

SUPPLEMENT TO
OFFICIAL STATEMENT DATED OCTOBER 17, 2018

\$850,105,000
State of Connecticut
\$750,000,000 Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B
\$100,105,000 Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 Series C
(the “2018 Series B and Series C Bonds”)

Supplement Dated November 19, 2018

The following information, dated November 19, 2018 (this “Supplement”), supplements the Official Statement dated October 17, 2018 (the “Official Statement”) relating to the 2018 Series B and Series C Bonds. Any capitalized terms used in this Supplement and not defined herein have the meanings assigned to them in the Official Statement.

The Official Statement is hereby supplemented, revised and amended as follows:

- A. The section entitled “**RATINGS**” on page 35 is hereby amended by the addition of the text in double underline set forth below:

S&P Global Ratings (“S&P”), Kroll Bond Rating Agency (“Kroll”) and Fitch Ratings (“Fitch”) have assigned their municipal bond ratings of “AA,” “AA+” and “A+,” respectively, to the 2018 Series B and C Bonds. Subsequently, on November 15, 2018, S&P revised its rating to “A+,” as further discussed below. Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of such rating should be obtained from such rating agency, at the following addresses: S&P Global Ratings, 55 Water Street, New York, New York 10041; Kroll Bond Rating Agency, 845 3rd Avenue, New York, NY 10022; and 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 2018 Series B and C 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assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant.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 2018 Series B and C Bonds. On October 10, 2018, S&P Global Ratings released (i) an updated “Advance Notice Of Proposed Criteria Change: Priority-Lien Tax Revenue Debt” in which it announced that it intends to publish on October 22, 2018 its revised criteria for assigning ratings and related credit products to priority-lien tax revenue debt issued by municipal governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is limited and (ii) “Updated Advance Notice Of Proposed Criteria Change For Priority-Lien Tax Revenue Debt Published” in which it provides “[i]n accordance with our stated policies, we will review ratings under the new criteria within a reasonable period, but no later than 18 months from the effective date of the new criteria.” On October 22, 2018, S&P published its Priority-Lien Tax Revenue Debt criteria for assigning ratings and related credit products to priority-lien tax revenue debt issued by municipal governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is limited. On November 15, 2018, S&P published “Connecticut’s Special Tax Obligation Bonds Downgraded To ‘A+’ From ‘AA’ On Application Of Criteria; Outlook Stable,” in which it lowered the rating on the Bonds, including the 2018 Series B and C Bonds, to ‘A+’ from ‘AA,’ with an outlook of stable. According to the S&P publication, (i) the application of the Priority-Lien criteria factors in both the strength and stability of the pledged revenues, as well as the general creditworthiness of the State as issuing obligor, and (ii) the priority-lien rating on the Bonds is limited to one-notch above S&P’s view of the State’s creditworthiness (general obligation rating [GO]: A/Stable) and is constrained from going higher unless there is an improvement in the State GO rating.

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State of Connecticut
\$750,000,000 Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B
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(the “2018 Series B and Series C Bonds”)

Supplement Dated November 19, 2018

(CONTINUED)

- B. The first paragraph of the section entitled “**NATURE OF OBLIGATION—Source of Payment—*Special Transportation Fund***” on page 3 is hereby amended by the addition of the following sentence to the end of such paragraph:

On November 6, 2018, the voters passed the amendment to the Constitution of the State.

This Supplement is an integral part of the Official Statement dated as of October 17, 2018. Investors should read this Supplement together with the October 17, 2018 Official Statement in order to obtain information essential to making an informed investment decision.

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 2018 Series B and C Bonds is excludable from the gross income of the owners thereof for purposes of Federal income taxation and will not be treated as a preference item for purposes of computing the Federal alternative minimum tax. However, as described under “Tax Exemption” herein, interest on the 2018 Series B and C Bonds paid to certain corporations may be included in the calculation of certain taxes, including the Federal alternative minimum tax on corporations. In the opinion of Bond Counsel, under existing statutes, interest on the 2018 Series B and C Bonds is excludable from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excludable 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 2018 Series B and C 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 2018 Series B and C Bonds, see “Tax Exemption” herein.

\$850,105,000 State of Connecticut

\$750,000,000 Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B

\$100,105,000 Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 Series C

Dated: Date of Delivery

Due: October 1, as shown herein

The \$750,000,000 State of Connecticut Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B (the “2018 Series B Bonds”) and the \$100,105,000 State of Connecticut Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 Series C (the “2018 Series C Bonds,” together with the 2018 Series B Bonds, the “2018 Series B and C Bonds”) are issuable only as fully registered bonds, without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company (“DTC”), New York, N.Y. DTC will act as securities depository for the 2018 Series B and C Bonds. Purchases of the 2018 Series B and C Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the 2018 Series B and C Bonds. So long as Cede & Co. is the Bondowner, as nominee for DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the 2018 Series B and C Bonds. See “Book-Entry-Only System” herein.

Principal of and interest on the 2018 Series B and C Bonds will be paid directly to DTC by U.S. Bank National Association, Trustee, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. Interest on the 2018 Series B and C Bonds will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2019, as described herein. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct and Indirect Participants, as more fully described herein. The 2018 Series B Bonds are subject to optional redemption prior to maturity as more fully described herein. The 2018 Series C Bonds are not subject to optional redemption prior to maturity. See “Optional Redemption” herein.

