuance of new special tax obligation bonds, \$61.3 million in anticipated revenues, and \$3.0 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 obligations. The Series 1 Bonds are neither payable from nor secured by the Infrastructure Improvement Fund.

NATURE OF OBLIGATION

Legal Authority – State Bond Commission

The State issues Bonds pursuant to the Act, the Indenture 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 to refund certain general obligation bonds of the State issued for transportation purposes and authorizes the execution of the Indenture as a contract of the State with the holders of the Bonds. The Act expressly provides that holders of Prior Bonds and 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 Indenture. Pursuant to the Act and under the Prior Indenture and Indenture, 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 Special Transportation Fund. Other receipts, funds or moneys pledged under the Indenture include investment earnings and moneys in the funds and accounts established thereunder, subject to the application thereof as provided for in the Indenture.

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 Prior Bonds, Bonds or on Notes in such amount or amounts and in such manner as required by the Prior Indenture and Indenture. 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 Prior Indenture and the Indenture and are the accounts from which payments of Principal and Interest Requirements on the Prior Bonds and the Bonds, and Interest Requirements on Notes (as defined in the Prior Indenture and the 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 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, (which has occurred with respect to the Series 1 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, subject only to the lien and pledge of the Prior Indenture, such principal and interest as the same shall accrue, but only from the Pledged Revenues and other receipts, 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, subject only to the lien and pledge of the Prior Indenture, 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.

Prior Bonds

The Series 1 Bonds are secured by a second lien on the Pledged Revenues and are junior in right of payment to the Prior Bonds issued under the Prior Indenture. Amounts that can be issued under the Prior Indenture are not limited, except as described hereafter. In the Indenture, the State covenants that additional Prior Bonds will not be issued unless such Prior Bonds can be issued in compliance with the test for the issuance of Bonds under the Indenture. These tests require that (i) Pledged Revenues actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months were equal to at least two (2) times the aggregate Principal and Interest Requirements on Prior Bonds, Principal and Interest Requirements on Bonds and Interest Requirements on Notes for such period, after deducting payments for reserves as required, and (ii) Pledged Revenues actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months also were equal to at least two (2) times the aggregate Principal and Interest Requirements on Prior Bonds, Principal and Interest Requirements on Bonds and Interest Requirements on Notes for all Prior Bonds, Bonds and Notes then outstanding and the Bonds to be issued for the current and each succeeding State fiscal year, in each case after certain adjustments and after deducting payments for reserves as required.

The Prior Indenture provides that the Pledged Revenues be applied monthly to the debt service requirements for the Prior Bonds as follows: (1) To the bond service sub-account under the Prior Indenture an amount equal to the sum of the aggregate unpaid principal accruing on serial Prior Bonds in the next ensuing month, plus the unpaid interest accruing on outstanding Prior Bonds in the next ensuing month, plus one-twelfth (1/12th) of the aggregate Principal and Interest Requirements on Prior Bonds for the next ensuing twelve (12) months; (2) To the redemption sub-account under the Prior Indenture the aggregate Amortization Requirements (as defined in the Prior Indenture), accruing in the next ensuing month for each of the term bonds under the Prior Indenture then outstanding; and (3) To the reserve account under the Prior Indenture an amount necessary to maintain the debt service reserve requirement under the Prior Indenture. All of these payments under the Prior Indenture must be met before any payments are made to any accounts under the Indenture.

Agreements of the State

Pursuant to the Act and under the Indenture, the State has covenanted with the holders 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 Bonds or 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 Bonds, including the Pledged Revenue coverage requirement described below.

With respect to such Pledged Revenue coverage requirement, the 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 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 Prior Bonds, Principal and Interest Requirements on Bonds and Interest Requirements on Notes in such fiscal year.

In the event the State does not meet the foregoing coverage requirement, such a failure does not constitute an event of default under the Indenture unless, within one year after written notice, the State shall not enact legislation such that the conditions contained in the Indenture would be satisfied if Additional Bonds were then to be issued.

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.

Pursuant to the Act, the 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 Bonds and 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 the 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, as identified, will be credited to the Special Transportation Fund held by the State, and, provided that the State shall have made all payments theretofore required to be made under the Prior Indenture, the State will deposit with the Trustee as provided by the Indenture to the credit of the following accounts the following sums:

(a) to the credit of the Bond Service Sub-Account, Note Repayment Account and 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 (i) to pay Debt Service Requirements (other than Amortization Requirements) with respect to Bonds, and any amounts owing under any Qualified Swap and any reimbursement agreement entered into with respect to a credit facility providing for payment of principal, purchase price or interest on Bonds, (ii) to make the amount then held to the credit of the Note Repayment Account held for payment of interest equal to the unpaid interest payable on Notes and interest payable pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Notes, and (iii) to make the amount then held to the credit of the Redemption Sub-Account equal to the aggregate Amortization Requirements, if any; and

(b) to the credit of the Reserve Account, from time to time, but at least monthly, out of any balance remaining after making the deposits under subparagraph (a) above (or the entire balance if less than the required amount), the lesser of (i) the amount, if any, necessary to maintain such Reserve Account at the Debt Service Reserve Requirement or (ii) one-twelfth (1/12th) of the Debt Service Reserve Requirement, or (iii) if a shortfall arises because of an increase in the Debt Service Reserve Requirement arising out of a reestablishment of Principal and Interest Requirements in respect of a series of Bonds bearing interest at a variable rate, one-twelfth (1/12th) of such increase.

Unless an earlier time is specified in the Supplemental Indenture entered into with respect to a series of Bonds, in a reimbursement agreement entered into with respect to a credit facility or in a Qualified Swap, such deposits under subparagraph (a) shall be made at the time such funds are required to be applied by the Trustee to the purposes specified.

If at any time any amounts required to be paid to the Trustee under the Indenture have not been so paid, no payments shall be made from the Special Transportation Fund except for Debt Service Requirements with respect to the Prior Bonds, Bonds and 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 Indenture to be paid by the Treasurer forthwith to the trustee under the Prior Indenture or the Trustee, and shall not be diverted to any other purpose, until such accrued and unpaid amounts have been paid in full.

The 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.

Additional Bonds

Additional special tax obligation bonds may be issued by the State under the Prior Indenture, the Indenture or as subordinated obligations in such amounts as shall be authorized by the State. All such Prior Bonds will be senior in right of payment of principal and interest to the Bonds. The State has currently authorized special tax obligation bonds in principal amounts not exceeding in the aggregate \$5,320,314,104 of which \$323,663,352 is authorized and unissued. Of such \$323,663,352 unissued amount, \$308,663,352 has been authorized by the State Bond Commission. It is anticipated that additional special tax obligation 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, the amount of special tax obligation bonds issuable under the Indenture on a parity with the Series 1 Bonds, is not limited, except that the State has covenanted in the Indenture not to issue additional bonds under the Prior Indenture unless Bonds could have been issued pursuant to the Indenture. Bonds may not be issued pursuant to the Indenture unless the issuance of such Bonds is in compliance with the following conditions:

- (1) Pledged Revenues and other receipts, funds or moneys pledged thereunder, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged thereunder for reserves required by the Prior Indenture or the Indenture, actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months are equal to at least two (2) times the aggregate Principal and Interest Requirements on Prior Bonds, Principal and Interest Requirements on Bonds and Interest Requirements on 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 thereunder only to reflect any increase(s) or decrease(s) in taxes, fees or charges enacted to be in effect at the time of issuance, 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 thereunder, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged thereunder for reserves required by the Prior Indenture or the Indenture, actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months are equal to at least two (2) times the aggregate Principal and Interest Requirements on Prior Bonds, Principal and Interest Requirements on Bonds, including the Additional Bonds to be issued, and Interest Requirements on Notes, for the current and each succeeding State fiscal year, after adjusting such Pledged Revenues and other receipts, funds or moneys pledged thereunder 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 their examination of the Special Transportation Fund pursuant to Section 7.4 of the 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 Prior Bonds and 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.

Refunding Bonds

The Act provides and the Prior Indenture and the Indenture permit the State to issue additional special tax obligation bonds to refund any outstanding special tax obligation bonds and certain general obligation bonds issued for transportation purposes, at any time or 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).

Qualified Swaps

The Indenture contemplates that the State may, from time to time and for varying lengths of time, enter into interest rate swap agreements for the purpose of hedging against interest rate fluctuations arising from the issuance of Bonds as variable rate obligations. Such swap agreements typically provide for one party (e.g. the State) to make payments to a swap counterparty on a fixed interest rate basis, and for the swap counterparty to make reciprocal payments based on a variable interest rate basis. If such a swap agreement constitutes a “Qualified Swap” under the terms of the Indenture, then for purposes of the definition of “Principal and Interest Requirements of Bonds,” Bonds in respect of which the swap agreement exists are treated as bearing interest at the fixed rate paid by the State under the swap agreement, whether higher or lower than the rate of interest actually borne by the Bonds. In turn, the Debt Service Reserve Requirement, the pledged revenue coverage requirements and the conditions for issuance of additional Bonds are based on such fixed rate. The Series 1 Bonds are the subject of Qualified Swaps which provide the practical effect of fixed rate bonds.

Obligations to the provider of a Qualified Swap are secured on a parity, except as described herein, with Bonds by the lien of the Indenture, including the Reserve account, and the second call on Pledged Revenues. Payments are made by the State to the Trustee as necessary to make payments under a Qualified Swap, which payments are deposited to the Bond Service Sub-Account of the Debt Service Fund and disbursed by the Trustee when required. Payments by the provider of the Qualified Swap are made to the Trustee and deposited to the credit of the Bond Service Sub-Account.

A “Qualified Swap” is defined in the Indenture as any financial arrangement (i) 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 (the “Swap Amount”) equal to all or part of the outstanding principal amount of a series of Bonds issued under the Indenture, 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 arrangements (which need not be the same as the actual rate of interest borne by the 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 Bonds. A “Qualified Swap Provider” is defined in the Indenture as 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 Ratings Services, or the equivalent thereto in the case of any other rating agency.

Interest rate swap arrangements currently available typically provide for the variable rate component paid to the State to vary according to an index or rates available in specific markets (e.g., LIBOR). This index or rate may not fluctuate in exactly the same manner as the rate on the series of Bonds in respect of which a Qualified Swap is entered into, and to that extent Principal and Interest Requirements on Bonds may not precisely reflect aggregate Bond debt service and net swap payments/receipts required to be made/received by the State. Arrangements made in respect to a Qualified Swap do not alter the State’s obligation to pay principal and interest on Bonds from the sources available. In addition, such swap arrangements typically provide for early termination in certain events, which could result in the State being required to make unanticipated termination payments. Such payments, if due, may be substantial, are paid on the same basis as “Debt Service Requirements” in the Indenture and are thereby secured by the pledge of the Indenture but are not included within Principal and Interest Requirements on Bonds. The amount of any such liability arising out of such termination events would be determined by events existing at the time of termination (if such termination should occur) and cannot be predicted.

Bond Anticipation Notes and Subordinated Indebtedness

Pursuant to the Act and the Indenture, interest on Notes issued in accordance with the Indenture and in anticipation of the receipt of the proceeds of Prior Bonds or Additional Bonds is payable on a parity with principal and interest on the Bonds. See “Source of Payment - Flow of Funds.” No such Notes, under the terms of the Indenture, shall be issued (i) unless the Prior Bonds or Additional Bonds in anticipation of which they are to be issued have been duly authorized in accordance with the Act, the Prior Indenture and the Indenture, and (ii) if the aggregate principal amount of all Notes then outstanding and to be issued exceeds \$50,000,000, unless, as of the date of issuance of such Notes, the State could have issued under the terms of the 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 (30) 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 Prior Bonds been issued at such time. The Notes shall be special

obligations of the State payable solely from the proceeds of Bonds or Prior Bonds and, to the extent provided in the Indenture or deemed necessary or desirable by the State, from the Special Transportation Fund. The Indenture provides that any obligation of the State to pay the unrefunded principal of 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 Notes, shall be subordinate to any obligation of the State to pay the principal and interest with respect to the Prior Bonds or the Bonds or interest with respect to Notes. The Indenture further provides that the State may not enter into any contract with any Noteholder inconsistent with the terms of the Indenture. The full faith and credit of the State shall not be pledged to the repayment of such Notes and the State shall not be obligated to make appropriations from its general fund for the repayment of such Notes. The Prior Indenture contains provisions for the issuance of bond anticipation notes thereunder. The State has covenanted in the Indenture not to issue bond anticipation notes under the Prior Indenture.

Nothing in the 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 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 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 Bonds.

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 Indenture 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.

CORPORATION BUSINESS TAX AS APPLIED TO THE SERIES 1 BONDS

Under Chapter 208 of the Connecticut General Statutes, any corporation, joint stock company or association, or a fiduciary thereof is subject to an annual tax or excise (the "Corporation Business Tax") upon its franchise for the privilege of carrying on or doing business, owning or leasing property within the State in a corporate capacity or maintaining an office in the State. Limited classes of companies are specifically excluded from the application of the tax. On the delivery date of the Series 1 Bonds, Section 7.9 of the Indenture and statements in the Official Statement for the Series 1 Bonds represented that interest on the Series 1 Bonds would be excluded from "gross income" for purposes of the Corporation Business Tax.

The State Department of Revenue Services received claims for refund of the Corporation Business Tax for the years 1986 through 1993 aggregating more than \$87,000,000. Such refund claims were based on the assertion that it was improper to include in gross income of the taxpayer interest on federal obligations while excluding from such income interest on certain State obligations, including the Series 1 Bonds and certain other Prior Bonds. On March 8, 1995, the Connecticut General Assembly enacted legislation (P.A. 95-2) taking by eminent domain the rights of holders to exclude interest on any State obligation from gross income for purposes of the Corporation Business Tax, effective for interest accrued on or after January 1, 1992. The State agreed to pay just compensation to holders for the rights taken. P.A. 95-2 was intended to eliminate the basis for such refund claims for 1992 and later years.

Notwithstanding the covenant of the State in Section 7.9 of the Indenture and representations made in the Official Statement for the Series 1 Bonds relating to the exclusion of interest from "gross income" for purposes of the Corporation Business Tax, interest on the Series 1 Bonds is included in the definition of "gross income" for purposes of the Corporation Business Tax.

THE SERIES 1 BONDS

Introductory Note

The Series 1 Bonds are being remarketed in connection with the replacement of the letter of credit issued by Commerzbank Aktiengesellschaft, acting through its New York Branch (the “Existing Letter of Credit”). The Existing Letter of Credit provided both credit enhancement and liquidity. As credit enhancement, it was intended to protect holders from loss arising from a failure of the State to timely pay principal of and interest on the Series 1 Bonds. As a liquidity facility, the Existing Letter of Credit was intended to provide funds for the purchase of tendered Series 1 Bonds in the event of a failed remarketing.

The First Supplemental Indenture permits the replacement of the Existing Letter of Credit with an Alternate Security, which may be two separate financial arrangements, each providing one of the two functions provided by the Existing Letter of Credit. Pursuant to the First Supplemental Indenture, the State is replacing the credit enhancement function of the Existing Letter of Credit with the Policy issued by Financial Security Assurance, Inc., and the liquidity function with the Standby Bond Purchase Agreement (the “Standby Bond Purchase Agreement”) between the State and Fleet National Bank (the “Bank”).

In connection with the replacement of the Existing Letter of Credit and to implement the separate financial arrangements permitted by the definition of “Alternate Security,” the State is amending the First Supplemental Indenture (the “Amendment”) to specifically incorporate references to the Policy and the Standby Bond Purchase Agreement as “Alternate Security” and to incorporate the Policy and the Standby Bond Purchase Agreement in the definition of Letter of Credit when the context so requires in the First Supplemental Indenture. The Amendment provides that when “Letter of Credit” is used in the sense of credit enhancement, it means the Policy and when “Letter of Credit” is used in the sense of a liquidity facility, it means the Standby Bond Purchase Agreement. The Amendment further provides that when certain defined terms are used or certain actions are required to be taken, such terms and actions refer to correlative matters with respect to the Policy, the Standby Bond Purchase Agreement or the respective providers.

In the following discussion, descriptions of the First Supplemental Indenture or its particular provisions (whether or not noted as being provisions of the First Supplemental Indenture) reflects the effect of the above-described interpretation provided in the Amendment.

General

The Series 1 Bonds are dated the date of the original delivery thereof and were issued in the original aggregate principal amount of \$250,000,000. Each Series 1 Bond is issuable only in fully registered form in denominations of \$100,000 and any integral multiple thereof unless and until conversion to a Fixed Interest Rate or Rates occurs and thereafter in denominations of \$5,000 and any integral multiple thereof. The Series 1 Bonds are transferable and exchangeable for Series 1 Bonds of authorized denominations at the designated office of the Registrar.

The principal of and premium, if any, on Series 1 Bonds bearing interest at a rate other than a Fixed Interest Rate or Rates will be payable upon their presentation and surrender at the corporation trust office of U.S. Bank National Association (the “Fiscal Agent”), in Hartford, Connecticut. The Series 1 Bonds will bear interest on their unpaid principal amounts from the date of issue payable during a Weekly Rate Period or a Monthly Rate Period therefore, on the first Business Day each calendar month, and during a Fixed Rate Period, Semiannual Rate Period or Other Rate Period therefore, on each June 1 or December 1, or, if such day is not a Business Day, the next succeeding Business Day (the “Interest Payment Date”). With respect to any Interest Payment Date on which any Series 1 Bonds bear interest at a Weekly Variable Rate or a Monthly Variable Rate, the record date is the close of business on the Business Day immediately preceding each Interest Payment Date, and with respect to any Interest Payment Date on which any Series 1 Bonds bear interest at a Semiannual Rate, an Other Rate or Fixed Interest Rate, the fifteenth (15th) day of the calendar month next preceding an Interest Payment Date.

The Series 1 Bonds may be transferred by the registered holder thereof in person or by his duly authorized attorney in writing, upon surrender thereof, to the Registrar together with a written instrument of transfer executed by the registered holder or his duly authorized attorney.

J.P. Morgan Securities, Inc. has entered into a Remarketing Agreement with the State and will serve as Remarketing Agent for the Series 1 Bonds. The Remarketing Agent will carry out the duties and obligations proved for the

Remarketing Agent under and in accordance with the provisions of the Indenture. The principal office of the Remarketing Agent (for purposes of its responsibilities as Remarketing Agent for the Series 1 Bonds) is located at 270 Park Avenue, New York, New York 10017. The Remarketing Agent is the appointee of the State for purposes of determining the interest rate on the Series 1 Bonds and with respect to the remarketing of the Series 1 Bonds and may be removed or replaced by the State.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, New York, acts as a securities depository for the Series 1 Bonds (such Series 1 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 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, 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.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its participant, to the Fiscal Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Fiscal Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Fiscal Agent's DTC account.

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 Series 1 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 Series 1 Bonds.

For so long as Cede & Co. is the registered owner of the Series 1 Bonds, all references herein to the owner or owners of the Series 1 Bonds shall mean Cede & Co. and shall not mean any Beneficial Owner or Beneficial Owners of the Series 1 Bonds nor any DTC Participant or Indirect Participant, unless specific exception has been expressed herein.