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

The 2018 Series B and C Bonds will be issued on a parity with earlier series of Senior Bonds (as defined herein) issued by the State for the Infrastructure Program (as defined herein) under a Senior Indenture of Trust by and between the State and the Trustee, as supplemented and amended, and as further supplemented by the Supplemental Indenture for the 2018 Series B and C Bonds. See “Additional Bonds and Outstanding Bonds” and “Total Bonds Outstanding” herein. **Bonds issued pursuant to the Senior Indenture, including the 2018 Series B and C Bonds, are special obligations of the State payable solely from the taxes and other revenues of the State pledged therefor. The Bonds (as defined herein) shall not be payable from nor charged upon any funds other than such pledged revenues, nor shall the State or any political subdivision thereof be subject to any liability thereon except to the extent of such pledged revenues. The issuance of the Bonds pursuant to the Indentures (as defined herein) shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation (except for taxes included in such pledged revenues) whatever therefor or to make any additional appropriations for their payment.**

The 2018 Series B and C Bonds are offered, when, as and if issued and received by the Underwriters, subject to the approval of legality by Updike, Kelly & Spellacy, P.C., Hartford, Connecticut, Bond Counsel, and Lewis & Munday, A Professional Corporation, Detroit, Michigan, with offices in Glastonbury, Connecticut, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriters by their counsel, Pullman & Comley, LLC, Hartford, Connecticut. It is expected that the 2018 Series B and C Bonds in definitive form will be available for delivery at DTC in New York, New York, on or about October 25, 2018.

Honorable Denise L. Nappier
Treasurer of the State of Connecticut

Raymond James

BofA Merrill Lynch
Janney Montgomery Scott

Baird
Fidelity Capital Markets
Morgan Stanley
Stifel

Citigroup
RBC Capital Markets
Cabrera Capital Markets, LLC
J.P. Morgan
Oppenheimer & Co.
The Williams Capital Group, L.P.

Goldman Sachs & Co. LLC
Siebert Cisneros Shank & Co., L.L.C.

Estrada Hinojosa
Jefferies
Roosevelt & Cross Incorporated
Wells Fargo Securities

\$850,105,000
State of Connecticut

\$750,000,000 Special Tax Obligation Bonds
Transportation Infrastructure Purposes, 2018 Series B

MATURITY SCHEDULE

| <u>October 1</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP[†]</u> |
|------------------|---------------|----------------------|--------------|--------------------------|
| 2019 | \$25,820,000 | 5.000% | 2.140% | 207758XT5 |
| 2020 | 22,665,000 | 5.000 | 2.310 | 207758XU2 |
| 2021 | 25,285,000 | 5.000 | 2.500 | 207758XV0 |
| 2022 | 26,055,000 | 5.000 | 2.630 | 207758XW8 |
| 2023 | 27,520,000 | 5.000 | 2.780 | 207758XX6 |
| 2024 | 28,845,000 | 5.000 | 2.950 | 207758XY4 |
| 2025 | 30,300,000 | 5.000 | 3.060 | 207758XZ1 |
| 2026 | 31,815,000 | 5.000 | 3.210 | 207758YA5 |
| 2027 | 33,405,000 | 5.000 | 3.330 | 207758YB3 |
| 2028 | 35,075,000 | 5.000 | 3.430 | 207758YC1 |
| 2029 | 36,830,000* | 5.000 | 3.520 | 207758YD9 |
| 2030 | 38,670,000* | 5.000 | 3.590 | 207758YE7 |
| 2031 | 40,605,000* | 5.000 | 3.670 | 207758YF4 |
| 2032 | 42,630,000* | 5.000 | 3.720 | 207758YG2 |
| 2033 | 44,765,000* | 5.000 | 3.780 | 207758YH0 |
| 2034 | 47,005,000* | 5.000 | 3.840 | 207758YJ6 |
| 2035 | 49,350,000* | 5.000 | 3.900 | 207758YK3 |
| 2036 | 51,820,000* | 5.000 | 3.930 | 207758YL1 |
| 2037 | 54,410,000* | 5.000 | 3.940 | 207758YM9 |
| 2038 | 57,130,000* | 5.000 | 3.970 | 207758YN7 |

* Priced at the stated yield to the October 1, 2028 optional redemption price of 100%; however, any redemption is at the option of the Treasurer.

\$100,105,000 Special Tax Obligation Refunding Bonds
Transportation Infrastructure Purposes, 2018 Series C

MATURITY SCHEDULE

| <u>October 1</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP[†]</u> |
|------------------|---------------|----------------------|--------------|--------------------------|
| 2020 | \$1,945,000 | 3.000% | 2.310% | 207758YP2 |
| 2020 | 10,600,000 | 5.000 | 2.310 | 207758YQ0 |
| 2021 | 745,000 | 3.000 | 2.500 | 207758YS6 |
| 2021 | 710,000 | 5.000 | 2.500 | 207758YR8 |
| 2022 | 4,725,000 | 3.875 | 2.630 | 207758YT4 |
| 2022 | 8,610,000 | 5.000 | 2.630 | 207758YU1 |
| 2023 | 730,000 | 4.000 | 2.780 | 207758YV9 |
| 2023 | 16,845,000 | 5.000 | 2.780 | 207758YW7 |
| 2024 | 200,000 | 4.000 | 2.950 | 207758YY3 |
| 2024 | 17,070,000 | 5.000 | 2.950 | 207758YX5 |
| 2025 | 360,000 | 4.000 | 3.060 | 207758ZA4 |
| 2025 | 18,195,000 | 5.000 | 3.060 | 207758YZ0 |
| 2026 | 1,290,000 | 4.000 | 3.210 | 207758ZC0 |
| 2026 | 18,080,000 | 5.000 | 3.210 | 207758ZB2 |

[†] Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the 2018 Series B and C Bonds. The State is not responsible for the selection or use of these CUSIP numbers, does not undertake any responsibility for their accuracy, and makes no representation as to their correctness on the 2018 Series B and C Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2018 Series B and C Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2018 Series B and C Bonds.

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the 2018 Series B and C Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State or the operations of the Special Transportation Fund since the date hereof. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. Certain projections in this Official Statement are based on various assumptions and contingencies which are uncertain and which may not materialize. All quotations from and summaries and explanations of provisions of laws of the State contained in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof. All references to the 2018 Series B and C Bonds and the proceedings of the State Treasurer relating thereto are qualified in their entirety by reference to the definitive forms of such bonds and such proceedings. This Official Statement is submitted only in connection with the sale of such bonds by the State and may not be reproduced or used in whole or in part for any other purpose, except as specifically authorized by the State. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of such bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2018 SERIES B AND C 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

| | |
|---|---|
| <p>INTRODUCTION 1</p> <p>THE TRANSPORTATION INFRASTRUCTURE PROGRAM..... 2</p> <p>NATURE OF OBLIGATION..... 3</p> <p style="padding-left: 20px;">Legal Authority - State Bond Commission.....3</p> <p style="padding-left: 20px;">Source of Payment.....3</p> <p style="padding-left: 20px;">Refunding Bonds6</p> <p style="padding-left: 20px;">Additional Bonds and Outstanding Bonds.....6</p> <p style="padding-left: 20px;">Bond Anticipation Notes and Subordinated Indebtedness7</p> <p style="padding-left: 20px;">State General Taxing Power Not Pledged.....7</p> <p>THE 2018 SERIES B AND C BONDS 8</p> <p style="padding-left: 20px;">Purpose of the 2018 Series B and C Bonds8</p> <p style="padding-left: 20px;">Description of the 2018 Series B and C Bonds.....8</p> <p style="padding-left: 20px;">Optional Redemption8</p> <p style="padding-left: 20px;">Notice of Redemption9</p> <p style="padding-left: 20px;">Plan of Refunding.....9</p> <p style="padding-left: 20px;">Sources and Uses of Funds.....10</p> <p>BOOK-ENTRY-ONLY SYSTEM..... 10</p> <p>TOTAL BONDS OUTSTANDING..... 12</p> <p>DEBT SERVICE ON OUTSTANDING BONDS 13</p> <p>THE OPERATIONS OF THE SPECIAL TRANSPORTATION FUND 13</p> <p style="padding-left: 20px;">Introduction13</p> <p style="padding-left: 20px;">Discussion of Projected Pledged Revenues15</p> <p style="padding-left: 20px;">Description of Revenue Sources of the Special Transportation Fund17</p> <p style="padding-left: 20px;">Expenses of the Special Transportation Fund.....21</p> <p style="padding-left: 20px;">Accounting Procedures for the Transportation Fund.....21</p> <p style="padding-left: 20px;">Debt Service Coverage.....23</p> <p style="padding-left: 20px;">Legislative Changes24</p> | <p>THE DEPARTMENT OF TRANSPORTATION..... 24</p> <p style="padding-left: 20px;">The State Transportation System..... 24</p> <p style="padding-left: 20px;">Organization and Responsibilities 24</p> <p style="padding-left: 20px;">Implementation of and Funding for the Infrastructure Program 26</p> <p style="padding-left: 20px;">Financial Controls 30</p> <p>LITIGATION..... 31</p> <p>DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS 32</p> <p style="padding-left: 20px;">Continuing Disclosure Agreement 32</p> <p style="padding-left: 20px;">Absence of Litigation..... 32</p> <p style="padding-left: 20px;">Certain Legal Matters 33</p> <p style="padding-left: 20px;">Certificate of State Officials 33</p> <p>LEGALITY FOR INVESTMENT 33</p> <p>TAX EXEMPTION 33</p> <p>RATINGS 35</p> <p>FINANCIAL ADVISORS 35</p> <p>UNDERWRITING..... 36</p> <p>MISCELLANEOUS..... 36</p> <p>Appendix A – State of Connecticut A-1</p> <p>Appendix B – Budget Appropriations of the State Special Transportation Fund for Fiscal Years 2018-2019 and 2019-2020 B-1</p> <p>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, 2017 C-1</p> <p>Appendix D – Summary of Certain Provisions of the Senior Indenture..... D-1</p> <p>Appendix E – Summary of Certain Provisions of the Second Lien Indenture..... E-1</p> <p>Appendix F – Form of Bond Counsel Opinion F-1</p> <p>Appendix G – Form of Continuing Disclosure Agreement G-1</p> |
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**Financial Advisors
Public Resources Advisory Group
Public Financial Management, Inc.**

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\$850,105,000
State of Connecticut

\$750,000,000 Special Tax Obligation Bonds
Transportation Infrastructure Purposes, 2018 Series B

\$100,105,000 Special Tax Obligation Refunding Bonds
Transportation Infrastructure Purposes, 2018 Series C

INTRODUCTION

This Official Statement (including the cover page and appendices) provides certain information in connection with the issuance by the State of Connecticut (the "State") of its \$750,000,000 Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B (the "2018 Series B Bonds") and its \$100,105,000 Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 Series C (the "2018 Series C Bonds," together with the 2018 Series B Bonds, the "2018 Series B and C Bonds"). The State has authorized the issuance of special tax obligation bonds for transportation infrastructure purposes pursuant to Public Act 84-254 of the General Assembly of the State of Connecticut (the "General Assembly"), February Session of 1984, as amended, and other public and special acts adopted by the General Assembly (the "Act"). The State has heretofore authorized the issuance of special tax obligation bonds pursuant to the Act 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 Forty-Eighth Supplemental Indentures entered into by the State and the Trustee and amended by the Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 and entered into by the State and the Trustee (the foregoing herein referred to collectively as the "Senior Indenture"). U.S. Bank National Association, Hartford, Connecticut, is the successor trustee (the "Trustee") under the Senior Indenture. Bonds issued under the Senior Indenture are referred to herein as "Senior Bonds." The Act and the Senior Indenture further authorize the issuance of refunding bonds having equal rank and on a parity with the Senior Bonds. The 2018 Series B Bonds will be the sixty-first series of Senior Bonds issued under the Senior Indenture. The 2018 Series C Bonds will be the sixty-second series of Senior Bonds issued under the Senior Indenture.