Interest on the Series 1 Bonds

Weekly Variable Rate. During any Weekly Rate Period, the Remarketing Agent will determine the Weekly Variable Rate with respect to the Series 1 Bonds being converted to or bearing interest at the Weekly Variable Rate on each Interest Determination Date with respect to a Weekly Rate Period, which is Tuesday of each calendar week or, if Tuesday is not a Business Day, the next Business Day, and that rate will become effective on Wednesday of such week. The Weekly Variable Rate on such Series 1 Bonds determined by the Remarketing Agent will be the lowest rate of interest which, in the reasonable judgment of the Remarketing Agent, would enable it to sell such Series 1 Bonds at a price equal to the principal amount thereof plus accrued interest thereon, under prevailing market conditions as of the date of determination. If the Remarketing Agent fails to establish or announce a Weekly Variable Rate on the applicable Interest

Determination Date, the Weekly Variable Rate to take effect on Wednesday of such week will be the interest rate in effect on the last Interest Determination Date. In no event will the interest rate on the Series 1 Bonds (other than Series 1 Bonds held by the Bank or its designee (“Bank Bonds”)) exceed 12%.

During any Weekly Rate Period, interest on the Series 1 Bonds bearing interest at the Weekly Variable Rate will be computed on the basis of a year 365 or 366 days, as applicable, for the actual number of days elapsed.

Monthly Variable Rate. During any Monthly Rate Period, the Remarketing Agent will determine the Monthly Variable Rate with respect to the Series 1 Bonds being converted to or bearing interest at the Monthly Variable Rate on each Interest Determination Date with respect to a Monthly Rate Period, which is the fourth Business Day prior to the first Wednesday of each calendar month, and that rate will become effective on the first Wednesday of such calendar month. The Monthly Variable Rate on such Series 1 Bonds determined by the Remarketing Agent will be the lowest rate of interest which, in the reasonable judgment of the Remarketing Agent, would enable it to sell such Series 1 Bonds at a price equal to the principal amount thereof plus accrued interest thereon, under prevailing market conditions as of the date of determination. If the Remarketing Agent fails to establish or announce a Monthly Variable Rate on the applicable Interest Determination Date, the Monthly Variable Rate to take effect on the first Wednesday of such calendar month will be the interest rate in effect on such Interest Determination Date. In no event will the interest rate on the Series 1 Bonds (other than Bank Bonds) exceed twelve percent (12%).

During any Monthly Rate Period, interest on the Series 1 Bonds bearing interest at the Monthly Variable Rate will be computed on the basis of a year of 365 or 366 days, as applicable, for the actual number of days elapsed.

Semiannual Rate and Other Rate. During any Semiannual Rate Period or Other Rate Period, the Remarketing Agent will determine such Semiannual Rate or Other Rate with respect to the Series 1 Bonds being converted to or bearing interest at the Semiannual Rate or Other Rate on each applicable Interest Determination Date, which is on or before a Business Day not more than 15 nor less than 12 days prior to the beginning of the Computation Period, and that rate will become effective on the first Business Day of such Computation Period. A Semiannual Rate or an Other Rate on such Series 1 Bonds determined by the Remarketing Agent will be the lowest rate of interest which, in the reasonable judgment of the Remarketing Agent, would enable it to sell such Series 1 Bonds at a price equal to the principal amount thereof plus accrued interest thereon, under prevailing market conditions as of the date of determination. If the Remarketing Agent fails to establish or announce a Semiannual Rate or an Other Rate on the applicable Interest Determination Date, the Semiannual Rate or the Other Rate to take effect on the first Business Day of the next Computation Period will be the interest rate in effect during the preceding Computation Period. In no event will the interest rate on the Series 1 Bonds (other than Bank Bonds) exceed twelve percent (12%).

During any Semiannual Rate Period or Other Rate Period, interest on the Series 1 Bonds bearing interest at a Semiannual Rate or Other Rate will be computed on the basis of a 360-day year of twelve 30-day months.

Fixed Interest Rate. From the Interest Payment Date on which Fixed Interest Rates become effective until maturity, each Series 1 Bond converted to a Fixed Interest Rate or Rates will bear interest at a Fixed Interest Rate or Rates. The Fixed Interest Rate or Rates applicable to each specific Series 1 Bond maturity will be computed on the basis of a 360-day year of twelve 30-day months.

After receiving direction from the State, the Remarketing Agent, not earlier than the Business Day which is at least fourteen (14) calendar days prior to the date of conversion and not later than the last Business Day prior to the date of conversion, will establish the Fixed Interest Rate or Rates, which shall be the lowest rate or rates of interest, which in the reasonable judgment of the Remarketing Agent would enable it to sell the Series 1 Bonds which are being converted at a price equal to the principal amount thereof plus accrued interest, under prevailing market conditions as of the date of determination. If the State so directs, however, the interest rates may be interest rates necessary to enable the Remarketing Agent to sell the Series 1 Bonds at a premium.

Establishment of and Conversion to a Weekly Variable Rate, Monthly Variable Rate, Semiannual Rate or Other Rate. The process of establishing and determining a Weekly Variable Rate, Monthly Variable Rate, Semiannual Rate or Other Rate is initiated by the State’s delivery of written notice to the Fiscal Agent, the Trustee, the Bank and the Remarketing Agent. The State’s notice will specify (i) a date, which shall be an Interest Payment Date, at least forty (40) days (fifty-five (55) days, in the case of a conversion to a Semiannual Rate Period or Other Rate Period) from the date of the notice, on which a Weekly Rate Period, Monthly Rate Period, Semiannual Rate Period or Other Rate Period will be established, (ii) if an Other Rate Period or a Semiannual Rate Period is specified, that a replacement Standby Bond

Purchase Agreement or an amendment to the Standby Bond Purchase Agreement to cover the appropriate amount of interest (i.e. 205 days at an assumed interest rate of twelve percent (12%) per annum) has been provided, and (iii) if a Semiannual Rate Period or an Other Rate Period is being established, the notice will specify the Computation Period for that Semiannual Rate Period or Other Rate Period. Upon receipt of the State's notice, the Remarketing Agent will determine the applicable interest rate in accordance with the provisions noted above. The notice from the State to the Fiscal Agent, the Trustee, the Bank and the Remarketing Agent must be accompanied by an opinion of nationally recognized bond counsel stating that the contemplated conversion is authorized or permitted by the Indenture and the Act and that such a conversion effected in accordance with the provisions of the Indenture will not adversely affect the exclusion of the interest on the Series 1 Bonds from gross income for federal income tax purposes. Subject to the conditions set forth in the Indenture, the Series 1 Bonds may be converted from one interest Period to an interest Period of different duration in whole or in part.

Not less than thirty (30) days prior to the effective date of conversion, the Fiscal Agent will mail a notice to the holders of the Series 1 Bonds stating that: (i) that the interest rate on the designated Series 1 Bonds is scheduled to be converted to an alternate interest rate which shall be in effect for the Computation Period, (ii) the effective date of such conversion, (iii) that the effective date of such conversion shall be an Interest Payment Date on which interest will be paid at the applicable rate theretofore prevailing, (iv) that thereafter interest will be determined on the basis of the new Computation Period and (v) that all outstanding Series 1 Bonds being converted will be purchased by the Fiscal Agent on such conversion date at a price equal to 100% of the principal amount thereof except Series 1 Bonds or portions thereof which the holder shall direct the Fiscal Agent not to purchase. Such notice shall be given by registered or certified mail to the holders of the Series 1 Bonds whose names appear on the registration books kept by the Registrar.

The Remarketing Agent is required to give notice of the rate so determined to the Fiscal Agent on the applicable Interest Determination Date. The Fiscal Agent is required to give notice of the rate so determined on the Interest Determination Date to the State, the Trustee, and the Bank. Notice of the rate so determined shall be (i) sent by the Fiscal Agent only to the registered holders requesting such notice and (ii) made available orally to all registered holders who telephone the Remarketing Agent and request the rate. The interest rate on the Series 1 Bonds so determined will be conclusive and binding upon the holders of the Series 1 Bonds.

Conversion to Fixed Interest Rates. The process of converting a variable rate of interest on the Series 1 Bonds to a Fixed Interest Rate or Rates in part or in whole is initiated by the State delivering a written notice to the Fiscal Agent, the Trustee, the Bank and the Remarketing Agent specifying the date of conversion which shall be an Interest Payment Date not less than forty-five (45) days from the date of the State's notice. The Remarketing Agent shall not earlier than the Business Day which is at least fourteen (14) calendar days prior to the date of conversion and not later than the last Business Day prior to the date of conversion, compute and make available to the State, the Trustee, the Bank and the Fiscal Agent, the Fixed Interest Rate or Rates. The notice from the State to the Fiscal Agent, the Trustee, the Bank and the Remarketing Agent must be accompanied by an opinion of Bond Counsel stating that such conversion is authorized or permitted by the Indenture and the Act, and that conversion to a Fixed Interest Rate or Rates in accordance with the provisions of the Indenture will not adversely affect the exclusion of the interest on the Series 1 Bonds from gross income for federal income tax purposes. Subject to the conditions set forth in the Indenture, the Series 1 Bonds may be converted to a Fixed Interest Rate or Rates in whole or in part.

Not less than thirty (30) days prior to the effective date of the Fixed Interest Rate or Rates the Fiscal Agent will mail a notice to the holders of the Series 1 Bonds stating: (i) that the interest rate with respect to the Series 1 Bonds being converted is scheduled to be converted to Fixed Interest Rate or Rates, (ii) the effective date of the Fixed Interest Rate or Rates, (iii) the date the Fixed Interest Rate or Rates are scheduled to be determined, (iv) that subsequent to such effective date the holder of Series 1 Bonds being converted will no longer have the right to require purchase of such Series 1 Bonds by the Fiscal Agent, (v) that all outstanding Series 1 Bonds being converted and not purchased by the Fiscal Agent on or prior to the effective date of the Fixed Interest Rate or Rates will be purchased by the State on the effective date of the Fixed Interest Rate or Rates at a price of par, except Series 1 Bonds or portions thereof which the holder shall have directed the State not to purchase, (vi) that the Standby Bond Purchase Agreement will be terminated upon conversion to a Fixed Interest Rate or Rates (or be reduced upon a partial conversion to a Fixed Interest Rate or Rates), (vii) that the then current rating or ratings of the Series 1 Bonds is based solely on the Policy and may be reduced or withdrawn and (viii) the maturity schedule (by bond number), mandatory sinking fund redemption schedule and optional redemption schedule, if any, and a description of the security for the Series 1 Bonds, which would become effective after conversion to a Fixed Interest Rate or Rates. Such notice will be given by registered certified mail to the holders of the Series 1 Bonds whose names appear on the registration books kept by the Registrar.

State's Right to Rescind Election. Notwithstanding anything in the Indenture to the contrary, the State may rescind any election to convert the Series 1 Bonds to a different Interest Period, provided that not less than the fifteenth (15th) day prior to the proposed conversion date, or the Business Day prior to such fifteenth (15th) day if such day is not a Business Day, the State provides irrevocable notice to the Trustee, the Fiscal Agent, the Bank and the Remarketing Agent that such conversion is not in the best interests of the State. As soon as practicable following receipt of such notice from the State, the Fiscal Agent shall give, by first class mail, postage prepaid, written notice of such rescission to all Bondholders.

Maturities

Each Series 1 Bond will mature on December 1, 2010 unless the interest rate thereof has been converted to a Fixed Interest Rate or Rates. If the interest rate of a Series 1 Bond is converted to a Fixed Interest Rate, such Series 1 Bond will mature on December 1, 2010 or at the discretion of the State, on any different date or dates established by the State prior to such conversion. If an Alternate Security is provided, each Series 1 Bond will also mature on December 1, 2010 or at the discretion of the State, on any different date or dates established by the State prior to the provision of such Alternate Security. If the terms of one or more Series 1 Bonds differs from the terms of any other Series 1 Bonds, whether by reason of maturity, interest rate or otherwise, the State shall take such steps as are reasonably necessary in order that such Bonds may be separately identified.

Redemption and Purchase of Series 1 Bonds

Optional Redemption. Prior to conversion to a Fixed Interest Rate or Rates, Series 1 Bonds are subject to optional redemption by the State prior to maturity, in whole, or in part (in integral multiples of \$100,000), on any Interest Payment Date at a redemption price equal to 100% of the principal amount thereof, provided however, that any Series 1 Bonds held by the Bank shall be called for redemption first. At or prior to giving notice of any such optional redemption, the State shall deposit to the Redemption Sub-Account the amount necessary for such redemption and from and after the giving of such notice such amounts shall be invested only in Governmental Obligations as defined in the Indenture. During a Fixed Rate Period therefor, the Series 1 Bonds are subject to redemption prior to maturity in whole or in part on any Interest Payment Date, as follows: if, on the date of conversion to the Fixed Interest Rate or Rates, the remaining term of the last maturing Series 1 Bonds is: (i) ten (10) years or greater, the Series 1 Bonds will not be subject to redemption at the option of the State until the eighth December 1 after the date of conversion to the Fixed Interest Rate or Rates; on and after such December 1, the Series 1 Bonds will be subject to redemption in the next year at a redemption price of 102% of the principal amount thereof; and that price will decline by one percent per annum on each December 1 until reaching a price of 100%, which will then be the redemption price over the remaining term of the Series 1 Bonds; (ii) less than ten (10) years, but equal to or greater than five (5) years, the Series 1 Bonds will not be subject to redemption at the option of the State until the fifth December 1 after the date of conversion to the Fixed Interest Rate or Rates; on and after such December 1, the Series 1 Bonds will be subject to redemption in the next year at a redemption price of 102% of the principal amount thereof, and that price will decline by one percent per annum on each December 1 until reaching a price of 100%, which will then be the redemption price over the remaining term of the Series 1 Bonds; or (iii) less than five (5) years, the Series 1 Bonds shall not be subject to redemption at the option of the State.

Notwithstanding the above, upon conversion to a Fixed Interest Rate or Rates, the Series 1 Bonds converted shall, at the option of the State, be subject to redemption according to a different schedule and a different price or prices communicated to the existing holders of such Series 1 Bonds.

Mandatory Amortization Requirement. With respect to the Series 1 Bonds which have not been converted to a Fixed Interest Rate or Rates such Series 1 Bonds are subject to mandatory redemption to the extent of the Amortization Requirement by the State at a redemption price equal to 100% of the principal amount redeemed plus accrued interest to the date of redemption, subject to the credits described hereinbelow, on December 1 in the following principal amounts in the years specified, provided however, that any Series 1 Bonds held by the Bank shall be called for redemption first:

<u>Year</u>	<u>Amortization Requirement</u>	<u>Year</u>	<u>Amortization Requirement</u>
2003	\$14,000,000	2007	\$18,300,000
2004	15,000,000	2008	19,500,000
2005	16,000,000	2009	20,800,000
2006	17,100,000	2010*	22,200,000

* Final Maturity

If Series 1 Bonds are redeemed or purchased in part other than by mandatory redemption, the principal amount of the Series 1 Bonds so redeemed shall be credited against future mandatory installments.

Payment of mandatory Amortization Requirement installments on the Series 1 Bonds shall be made from moneys provided in the order of funds set forth in the Indenture for the payment of principal of (including mandatory Amortization Requirement installments on) Bonds of the State, including the Series 1 Bonds.

Mandatory Purchase Upon Expiration or Termination of Standby Bond Purchase Agreement or Provision of an Alternate Security. Prior to conversion to a Fixed Interest Rate or Rates, the Series 1 Bonds are subject to mandatory purchase by the Fiscal Agent in whole (i) on a date three (3) Business Days prior to the expiration or termination date of the Standby Bond Purchase Agreement, or any existing Alternate Security then securing the Series 1 Bonds at a purchase price of 100% of the principal amount thereof plus accrued interest to the date of purchase, unless on or before the thirty-fifth (35th) day preceding any such expiration date, the Bank shall have extended the expiration date of the Standby Bond Purchase Agreement or Alternate Security to a later date, and (ii) on the effective date of any Alternate Security, and (iii) within three (3) Business Days of written notice from the Bank upon the occurrence of an event of default under the Standby Bond Purchase Agreement that the Standby Bond Purchase Agreement will terminate. With respect to mandatory purchases described in (i) and (ii) above, Series 1 Bonds with respect to which the Fiscal Agent has received direction not to purchase the same from the holders thereof will not be purchased.

Not less than twenty-five (25) days prior to the date of expiration of the Standby Bond Purchase Agreement or any Alternate Security or the provision of any Alternate Security, the Fiscal Agent, at the direction of the State, will mail a notice to the Trustee and the holders of the Series 1 Bonds stating: (i) that the Standby Bond Purchase Agreement or existing Alternate Security is scheduled to expire or that an Alternate Security shall replace the Standby Bond Purchase Agreement, as appropriate, (ii) the effective date of such expiration or replacement, (iii) that all Outstanding Series 1 Bonds will be purchased by the Fiscal Agent on the date three (3) Business Days prior to such expiration or termination or replacement at a price of par plus accrued interest, if any, except Series 1 Bonds or portions thereof which the holder shall have directed the Fiscal Agent not to purchase, and (iv) that the then current rating or ratings of the Series 1 Bonds is based, in part, on the Standby Bond Purchase Agreement or the current Alternate Security and such rating may be reduced or withdrawn. Such notice will be given by registered or certified mail to the holders of the Series 1 Bonds whose names appear on the registration books kept by the Registrar.

Mandatory Purchase at the Option of the Bank. Upon the occurrence and continuation of a Last Put Termination Event under the Standby Bond Purchase Agreement, which is determined by the Bank, in its sole discretion, the Series 1 Bonds are subject to mandatory tender. The circumstances that may give rise to a Last Put Termination Event and the notice available to bondholders are described below, under “The Standby Bond Purchase Agreement – Termination of Standby Bond Purchase Agreement with Notice and Mandatory Tender.”

Mandatory Purchase Upon Establishment of a Semiannual Rate Period, an Other Rate Period or Fixed Interest Rate or Rates. The Series 1 Bonds are subject to mandatory purchase by the Fiscal Agent, upon conversion to a Semiannual Rate Period, an Other Rate Period or a Fixed Interest Rate or Rates at a purchase price of 100% of the principal amount thereof on the Interest Payment Date which is the effective date of the conversion. Series 1 Bonds with respect to which the Fiscal Agent has received direction not to purchase the same from the holders thereof will not be purchased.

Mandatory Purchase on the Last Day of any Computation Period. The Series 1 Bonds are subject to mandatory purchase by the Fiscal Agent during any Semiannual Rate Period or Other Rate Period at a purchase price of 100% of the principal amount thereof on the last day of any Computation Period. Series 1 Bonds with respect to which the Fiscal Agent has received direction not to purchase the same from the holders thereof will not be purchased.