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

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

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

There follows in this Official Statement a description of the transportation infrastructure program, the nature of the obligation and the security therefor, the terms of the 2018 Series B and C Bonds, the establishment and maintenance of the Special Transportation Fund of the State (the "Special Transportation Fund"), created under Section 1 of Public Act 83-30, as amended, including the transportation related revenues of the State to be credited to the Special Transportation Fund and the method of accounting therefor, and the Department of Transportation (the "Department"), which is charged with the management of the transportation infrastructure program. Also included are summaries of certain provisions of the Indentures. All references herein to the Act and the Indentures are qualified in their entirety by reference to the complete text of the Act and each such Indenture, copies of which are available from the State, and all references to the 2018 Series B and C Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Senior Indenture.

THE TRANSPORTATION INFRASTRUCTURE PROGRAM

The Infrastructure Program was established in 1984 and is a continuous program which finances the ongoing requirements of the State for the planning, acquisition, removal, construction, equipping, reconstruction, repair, rehabilitation and improvement of, and acquisition of easements and rights-of-way with respect to, State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program (the “interstate trade-in program”), waterway facilities, mass transportation and transit facilities, 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” herein.

The aggregate cost of the Infrastructure Program for fiscal years 1985-2022, which has been, and is expected to be, met from federal, state, and local funds, is currently estimated at \$41.2 billion. The State’s share of such cost, estimated at \$20.7 billion has been, and is expected 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 special tax obligation bonds is estimated at \$0.9 billion and includes the expenses of the Infrastructure Program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety activities, and other minor transportation improvements.

The State’s share of the cost of the Infrastructure Program for fiscal years 1985-2022, which has been, and is expected to be, financed by special tax obligation bonds, is currently estimated at \$19.8 billion, of which approximately \$14.7 billion has been financed through fiscal year 2018. See Table 11. During fiscal years 1985-2019, \$35.0 billion of the total Infrastructure Program was approved by the appropriate governmental authorities. The remaining \$6.2 billion is required for fiscal years 2020-2022. The \$6.2 billion of such infrastructure costs is anticipated to be funded with proceeds of \$4.1 billion from the anticipated issuance of new special tax obligation bonds, \$2.0 billion in anticipated federal funds and \$99.0 million in anticipated revenues and other available funds.

The Pledged Revenues (see “Source of Payment-*Special Transportation Fund*” herein), including enacted adjustments, are intended to cover the cost of the State’s share of the Infrastructure Program, including debt service requirements. For a more detailed description of Pledged Revenues see “The Operations of the Special Transportation Fund” herein, and for a description of legislative changes to Pledged Revenues see “Legislative Changes” herein. After providing for debt service requirements on the Bonds, 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 the 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” herein. In addition, the State has established an Infrastructure Improvement Fund to account for the net proceeds of special tax obligation bonds and bond anticipation notes (the “Notes”) issued under public and special acts adopted annually by the General Assembly authorizing such obligations. The 2018 Series B and C 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 Indentures and special legislation enacted annually authorizing additional Bonds. Under the terms and provisions of the Act, the State Bond Commission (established pursuant to Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended (the “Connecticut General Statutes” or “C.G.S.”)) 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 Indentures as contracts of the State with the holders of the Bonds. On July 25, 2018, the State Bond Commission authorized the issuance and sale by the Treasurer of the 2018 Series B and C Bonds to fund a portion of the projects and uses authorized in the Public and Special Acts and to refund certain outstanding Senior Bonds. See “Purpose of the 2018 Series B and C Bonds” herein. The Act expressly provides that holders of Bonds may sue the State upon such express contract in the Connecticut Superior Court for the Judicial District of Hartford.

The State Bond Commission consists of the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of the Office of Policy and Management, the Commissioner of Administrative Services 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 State Bond Commission.

Source of Payment

Special Transportation Fund

The Bonds are special obligations of the State and are payable solely from the revenues of the State pledged therefor as provided in the Act (the “Pledged Revenues”) and other receipts, funds or moneys pledged therefor pursuant to the Act and the Indentures. Pursuant to the Act and under the Indentures, all Pledged Revenues received or collected are promptly credited to the Special Transportation Fund established pursuant to Public Act 83-30 of the June 1983 Special Session of the General Assembly, as amended. Public Act 15-5 of the June Special Session created a new statutory transportation “lock box” which established the Special Transportation Fund as a perpetual fund, the resources of which are to remain in the Special Transportation Fund to be expended solely for transportation purposes, including the payment of debt service on the Bonds. All sources of moneys required by State law to be credited to the Special Transportation Fund after June 29, 2015 are to continue to be credited to such fund to the extent the State collects or receives such moneys. Further, the enactment of Resolution Act No. 17-1 by the General Assembly approved a resolution identical to the resolution of Public Act 15-5 of the June Special Session, which created the new statutory transportation “lock box”, and proposed an amendment to the Constitution of the State providing that the following ballot question be presented to the electors at the general election to be held on November 6, 2018: “Shall the Constitution of the State be amended to ensure (1) that all moneys contained in the Special Transportation Fund be used solely for transportation purposes, including the payment of debts of the state incurred for transportation purposes, and (2) that sources of funds deposited in the Special Transportation Fund be deposited in said fund so long as such sources are authorized by statute to be collected or received by the state?”

Pledged Revenues consist of taxes, fees, charges and other receipts, funds or moneys of the State credited to the Special Transportation Fund. These include motor fuels taxes; oil companies taxes; a portion of the general retail sales taxes; motor vehicle receipts; motor vehicle related licenses, permits and fees; sales taxes imposed on casual sales of motor vehicles; motor vehicle related fines, penalties and other charges and other transportation related revenue sources more particularly defined in the Act, including enacted adjustments in all of the foregoing sources; certain federal subsidy payments relating to certain Taxable Build America Bonds – Direct Pay; and certain transportation related federal revenues of the State credited to the Fund. Other receipts, funds or moneys pledged under the Indentures include investment earnings and moneys in the funds and accounts established thereunder, subject to the application thereof as provided for in the Indentures. For a more detailed description of Pledged Revenues see “The Operations of the Special Transportation Fund” herein.

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

of and interest on “General Obligation Bonds of the State issued for Transportation Purposes,” as defined in the Act, or any general obligations refunding the same, and (iv) payment of State budget appropriations for the Department and the DMV as described in the Act.

The Act provides that, as part of the contract with bondholders, upon authorization of the issuance of the Bonds, all amounts necessary for the punctual payment of Debt Service Requirements are deemed appropriated from the Pledged Revenues and the Treasurer is required to pay such principal and interest as the same shall accrue, but only from the Pledged Revenues and other receipts, funds or moneys pledged to repay the Bonds. In the opinion of Bond Counsel, such amounts are validly deemed to be appropriated from such sources and such payment does not require further legislative approval.

The Act also provides that the obligation of the State to pay the Debt Service Requirements, in addition, will be secured by: (i) a first call upon the Pledged Revenues as they are received by the State and credited to the Special Transportation Fund (such a requirement whereby the Pledged Revenues are first applied to debt service is commonly referred to as a gross pledge); and (ii) a lien upon any and all amounts held to the credit of the Special Transportation Fund from time to time, provided such lien shall not extend to amounts credited to such Fund representing (A) proceeds of 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).

Agreements of the State

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

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

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

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

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

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

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

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

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

Flow of Funds Under Senior Indenture

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

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

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

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

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

Indenture to be paid by the Treasurer forthwith to the Trustee, and shall not be diverted to any other purpose, until such accrued and unpaid amounts have been paid in full.

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

Refunding Bonds

Refunding Bonds are authorized under the Act and the Senior Indenture to be issued by the State having equal rank and on a parity with the Senior Bonds heretofore issued. Refunding Bonds may be issued at any time and from time to time, in such amounts as the State Bond Commission may deem necessary for the purpose of refunding the principal of the bonds to be refunded, any unpaid interest thereon to the date of redemption thereof, any premium necessary to be paid in connection therewith, and the costs and expenses of issuing such Refunding Bonds. Refunding Bonds shall be issued under and pursuant to a supplemental indenture (or supplemental indentures). The 2018 Series C Bonds are being issued as Refunding Bonds under the Act, the Senior Indenture and the Forty-Eighth Supplemental Indenture.

Additional Bonds and Outstanding Bonds

Additional Bonds may be issued by the State having equal rank and on a parity with the Senior Bonds heretofore issued for the Infrastructure Program. Additional Bonds also may be issued junior in right of payment to the Senior Bonds and on a parity with the outstanding Second Lien Bonds issued under the Second Lien Indenture. As of the date of delivery of the 2018 Series B and C Bonds, there will be \$6,031,255,000 Senior Bonds outstanding and \$123,780,000 Second Lien Bonds outstanding. See "Total Bonds Outstanding" herein. The Public and Special Acts currently provide for the issuance of Bonds for the Infrastructure Program in principal amounts not exceeding in the aggregate \$17,650,632,852, of which \$5,380,462,100 will be authorized and unissued after the issuance of the 2018 Series B and C Bonds. Of such \$5,380,462,100 unissued amount, \$3,779,425,752 has been authorized by the State Bond Commission. It is anticipated that Additional Bonds will be authorized by public and special acts annually in an amount necessary to finance and to complete the Infrastructure Program. Subject to such statutory authorization, issuance of Additional Bonds requires compliance with the conditions contained in the Senior Indenture and, so long as Second Lien Bonds are outstanding, with the conditions contained in the Second Lien Indenture. The Senior Indenture provides that such Additional Bonds for the Infrastructure Program shall be issued under and pursuant to a supplemental indenture (or supplemental indentures) and subject to compliance with the following conditions:

(1) Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture for reserves required by the Senior Indenture, actually paid into the Special Transportation Fund for any period of twelve (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 Senior Bonds and Interest Requirements on Senior Notes for such period; provided however, that this condition shall be deemed to be satisfied if such test is satisfied after adjusting such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture only to reflect any increase(s) or decrease(s) in taxes, fees or charges enacted to be in effect at the time of issuance of such Additional Bonds, and the Secretary of the Office of Policy and Management of the State shall deliver to the Trustee a certificate demonstrating such coverage; and

(2) Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture for reserves required by the Senior Indenture, actually paid into the Special Transportation Fund for any period of twelve (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 Senior Bonds with respect to the Senior Bonds, including the Additional Bonds to be issued, and Interest Requirements on Senior Notes not being refunded from the proceeds of such Additional Bonds, for the current and each succeeding fiscal year, after adjusting such Pledged Revenues and other receipts, funds or moneys pledged under the Senior Indenture only to reflect any increase(s) or decrease(s) in taxes, fees or charges enacted to be in effect for such current or such succeeding fiscal year, and the Secretary of the Office of Policy and Management of the State shall deliver to the Trustee a certificate demonstrating such coverage; and

(3) The State shall have received a letter from the Accountant appointed by the State (i) substantially to the effect that in connection with its examination of the Special Transportation Fund pursuant to Section 7.4 of the Senior Indenture nothing came to their attention that caused them to believe that the State was not then in compliance with the

requirement of (1) above and (ii) reporting on the certificates delivered by the State pursuant to the requirement of (1) and (2) above without material qualification; and

(4) The State shall have determined that the principal amount of all Bonds, including the Additional Bonds to be issued, will not exceed any limitation imposed by law and that upon such issue, the amount credited to the Reserve Account will be not less than the Debt Service Reserve Requirement.