Direction Not to Purchase Series 1 Bonds Upon Interest Rate Conversion or Upon Expiration of Standby Bond Purchase Agreement, or Provision of an Alternate Security or upon Mandatory Purchase on Last Day of Computation Period. Upon and in connection with the conversion to a Semiannual Rate Period, an Other Rate Period or a Fixed Interest Rate or Rates or expiration of the Standby Bond Purchase Agreement or any existing Alternate Security or provision of an Alternate Security, or upon mandatory purchase on the last day of a Computation Period, a holder may direct the Fiscal Agent not to purchase any Series 1 Bonds held by him by delivery to the Fiscal Agent at its principal corporate trust office on or before the Business Day which is at least fifteen (15) calendar days preceding the date fixed for such purchase an instrument or instruments in writing executed by such holder (i) specifying the numbers and denominations of Series 1 Bonds held by him, (ii) acknowledging receipt of the appropriate notice, if applicable, and (iii) directing the Fiscal Agent not to purchase such Series 1 Bonds or a portion thereof in the principal amount of \$5,000 or any multiple thereof, if the

Series 1 Bonds are being converted to a Fixed Interest Rate or Rates, and otherwise in the principal amount of \$100,000 or any multiple thereof; provided, however, that a holder who makes such a direction must hold such Series 1 Bonds at least through the date of conversion to the Semiannual Rate Period, the Other Rate Period or a Fixed Interest Rate or Rates or through the expiration date of the Standby Bond Purchase Agreement or any existing Alternate Security or provision of an Alternate Security, as the case may be. Any instrument so delivered to the Fiscal Agent will be irrevocable with respect to the purchase for which such instrument was delivered and will be binding upon subsequent holders of such Series 1 Bonds (or portions thereof), including Series 1 Bonds (or portions thereof) issued in exchange therefor or upon the registration of transfer thereof but such instrument will have no effect upon any subsequent purchase of Series 1 Bonds (or portions thereof).

Purchase of Series 1 Bonds Upon Demand by Holder. During any Weekly Rate Period or Monthly Rate Period, any Series 1 Bonds (or any portion thereof in an amount of an integral multiple of \$100,000) will be purchased by the Fiscal Agent, but only from the sources hereinafter described, on the demand of the holder of the Series 1 Bonds, on any Business Day at a purchase price equal to 100% of the principal amount thereof plus (if such Business Day is not an Interest Payment Date) accrued interest, if any, to the date of purchase. The holder's right to have the Bond purchased will be initiated by delivery to the Fiscal Agent at its principal office of a demand for purchase that states (i) the principal amount (or portion thereof in an amount equal to an integral multiple of \$100,000) of such Bond which will be delivered for purchase, (ii) the Business Day at least seven (7) days after the date of delivery of the demand for purchase on which such Bond (or portion thereof in an amount equal to an integral multiple of \$100,000) is to be purchased, (iii) that the demand for purchase is an irrevocable request, (iv) that the holder will undertake to deliver the Series 1 Bonds to the Fiscal Agent at or prior to 10:00 a.m. New York City time at the principal office of the Fiscal Agent on the Business Day immediately preceding the date on which purchase is demanded, and (v) the name of the registered holder of such Series 1 Bonds, the bond number of such Series 1 Bonds and the CUSIP number thereof. By delivering such notice the holder irrevocably agrees to deliver such Series 1 Bonds to the principal office of the Fiscal Agent at or prior to 10:00 a.m. New York City time, on the Business Day immediately preceding the date specified in the demand for purchase.

Any election by a holder to tender a Series 1 Bonds is irrevocable and binding on the holder and on any transferee of that holder. Any Series 1 Bonds not delivered to the Fiscal Agent as provided in the notice demanding purchase will be deemed tendered and, if the Fiscal Agent holds sufficient funds to pay the purchase price of the Series 1 Bonds, such Series 1 Bonds shall cease to bear interest on such purchase date.

It should be noted that the rights of holders are suspended during the occurrence and continuance of an Immediate Termination Event under the Standby Bond Purchase Agreement. During that time, holders will not have the option to tender their Bonds. During that time, the affected Series 1 Bonds will bear interest at the Suspension Base Rate plus two percent (2%) per annum. See "Summary of Standby Bond Purchase Agreement – Immediate Termination of Standby Bond Purchase Agreement."

Sources for Purchase of Series 1 Bonds. The Fiscal Agent will purchase Series 1 Bonds (or the authorized portion thereof) tendered for purchase on the Business Day Series 1 Bonds are to be purchased to the extent funds are available on that date. The sources of such funds are (a) first, proceeds available from the remarketing of such Series 1 Bonds and (b) second, moneys available to the Fiscal Agent pursuant to the Standby Bond Purchase Agreement and (c) third, moneys available in the Redemption Sub-Account of the Indenture.

Notice of Redemption

Notice of any redemption of Series 1 Bonds shall be given in the manner and at the time set forth in the Indenture. The Trustee shall cause notice of such redemption to be given to the registered owner of any Series 1 Bonds designated for redemption in whole or in part, at his address as the same shall last appear upon the registration books kept by the Registrar by mailing a copy of the redemption notice by registered mail not more than sixty (60) days nor less than thirty (30) days prior to the redemption date and shall also cause notice of such redemption to be given to the Paying Agent at least fifteen (15) days prior to the redemption date. Any notice mailed as provided in the Indenture shall be conclusively presumed to have been duly given, whether or not the owner of any Series 1 Bonds actually receives notice. The failure of the Trustee to give notice to a holder or any defect in such notice shall not affect the validity of the redemption of any Series 1 Bonds of any other owner. Each notice of redemption shall specify the date fixed for redemption, the numbers (including CUSIP numbers) and other distinguishing marks of the Series 1 Bonds to be redeemed (unless all Series 1 Bonds are being redeemed), the place or places of payment, the redemption price, that payment will be made upon presentation and surrender of such Series 1 Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 1 Bonds, Financial Security Assurance Inc. (“Financial Security”) will issue its Municipal Bond Insurance Policy for the Series 1 Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Series 1 Bonds when due as set forth in the form of the Policy included as an appendix to this Remarketing Circular.

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

Financial Security Assurance Inc.

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

At December 31, 2002 Financial Security’s total policyholders’ surplus and contingency reserves were approximately \$1,876,117,000 and its total unearned premium reserve was approximately \$1,055,340,000 in accordance with statutory accounting principles. At December 31, 2002, Financial Security’s total shareholder’s equity was approximately \$1,971,325,000 and its total net unearned premium reserve was approximately \$892,552,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Remarketing Circular until the termination of the offering of the Series 1 Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series 1 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series 1 Bonds or the advisability of investing in the Series 1 Bonds. Financial Security makes no representation regarding the Remarketing Circular, nor has it participated in the preparation thereof, except that Financial Security has provided to the State the information presented under this caption for inclusion in the Remarketing Circular.

SUMMARY OF STANDBY BOND PURCHASE AGREEMENT

The following is a summary of certain provisions of the Standby Bond Purchase Agreement between the State and the Bank. The following summary does not purport to be a full and complete statement of the provisions of the Standby Bond Purchase Agreement, which should be read in its entirety for a complete understanding of its terms and provisions. A copy of the Standby Bond Purchase Agreement may be obtained from the State or the Trustee. For certain information provided by the Bank regarding their corporate organization and financial condition, see Appendix D attached hereto.

Under the Standby Bond Purchase Agreement, the Bank will agree, upon appropriate notice from the Fiscal Agent as provided in the Standby Bond Purchase Agreement, to purchase any unremarketed tendered or deemed tendered Series 1 Bonds during the Weekly Rate Period from time to time at a purchase price not to exceed the principal amount thereof plus accrued interest thereon (not in excess of 59 days of interest thereon at an interest rate not exceeding twelve percent (12%) per annum), subject to the terms and provisions set forth in the Standby Bond Purchase Agreement. Series 1 Bonds purchased by the Bank pursuant to the Standby Bond Purchase Agreement shall remain outstanding and continue to accrue interest and become payable under the Indenture as Bank Bonds. The Standby Bond Purchase Agreement is scheduled to

expire on April 1, 2005, provided that the obligation of the Bank to purchase Series 1 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events, as described below. Although the Standby Bond Purchase Agreement is a Credit Facility as defined under the Indenture, it is a liquidity facility only, and the Bank is not providing credit enhancement for the Series 1 Bonds. The enforceability of the Standby Bond Purchase Agreement may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or similar laws affecting the enforcement of creditors' rights in general, principles of law and equity relating to fraud and general principles of equity.

Immediate Termination of Standby Bond Purchase Agreement

Upon the occurrence of certain events of immediate termination as described below (each, an "Immediate Termination Event"), the Bank's obligation to purchase the Series 1 Bonds tendered or deemed tendered but not remarketed will be immediately terminated without notice or demand. Upon such immediate termination of the Standby Bond Purchase Agreement, the Series 1 Bonds will NOT be subject to optional or mandatory tender for purchase, the Remarketing Agent will cease to remarket the Series 1 Bonds and to determine the Weekly Rate therefor, and the Series 1 Bonds will thereafter bear interest at the Suspension Base Rate (the "Alternative Weekly Rate"). The Fiscal Agent must give notice to the holders of Series 1 Bonds after becoming aware of such immediate termination of the Standby Bond Purchase Agreement.

Upon any such immediate termination of liquidity support under the Standby Bond Purchase Agreement, no funds will be available to pay the purchase price of tendered Series 1 Bonds except in connection with any mandatory tender for purchase of Series 1 Bonds associated with: (i) the provision, at the discretion of the State, of a conforming Credit Facility to replace the Standby Bond Purchase Agreement or (ii) the conversion, at the discretion of the State, of Series 1 Bonds to a Fixed Rate or Rates. Until the earlier to occur of maturity, provision of any such replacement Credit Facility or conversion to a Fixed Rate or Rates, the Series 1 Bonds will continue to bear interest at the Alternative Weekly Rate.

Each of the following events shall constitute an Immediate Termination Event under the Standby Bond Purchase Agreement:

- (1) A Bond Insurer Event of Insolvency (as defined below) shall have occurred;
- (2) Financial Security shall fail, wholly or partially, to make a payment of principal or interest as required under the Policy;
- (3) Financial Security by official action shall repudiate its obligations under the Policy with respect to payment of principal of and interest on the Series 1 Bonds or Financial Security shall initiate any legal proceedings to seek an adjudication that the Policy, with respect to the payment of principal of or interest on the Series 1 Bonds, is not valid and binding on Financial Security;
- (4) Any governmental authority or court with jurisdiction to rule on the validity of the Policy shall announce, find or rule that such Policy is not valid and binding on Financial Security, and such announcement, finding or ruling shall be final or non-appealable;
- (5) Another person is substituted for Financial Security as insurer of the Series 1 Bonds, or the Policy is surrendered, cancelled, terminated, amended or modified in any material adverse respect related to its commitment to guarantee the payment of principal of and interest on the Bank Bonds, without the Bank's prior written consent, determined as provided in the Standby Bond Purchase Agreement; or
- (6) Financial Security shall fail, wholly or partially, to make any payment required under any other municipal bond insurance policy issued by it excepting, however, certain circumstances where the obligation of Financial Security to pay is being contested by Financial Security in good faith by appropriate proceedings and such failure is not attributable to the financial condition of Financial Security.

"Bond Insurer Event of Insolvency" means the occurrence and continuance of one or more of the following events:

- (a) the issuance, under the laws of the State of New York (or other jurisdiction of domicile of Financial Security), of an order of rehabilitation, liquidation, supervision or dissolution of Financial Security;

(b) the commencement by Financial Security of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including without limitation the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property;

(c) the consent of Financial Security to any relief referred to in the preceding clause in an involuntary case or other proceeding commenced against it or the commencement against Financial Security of an involuntary case or other proceeding seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including without limitation the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property, if such case or proceeding shall continue undismissed or unstayed and in effect for a period of 60 consecutive days or an order for relief shall be entered or a receiver, supervisor or similar official shall be appointed in any involuntary case against Financial Security under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect;

(d) the making by Financial Security of an assignment for the benefit of creditors;

(e) the failure of Financial Security generally to pay its debts as they become due after any applicable grace period or the admission of the same by Financial Security; or

(f) the initiation by Financial Security of any actions to authorize any of the foregoing.

Consequences Following Immediate Termination Events

Upon the occurrence of an Immediate Termination Event:

(1) The obligation of the Bank to purchase tendered Series 1 Bonds shall immediately terminate without notice to or demand upon any person, and thereafter the Bank shall be under no obligation to purchase any tendered Series 1 Bonds; and

(2) Promptly upon the occurrence of an Immediate Termination Event, the Bank shall give written notice of the same to the State, the Trustee, the Fiscal Agent and the Remarketing Agent, but the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice, and such failure shall in no way affect the termination of the obligation of the Bank to purchase tendered Series 1 Bonds pursuant to the Standby Bond Purchase Agreement.

Upon receipt of written notice of an Immediate Termination Event from the Bank, the Fiscal Agent shall notify all holders of Series 1 Bonds of the termination of the obligation of the Bank to purchase tendered Series 1 Bonds.

Termination of Standby Bond Purchase Agreement with Notice and Mandatory Tender

If the rating of Financial Security's financial strength shall be downgraded by any two of Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings to or below A2, A and A, respectively (a "Last Put Termination Event"), then:

(1) The Bank may terminate its commitment to purchase tendered Series 1 Bonds by giving written notice of the occurrence of such Last Put Termination Event (the "Last Put Termination Notice") to the State, the Trustee, the Fiscal Agent and the Remarketing Agent and shall specify a purchase date for the mandatory tender of Series 1 Bonds in respect of such Last Put Termination Event on or before a date specified in such Last Put Termination Notice, which mandatory purchase date shall be a Business Day that is at least fifteen (15) days after the date such Last Put Termination Notice is effective; and

(2) The obligation of the Bank to purchase tendered Series 1 Bonds shall terminate upon the purchase by the Bank of all tendered Series 1 Bonds tendered or deemed tendered pursuant to the mandatory tender for purchase following receipt of the Last Put Termination Notice, and thereafter the Bank shall be under no obligation to purchase any tendered Series 1 Bonds.

Events of Default

Each of the following events shall constitute an Event of Default (“Event of Default”) under the Standby Bond Purchase Agreement unless waived by the Bank:

(1) the Bank shall not be paid any amount due thereunder within five (5) Business Days after notice to the State that same is due and payable and unpaid;

(2) the State shall fail to repurchase Bank Bonds on any date such purchase is required under the Standby Bond Purchase Agreement;

(3) the State shall fail to perform or observe certain covenants with respect to compliance with required Pledged Revenues coverage, maintenance of the Reserve Account for the Second Lien Bonds, the issuance of any bonds or notes issued under the Senior Indenture (the “Senior Obligations”) and any bonds or notes issued under the Indenture (the “Second Lien Obligations”) contained in the Standby Bond Purchase Agreement and the giving of notice to the Bank with respect to the occurrence of certain events;

(4) the State shall fail to perform any covenant or agreement contained in the Standby Bond Purchase Agreement (other than those covered by paragraph (1), (2) or (3) above) for sixty (60) days after written notice thereof has been given to the State by the Bank, provided that if such failure cannot be remedied within sixty (60) days, the Bank shall not unreasonably withhold or delay its consent to extending such time so long as the State has demonstrated to the satisfaction of the Bank that the State is pursuing corrective actions with all due diligence;

(5) the State shall fail to pay any principal (including redemption premium, if any) of or interest on any Senior Obligation or any Second Lien Obligation as and when the same shall become due, whether at stated maturity, upon redemption or acceleration or otherwise, except as occasioned by a failure of any provider of a credit or liquidity facility or swap agreement counterparty to perform its obligations thereunder;

(6) an event of default (other than as covered by paragraph (5) above) under any of the Series 1 Bonds, the Indenture, the Tax Regulatory Agreement for the Series 1 Bonds and the Remarketing Agreement (collectively, the “Related Documents”) shall have occurred and be continuing;

(7) any warranty, representation or other written statement made by or on behalf of the State contained in the Standby Bond Purchase Agreement, or in any of the Related Documents, or in any instrument furnished in compliance with or in reference to any of the foregoing, is incorrect in any material respect on any date as of which made; or

(8) any provision of the Standby Bond Purchase Agreement shall at any time for any reason cease to be valid and binding on the State, or shall be declared null and void, or the validity or enforceability thereof shall be contested by the State or by any other governmental agency or authority or the State shall deny that it has any or further liability or obligation under the Standby Bond Purchase Agreement.

Bank Remedies Following Events of Default

Whenever an Event of Default under the Standby Bond Purchase Agreement shall have occurred and be continuing, the Bank may exercise all or any of its rights and remedies as it may have under law and equity to protect and enforce its rights thereunder. The termination of the Standby Bond Purchase Agreement is not a remedy for an Event of Default thereunder.

In addition whenever an event of default shall have occurred and be continuing under the Indenture, if the Bank owns Bank Bonds, the Bank may exercise such rights as it may have as a holder of Bank Bonds.

TOTAL BONDS OUTSTANDING

The following table sets forth all Senior Bonds and Second Lien Bonds outstanding as of March 31, 2003.

<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	12,710,000	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	8,475,000	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	26,310,000	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	58,625,000	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 ⁽¹⁾	225,000,000	110,825,000	September 15, 1998	4.686%
1999 Series A ⁽¹⁾	150,000,000	44,995,000	November 15, 1999	5.461%
2000 Series A ⁽¹⁾	125,000,000	92,810,000	July 15, 2000	5.042%
2001 Series A ⁽¹⁾	175,000,000	75,530,000	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		\$2,539,447,825		
Second Lien Bonds:				
1990 Series 1	\$250,000,000	\$142,900,000	December 19, 1990	Variable ⁽⁴⁾
2000 Series 1	100,000,000	100,000,000	September 15, 2000	Variable ⁽⁴⁾
2003 Series 1 (Refunding) ⁽³⁾	220,385,000	220,385,000	January 23, 2003	Variable ⁽⁴⁾
2003 Series 2 (Refunding) ⁽³⁾	201,595,000	201,595,000	January 23, 2003	Variable ⁽⁴⁾
TOTAL		\$3,204,327,825		

(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 Provisions of the Indenture") at the time the 1990 Series 1 Bonds were issued and effective upon delivery of the 2003 Series 1 and 2 Bonds. Pursuant to the Second Lien Indenture, Principal and Interest Requirements on Second Lien Bonds with respect to the 1990 Series 1 Bonds and the 2003 Series 1 and 2 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 \$3,204,327,825 Senior Bonds and Second Lien Bonds issued and outstanding as of March 31, 2003, 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 new money bonds under the Prior Indenture and the Indenture (“Additional Bonds”) to finance the Infrastructure Program for State fiscal years 2003-2008 is reflected in Tables 7 and 8.