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

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

Bond Anticipation Notes and Subordinated Indebtedness

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

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

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

State General Taxing Power Not Pledged

Pursuant to the Act, the Bonds shall be special obligations of the State and shall not be payable from nor charged upon any funds other than the Pledged Revenues or other receipts, funds or moneys pledged therefor as provided in the Act, nor shall the State or any political subdivision thereof be subject to any liability thereon, except to the extent of the Pledged Revenues and such other receipts, funds or moneys pledged therefor. The issuance of the Bonds under the Act and Indentures shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of

taxation whatever therefor (except for taxes included in the Pledged Revenues), or to make any additional appropriation for their payment. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the State or of any political subdivision thereof, other than the Pledged Revenues and other receipts, funds or moneys pledged therefor. The Bonds shall not be subject to any statutory limitation on the indebtedness of the State and, when issued, shall not be included in computing the aggregate indebtedness of the State with respect to and to the extent of any such limitation. The full faith and credit of the State shall not be pledged to the repayment of the Bonds.

THE 2018 SERIES B AND C BONDS

Purpose of the 2018 Series B and C Bonds

The Public and Special Acts currently provide for the issuance of \$17,650,632,852 in special tax obligation bonds, in one or more series, to fund, together with anticipated federal grants, a portion of the costs of various purposes of the Infrastructure Program. The 2018 Series B Bonds are issued under the authorized but unissued balance for Bonds of \$4,529,425,752 currently remaining pursuant to the Public and Special Acts and authorization by the State Bond Commission. It is expected that in each year special legislation will empower the State Bond Commission to authorize additional special tax obligation bonds to finance the Infrastructure Program. The 2018 Series C Bonds are being issued to refund certain Senior Bonds. See “Plan of Refunding” herein.

On July 25, 2018, the State Bond Commission authorized the issuance and sale by the Treasurer of the 2018 Series B and C Bonds to fund a portion of the projects and uses authorized in the Public and Special Acts and to refund certain outstanding Senior Bonds as well as the execution of the Forty-Eighth Supplemental Indenture by the Governor, the Treasurer, and the Comptroller, the Official Statement, a Continuing Disclosure Agreement, an Escrow Agreement and a Certificate of Determination executed by the Treasurer and filed with the Secretary of the State Bond Commission.

Description of the 2018 Series B and C Bonds

The 2018 Series B and C Bonds will be dated the date of delivery and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. Interest on the 2018 Series B and C Bonds is payable on April 1 and October 1 of each year, commencing April 1, 2019. Interest on the 2018 Series B and C Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable to the registered owner as of the close of business on the fifteenth day of March and September, in each year beginning March 15, 2019 or the preceding business day if such fifteenth day is not a business day, by check mailed to the registered owner at such address as appears on the registration books of the State kept for such purpose under the Senior Indenture. The 2018 Series B and C Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

Principal of and interest on the 2018 Series B and C Bonds will be paid directly to The Depository Trust Company (“DTC”) by U.S. Bank National Association, Trustee, as Paying Agent so long as DTC or its nominee, Cede & Co., is the Bondowner. See “Book-Entry-Only System” herein.

Optional Redemption

The 2018 Series B Bonds maturing on or after October 1, 2029 will be subject to redemption, at the election of the Treasurer, on or after October 1, 2028 at any time, in whole or in part and by lot within maturity, in such amounts as the Treasurer may determine, at the respective redemption prices (expressed as percentages of the principal amounts of the bonds to be redeemed) set forth in the following table, together with interest accrued and unpaid to the redemption date:

| <u>Redemption Period</u> | <u>Redemption Price</u> |
|--------------------------------|-------------------------|
| October 1, 2028 and thereafter | 100% |

The 2018 Series C Bonds are not subject to optional redemption.

Notice of Redemption

Notice of redemption shall be mailed not less than thirty (30) nor more than sixty (60) days prior to the redemption date, by registered mail, to the registered owner of the 2018 Series B Bonds at the address as it appears on the books of registry or at such address as such owner may have filed with the registrar for that purpose. So long as Cede & Co., as nominee of DTC, is the registered owner of the 2018 Series B Bonds, all notices of redemption will be sent only to DTC, and delivery of such notices of redemption to DTC's Participants and Indirect Participants and Beneficial Owners of the 2018 Series B Bonds will be governed by the customary practices and procedures of DTC and said Participants and Indirect Participants. The 2018 Series B Bonds called for redemption shall, on the redemption date designated in the notice of redemption, become due and payable only if moneys for the payment of such 2018 Series B Bonds called for redemption together with the applicable redemption premium, if any, and the interest to accrue to the redemption date on such 2018 Series B Bonds are held for the purpose of payment by the Trustee or Paying Agent.

Plan of Refunding

The 2018 Series C Bonds and other funds of the State available under the Senior Indenture, will be used to refund the following maturities and principal amounts of outstanding Senior Bonds on the dates and at the redemption prices set forth below (the "Refunded Bonds").

| <u>Series</u> | <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Call Date</u> | <u>Call Price</u> |
|---------------|----------------------|-------------------------|----------------------|------------------|-------------------|
| 2008 Series A | 11/01/2020 | \$6,340,000 | 4.500% | 11/01/2018 | 100% |
| 2008 Series A | 11/01/2020 | 9,050,000 | 5.000 | 11/01/2018 | 100 |
| 2008 Series A | 11/01/2022 | 490,000 | 4.750 | 11/01/2018 | 100 |
| 2008 Series A | 11/01/2022 | 16,495,000 | 5.000 | 11/01/2018 | 100 |
| 2008 Series A | 11/01/2023 | 17,855,000 | 5.000 | 11/01/2018 | 100 |
| 2008 Series A | 11/01/2024 | 18,775,000 | 5.000 | 11/01/2018 | 100 |
| 2008 Series A | 11/01/2025 | 19,735,000 | 5.000 | 11/01/2018 | 100 |
| 2008 Series A | 11/01/2026 | 20,750,000 | 5.000 | 11/01/2018 | 100 |