Fiscal Year Ending June 30th	Outstanding Senior Bonds			Outstanding Second Lien Bonds ^{(a)(c)}			Total Debt Service ^(d)
	Principal	Interest ^(b)	Subtotal ^(d)	Principal	Interest ^(c)	Subtotal ^(d)	
2003 ^(e)	\$18,210,000	\$45,410,126	\$63,620,126	-	\$6,390,614	\$6,390,614	\$70,010,740
2004	219,380,000	125,893,401	345,273,401	16,920,000	26,089,603	43,009,603	388,283,004
2005	215,935,000	114,742,129	330,677,129	18,025,000	25,156,664	43,181,664	373,858,793
2006	238,910,000	103,672,625	342,582,625	19,135,000	24,162,907	43,297,907	385,880,532
2007	225,418,825	97,573,402	322,992,227	20,350,000	23,104,824	43,454,824	366,447,051
2008	232,004,000	86,311,090	318,315,090	21,665,000	21,976,575	43,641,575	361,956,665
2009	227,810,000	70,842,433	298,652,433	22,985,000	19,283,232	42,268,232	340,920,665
2010	223,245,000	55,728,546	278,973,546	24,410,000	20,991,226	45,401,226	324,374,772
2011	193,140,000	45,172,925	238,312,925	25,940,000	18,139,754	44,079,754	282,392,679
2012	186,455,000	34,693,529	221,148,529	9,125,000	17,427,657	26,552,657	247,701,186
2013	185,305,000	24,433,255	209,738,255	37,640,000	16,815,192	54,455,192	264,193,447
2014	109,470,000	16,423,776	125,893,776	62,525,000	15,228,835	77,753,835	203,647,611
2015	71,215,000	11,682,267	82,897,267	65,240,000	13,100,729	78,340,729	161,237,996
2016	42,845,000	8,704,324	51,549,324	77,305,000	10,545,510	87,850,510	139,399,834
2017	18,320,000	7,113,055	25,433,055	70,335,000	7,897,985	78,232,985	103,666,040
2018	19,260,000	6,169,943	25,429,943	61,285,000	5,494,224	66,779,224	92,209,167
2019	20,260,000	5,170,261	25,430,261	46,730,000	3,439,675	50,169,675	75,599,936
2020	21,340,000	4,092,883	25,432,883	34,085,000	1,832,731	35,917,731	61,350,614
2021	22,470,000	2,961,960	25,431,960	29,645,000	521,860	30,166,860	55,598,820
2022	23,630,000	1,803,983	25,433,983	1,535,000	33,642	1,568,642	27,002,625
2023	24,825,000	607,421	25,432,421	-	-	-	25,432,421
Total ^(d)	<u>\$2,539,447,825</u>	<u>\$869,203,334</u>	<u>\$3,408,651,159</u>	<u>\$664,880,000</u>	<u>\$277,633,439</u>	<u>\$942,513,439</u>	<u>\$4,351,164,598</u>

(a) Outstanding Senior and Second Lien Bonds, as of March 31, 2003 (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 delivered and effective upon delivery of the 2003 Series 1 and 2 Bonds. Pursuant to the Second Lien Indenture, Principal and Interest Requirements on the 1990 Series 1 Bonds and 2003 Series 1 and 2 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 and the 2003 Series 1 and 2 Bonds for purposes of this table is also calculated based on such fixed interest 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 March 31, 2003 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 (“LPF”) 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 June 30	Motor Fuels Tax	Motor Vehicle Receipts	LPF Revenue
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 June 30	Motor Fuels Tax	Motor Vehicle Receipts	LPF Revenue
2003.....	462.5	201.6	139.9
2004.....	466.3	208.1	147.7
2005.....	471.0	211.0	149.6
2006.....	475.7	207.4	151.5
2007.....	480.5	209.5	153.4
2008.....	485.3	211.6	155.3

(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 (25th) 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 1998-2008. 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

	<u>State Fiscal Year Ended June 30^(a)</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>	<u>2007</u>	<u>2008</u>
Motor Fuels Tax (adj. per gallon) ^(b)	(3¢)	(4¢)	0¢	(7¢)	0¢	0¢	0¢	0¢	0¢	0¢	0¢
Motor Vehicle Receipts (% increase).....	0	0	0	0	0	0	0	0	0	0	0
LPF Revenue (\$ increase)	0	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 2003-2008 (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. The United States and other coalition forces have been engaged in hostilities in Iraq, a major oil producing country in the Middle East. At the present time, the former government leaders of Iraq have been removed as the result of such hostilities, and the United States and the other coalition countries are in the process of stabilizing Iraq and establishing a transition government. The future effect of such activities on oil production in the Middle East, if any, cannot be predicted at this time. Thus, actual results achieved may vary from the projections and such variations may be materially adverse. The accompanying projected financial information from 2003 to 2008 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 2008, 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>	<u>2007</u>	<u>2008</u>
Motor Fuels Tax ^(a)	462.5	466.3	471.0	475.7	480.5	485.3
Sales Tax - DMV Payments ^(b)	64.1	67.1	70.8	74.7	78.0	81.6
Oil Companies Tax Payments ^(c)	0.0	21.0	21.0	21.0	21.0	21.0
Motor Vehicle Receipts ^(d)	201.6	208.1	211.0	207.4	209.5	211.6
LPF Revenue ^(e)	139.9	147.7	149.6	151.5	153.4	155.3
FTA Grants ^(f)	3.3	3.3	3.3	3.3	3.3	3.3
Interest Income ^(g)	29.2	30.9	30.9	30.9	31.4	31.9
Transfers to Other Funds ^(h)	(60.5)	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)
Release from Debt Svc. Reserve Acct. ⁽ⁱ⁾	<u>2.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL	842.7	934.9	948.1	955.0	967.6	980.5
Refunds of Taxes ^(j)	<u>(11.2)</u>	<u>(11.5)</u>	<u>(11.8)</u>	<u>(12.0)</u>	<u>(12.2)</u>	<u>(12.4)</u>
TOTAL NET PLEDGED REVENUES	831.5	923.4	936.3	943.0	955.4	968.1

- (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. 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. However, Section 36 of Public Act 03-02 suspends the \$20 million scheduled for transfer to the Special Transportation Fund in fiscal 2003.
- (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 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. Finally, pursuant to Section 6(e) of Public Act 03-02, \$52 million of cumulative surplus in the Special Transportation Fund is transferred to the resources of the General Fund.
- (i) Release from Debt Service Reserve pursuant to refunding certain Special Transportation Obligation bonds.
- (j) 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**

	State Fiscal Year Ending									
	<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 Special Transportation Fund is reduced

from \$46 million to \$20 million. However, Section 36 of Public Act 03-02 suspends the \$20 million scheduled transfer to the Special Transportation Fund in fiscal year 2003. 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 Connecticut General Statutes.

The Oil Companies Tax is levied, pursuant to Section 12-587 of the Connecticut General Statutes, at a rate of five percent (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 \$108.0 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 Prior 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 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 Indenture. See the section below entitled "Summary of Certain Provisions of the 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 swaps for the Second Lien Bonds, 1990 Series 1 and 2003 Series 1 and 2. (See Table 8 footnote (f)).

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

	State Fiscal Year Ending June 30									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
1. Actual and Projected Pledged Revenues ^(a)	855.8	905.4	871.8	896.9	831.5	923.4	936.3	943.0	955.4	968.1
2. Principal and Interest Requirements for the 1984-2002B Senior Bonds ^(b)	306.0	321.1	339.8	349.3	356.7	351.4	345.6	335.2	319.4	302.4
3. Actual and Projected Principal and Interest Coverage for the 1984-2002B Senior Bonds ^(c)	2.8x	2.8x	2.6x	2.6x	2.3x	2.6x	2.7x	2.8x	3.0x	3.2x
4. Principal and Interest Requirements on the Outstanding Second Lien Bonds ^(d)	22.4	21.4	23.4	23.2	31.4	44.5	44.6	44.8	44.9	45.1
5. Actual and Projected Principal and Interest Coverage for All Outstanding Senior Bonds and Outstanding Second Lien Bonds ^(e)	2.6x	2.6x	2.4x	2.4x	2.1x	2.3x	2.4x	2.5x	2.6x	2.8x
6. Projected Principal and Interest Requirements for Additional Bonds ^(f)	0.0	0.0	0.0	0.0	0.0	10.1	28.2	46.3	64.5	82.6
7. Actual and Projected Aggregate Debt Service Coverage for all Bonds ^(g)	2.6x	2.6x	2.4x	2.4x	2.1x	2.3x	2.2x	2.2x	2.2x	2.3x

(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 and 2003 Series 1 and 2 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 \$1.5 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.

2003 Legislative Changes

On February 28, 2003, Governor Rowland signed into law Public Act 03-02. This act included numerous tax and expenditure changes aimed at mitigating this year's projected budget deficit in the State's General Fund. It also included changes that effect revenues and expenses of the Special Transportation Fund. The major revenue change of this type suspends the \$20 million Oil Companies Tax transfer from the General Fund to the Special Transportation Fund that was scheduled in fiscal year 2003. The sole expenditure change involved an allotment reduction of \$9 million in Town Aid Road Grants. This reduced the total appropriation in that account from \$25 to \$16 million. Finally, the most significant change effecting the Special Transportation Fund involves the one-time transfer of \$52 million in resources to the State's General Fund.

Governor's Proposed 2003 Legislative Changes

Due to the deliberations of the General Assembly on a fiscal 2003 deficit mitigation plan, the Governor's budget proposal for fiscal year 2004 and 2005 was delayed to March 4, 2003. The deficit mitigation plan contained in Public Act 03-02 contains many elements that will strengthen the State's fiscal position over the biennium, and the Governor's budget proposal for the biennium makes additional recommendations to strengthen the State's fiscal position.

Specifically, the Governor's budget plan proposes increasing the fee the Department of Motor Vehicles charges contractors who purchase driver histories from \$10 to \$15 per record effective July 1, 2003. The increase in the fee is estimated to generate \$9.0 million annually. Furthermore, the Governor has proposed that various fees for copies of DMV records be standardized at a set rate of \$20 each effective July 1, 2003. This is estimated to generate \$1.1 million annually. Finally, the Governor proposes to reduce the annual transfer from motor fuels taxes in the Special Transportation Fund to the Environmental Conservation Fund by \$2.3 million effective July 1, 2003. It is uncertain whether these or other changes affecting the Special Transportation Fund will be enacted.

The Governor's recommended budget includes significant expenditure changes. The Town Aid Road Grant appropriation is recommended to be funded through the Special Transportation Fund at the amount of \$12.5 million in both years of the biennium. Fare increases are being recommended for both bus and rail services. These fare increases are reflected as a reduction in expenditures, because the effect is to reduce the required subsidy. The proposed changes will generate an estimated \$15.0 million in fiscal year 2004 and \$19.9 million in 2005.

Personnel changes will impact the Special Transportation Fund in numerous ways. The savings associated with the employee layoffs that occurred in fiscal year 2003, the unsettled collective bargaining contracts, the Early Retirement Incentive Program, and the savings in accrual payments and fringe benefit costs resulting from the staff reductions will have an estimated impact of \$31.7 million in fiscal year 2004 and \$34.3 million in 2005.

The Governor is recommending that two statutes which were to take effect on July 1, 2003 be repealed. Repealing the vision screening requirement and the requirement that Social Security numbers be captured on registrations will reduce expenditures by \$1.9 million in fiscal year 2004 and \$1.8 million in 2005. Moreover, expenses will be reduced another \$4.5 million in fiscal year 2004 and \$6.1 million in fiscal year 2005 through other miscellaneous changes.

The effect of the Governor's proposed changes are reflected in the bottom half of Table 8.

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

	State Fiscal Year Ending June 30									
	<u>1999^(a)</u>	<u>2000^(a)</u>	<u>2001^(a)</u>	<u>2002^(a)</u>	<u>2003^(b)</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Actual and Projected Revenues										
Motor Fuels Tax, Motor Vehicle Receipts, Licenses, Permits, Fees ^(c)	799.9	809.3	729.0	761.7	804.0	822.1	831.6	834.6	843.4	852.2
Sales Tax - DMV Payments ^(d)	-	10.0	60.1	65.2	64.1	67.1	70.8	74.7	78.0	81.6
Oil Companies Tax Payments ^(d)	20.0	36.0	46.0	46.0	0.0	21.0	21.0	21.0	21.0	21.0
Federal Transit Administration Grants ^(d)	3.1	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Interest Income ^(d)	38.5	37.7	43.9	40.5	29.2	30.9	30.9	30.9	31.4	31.9
Transfers - Other Funds	(0.5)	(2.0)	(3.0)	(9.5)	(60.5)	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)
Release from Reserve Account ^(e)	-	16.8	-	-	2.6	-	-	-	-	-
Total	<u>861.0</u>	<u>910.8</u>	<u>879.3</u>	<u>907.2</u>	<u>842.7</u>	<u>934.9</u>	<u>948.1</u>	<u>955.0</u>	<u>967.6</u>	<u>980.5</u>
Refunds of Taxes	<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>	<u>(12.2)</u>	<u>(12.4)</u>
Total Net Revenues	<u>855.8</u>	<u>905.4</u>	<u>871.8</u>	<u>896.9</u>	<u>831.5</u>	<u>923.4</u>	<u>936.3</u>	<u>943.0</u>	<u>955.4</u>	<u>968.1</u>
Actual and Projected Debt Service and Expenditures										
Debt Service Requirements on Bonds ^(f)	319.6	344.3	366.1	374.9	392.4	412.2	424.5	432.4	434.9	436.2
Debt Service on Transportation Related General Obligation Bonds ^(g)	44.8	31.4	29.2	21.1	17.3	13.8	4.5	4.6	3.6	3.2
DOT Budgeted Expenses ^(h)	289.3	306.2	296.8	303.4	338.5	355.0	371.9	380.6	388.4	396.3
DMV Budgeted Expenses ⁽ⁱ⁾	57.9	49.1	49.6	51.5	54.7	59.2	61.7	62.0	63.3	64.6
Other Budget Expenses ^(j)	71.8	43.9	68.6	76.0	85.4	92.8	102.1	106.4	111.0	115.9
Program Costs Paid from Current Operations ^(k)	20.5	60.3	16.0	16.0	16.0	16.4	16.8	17.2	17.6	17.9
Estimated Unallocated Lapses ^(l)	-	-	-	-	(7.7)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Total	<u>803.9</u>	<u>835.2</u>	<u>826.3</u>	<u>842.9</u>	<u>896.6</u>	<u>939.4</u>	<u>971.5</u>	<u>993.2</u>	<u>1,008.8</u>	<u>1,024.1</u>
Excess (Deficiency)	<u>51.9</u>	<u>70.2</u>	<u>45.5</u>	<u>54.0</u>	<u>(65.1)</u>	<u>(16.0)</u>	<u>(35.2)</u>	<u>(50.2)</u>	<u>(53.4)</u>	<u>(56.0)</u>
Cumulative Excess (Deficiency)	<u>71.9</u>	<u>90.2</u>	<u>135.7</u>	<u>189.7</u>	<u>124.6</u>	<u>108.6</u>	<u>73.4</u>	<u>23.2</u>	<u>(30.2)</u>	<u>(86.2)</u>
Year End Adjustments^(m)										
Transfer to Debt Service Escrow Account	-	-	-	-	-	-	-	-	-	-
Reserve for Debt Service Reduction	(51.9)	-	-	-	-	-	-	-	-	-
Post Closing Balance	20.0	90.2	135.7	189.7	124.6	108.6	73.4	23.2	(30.2)	(86.2)
Governor's Proposed Revenue Changes										
Increase Fee for Sale of Driver History Records	-	-	-	-	-	9.0	9.0	9.0	9.0	9.0
Increase Fees for Copies of Motor Vehicles Records	-	-	-	-	-	1.1	1.1	1.2	1.2	1.3
Reduce Conservation Fund Intercept	-	-	-	-	-	2.3	2.3	2.3	2.3	2.3
Total Revenue Changes	-	-	-	-	0.0	12.4	12.4	12.5	12.5	12.6
Total Revised Revenue	-	-	-	-	<u>831.5</u>	<u>935.8</u>	<u>948.7</u>	<u>955.5</u>	<u>967.9</u>	<u>980.7</u>
Governor's Proposed Expenditure Changes										
Town Aid Road	-	-	-	-	-	12.5	12.5	12.5	12.5	12.5
Adjust Bus and Rail Fares	-	-	-	-	-	(15.0)	(19.9)	(19.9)	(19.9)	(19.9)
Savings from Employee Layoffs	-	-	-	-	(2.7)	(15.3)	(16.6)	(16.9)	(17.4)	(17.8)
Reduction for Unsettled Contracts and ERIP Savings	-	-	-	-	(2.4)	(16.4)	(17.7)	(15.5)	(15.6)	(15.8)
Remove Inflation and Annualize FY03 Adjustments	-	-	-	-	-	(3.5)	(5.0)	(5.1)	(5.1)	(5.2)
Miscellaneous DOT and DMV Adjustments	-	-	-	-	-	(1.0)	(1.1)	(0.7)	(0.7)	(0.7)
Repeal Legislation Eff. July 1, 2003	-	-	-	-	-	(1.9)	(1.8)	(1.9)	(1.9)	(2.0)
Total Expenditure Changes	-	-	-	-	(5.1)	(40.6)	(49.6)	(47.5)	(48.1)	(48.9)
Total Revised Expenditures	-	-	-	-	<u>891.5</u>	<u>898.8</u>	<u>921.9</u>	<u>945.7</u>	<u>960.7</u>	<u>975.2</u>
Revised Projected Excess (Deficiency)	-	-	-	-	<u>(60.0)</u>	<u>37.0</u>	<u>26.8</u>	<u>9.8</u>	<u>7.2</u>	<u>5.5</u>
Revised Cumulative Excess (Deficiency)	-	-	-	-	<u>129.7</u>	<u>166.7</u>	<u>193.5</u>	<u>203.3</u>	<u>210.5</u>	<u>216.0</u>
Revised Post Closing Balance	20.0	90.2	135.7	189.7	129.7	166.7	193.5	203.3	210.5	216.0

- (a) Actual per Comptroller's September 1999 through 2002 Reports, presented in a format to conform to budgetary categories.
- (b) Per the Comptroller's monthly report for the period ending February 28, 2003
- (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 2000 reflects the release from the Reserve Account under the Senior Indenture resulting from the 1999 cash defeasance of special tax obligations bonds. The amount for 2003 reflects the release from the Reserve Account resulting from a stand-alone refunding of special tax obligation 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 year 1999. Also, savings from the 1997 Early Retirement Incentive Program (ERIP) in the amount of \$8.3 million each year. 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) 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.
- (m) 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 required 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. On January 6, 2003, the Transportation Strategy Board presented its recommendations to the Governor and the General Assembly. The board recommended that transportation investments for fiscal year 2004 through fiscal year 2013 be increased over current levels by \$4.854 billion for capital investments, \$631 million for operating expenses and \$16 million for transportation studies. It recommended that these increased expenditures be financed by increasing the state sales tax by 0.5 percent, from the current 6.0 percent to 6.5

percent, effective July 1, 2003, and increasing the state motor fuel tax by 3 cents each July first for the next five (5) years; thereby, increasing the rate from the current 25 cents per gallon to 40 cents per gallon on July 1, 2007. The Governor's budget recommends that unexpended funds be continued into fiscal 2004 to fund initiatives identified by the TSB and that an additional \$14 million in new capital funds be made available. At this point, no recommendations regarding increasing revenues have been supported.

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 March 1, 2003, had 3,210 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 Department's purposes and supervising the Department's activities. 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.

On March 4, 2003, Mr. James F. Byrnes, Jr. was confirmed by the House of Representatives of the Connecticut General Assembly as Commissioner of the Department of Transportation. From January 31, 2002 until said confirmation, Mr. Byrnes was serving as Acting Commissioner of the Department of Transportation. 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 2,555 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 407 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 109 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 (12) years (State fiscal years 1985 through 1996) \$8.8 billion was authorized, consisting of \$3.6 billion in Senior and Second Lien 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 1999 through 2008. 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 2008 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 \$1.1 billion of which \$9857 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 \$2.1 billion. A portion of the program is eligible for federal funding, which is currently projected at \$1.8 billion. State funds are expected to pay for \$335 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 \$980 million. The State's share of such costs is estimated to be \$200 million, with the balance of \$780 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 fifty percent (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 ten percent (10%) to thirty-three percent (33%) of project costs. Revolving fund resources will finance new local bridge projects, as there are no anticipated federal funds available.

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 \$1.3 billion of which \$931.0 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 \$68.5 million and will require approximately \$19.2 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 \$993.7 million, of which \$490 million is expected to be paid from bond proceeds, \$10 million from other Department budget appropriations, and \$493.7 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 \$57.6 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 \$619.1 million, of which \$227 million is expected to be paid from bond proceeds and \$391.8 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 1999-2008 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										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	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	79.2	78.3	103.5	103.5	103.5	103.5	103.5	103.5	103.5	103.5	<u>985.5</u>
											1,100.5
Intrastate											
Bonds	31.5	31.5	31.5	31.5	31.5	62.9	35.5	22.5	28.1	28.5	335.0
Federal	167.5	124.9	177.3	152.7	126.0	479.4	292.0	82.4	102.9	104.4	<u>1,809.5</u>
											2,144.5
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	51.7	47.8	66.9	97.2	74.0	79.1	138.3	75.0	75.0	75.0	<u>780.0</u>
											980.0
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.0</u>
											0.0
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	35.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.0
Federal	68.4	106.8	97.9	92.7	94.3	134.3	53.8	94.3	94.3	94.3	<u>931.1</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>
											1,306.1
Aviation ^(b)											
Bonds	2.0	1.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	19.2
Federal	7.0	1.9	2.0	5.6	5.1	6.2	4.9	5.5	5.5	5.5	49.1
Other	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	<u>0.1</u>
											68.5
Resurfacing											
Bonds	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	490.0
Appropriations	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	10.0
Federal	71.3	44.7	44.9	58.7	49.0	54.1	36.0	45.0	45.0	45.0	<u>493.7</u>
											993.7
Dept. Facilities											
Bonds	0.0	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	57.6
Safety											
Appropriations	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	12.0
Federal	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	<u>90.0</u>
											102.0
STP/Urban Systems											
Bonds	12.0	12.0	12.0	12.0	12.0	8.0	8.0	8.0	8.0	8.0	100.0
Appropriations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal	39.8	48.0	48.0	48.0	48.0	32.0	32.0	32.0	32.0	32.0	<u>391.8</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>
											491.8
Other Road and Bridge											
Appropriations	8.0	9.4	9.8	9.8	9.8	9.8	9.8	10.0	10.2	10.5	97.1
Federal	11.2	11.2	11.6	13.9	15.1	13.9	15.1	15.1	15.1	15.1	<u>137.3</u>
											234.4
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	0.0	0.0	0.0	12.0	15.0	14.0	0.0	0.0	0.0	0.0	41.0
Waterways											
Bonds	0.3	16.0	8.3	0.2	0.3	0.2	0.3	0.2	0.3	0.2	<u>26.3</u>
											26.3
Totals											
Bonds ^(d)	166.3	187.6	180.7	184.6	187.7	214.0	172.7	159.6	165.3	165.6	1,784.1
Appropriations	10.2	46.6	12.0	12.0	12.0	12.0	12.0	12.2	12.4	12.7	154.1
Federal	505.1	472.6	561.1	581.3	524.0	911.6	684.5	461.8	482.3	483.8	<u>5,668.0</u>
Other	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	<u>0.1</u>
											7,606.4
Issuance and Reserve	20.2	20.4	23.5	23.3	23.3	28.6	22.3	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.

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 2008.

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

	<u>State Fiscal Year Ending June 30</u>											
	<u>1985 - 1998^(a)</u>	<u>1999^(a)</u>	<u>2000^(a)</u>	<u>2001^(a)</u>	<u>2002^(a)</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
Program Project												
Commitments	3,848.1	166.3	187.6	180.7	184.6	187.7	214.0	172.7	159.6	165.3	165.6	5,632.2
Issuance and Reserve												
Authority	436.5	20.2	20.4	23.5	23.3	23.3	28.6	22.3	21.3	21.3	21.3	662.0
Actual Projected and												
Annual Issuances ^{(b)(c)}	3,894.7	225.0	150.0	225.0	287.0	215.0	200.0	200.0	200.0	200.0	200.0	5,996.7

(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 of such billing, 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 INDENTURE

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

Definitions

The following are definitions of certain terms used in the Indenture and in the Remarketing Circular.

"Account" means any of the accounts created under the Indenture or under any Supplemental Indenture.

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

"Act" means collectively, chapter 243 of the Connecticut General Statutes, Special Act No. 84-52 and any other action of the General Assembly of the State, authorizing Prior Bonds to be issued under the Prior Indenture or Bonds to be issued under the Indenture, as the same may be amended from time to time.

“Alternate Security” means any one or combination of insurance, surety bonds, letters of credit, lines of credit, purchase agreements, collateralized purchase agreements or other Security devices for the benefit of the holders of the Series 1 Bonds issued for a term of at least one year from the date of issuance, which will entitle the Paying Agent to receive an amount sufficient to pay, as and when due, the amounts required to be covered by the Standby Bond Purchase Agreement and which will pay and secure the Series 1 Bonds for the entire term of the proposed Alternate Security.

“Amortization Requirement” for any period (as applied to term bonds issued under the provisions of Sections 2.2 and 2.3 of the Indenture), means the respective amount of principal of term bonds to be amortized in such period with respect to such Bonds as fixed by resolution of the State Bond Commission prior to the delivery of such 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 Fiscal Year immediately preceding the maturity of such term bonds.

“Bank” means the commercial bank issuing the Letter of Credit, and its successors and assigns in that capacity. References to the Bank shall include the Person issuing any Alternate Security unless the context indicates otherwise.

“Bank Bonds” means any Series 1 Bonds held by the Bank as a result of a draw on the Letter of Credit to purchase such Series 1 Bonds.

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

“BMA Municipal Swap Index” means the index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, Boston, Massachusetts, a Thompson Financial Services Company (or its successor), which meet specific criteria established by The Bond Market Association.

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

“Bond Counsel” means an attorney or firm of attorneys with a nationally recognized standing in the field of municipal bond financing.

“Bondholder” or “holder” or words of similar import shall mean, when used with reference to the Bonds, the registered owner of any Bond.

“Bond Service Sub-Account” shall mean the separate account created in the Debt Service Account by the Indenture.

“Business Day” means a day on which banks located in the city in which the principal office of the Trustee is located, the city in which the principal office in the continental United States of the Bank is located and the City of New York, New York are not required or authorized by law to remain closed and on which The New York Stock Exchange is not closed.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Computation Period” means during any Semiannual Rate Period, the six month period (or shorter period, in the case of a less than six month initial Computation Period) during which the interest rate will not be subject to adjustment, and means during any Other Rate Period, the period of time elected pursuant to Section 2.04 of the Supplemental Indenture during which the interest rate will not be subject to adjustment.

“Credit Facility” shall mean any Credit Facility, the costs of which constitute Debt Service Requirements.

“Debt Service Account” shall mean the Second Lien Special Tax Obligation, Transportation Infrastructure Purposes, Debt Service Account, a separate account created within the Special Transportation Fund by the Indenture.

“Debt Service Requirements” means for any period, the sum of (A) the principal and interest accruing during such period with respect to Bonds, the interest accruing during such period with respect to Notes and the unrefunded principal accruing during such period with respect to Notes, (B) the purchase price of Bonds and Notes which are subject to purchase or redemption at the option of the holder of such Bond or Note, (C) the amounts, if any, required during such period to establish or maintain the funds or accounts existing under the Indenture at the respective levels required to be established or maintained as provided in the Indenture, (D) expenses of issuance and administration with respect to Bonds and 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 Bonds or 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 Bonds and 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 Bonds or 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 Prior Bonds” under the Prior Indenture and (ii) Principal and Interest Requirements on Bonds under the Indenture for such Fiscal Year, less (B) the amount on deposit in the “Reserve Account” established under the Prior Indenture. For purposes of this definition only, Principal and Interest Requirements on Bonds for Bonds bearing interest at a variable rate shall be established or reestablished (i) at the date of issuance of such Bonds on the basis of the initial interest rate borne by such Bonds, (ii) at the date a Qualified Swap is entered into with respect to such 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 Bonds on the basis of the Base Interest Rate for such Bonds, and shall remain in effect until so reestablished, and shall otherwise not be recalculated from time to time.

“Event of Default” means any occurrence or event specified in Article IX of the Indenture.

“First Supplemental Indenture” means the Supplemental Indenture by and between the State and the Trustee, dated as of December 1, 1990 and any amendments and supplements thereto.

“Fiscal Agent” means initially Shawmut Trust Company, and any successor Fiscal Agent designated pursuant to the Supplemental Indenture.

“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 on June 30 in each year.

“Fixed Interest Rate” or “Fixed Interest Rates” means the fixed, non-floating annual interest rate or rates for each maturity date on the Series 1 Bonds established in accordance with the Supplemental Indenture.

“Fixed Rate Period” means as to the Series 1 Bonds. The Fixed Rate period as provided for in the First Supplemental Indenture.

“Governmental Obligations” means direct general obligations of the United States of America and any certificates or other evidences of a direct ownership interest in such obligations or in specified portions of the interest thereon, but not including repurchase agreements with respect thereto.

“Indenture” means the Indenture of Trust, dated as of December 1, 1990, by and between the State and the Trustee, including any exhibits thereto and any amendments and supplements thereto.

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

“Interest Determination Date” means (i) during any Weekly Rate Period, Tuesday of each calendar week or, if Tuesday is not a Business Day, the next Business Day, commencing with the Interest Determination Date occurring during the calendar week next following the calendar week during which the Series 1 Bonds are issued and delivered to the Original Purchaser, (ii) during any Monthly Rate Period, the fourth Business Day prior to the first Wednesday of each calendar month, commencing with the beginning of the first complete calendar month in such Monthly Rate Period, (iii)

during any Semiannual Rate Period or any Other Rate Period, on or before a Business Day not more than 15 nor less than 12 days prior to the beginning of each Computation Period.

“Interest Payment Date” means (i) as to the Series 1 Bonds (other than Bank Bonds) during a Weekly Rate Period or a Monthly Rate Period, the first Business Day of each calendar month, commencing January 2, 1991, (ii) as to the Series 1 Bonds (other than Bank Bonds) during any Semiannual Rate Period or any Other Rate Period or the Fixed Rate Period, each June 1 or December 1 or, if such day is not a Business Day, the next succeeding Business Day, (iii) as to any Series 1 Bonds which are Bank Bonds, while such Series 1 Bonds are Bank Bonds, the dates set forth in the Reimbursement Agreement for payment to the Bank of interest on unreimbursed draws on the Standby Bond Purchase Agreement, as provided in the First Supplemental Indenture, and (iv) as to Series 1 Bonds which are repurchased from the Bank as provided in the Reimbursement Agreement and in the First Supplemental Indenture, the date of such repurchase of Series 1 Bonds from the Bank.

“Interest Period” means, as to the Series 1 Bonds (other than Bank Bonds), (i) during a Weekly Rate Period or Monthly Rate Period each period commencing from and including the Business Day immediately following each Interest Determination Date therefor to and including the next succeeding Interest Determination Date therefor and (ii) during a Semiannual Rate Period or other Rate Period, each period commencing from and including the first day of the Computation Period to and including the day immediately preceding the first day of the next computation Period.

“Interest Requirements on 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 pay interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Notes. In computing the interest payable in any future period on any Note bearing interest at a variable rate, the interest shall be calculated on the basis of the Initial Interest Rate for such Note.

“Letter of Credit” means (1) the irrevocable letter of credit to be issued by the Bank and delivered to the Fiscal Agent and (2) any alternate irrevocable letter of credit authorizing drawings thereunder by the Fiscal Agent, the terms of which shall be the same in all material respects, except as to expiration date, as the Letter of Credit which it replaces, being issued by a commercial bank, and which satisfies the requirements of the First Supplemental Indenture. References to the Letter of Credit shall include any Alternate Security unless the context indicates otherwise. Any Letter of credit shall be an irrevocable obligation to make payment to the Fiscal Agent of up to the amounts therein specified with respect to (a) the principal amount of the Series 1 Bonds (i) to enable the Fiscal Agent to pay the principal amount of the Series 1 Bonds when due at maturity, upon mandatory Amortization Requirement redemption, or mandatory purchase, (ii) to enable the Fiscal Agent, on behalf of the Bank, to pay the portion of the Purchase Price of Series 1 Bonds delivered to the Fiscal Agent and not remarketed, as described in Article IV of the First Supplemental Indenture, equal to the principal amount of such Series 1 Bonds and (iii) to enable the Fiscal Agent, on behalf of the Bank, to purchase Series 1 Bonds (other than Series 1 Bonds held by or on behalf of the Bank or by or for the account of the State) upon conversion to a Semiannual Rate Period, an Other Rate Period or a Fixed Interest Rate, upon the last day of any Computation Period, upon the expiration or termination of the Letter of Credit or provision of Alternate Security or upon the occurrence of certain Events of Default, plus (b) an amount equal to the interest to accrue on the Series 1 Bonds (based on the Maximum Rate) for 59 days (during any Weekly Rate Period or Monthly Rate Period) or 205 days (during any Semiannual Rate Period or Other Rate Period) (i) to enable the Fiscal Agent to pay interest due on the Series 1 Bonds (other than Bank Bonds) on any Interest Payment Date or (ii) to enable the Fiscal Agent to pay the portion of the Purchase Price of Series 1 Bonds delivered to the Fiscal Agent and not remarketed, as described in Article IV of the First Supplemental Indenture, equal to the interest accrued on such Series 1 Bonds purchased in accordance with the First Supplemental Indenture, the Reimbursement Agreement and the Letter of Credit.

“Maximum Rate” means twelve percent (12%) per annum.

“Monthly Rate Period” means the monthly period during which Series 1 Bonds bear interest at a Monthly Rate.

“Monthly Variable Rate” means the variable annual interest rate on the Series 1 Bonds converted to or bearing interest at a monthly variable rate as determined by the Remarketing Agent in accordance with the Supplemental Indenture.

“Note” means any note issued in anticipation of Bonds pursuant to the Indenture, including any renewals and replacement notes.

“Note Repayment Account” shall mean the Second Lien Special Tax Obligation, Transportation Infrastructure Purposes, Note Repayment Account, a separate account within the Special Transportation Fund created by the provisions of Section 5.2 of the Indenture.

“Other Rate” means the variable annual interest rate on the Series 1 Bonds that is not a Weekly Variable Rate, Monthly Variable Rate, Semiannual Rate, or Fixed Rate or Rates converted to or bearing interest as determined by the Remarketing Agent in accordance with the Supplemental Indenture.

“Other Rate Period” means any other rate period during which Series 1 Bonds bear interest at an Other Rate.

“Outstanding” when used with reference to Bonds or Notes, as of any particular date, shall mean all such Bonds and Notes which have been authenticated and delivered hereunder, except:

(i) Any Bonds or Notes cancelled after purchase in the open market or because of payment at or redemption prior to maturity;

(ii) any Bonds or Notes (or any portion of either) for the payment or redemption of which cash funds or Government Obligations (as defined in the Indenture) or any combination thereof shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bond or Note); provided that if any such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(iii) any Bonds in lieu of which other Bonds have been authenticated under Section 3.7 of the Indenture unless held by a bona fide holder in due course; and

(iv) any Bond deemed to have been paid as provided in Section 11.1 of the Indenture.

“Paying Agent” means, with respect to any Series 1 Bond bearing interest at a rate other than a Fixed Interest Rate, the Fiscal Agent, and with respect to any Series 1 Bond bearing interest at a Fixed Interest Rate, the Trustee.

“Person” means any natural person, firm, association, corporation, trust, partnership, joint venture, joint-stock company, municipal corporation, public body or other entity.

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

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

(i) the amount of interest payable on all 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 Bonds of such series required to be made for such period pursuant to the proceedings authorizing 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.

In computing Principal and Interest Requirements on Bonds for any period for the 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 Bond bearing interest at a variable rate, the interest shall be calculated on the basis of the Base Interest Rate of such Bond except that if the State shall have entered into one or more Qualified Swaps with respect to such series of Bonds, for such period, then the 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 Prior Bonds” for any period, shall mean the “Principal and Interest Requirements on Bonds,” as defined in the Prior Indenture, with respect to all Prior Bonds.

“Prior Bond” or “Prior Bonds” shall mean any bond or bonds issued pursuant to the Prior Indenture.

“Prior Indenture” shall mean the Indenture, dated as of September 15, 1984, as supplemented and amended from time to time, between the State and The Connecticut National Bank, as trustee.

“Purchase Price” means the purchase price of any Series 1 Bond tendered for purchase as provided in the First Supplemental Indenture, such purchase price to be computed in accordance with the provisions thereof governing any such tender.

“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 Bonds issued under the Indenture, 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 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 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.

“Record Date” means, with respect to the Series 1 Bonds during any Weekly Rate Period or Monthly Rate Period, the close of business on the Business Day immediately preceding each Interest Payment Date, with respect to any Semiannual Rate Period, any Other Rate Period or the Fixed Rate Period, the fifteenth day of the calendar month next preceding an Interest Payment Date.

“Redemption Sub-Account” shall mean the separate sub-account created in the Debt Service Account by the provisions of Section 5.3 of the Indenture.

“Refunding Bonds” means any one or more series of Bonds authorized and issued by the State pursuant to Section 2.3 of the Indenture.

“Registrar” means, with respect to any Series 1 Bond bearing interest at a rate other than a Fixed Interest Rate, the Fiscal Agent, and with respect to any Series 1 Bond bearing interest at a Fixed Interest Rate, the Trustee.

“Reimbursement Agreement” means, as to the Series 1 Bonds, the Standby Bond Purchase Agreement and Reimbursement Agreement, dated as of November 1, 1995, by and between the State and the Bank, as the same may from time to time be duly amend., modified or supplemented in accordance with its terms. The definition of Reimbursement Agreement shall also include, where appropriate, any reimbursement or repayment agreement by and between the State and any future Bank or any similar agreement between the State and a Person providing Alternate Security.

“Remarketing Agent” means the Remarketing Agent at the time serving under the Remarketing Agreement, presently J.P. Morgan Securities, Inc. and any successor Remarketing Agent as determined or designated under or pursuant to the Indenture and the Remarketing Agreement.

“Remarketing Agreement” means the Remarketing Agreement, dated as of June 1, 1995 entered into among the State, the Remarketing Agent and the Trustee, as the same may be amended, modified or supplemented.

“Reserve Account” shall mean the Second Lien Special Tax Obligation, Transportation Infrastructure Purposes, Reserve Account, a separate account created within the Special Transportation Fund by the Indenture.

“Semiannual Rate” means the variable annual interest rate on the Series 1 Bonds converted to or bearing interest at a semiannual variable rate as determined by the Remarketing Agent in accordance with the Supplemental Indenture.

“Semiannual Rate Period” means the semiannual period during which Series 1 Bonds bear interest at a Semiannual Rate.

“Serial Bond” shall mean one of the Bonds of a series which shall be stated to mature in annual installments.

“Series 1 Bonds” means the Second Lien Special Tax Obligation Bonds, Transportation Infrastructure Purposes (Variable Rate Demand), Series 1, of the State in an original principal amount of \$250,000,000, authorized and issued pursuant to the Indenture.

“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.

“State” means the State of Connecticut.

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

“Suspension Base Rate” means the BMA Municipal Swap Index; but if the BMA Municipal Swap Index ceases to be published, then a new third-party index shall be selected in good faith by the State that has the described composition and methodology of the BMA Municipal Swap Index to the extent there is such an index that is readily available to the Remarketing Agent.

“Term Bond” shall mean one of the Bonds of a series which shall be stated to mature on one date and payable from Amortization Requirements.

“Trustee” means Connecticut National Bank, and its successor or successors hereafter appointed in the manner provided in the Indenture.