Upon delivery of the 2018 Series C Bonds, a portion of the proceeds, together with other funds available to the State, will be placed in escrow with U.S. Bank National Association (the "Escrow Holder"), under an Escrow Agreement (the "Escrow Agreement") between the Escrow Holder and the State. The Escrow Holder will deposit in an irrevocable trust fund called the Escrow Deposit Fund a portion of the net proceeds of the 2018 Series C Bonds and moneys from the Bond Service Sub-Account of the Debt Service Account allocable to the Refunded Bonds and will use such proceeds to invest in Investment Securities, including the short-term investment fund created and existing under Section 3-27a of the Connecticut General Statutes (the "Escrow Investments"), the principal of and interest on which, when due, along with any uninvested cash amounts, will provide amounts sufficient to meet principal, interest payments and redemption prices on the Refunded Bonds, subject to the Escrow Agreement, on the dates such payments are due. All investment income on and maturing principal of the Escrow Investments held in the Escrow Deposit Fund and needed to pay the principal of and interest and redemption premiums, if any, on the Refunded Bonds, will be irrevocably deposited by the State for payment of the Refunded Bonds, subject to the Escrow Agreement. See Depositories of Moneys/Investments subsection under "Appendix D-Summary of Certain Provisions of Senior Indenture" for a more detailed description of Investment Securities.

Upon making such deposit with the Escrow Holder and the issuance of certain irrevocable instructions to the Escrow Holder pursuant to the Senior Indenture, the Refunded Bonds, subject to the Escrow Agreement, will, under the terms of the Senior Indenture, no longer be deemed to be outstanding and shall be deemed to have been paid and will cease to be entitled to any lien, benefit or security under the Senior Indenture.

Sources and Uses of Funds

The proceeds from the sale of the 2018 Series B and C Bonds, together with other funds, are estimated to be applied as follows:

Sources

| | |
|---|---------------------|
| Principal Amount of 2018 Series B Bonds | \$750,000,000.00 |
| Principal Amount of 2018 Series C Bonds | 100,105,000.00 |
| Original Issue Premium | 83,570,735.05 |
| Release from Bond Service Sub-Account..... | <u>2,720,787.50</u> |
| Total..... | \$936,396,522.55 |

Uses

| | |
|---|-------------------|
| Deposit into Infrastructure Improvement Fund to pay a portion of the costs of the Infrastructure Program | \$776,166,589.75 |
| Deposit into Reserve Account | 43,769,048.18 |
| Deposit into Escrow Deposit Fund | 112,210,787.50 |
| Underwriters' Discount..... | 3,745,332.65 |
| Costs of Issuance | <u>504,764.47</u> |
| Total..... | \$936,396,522.55 |

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2018 Series B and C Bonds. The 2018 Series B and C Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for each maturity of each series of the 2018 Series B and C Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor’s rating of AA+. 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 2018 Series B and C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Series B and C Bonds on DTC’s records. The ownership interest of each actual purchaser of each of the 2018 Series B and C Bonds (“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 2018 Series B and C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2018 Series B and C Bonds, except in the event that use of the book-entry system for the 2018 Series B and C Bonds is discontinued.

To facilitate subsequent transfers, all the 2018 Series B and C Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2018 Series B and C Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the 2018 Series B and C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2018 Series B and C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the 2018 Series B and C Bonds within a series of the issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2018 Series B and C Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 2018 Series B and C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the 2018 Series B and C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Trustee, 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 State or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest 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 Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2018 Series B and C Bonds at any time by giving reasonable notice to the State or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. Neither the State, the Trustee nor any Underwriter has any responsibility or obligation to DTC's Direct Participants or Indirect Participants or Beneficial Owners with respect to (1) the accuracy of any records maintained by DTC or its Direct Participants or Indirect Participants, (2) the payments by DTC or its Direct Participants or Indirect Participants with respect to the principal of or premium, if any, or interest on the 2018 Series B and C 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 Direct Participants or any Indirect Participants or any Beneficial Owners to receive payment in the event of a partial redemption of the 2018 Series B and C Bonds.

For so long as Cede & Co. is the registered owner of the 2018 Series B and C Bonds, all references herein to the Bondowner or owners of the 2018 Series B and C Bonds shall mean Cede & Co. and shall not mean any Beneficial Owner or Beneficial Owners of the 2018 Series B and C Bonds nor any Direct Participant or Indirect Participant, unless specific exception has been expressed herein.

TOTAL BONDS OUTSTANDING

The following table sets forth all Bonds outstanding as of the date of delivery of the 2018 Series B and C Bonds.