“Weekly Rate Period” means as to the Series 1 Bonds, the period from and including the date of original delivery of the Series 1 Bonds to the original purchaser thereof to the date preceding the first date of a Monthly Rate Period, Other Rate Period, or the Fixed Rate Period, whichever comes first, and any other Weekly Rate Period provided for in the First Supplemental Indenture.

“Weekly Variable Rate” means the variable annual interest rate on the Series 1 Bonds converted to or bearing interest at a weekly variable rate as determined by the Remarketing Agent in accordance with the Supplemental Indenture.

Pledge of Trust Estate

To secure the payment of the Debt Service Requirements on the Bonds and Notes, to the provider of any Credit Facility, to the provider of any Qualified Swap 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 Indenture and in the Bonds and Notes, the State, in the Indenture, has granted to the Trustee, subject and subordinate to the lien of the Prior Indenture, a 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 Connecticut General Statutes, 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 Indenture (collectively, the “Trust Estate”).

The 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 Indenture, subject to the lien of the Prior Indenture. The Bonds shall be equally and ratably secured under the Indenture, subject to the lien of the Prior Indenture, by the assignments, pledges and charges made or created in the Indenture of or on the properties of the Trust Estate for the payment and security of the Bonds and amounts due in connection with any Credit Facility and any Qualified Swap and by a co-equal lien thereon, without priority by reason of series, number, date of execution of the Indenture or of the Supplemental Indenture providing for the issuance thereof, date of Bonds, date of sale, date of execution, date of authentication, date of issuance, date of delivery, the section of the Indenture under which the Bonds are issued or otherwise; except that any payments by a provider of a Qualified Swap shall be received by the Trustee and held in trust for the benefit of the series of Bonds in respect of which such Qualified Swap is entered into. The aforesaid lien and charge of the Bonds shall constitute a second lien and charge on the Special Transportation Fund and the other receipts, funds and moneys pledged to the payment of the Bonds and from time to time held under the Indenture, subject only to the provisions of the 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 (except indebtedness issued under the Prior Indenture) payable from or secured by the Pledged Revenues and such other receipts, funds and moneys which may thereafter be created or incurred, except as may be issued under the Prior Indenture. The pledges, liens, charges and assignments to the Trustee of the Trust Estate made in the Indenture are to be valid and binding from the time of the delivery of and payment for the first series of Bonds issued under the 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 Indenture without any physical delivery thereof or further act.

The Bonds and 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 Indenture. Neither the State nor any political subdivision thereof is subject to any liability on the Bonds except to the extent of the Pledged Revenues, or other receipts, funds and moneys pledged under the Indenture to secure the same. See “Nature of Obligation – State General Taxing Power Not Pledged” above.

Funds and Accounts

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

1. *Special Transportation Fund.* Provided that the State have made all payments required to be paid under the Prior Indenture, 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:

(i) to the credit of the Bond Service Sub-Account, the Note Repayment Account and the Redemption Sub-Account, respectively, such amounts thereof, any (or the entire sum so withdrawn if less than the required amount, in which case such sum shall be allowed among the purposes set forth in this subparagraph on a pro rata basis), as may be required (A) to pay Debt Service Requirements (other than Amortization Requirements) with respect to Bonds, and any amounts owing under any Qualified Swap plus the amount payable with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a Credit Facility providing for payment of principal, Purchase Price, or interest on Bonds, (B) to make the amount then held to credit of the Note Repayment Account held for payment of interest equal to the unpaid interest payable on Notes and interest payable pursuant to any reimbursement agreement entered into with respect to a Credit Facility providing for payment of the principal of 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.

(ii) to the credit of the Reserve Account, from time to time but at least monthly, out of any balance remaining after making the deposits under subparagraph (i) above (or the entire balance if less than the required amount), the lesser of (A) the amount, if any, necessary to maintain the Reserve Account at the Debt Service Reserve Requirement, or (B) one-twelfth (1/12) of the Debt Service Reserve Requirement, or (C) if a shortfall in the amount on deposit in the Reserve Account arises because of an increase in the Debt Service Reserve Requirement arising out of a reestablishment of principal and Interest Requirements in respect of a series of Bonds bearing interest at a variable rate, one-twelfth (1/12) of such increase.

Unless an earlier time is specified in the Supplemental Indenture entered into with respect to a series of Bonds, in a reimbursement agreement entered into with respect to a credit facility providing for payment of principal on a series of Bonds or in a Qualified Swap, such deposits under subparagraph (i) shall be made at the time such funds are required to be applied by the Trustee to the purposes specified.

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 Bonds issued pursuant to the Indenture, proceeds of renewal or replacement Notes issued pursuant to the Indenture, and the deposits described above, are to be deposited by the Trustee to the credit of the Note Repayment Account. 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 Notes, interest pursuant to any reimbursement agreement entered into with respect to a credit facility for the payment of principal of Notes, and principal on refunded Notes. Upon such deposit to the credit of the Note Repayment Account of amounts to refund Notes, the principal of 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 Note the principal of such Note shall be deemed for purposes of the Indenture to be unrefunded. Any moneys remaining in the Note Repayment Account after the last maturity date of such outstanding 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 Bonds as such interest becomes due, (b) the payment of principal on Bonds at their respective maturities, (c) the payment of the purchase or redemption price of the Bonds before maturity, (d) the payment of the unrefunded principal on Notes at their respective maturities, or (e) the payments pursuant to any reimbursement or other agreement entered into with respect to a Credit Facility or Qualified Swap and such moneys are pledged to and charged with such payments as below.

To the extent required by any Supplemental Indenture or any Reimbursement Agreement entered into with respect to a Credit Facility providing for payment of principal or interest on Bonds the Trustee may establish separate accounts within such sub-accounts in respect of particular series of Bonds.

a. *Bond Service Sub-Account.* In addition to the deposits to the Bond Service Sub-Account specified above, the Trustee shall deposit to the credit of the Bond Service Sub-Account any amount received from any provider of a Qualified Swap. So long as a Credit Facility is in effect with respect to the series of Bonds in respect to which such Qualified Swap was entered into, such amounts shall be held apart from other monies in the Bond Service Sub-Account in trust until used (i) to make payments to the holders of the series of Bonds in respect of which such Qualified Swap is entered into and obligations pursuant to any reimbursement agreement entered into with respect to any Credit Facility on such series of Bonds or (ii) with the consent of the provider of a Credit Facility in effect with respect to such series of Bonds used to make payments to the provider of any other Qualified Swap entered into with respect to such series of Bonds. 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 (a) deposit in trust with the Paying Agent sufficient moneys for paying the principal of and the interest on the Bonds as the same shall become due, (b) at the written direction of the State, pay principal and interest pursuant to any Reimbursement Agreement entered into with respect to any Credit Facility, and (c) at the written direction of the State, pay the amount due to the provider of a Qualified Swap. In making such payments in respect of principal and interest on a series of Bonds and reimbursement obligations under such a Credit Facility in respect of such series of Bonds, the Trustee shall withdraw and apply first any monies held in trust for such payments as provided in the second preceding sentence. The Trustee shall withdraw moneys 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 Bonds may be used to pay costs of issuance of such 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 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 Bonds secured by the Indenture and then outstanding, whether or not such 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 and other charges, not to exceed the principal of such Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Bonds under the provisions of the Indenture or any Supplemental Indenture if such Bonds should be called for redemption on such date from moneys in the Debt Service Account. The Trustee is to pay the interest accrued on such 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 Bonds are subject to call for redemption under the provisions of the Indenture except from moneys in excess of the amounts set aside or deposited for the redemption of Bonds.

(2) Subject to the provisions of (3) below, the Trustee is to call for redemption on each interest payment date on which Bonds are subject to redemption from moneys in the Debt Service Account such amount of 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) in principal amount of Bonds are to be called for redemption at any one time. Such redemption is to be made pursuant to Article IV of the 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 Bonds so called for redemption and the principal of, and the premium on, such Bonds.

(3) Moneys in the Redemption Sub-Account are to be applied to the purchase or redemption of Bonds in the following order: (a) term bonds of each series, if any, issued under the 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 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 Bonds of such series; (b) to the purchase of any Bonds secured by the Indenture and then outstanding whether or not such 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 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 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. If a Credit Facility shall have been drawn upon to make any of the payments called for in clauses (a), (b), (c) or (d) above, then the Trustee shall apply moneys in the Redemption Sub-Account to any reimbursement obligations under the Credit Facility arising thereby.

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 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 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 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 making payments required to be made from the Bond Service Sub-Account and the Redemption Sub-Account 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. Moneys held to the credit of the Reserve Account shall also be used for the purpose of making any reimbursement payment required pursuant to any bond of insurance or indemnity established under the Indenture. 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 Indenture, if at any time the

moneys held for the credit of the Reserve Account (as calculated pursuant to the Indenture) exceed ten percent (10%) of the original proceeds of the Bonds then outstanding, then at the direction 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 or in substitution for any amount required to be on deposit or any deposit required to be made to the Reserve Account by the terms of any provisions of the 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 Bonds and Notes, to the extent required by the 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 Bonds. From the net proceeds of the sale of the 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) There shall be deposited to the credit of the Note Repayment Account an amount sufficient, when adjusted for investment earnings as provided in the Indenture, 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 Notes then outstanding and issued in anticipation of such 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) There shall be deposited 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 Bonds were issued;

(d) There shall be made such other deposits or credits, if any, as shall be specified in the supplemental indenture providing for the issuance of such series of Bonds;

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

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

Issuance of Notes and Application of Note Proceeds. The Indenture authorizes the issuance of one or more series of Notes to provide temporary financing for transportation purposes pending the issuance of Prior Bonds under the Prior Indenture or Bonds under the Indenture. No Notes shall be issued (i) unless the Bonds, in anticipation of which they are to be issued, have been duly authorized in accordance with the Act and the Indenture, and (ii) if the aggregate principal amount of all Notes then outstanding and to be issued exceeds Fifty Million Dollars (\$50,000,000), unless, as of the date of issuance of such Notes, the State could have issued under the terms of the 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 Bonds been issued at such time.

Said Notes shall be special obligations of the State payable solely from the proceeds of Bonds or Prior Bonds issued under the Indenture and, to the extent provided in the 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 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 Notes, shall be subordinate to any obligation of the State to pay Debt Service Requirements with respect to Prior Bonds and Bonds or any Debt Service Requirements with respect to Notes. The Indenture further provides that the State may not enter into any contract with any noteholder inconsistent with the terms of the Indenture. The full faith and credit of the State will not be pledged to the repayment of such Notes and the State will not be obligated to make appropriations from its general fund for the repayment of such Notes. Such Notes may be renewed and refunded from time to time as may be determined by the Treasurer. Said Notes may be made redeemable. The proceeds of the sale of any issue of 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 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 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 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 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 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 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 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 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 written direction of the State, to the extent reasonable and practicable in Investment Securities (as described below) 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.

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, and (ii) participation certificates in the short-term investment fund created and existing under Section 3-27a of the Connecticut General Statutes, as amended or any successor provision.

Subordinated Lien Obligations

Nothing contained in the 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 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 second call on the Pledged Revenues and to the lien on and pledge of the Special Transportation Fund created in the Indenture and the other receipts, funds or money pledged under the Indenture for the payment and security of the Bonds.

Covenants

The State covenants with the purchasers and holders of all 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, and such amounts as may be necessary to pay such Debt Service Requirements in each year in which Bonds or Notes are outstanding.

(2) *Coverage Requirements.* To provide Pledged Revenues and other receipts, funds or moneys pledged under the Indenture in each Fiscal Year beginning in the first full Fiscal Year after the issuance of Bonds or Notes, after deducting payments out of Pledged Revenues and other receipts, funds or moneys pledged under the 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 Prior Bonds for all Prior Bonds outstanding in such Fiscal Year, Principal and Interest Requirements on Bonds for all Bonds outstanding in such Fiscal Year and Interest Requirements on Notes in such Fiscal Year.

(3) *Prior 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, provider of a Credit Facility or Qualified Swap or any Bondholder pursuant to the terms of the 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 Prior Bonds, Bonds and Notes except from amounts held to the credit of the Special Transportation Fund which represent amounts borrowed by the Treasurer in anticipation of revenues pursuant to Section 3-16 of the Connecticut General Statutes, or from transportation related federal revenues of the State. 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 under the Prior Indenture, to the extent of any moneys then owed in respect of Prior Bonds and thereafter 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 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 Indenture, the principal of and interest and premium, if any, on each and every Note and Bond at the place, on the dates and in the manner provided in the Indenture and in such Notes and Bonds according to the true intent and meaning of such Notes and Bonds and the 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 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 of Transportation 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 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 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 Indenture, or involving the rights of any Bondholder under the 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 Bonds are no longer outstanding and all indebtedness and obligations secured by the indenture may have been fully paid and satisfied and the lien, pledge and charge of the Indenture may have been released and discharged.

(7) *State Taxation.* To keep the Notes and Bonds at all times free from taxation, except for estate and gift taxes, imposed by the State or by any political subdivision thereof and interest paid on the Notes or Bonds is to be exempt from any tax on or measured by income or net income imposed by the State or by any political subdivision thereof; including, without limitation, any tax on interest income imposed by the State or by any political subdivision thereof.*

(8) *Issuance of Prior Bonds.* To not issue Prior Bonds under the Prior Indenture unless Bonds could have been issued under Section 2.2 of the Indenture upon the same terms and in the same principal amount and not to issue any bond anticipation notes under the Prior Indenture.

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 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 Indenture and in the Act;

(2) not to issue any bonds, notes or other evidences of indebtedness, other than the Bonds or 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 Bonds or 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 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 Bonds or Notes;

(5) not to in any way impair the rights, exemptions or remedies of the holders of any Bonds or 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 Bonds, including Pledged Revenue coverage requirements, 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.

Events of Default

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

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

* Covenant partially taken and amended by eminent domain pursuant to Public Act 95-2. For a further description, see "Corporation Business Tax as Applied to the Series 1 Bonds."

(b) the State fails to pay any installment of interest on 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 Bonds, the 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 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 (1) year after written notice by the Trustee of such failure the State shall not have enacted legislation such that the conditions contained in the 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 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 Indenture, the Trustee (A) for and on behalf of the holders of the Bonds has the same rights under the Indenture which are possessed by any of the holders of the 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 Bonds then outstanding, or the provider of any Credit Facility providing for the payment of the principal, interest or purchase price of such aggregate principal amount of Bonds, shall pursue any available remedy by action at law or suit in equity to enforce the payment of the principal or interest and premium, if any, then due on the 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 Bonds allowed in any judicial proceeding relative to the State, or its creditors, its property, or the Bonds.

Defeasance

The obligations of the State under the 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 Bond and such 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 Indenture:

(i) when such 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 Indenture; or

(ii) as to any 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 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 by declaration, or otherwise) either (A) has been made or caused to be made in accordance with the terms of the Indenture, or (B) has been provided by irrevocably depositing with the Trustee or Paying Agent for such 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 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 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 Indenture or any Supplemental Indenture authorizing the issuance of Bonds.

At such time as a Bond is deemed to be no longer outstanding, such 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 by declaration as aforesaid, 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 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 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 Indenture, or amendments, additions or deletions to the Indenture which may be required to permit the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, (iii) to provide for the issuance of Bonds or any series of 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 Bonds then outstanding, for any one or more of the purposes enumerated in Section 10.1 of the Indenture. Except for Supplemental Indentures of the type referred to in (i) through (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 Bonds then outstanding, and (C) except for a Supplemental Indenture which has no effect as to any Bond or 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 Indenture as originally executed by the State and the Trustee or as amended or supplemented with the consent of the holders of the Bonds.

The Indenture may be amended, by the State and the Trustee, upon the consent of not less than sixty percent (60%) of the 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 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 Bonds then outstanding; provided, however, that without the specific consent of the holder of each such Bond which would be affected thereby, no such Supplemental Indenture amending or supplementing the provisions of the Indenture may: (1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any 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 Bonds, the holders of which are required to consent to any such Supplemental Indenture amending or supplementing the provisions of the Indenture; or (3) give to any Bond or Bonds any preference over any other Bond or 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 Bonds; or (5) deprive any holder of the Bonds of the security afforded by the Indenture.

REMARKETING AGENT

J.P. Morgan Securities, Inc. entered into a Remarketing Agreement with the State and will serve as Remarketing Agent for the Series 1 Bonds. The Remarketing Agent will carry out the duties and obligations provided for the Remarketing Agent under and in accordance with the provisions of the Indenture. The principal office of the Remarketing Agent (for purposes of its responsibilities as Remarketing Agent for the Series 1 Bonds) is located at 270 Park Avenue, New York, New York 10017, (212) 834-7175.

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 such Fund to meet such financial judgments are subject to the prior lien of the holders granted under the Act and the Indentures. 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 143 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 \$150 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.

CONTINUING DISCLOSURE AGREEMENT

Although it is not required to do so under SEC Rule 15c2-12 (the “Rule”), the State will enter into a Continuing Disclosure Agreement with respect to the Series 1 Bonds, substantially in the form attached as Appendix G to this Remarketing Circular (the “Continuing Disclosure Agreement”), to provide or cause to be provided, (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Series 1 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 State must undertake to provide the required annual financial information and operating data commencing with its fiscal year ending June 30, 2003. 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.

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 Series 1 Bonds in order that interest on the Series 1 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 Series 1 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 was delivered concurrently with the original delivery of the Series 1 Bonds in 1990, contains 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 agreed and covenanted 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 Series 1 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 Series 1 Bonds is not included in gross income of the owners thereof for Federal income tax purposes, and, under existing law, interest on the Series 1 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 Series 1 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 “Certain Additional Tax Information” herein.

Further, in the opinion of Bond Counsel under existing statutes, interest on the Series 1 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 Series 1 Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Series 1 Bonds and the disposition of the Series 1 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 Series 1 Bonds, in gross income for purposes of the Corporation Business Tax. Interest on the Series 1 Bonds is included in the definition of “gross income” for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes, see “Corporation Business Tax as Applied to Previously Issued Special Tax Obligation Bonds and to the Series 1 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 Series 1 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 Series 1 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 Series 1 Bonds.

Ownership of the Series 1 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 this Remarketing Circular will not have an adverse effect on the tax-exempt status or market price of the Series 1 Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of this Remarketing Circular may affect the tax status of interest on the Series 1 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 Series 1 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 Series 1 Bonds not specifically described herein.

RATINGS

It is expected that Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services and Fitch Ratings will assign long-term ratings of "Aaa," "AAA" and "AAA," respectively, and short-term ratings of "VMIG 1," "A1" and "F1," respectively, to the Series 1 Bonds, with the understanding that the Policy will be issued by Financial Security Assurance Inc., and the Standby Bond Purchase Agreement will be entered into by the Bank upon the remarketing of the Series 1 Bonds. Moody's has assigned an underlying rating of "Aa3" to Second Lien Bonds which are issued without bond insurance or other credit enhancement. The Moody's underlying rating carried a "negative" credit outlook as to such Second Lien Bonds issued without bond insurance or other credit enhancement. At present, all outstanding Second Lien Bonds have bond insurance or other credit enhancement securing the scheduled payment of principal and interest. Such ratings reflect only the view 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 Series 1 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 Series 1 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 remarketing of the Series 1 Bonds.

MISCELLANEOUS

The State has furnished the information in this Remarketing Circular.

Information with respect to the Infrastructure Program may be obtained from James F. Byrnes, Jr., 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 Remarketing Circular is submitted in connection with the remarketing of the Series 1 Bonds and may not be reproduced or used as a whole or in part, for any other purpose. This Remarketing Circular 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 as of the date hereof that the Independent Auditors' Report dated October 9, 2002, which is Appendix C to this Remarketing Circular, may be included in this Remarketing Circular.

Any statements in this Remarketing Circular 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 Indenture in accordance with the Act and this Remarketing Circular is not to be construed as a contract or agreement between the State and the purchasers or owners of any of the Series 1 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.
Commissioner of the
Department of Transportation

Dated at Hartford, Connecticut
This 22nd day of April, 2003

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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 December 1, 2002, and have not been updated.

GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

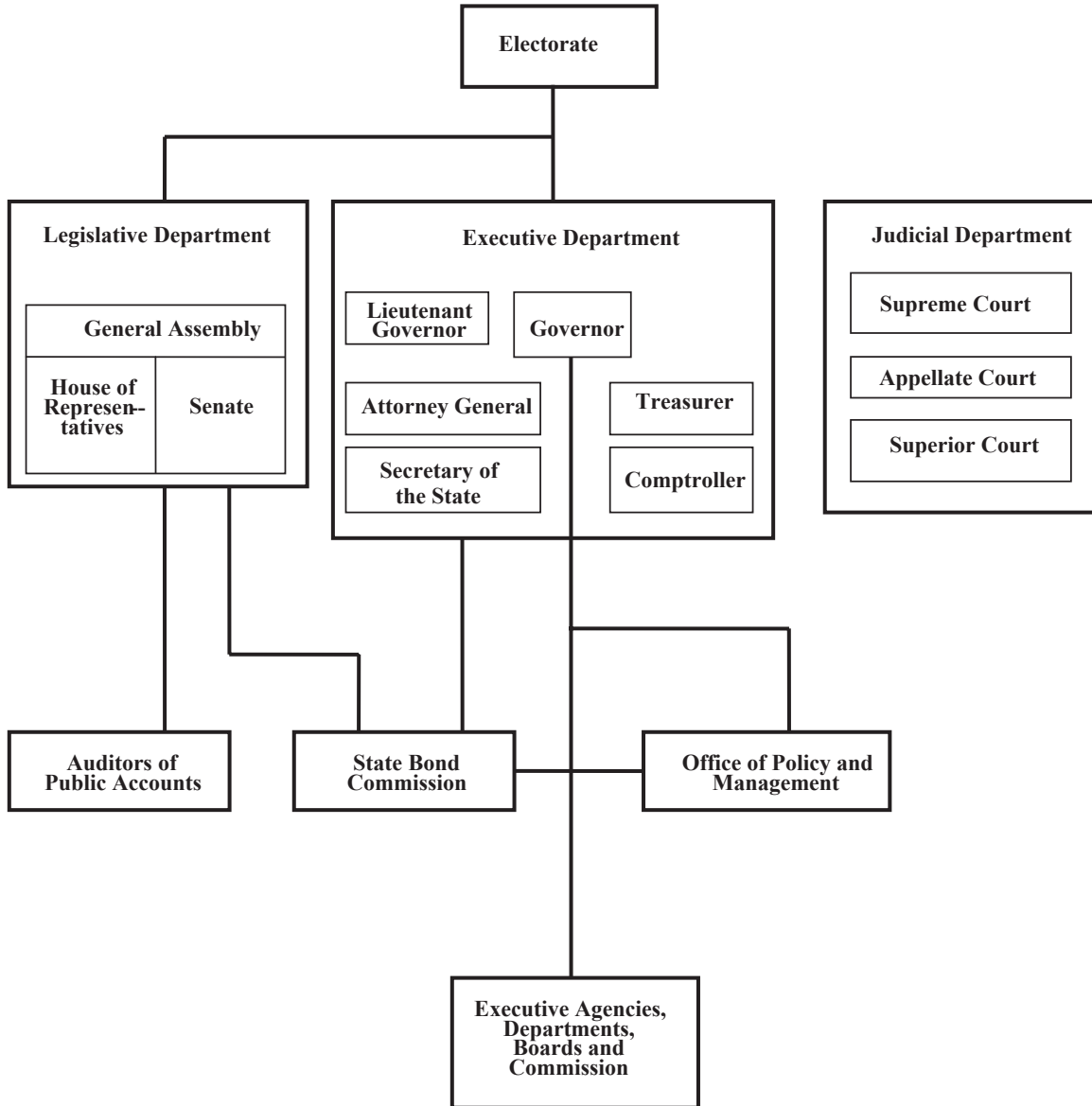
The components and structure of State governmental organization are laid out in the State’s Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General 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 2002, and the new members took office in January 2003.

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. A general election was held in November 2002, and the same officials were reelected to their respective offices for terms beginning in January 2003.

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 173 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 128 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>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Legislative	427	438	434	447	509
General Government	3,745	3,853	3,910	3,910	3,909
Regulation and Protection	4,200	4,319	4,550	4,592	4,620
Conservation and Development	1,399	1,420	1,463	1,457	1,496
Health and Hospitals	8,280	8,709	8,747	8,635	8,710
Transportation	3,675	3,610	3,643	3,626	3,631
Human Services.....	2,347	2,391	2,375	2,332	2,315
Education.....	13,494	14,130	14,357	14,921	15,331
Corrections	9,346	9,454	10,027	9,956	10,168
Judicial	<u>2,971</u>	<u>3,068</u>	<u>3,224</u>	<u>3,342</u>	<u>3,369</u>
Total.....	49,884	51,392	52,730	53,218	54,058

(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**.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2002^(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	509						509
General Government	3,082	11	9	450	29	328	3,909
Regulation and Protection	2,205	669	596	218	922	10	4,620
Conservation and Development	677		5	374	317	123	1,496
Health and Hospitals	8,243			77	335	55	8,710
Transportation		3,505		126			3,631
Human Services	1,980		14		307	14	2,315
Education	9,730			5,417	184		15,331
Corrections	10,012			91	65		10,168
Judicial	3,294			12	63		3,369
Total	39,732	4,185	624	6,765	2,222	530	54,058

^(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^(a)
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
Connecticut State University Administrators	1.03%	Contract in place through 6/30/2005
<u>Other Bargaining Units (11 units)</u>	<u>2.02%</u>	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)}

Legislative

Legislative Management
Auditors of Public Accounts
Commission on the Status of Women
Commission on Children
Latino and Puerto Rican Affairs
Commission
African-American Affairs Commission

General Government

Governor’s Office
Secretary of the State
Lieutenant Governor’s Office
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
Office of Workforce Competitiveness
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
State Marshal Commission

Regulation and Protection

Department of Public Safety
Police Officer Standards and
Training Council
Board of Firearms Permit Examiners
Department of Motor Vehicles
Military Department
Commission on Fire Prevention and
Control
Department of Banking
Insurance Department
Office of Consumer Counsel
Department of Public Utility Control
Office of Managed Care Ombudsman
Department of Consumer Protection
Department of Labor
Office of Victim Advocate
Commission on Human Rights and
Opportunities
Office of Protection and Advocacy for
Persons with Disabilities
Office of the Child Advocate
Workers’ Compensation Commission

Conservation and Development

Department of Agriculture
Department of Environmental
Protection
Council on Environmental Quality
Connecticut Historical Commission
Department of Economic and
Community Development
Agricultural Experiment Station

Health and Hospitals

Department of Public Health
Office of Health Care Access
Office of the Chief Medical Examiner
Department of Mental Retardation
Department of Mental Health and
Addiction Services
Psychiatric Security Review Board

Transportation

Department of Transportation

Human Services

Department of Social Services
Soldiers’, Sailors’, and Marines’ Fund

Education, Libraries and Museums

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 State College
Teachers’ Retirement Board
Regional Community-Technical
Colleges
Connecticut State University

Corrections

Department of Correction
Board of Pardons
Board of Parole
Department of Children and Families
Council to Administer the Children’s
Trust Fund

Judicial

Judicial Department
Public Defender Services Commission

- (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, 2002.

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 more than 50% 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, an increase of 118,449, or 3.6%, from the 3,287,116 figure of 1990. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially and trailed the national average markedly during the past three decades. The following table presents the population trends of Connecticut, New England and the United States since 1940. Connecticut's population increased 3.6% from 1990 to 2000 versus 5.4% in New England. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. The mid-2001 population in Connecticut was estimated at 3,425,074, up 0.4% from a year ago, compared to increases of 0.6% and 0.9% for both New England and the nation, respectively.

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
1992....	3,301	(0.1)	13,271	0.2	256,514	1.4
1993....	3,309	0.3	13,334	0.5	259,919	1.3
1994....	3,316	0.2	13,396	0.5	263,126	1.2
1995....	3,324	0.2	13,473	0.6	266,278	1.2
1996....	3,337	0.4	13,555	0.6	269,394	1.2
1997....	3,349	0.4	13,642	0.6	272,647	1.2
1998....	3,365	0.5	13,734	0.7	275,854	1.2
1999....	3,386	0.6	13,838	0.8	279,040	1.2
2000....	3,410	0.7	13,944	0.8	282,125	1.1
2001....	3,425	0.4	14,022	0.6	284,797	0.9

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1992-2001, Mid-year estimates.

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

The State is highly urbanized with a 2001 population density of 707 persons per square mile, as compared with 81 for the United States as a whole and 223 for the New England region. Of the 8 counties in the State, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

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, Americans with Disabilities Act and paratransit 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 Stamford.

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 who 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 few 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). Two 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. and Verizon New York, Inc. Connecticut also has approximately 139 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 affect 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 high per capita income is due to the State’s concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. The following table shows total and per capita personal income for Connecticut residents during the period from 1992 to 2001 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 of Dollars)	<u>Per Capita</u> ^(a) (Dollars)	<u>New England</u>	<u>United States</u>
1992.....	93,779	28,409	116.9	135.2
1993.....	96,867	29,274	117.2	135.6
1994.....	99,788	30,093	116.1	134.5
1995.....	104,315	31,382	116.1	134.8
1996.....	109,354	32,770	115.6	134.8
1997.....	116,420	34,763	116.2	136.6
1998.....	124,880	37,112	116.6	137.9
1999.....	130,175	38,445	115.6	137.8
2000.....	138,796	40,703	113.7	136.6
2001.....	143,613	41,931	114.2	137.5

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>
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	7.3%	7.1%	7.0%	6.0 %	5.8 %	5.7%
1999	4.2%	5.3%	4.9%	2.8 %	3.8 %	3.4%
2000	6.6%	8.4%	8.0%	4.4 %	6.2 %	5.7%
2001	3.5%	3.2%	3.3%	1.1 %	0.8%	0.9%

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 2001.

TABLE A-9

**Sources of Personal Income By Place of Residence
Calendar 2001
(In Millions)**

	<u>Conn.</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing	\$ 72,021	50.15	\$4,161,208	47.91
Property Income (Div., Rents & Int.).....	25,082	17.46	1,638,303	18.86
Wages in Manufacturing	16,519	11.50	789,400	9.09
Transfer Payments less Social Insurance Paid.....	9,619	6.70	798,165	9.19
Other Labor Income	8,818	6.14	570,395	6.57
Proprietor's Income.....	<u>11,554</u>	<u>8.05</u>	<u>727,862</u>	<u>8.38</u>
Personal Income—Total.....	\$143,613	100.00	\$8,685,333	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, thereafter the growth rates improved and remain higher than those experienced in the early 1990s.

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)

Year	Connecticut		New England^(a)		United States^(b)	
	\$	% Growth	\$	% Growth	\$	% Growth
1991	100,395	1.5	344,025	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	142,701	5.7	503,940	6.9	8,750,174	6.4
1999	149,483	4.8	537,962	6.8	9,279,697	6.1
2000	159,288	6.6	582,776	8.3	9,941,552	7.1

(a) Sum of the GSP for the States in New England.

(b) Denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S.

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

The following table shows the Gross State Product in 1996 chained dollars.

TABLE A-11
Gross State Product
(In Millions of 1996 Chained Dollars)

Year	Connecticut		New England		United States	
	\$	% Growth	\$	% Growth	\$	% Growth
1991	114,576	(2.3)	388,572	(2.5)	6,615,685	(0.2)
1992	114,830	0.2	391,385	0.7	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	138,159	4.2	488,673	5.4	8,502,663	5.1
1999	143,500	3.9	517,174	5.8	8,915,954	4.9
2000	149,649	4.3	549,304	6.2	9,314,279	4.5

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 2000, Connecticut's output was concentrated in three areas: finance (29.5%), services (22.1%) and manufacturing (15.7%), which

contributed two-thirds of the State's total output. The output contribution of manufacturing has been declining over time as the contribution of finance and services has been rapidly increasing. In 1991, Connecticut's outputs from these three areas were: finance, 25.2%; services, 19.4%; and manufacturing, 19.8%. The increasing share of the non-manufacturing sector may help smooth the business cycle by prolonging the length of expansion and reducing the span and depth of recession.

TABLE A-12
Gross State Product by Industry in Connecticut
(In Millions of Dollars)

<u>Sector</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>	<u>2000</u>
Manufacturing	\$19,901	\$19,452	\$18,420	\$18,983	\$20,017	\$21,233	\$22,998	\$24,151	\$24,016	\$25,010
Construction ^(a)	3,544	3,493	3,594	3,670	3,904	3,929	4,285	4,661	5,129	5,579
Agriculture ^(b)	660	734	819	802	771	845	874	926	1,000	1,090
Utilities ^(c)	6,803	7,212	7,622	8,026	8,407	8,192	8,315	8,824	8,987	9,399
Wholesale Trade	6,762	7,013	7,008	7,377	7,747	8,136	9,126	9,305	9,338	9,726
Retail Trade	8,361	8,340	8,553	8,835	9,026	9,347	10,100	10,676	11,737	12,876
Finance ^(d)	25,258	26,607	29,173	29,797	32,221	34,073	37,892	40,812	43,596	47,045
Services ^(e)	19,470	20,995	22,488	24,205	25,577	27,063	29,652	31,164	33,109	35,235
Government	<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>12,182</u>	<u>12,571</u>	<u>13,328</u>
Total GSP	\$100,395	\$103,794	\$107,924	\$112,395	\$118,645	\$124,157	\$134,968	\$142,701	\$149,483	\$159,288

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

Non-agricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid workers, farm and household domestic workers. The following table compares non-agricultural establishment employment for Connecticut, New England and the United States between 1992 and 2001. In Connecticut, approximately 60% of total personal income is derived from wages and salaries earned by workers classified in the non-agricultural employment sector. Therefore the non-agricultural employment figure is a valuable indicator of economic activity. Connecticut's nonagricultural employment reached its decade-long high in the first quarter of 1989 with 1,676,230 persons employed, but began declining with the onset of the recession in the early 1990s. It was not until 1993 that the State's economy started to gain momentum and it has steadily improved in each successive year since, adding tens of thousands of new workers annually. During 2000, nonagricultural employment surpassed the 1989 peak with a total employment of 1,693,500. Total nonagricultural employment declined in 2001 as the economy softened beginning with the first quarter of 2001.

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
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	1,612.4	1.81	6,574.6	2.21	122,670	2.58
1998	1,643.1	1.90	6,721.6	2.24	125,853	2.59
1999	1,668.8	1.56	6,853.9	1.97	128,903	2.42
2000	1,693.5	1.48	7,018.4	2.40	131,718	2.18
2001	1,682.8	(0.63)	7,033.6	0.22	131,923	0.16

(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 2001. The table shows that Connecticut has a larger share of employment in services and manufacturing than the nation as a whole.

TABLE A-14
Connecticut Non-agricultural Employment, 2001
(In Thousands)

	<u>Connecticut</u>		<u>United States</u>	
	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Services ^(a)	539.7	32.07	40,978	31.06
Trade ^(b)	358.2	21.29	30,295	22.96
Manufacturing	254.0	15.09	17,695	13.41
Government	243.8	14.49	20,928	15.86
Finance ^(c)	142.5	8.47	7,713	5.85
Utilities ^(d)	78.6	4.67	7,068	5.36
Construction ^(e)	<u>66.0</u>	<u>3.93</u>	<u>7,246</u>	<u>5.49</u>
	1,682.8	100.00	131,923	100.00

-
- (a) Covers a considerable variety of activities, including professional, business and personal services.
 - (b) Includes wholesale and retail trade.
 - (c) Includes finance, insurance, and real estate.
 - (d) Includes transportation, communications, electric, gas and sanitary services.
 - (e) Includes mining.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Recent trends in the State's non-agricultural employment are reflected in the following table. Throughout the last four decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar 2001, approximately 85% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

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)
1992	305.71	331.33	423.08	207.32	142.34	67.98	48.32	1,526.06
1993	294.15	330.33	438.08	210.68	139.78	69.53	48.53	1,531.07
1994	285.29	335.24	449.84	217.23	135.72	70.46	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	53.17	1,583.69
1997	275.98	351.61	494.97	225.73	132.13	74.93	57.06	1,612.41
1998	276.91	355.78	510.76	227.63	136.54	75.81	59.69	1,643.12
1999	268.42	359.23	526.29	235.09	140.04	77.53	62.16	1,668.76
2000	263.33	363.97	537.40	241.93	141.48	79.72	65.71	1,693.54
2001	253.96	358.17	539.72	243.84	142.51	78.56	66.04	1,682.80

(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

The manufacturing industry, despite its continuing downward employment trend over the past five decades, has traditionally served as an economic base industry and has been of prime economic importance to Connecticut. Based on the level of personal income derived from this sector, Connecticut ranks thirteenth in the nation for its dependency on manufacturing in fiscal 2001. 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. This downward movement in employment levels is also reflected in the New England region while manufacturing employment for the nation has remained somewhat steady for the decade. The transformation in the State's manufacturing base confirms that the State's employment levels in the manufacturing sector are much closer to the national average. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar 2001, approximately 15% of the State's workforce, versus 13.4% for the nation, was employed in the manufacturing industry, down from roughly 50% in the early 1950s.

TABLE A-16

**Manufacturing Employment
(In Thousands)**

Calendar Year	Connecticut		New England		United States	
	Number	% Growth	Number	% Growth	Number	% Growth
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)	18,495	(0.16)
1997	276.0	0.44	1,045.3	0.47	18,670	0.95
1998	276.9	0.33	1,046.5	0.11	18,805	0.72
1999	268.4	(3.07)	1,017.7	(2.75)	18,555	(1.33)
2000	263.3	(1.90)	1,015.1	(0.26)	18,475	(0.43)
2001	254.0	(3.53)	980.0	(3.46)	17,695	(4.22)

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 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 2001.

TABLE A-17
Manufacturing Employment
By Industry
(In Thousands)

<u>Calendar</u> <u>Year</u>	<u>Transportation</u> <u>Equipment</u>	<u>Fabricated</u> <u>Metals</u>	<u>Nonelectrical</u> <u>Machinery</u>	<u>Electrical</u> <u>Machinery</u>	<u>Other</u> ^(a)	<u>Total</u> <u>Manufacturing</u> <u>Employment</u>
1992	70.55	33.35	37.15	29.10	135.56	305.71
1993	62.95	33.57	36.16	28.06	133.41	294.15
1994	56.87	33.97	35.33	27.68	131.44	285.29
1995	52.69	34.29	35.09	27.73	129.26	279.06
1996	50.59	34.00	34.94	28.26	127.00	274.79
1997	50.10	34.62	34.66	28.81	127.79	275.98
1998	50.26	35.27	34.70	28.67	128.01	276.91
1999	48.25	34.01	33.14	26.87	126.15	268.42
2000	45.60	33.54	32.91	27.39	123.89	263.33
2001	46.03	31.60	31.28	26.04	119.01	253.96

(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 1992 at 305,710 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 continued to decline to a recent low of 253,960 in 2001, after a rebound to 276,910 in 1998. The total number of manufacturing jobs dropped 51,750, or 16.93% for the ten year period since 1992.

Exports. In Connecticut, the export sector of manufacturing has assumed an increasingly important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at \$8.6 billion in 2001, accounting for approximately 5% of Gross State Product. From 1997 to 2001, the State's export of goods grew at an average annual rate of 5.2%. The following table shows the growth in exports of manufacturing products.

TABLE A-18
Exports Originating in Connecticut
(In Millions)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>% of 2001 Total</u>	<u>Average % Growth 1997-01</u>
A. Manufacturing Products							
Transportation Equipment	\$2,067.6	\$2,665.3	\$2,599.0	\$3,168.5	\$3,988.3	46.3%	18.6%
Computer & Electronics	807.5	762.6	877.6	904.5	804.4	9.3%	0.4%
Machinery, Except Electronics	831.4	801.4	755.7	1,005.2	898.0	10.4%	3.3%
Fabricated Metal Production	360.5	312.9	328.5	369.8	391.5	4.5%	2.6%
Chemicals	560.4	557.0	547.7	612.8	567.3	6.6%	0.5%
Misc. Manufacturing	515.0	568.3	581.5	395.1	430.4	5.0%	(2.6%)
Electrical Equipment	315.0	237.5	242.9	292.9	259.8	3.0%	(3.3%)
Plastics & Rubber	159.5	159.6	153.1	144.5	152.0	1.8%	(1.1%)
Paper	154.3	134.1	139.6	150.8	139.5	1.6%	(2.1%)
Primary Metal Mfg.	309.0	182.1	191.1	247.0	210.1	2.4%	(5.5%)
Others	<u>977.9</u>	<u>916.3</u>	<u>814.5</u>	<u>755.7</u>	<u>769.1</u>	<u>8.9%</u>	<u>(5.7%)</u>
Total	\$7,058.1	\$7,297.1	\$7,231.2	\$8,046.8	\$8,610.4	100.0%	5.2%
% Growth		3.4%	(0.9%)	11.3%	7.0%		
B. Gross State Product^(a)	\$134,968	\$142,701	\$149,483	\$159,288	\$163,436 ^(b)		
Mfg Exports as a % of GSP	5.2%	5.1%	4.8%	5.1%	5.3%		

(a) In millions.

(b) Gross State Product for 2001 is estimated by the Office of Policy and Management and is assumed to grow at the same rate as income derived from wages and salary, 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 the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. 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 year 2001, however, Connecticut received \$4.3 billion of prime contract awards, an increase of 96.1% over 2000. These total awards accounted for 3.2% of national total awards and ranked tenth in total defense dollars awarded and third in per capita dollars awarded among the 50 states. In fiscal year 2001, Connecticut had \$1,247 in per capita defense awards, compared to the national average of \$475. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut based firms have fallen to 2.0% of Gross State Product in fiscal year 2001,

down from 4.0% of Gross State Product in fiscal year 1992. The increase in 2001 was primarily due to higher awards for naval ships and helicopters.

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>
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
1999-00	\$2,177,462	17th	(31.3)	7.3
2000-01	\$4,269,536	10th	96.1	9.7

SOURCE: United States Department of Defense

Non-manufacturing. The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 85% by 2001. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 208,500 jobs created in this sector, an increase of 17.1%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1993.

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>
1992	1,220.4	(1.00)	4,886.3	(0.08)	90,483	0.70
1993	1,236.9	1.35	4,995.6	2.24	92,615	2.36
1994	1,258.5	1.75	5,129.8	2.69	95,815	3.46
1995	1,282.8	1.93	5,263.6	2.61	98,665	2.97
1996	1,308.9	2.03	5,392.0	2.44	101,095	2.46
1997	1,336.4	2.10	5,529.3	2.55	104,000	2.87
1998	1,366.2	2.23	5,675.1	2.64	107,048	2.93
1999	1,400.3	2.50	5,836.2	2.84	110,348	3.08
2000	1,430.2	2.14	6,003.3	2.86	113,243	2.62
2001	1,428.9	(0.09)	6,053.5	0.84	114,228	0.87

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 1992, 1999, 2000 and 2001 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. Between 1992 and 2001, service industry employment expanded by 116,640 workers, adding more than one out of every two jobs statewide, which registered an increase of 208,490 jobs. State and local governments expanded by 38,710 jobs. The increase in this line item over the ten-year period can be attributed to the Federal Government's decision to categorize all workers employed on Indian Reservations as state government employees. Per the State's Department of Labor, approximately 20,000 employees worked at the State's two tribal casinos.

TABLE A-21
Connecticut Non-manufacturing Employment By Industry
(In Thousands)

<u>Industry</u>	<u>Calendar 1992</u>	<u>Calendar 1999</u>	<u>Calendar 2000</u>	<u>Calendar 2001</u>	<u>Percent Change 2000-01</u>	<u>Percent Change 1992-01</u>
Construction ^(a)	48.32	62.16	65.71	66.04	0.50	36.67
Transportation	39.68	44.53	45.42	46.02	1.32	15.98
Communications	17.11	18.75	19.26	20.33	5.56	18.82
Utilities	13.20	12.45	12.84	12.83	(0.08)	(2.80)
Wholesale Trade	73.42	86.21	86.31	75.96	(11.99)	3.46
Retail Trade	257.91	273.02	277.67	282.21	1.64	9.42
Finance and Real Estate	59.68	69.73	69.89	71.24	1.93	19.37
Insurance	82.66	70.32	71.59	71.27	(0.45)	(13.78)
Services ^(b)	423.08	526.29	537.40	539.72	0.43	27.57
Federal Government	24.27	22.35	22.32	23.49	5.24	(3.21)
State and Local Government	<u>181.03</u>	<u>214.53</u>	<u>221.81</u>	<u>219.74</u>	<u>(0.93)</u>	<u>21.38</u>
Total Non-manufacturing Employment ^(c)	1,220.36	1,400.34	1,430.22	1,428.85	(0.09)	17.08

(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.

The following table shows the major group in each SIC code as well as the State's retail trade history for the past five fiscal years. It demonstrates the fluctuating pattern of retail sales in Connecticut. Connecticut retail trade in fiscal 2001 totaled \$42.2 billion, a decrease of 0.9% from fiscal 2000. This decrease reflects the State's economic slowdown after the continued, lengthy expansion in the State's economy experienced throughout most of the 1990s.

TABLE A-22
Retail Trade In Connecticut
(In Millions)

	<u>Fiscal</u> <u>Year</u> <u>1997</u>	<u>Fiscal</u> <u>Year</u> <u>1998</u>	<u>Fiscal</u> <u>Year</u> <u>1999</u>	<u>Fiscal</u> <u>Year</u> <u>2000</u>	<u>Fiscal</u> <u>Year</u> <u>2001</u>	<u>% Of</u> <u>Fiscal Year</u> <u>2001 Total</u>	<u>Average %</u> <u>Growth</u> <u>Fiscal Year</u> <u>1997-2001</u>
SIC52 Hardware Stores	\$1,436	\$1,512	\$2,320	\$2,418	\$2,376	5.6	15.3
SIC53 General Merchandise	3,636	3,793	3,742	3,744	3,024	7.2	(4.1)
SIC54 Food Products	6,127	6,479	6,922	7,139	7,521	17.8	5.3
SIC55 Automotive Products	7,488	7,654	7,963	8,712	8,531	20.2	3.4
SIC56 Apparel & Accessory	1,696	1,896	2,047	2,195	2,237	5.3	7.2
SIC57 Furniture & Appliances	3,724	4,333	4,011	4,299	3,971	9.4	2.1
SIC58 Eating & Drinking	2,685	2,799	2,966	3,148	3,327	7.9	5.5
SIC59 Misc. Shopping Stores	<u>8,579</u>	<u>9,425</u>	<u>9,865</u>	<u>10,975</u>	<u>11,247</u>	<u>26.6</u>	<u>7.1</u>
Total^(a)	\$35,371	\$37,891	\$39,836	\$42,630	\$42,234	100.0	4.6
% Change from Previous Year	6.5	7.1	5.1	7.0	(0.9)		
Durables (SIC 52,55,57)	\$12,648	\$13,499	\$14,294	\$15,429	\$14,878	35.2%	4.2%
% Change from Previous Year	10.3	6.7	5.9	7.9	(3.6)		
Non Durables (all other SICs)	\$22,723	\$24,392	\$25,542	\$27,201	\$27,356	64.8%	4.8%
% Change from Previous Year	4.5	7.3	4.7	6.5	0.6		

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

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. 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.

After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State rose to a high of 7.6% in 1992, which was below the New England average of 8.1% but above the national average of 7.5%. Since then it has generally been declining and has mostly remained below the New England and the national average. It fell to 2.2% in 2000 and edged up to 3.6% for the first six months of 2002, below the national averages of 4.2% and 5.8%, respectively, for the same periods.

The following table compares the unemployment rate averages of Connecticut, New England and the United States between 1992 and the first half of 2002.

TABLE A-23
Unemployment Rate

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
1992	7.6	8.1	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	4.9
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.2	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 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 72 % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2002, the balance in the budget reserve fund was \$594.7 million. However, the entire budget reserve fund balance was applied to partially offset a fiscal year 2002 General Fund deficit of \$817.1 million (unaudited) leaving a zero balance in the budget reserve fund. In the past, 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 the Comptroller 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	2001-2002	RECOMMENDED 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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**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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Richard M. Hoyt, Jr., CPA, PFS
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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.

DeSanto Berghime & 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			\$ 422,922	

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):

	Transportation Fund
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	(26,556)
Net change in fund balance - GAAP basis	\$ 18,862

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 maturity 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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THE BANK

General

The following information concerning Fleet National Bank (the “Bank”) has been provided by representatives of the Bank. Neither the State nor the Remarketing Agent make any representation as to the accuracy or completeness of such information.

The Bank is a national banking association which, directly or through its subsidiaries, is engaged in retail banking, commercial banking and investment management and other financial services activities. As of December 31, 2002, the Bank had total assets of \$179.4 billion, total deposits of \$130.6 billion and total equity capital of \$19.2 billion.

The Bank is a wholly-owned subsidiary of FleetBoston Financial Corporation (“FleetBoston”), a diversified financial services company offering a comprehensive array of financial solutions to approximately 20 million customers. FleetBoston’s four lines of business are:

- *Personal Financial Services* — composed of domestic retail banking, consumer lending and credit card services, as well as wealth management, including specialized asset management, estate settlement and deposit and credit products for high-net-worth customers, proprietary and third party mutual funds and other investment products for retail and institutional customers, and retirement planning, large institutional asset management and not-for-profit investment services, and retail brokerage and securities clearing;
- *Commercial Financial Services* — composed of commercial finance, including asset-based lending and leasing; corporate banking, including specialized industry lending and institutional banking; commercial banking, including middle market commercial lending, trade services and cash management, as well as government banking services, including cash management, investment services and municipal, state and national government agency underwriting; and small business services, including lending, deposits and cash management;
- *International Banking* — includes FleetBoston's international operations in Latin America; and
- *Capital Markets* — includes brokerage market-making and Principal Investing.

Additional Information

The foregoing summary information is provided for convenience purposes only. Important additional information with respect to FleetBoston and the Bank is contained in the following documents:

(a) FleetBoston's Annual Report on Form 10-K for the year ended December 31, 2002, on file with the Securities and Exchange Commission.

(b) FleetBoston's Current Reports on Form 8-K filed with the Securities and Exchange Commission on January 10, 2003, January 16, 2003 and February 18, 2003.

(c) Unaudited financial information in the Call Report of the Bank for the period ended December 31, 2002, as filed with the Federal Deposit Insurance Corporation.

The Bank will provide, upon written request, copies of such reports to any purchaser or prospective purchaser of the Bonds. The Bank also refers any purchaser or prospective purchaser of the Bonds to (i) all annual, quarterly and current reports filed with the Securities and Exchange Commission by FleetBoston subsequent to those reports described above and (ii) all Call Reports of the Bank for periods subsequent to those described above.

Form of Opinion of
UPDIKE, KELLY & SPELLACY, P.C.
Bond Counsel
And
LEWIS & MUNDAY, A PROFESSIONAL CORPORATON
Co-Bond Counsel

[Date of Remarketing]

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 (a predecessor trustee to U.S. Bank National Association), as Trustee, dated as of December 1, 1990, as amended by the Second Lien Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 by and between the State and Shawmut Bank Connecticut, National Association (a predecessor trustee to U.S. Bank National Association), as Trustee, as supplemented by the First Supplemental Indenture by and between the State and The Connecticut National Bank (a predecessor trustee to U.S. Bank National Association), as Trustee and Amendment No. 1 to the First Supplemental Indenture of Trust among the State and U.S. Bank Trust National Association, as Trustee and as Fiscal Agent, dated as of April 1, 2003 (the “Second Lien Indenture”) and (iii) a record of proceedings relative to the issuance of \$250,000,000 Second Lien Special Tax Obligation Bonds, Transportation Infrastructure Purposes (Variable Rate Demand), Series 1 (the “Series 1 Bonds”) of the State. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Second Lien Indenture.

During any Weekly Rate Period, Monthly Rate Period, Semiannual Rate Period, Other Rate Period or Fixed Rate Period, the Series 1 Bonds shall bear interest as set forth in the Second Lien Indenture. The Series 1 Bonds are subject to optional and mandatory redemption prior to maturity on the terms and conditions set forth in the Second Lien Indenture.

So long as the Series 1 Bonds bear interest at any rate other than the Fixed Interest Rate or Rates, the Series 1 Bonds are issuable as fully registered bonds in the denomination of \$100,000 and any integral multiple thereof. Upon conversion to a Fixed Interest Rate, such converted Series 1 Bonds shall be issuable in the denomination of \$5,000 and any integral multiple thereof. Principal of Series 1 Bonds will be payable to the registered owner by check mailed to the registered owner at his address as it appears on the registration books of the State kept for such purpose under the Second Lien Indenture.

During any Weekly Rate Period or Monthly Rate Period, the Series 1 Bonds are subject to optional purchase on the demand of the holder. The Series 1 Bonds are also subject to mandatory purchase upon the occurrence of certain events as set forth in the Second Lien Indenture. In addition, the Series 1 Bonds are subject to optional and mandatory redemption prior to maturity in the manner and upon the terms and conditions set forth in the Second Lien Indenture.

The Series 1 Bonds, including the principal of, premium, if any, and interest thereon are payable from the Pledged Revenues (as defined in the Act and the Second Lien 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 Second Lien Indenture. The Series 1 Bonds are junior in right of payment from such sources to principal, premium, if any, and interest on the State's Special Tax Obligation Bonds, Transportation Infrastructure Purposes (the "Senior Bonds"), issued pursuant to the Indenture of Trust, dated as of September 15, 1984, between the State and The Connecticut National Bank (successor trustee is now U.S. Bank National Association), as Trustee, as amended and supplemented (the "Senior Indenture") and any other obligations of the State constituting "Debt Service Obligations" under the Act and the Senior Indenture ("Other Senior Obligations").

The Second Lien Indenture authorizes the issuance of second lien bonds (the "Second Lien Bonds"), including the Series 1 Bonds, from time to time without limitation as to amount, except as provided in the Second Lien Indenture or as may be limited by law and provided that statutory authorization for the issuance of such Second Lien Bonds is enacted by the State. Additional Second Lien Bonds, as previously issued and when and if authorized by the State Bond Commission to be issued and sold, shall with the Series 1 Bonds, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Second Lien Indenture and shall be junior in right of payment to principal of, premium, if any, and interest on all Senior Bonds and any Other Senior Obligations.

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 Second Lien Indenture, and the Second Lien Indenture is a legal, valid and binding obligation of the State enforceable in accordance with its terms.
2. The Series 1 Bonds have been duly authorized and issued under the Constitution and laws of the State of Connecticut, particularly the Act, and under proceedings duly had and taken in conformity therewith.
3. The Series 1 Bonds are valid and binding special obligations of the State of Connecticut payable from a second lien on the Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Second Lien Indenture and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Second Lien Indenture with all present and future holders of Second Lien Bonds or Notes issued under the Second Lien Indenture, the provider of any Credit Facility and the provider of any Qualified Swap without privilege or priority except as provided in the Second Lien Indenture.
4. The Series 1 Bonds are secured in the manner and to the extent set forth in the Act and the Second Lien Indenture. Pursuant to the Act, the Second Lien Indenture creates a valid second call upon Pledged Revenues and lien upon any and all amounts held to the credit of the Special Transportation Fund from time to time, to the extent set forth in the Second Lien Indenture, including moneys and securities held by the Trustee in the Debt Service Account and Reserve Account established thereunder, which the Second Lien Indenture purports to create, subject only to the provisions of the Second Lien Indenture permitting the application thereunder for or to the purposes and on the terms and conditions set forth in the Second Lien Indenture. Such second 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 and the Second Lien Indenture) with respect to the Series 1 Bonds are validly deemed to be appropriated by the Act from the Pledged Revenues and other receipts, funds or moneys pledged therefor, and the State Treasurer is required by the Act to pay such Debt Service Requirements with respect to the Series 1 Bonds 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, premium, if any, and interest on the Series 1 Bonds except from Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Second

Lien 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, premium, if any, and interest on the Series 1 Bonds.

6. Pursuant to the Act, the Second Lien 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 Second Lien 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 Second Lien Indenture to provide Pledged Revenues in an amount at least equal to two times the aggregate Principal and Interest Requirements on Senior Bonds, Principal and Interest Requirements on Second Lien Bonds and Interest Requirements on Notes issued under the Second Lien Indenture in each Fiscal Year 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.
8. Under existing law, (i) interest on the Series 1 Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of 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 Series 1 Bonds.
9. Under existing law, interest on the Series 1 Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the

net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 1 Bonds in order that interest on the Series 1 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 such interest on the Series 1 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 tax treatment of interest on the Series 1 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 the 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 Series 1 Bonds 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.

Respectfully submitted,

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -M-

Effective Date:

Premium:

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

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

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

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

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

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

(212) 826-0100

Form 500NY (5/90)

FORM OF CONTINUING DISCLOSURE AGREEMENT

The State of Connecticut (the "State") will agree, pursuant to a Continuing Disclosure Agreement for the Series 1 Bonds to be executed by the State substantially in the following form, to provide, or cause to be provided, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Series 1 Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for the Series 1 Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the ____ day of May, 2003 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the remarketing of \$142,900,000 Second Lien Special Tax Obligation Bonds, Transportation Infrastructure Purposes (Variable Rate Demand) Series 1, dated December 19, 1990 (the "Bonds"), and U.S. Bank National Association, 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 Remarketing Circular of the State dated April 22, 2003 prepared in connection with the Bonds.

"Indenture" means the Indenture of Trust entered into by the State and the Trustee, dated as of December 1, 1990, 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, NJ 08558
(609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

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

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
(212) 771-6999
Fax: (212) 771-7390
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, 2003) 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

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer



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