| <u>Series</u> | <u>Amount Originally Issued</u> | <u>Amount Outstanding</u> | <u>Dated Date</u> | <u>True Interest Cost</u> |
|---|---|-------------------------------|--------------------|-----------------------------------|
| Senior Bonds: | | | | |
| 2004 Series B (Refunding) ⁽¹⁾ | \$89,725,000 | \$6,300,000 | November 15, 2004 | 3.852% |
| 2008 Series A ⁽²⁾ | 300,000,000 | 13,965,000 | December 10, 2008 | 4.762 |
| 2009 Series A | 195,970,000 | 47,760,000 | November 10, 2009 | 2.963 |
| 2009 Series B ⁽³⁾ | 304,030,000 | 304,030,000 | November 10, 2009 | 3.636 |
| 2010 Series A | 199,570,000 | 52,340,000 | November 10, 2010 | 2.201 |
| 2010 Series B ⁽³⁾ | 400,430,000 | 400,430,000 | November 10, 2010 | 3.443 |
| 2010 Series C (Refunding) ⁽¹⁾ | 137,675,000 | 79,705,000 | November 10, 2010 | 2.797 |
| 2011 Series A | 221,230,000 | 181,525,000 | December 15, 2011 | 3.516 |
| 2011 Series B (Refunding) ⁽¹⁾ | 233,845,000 | 74,425,000 | December 15, 2011 | 2.047 |
| 2012 Series A | 502,290,000 | 408,875,000 | December 21, 2012 | 2.733 |
| 2012 Series B (Refunding) ⁽¹⁾ | 125,100,000 | 97,450,000 | December 21, 2012 | 1.951 |
| 2013 Series A | 600,000,000 | 499,495,000 | November 21, 2013 | 3.669 |
| 2014 Series A | 600,000,000 | 528,860,000 | October 16, 2014 | 3.169 |
| 2014 Series B (Refunding) ⁽¹⁾ | 131,545,000 | 105,300,000 | October 16, 2014 | 2.123 |
| 2015 Series A | 700,000,000 | 633,595,000 | October 15, 2015 | 3.243 |
| 2015 Series B (Refunding) ⁽¹⁾ | 139,770,000 | 128,615,000 | October 15, 2015 | 2.320 |
| 2016 Series A | 800,000,000 | 750,215,000 | September 28, 2016 | 2.831 |
| 2016 Series B (Refunding) ⁽¹⁾ | 68,265,000 | 68,265,000 | September 28, 2016 | 2.270 |
| 2018 Series A | 800,000,000 | 800,000,000 | February 8, 2018 | 3.563 |
| 2018 Series B | 750,000,000 | 750,000,000 | October 25, 2018 | 3.966 |
| 2018 Series C (Refunding) ⁽¹⁾ | 100,105,000 | <u>100,105,000</u> | October 25, 2018 | 3.020 |
| SENIOR LIEN BONDS SUB-TOTAL | | \$6,031,255,000 | | |
| Second Lien Bonds: | | | | |
| 2008 Series 1 (Refunding) ⁽¹⁾⁽⁴⁾ | \$97,690,000 | \$7,080,000 | October 1, 2008 | 3.555% |
| 2009 Series 1 (Refunding) ⁽¹⁾⁽⁴⁾ | 415,035,000 | <u>116,700,000</u> | January 29, 2009 | 3.362 |
| SECOND LIEN BONDS SUB-TOTAL | | \$123,780,000 | | |
| TOTAL BONDS OUTSTANDING | | \$6,155,035,000 | | |

(1) Refunding Bonds do not constitute Additional Bonds.

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

(3) Taxable Build America Bonds – Direct Pay.

(4) Although the Second Lien Indenture was established principally to facilitate the issuance of bonds bearing interest at a variable rate, the outstanding Second Lien Bonds currently bear interest at a fixed rate.

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 \$6,155,035,000 Bonds issued and outstanding as of the date of delivery of the 2018 Series B and C Bonds, excluding principal and interest on previously refunded Bonds. The anticipated issuance of Additional Bonds to finance the Infrastructure Program for fiscal years 2019-2023 is reflected in Tables 8 and 9.

| Fiscal Year Ending June 30th | Outstanding Bonds ^(a) | | | 2018 Series B and C Bonds | | | Total Debt Service ^(c) |
|------------------------------|----------------------------------|-------------------------|-------------------------|---------------------------|---------------|-------------------------|-----------------------------------|
| | Principal | Interest ^(b) | Subtotal ^(c) | Principal | Interest | Subtotal ^(c) | |
| 2019 ^(d) | \$197,395,000 | \$157,903,998 | \$355,298,998 | \$0 | \$18,361,414 | \$18,361,414 | \$373,660,412 |
| 2020 | 319,155,000 | 247,136,492 | 566,291,492 | 25,820,000 | 41,726,994 | 67,546,994 | 633,838,486 |
| 2021 | 320,125,000 | 232,128,297 | 552,253,297 | 35,210,000 | 40,220,694 | 75,430,694 | 627,683,991 |
| 2022 | 317,240,000 | 216,422,633 | 533,662,633 | 26,740,000 | 38,698,844 | 65,438,844 | 599,101,477 |
| 2023 | 312,185,000 | 201,032,335 | 513,217,335 | 39,390,000 | 37,079,622 | 76,469,622 | 589,686,957 |
| 2024 | 308,280,000 | 186,526,809 | 494,806,809 | 45,095,000 | 34,997,725 | 80,092,725 | 574,899,534 |
| 2025 | 314,985,000 | 170,765,942 | 485,750,942 | 46,115,000 | 32,722,125 | 78,837,125 | 564,588,067 |
| 2026 | 303,230,000 | 154,436,372 | 457,666,372 | 48,855,000 | 30,350,675 | 79,205,675 | 536,872,047 |
| 2027 | 300,795,000 | 139,056,971 | 439,851,971 | 51,185,000 | 27,857,925 | 79,042,925 | 518,894,896 |
| 2028 | 331,995,000 | 122,930,660 | 454,925,660 | 33,405,000 | 25,749,625 | 59,154,625 | 514,080,285 |
| 2029 | 337,145,000 | 105,834,489 | 442,979,489 | 35,075,000 | 24,037,625 | 59,112,625 | 502,092,114 |
| 2030 | 315,635,000 | 88,815,004 | 404,450,004 | 36,830,000 | 22,240,000 | 59,070,000 | 463,520,004 |
| 2031 | 305,905,000 | 73,421,449 | 379,326,449 | 38,670,000 | 20,352,500 | 59,022,500 | 438,348,949 |
| 2032 | 272,115,000 | 59,044,275 | 331,159,275 | 40,605,000 | 18,370,625 | 58,975,625 | 390,134,900 |
| 2033 | 255,225,000 | 46,080,875 | 301,305,875 | 42,630,000 | 16,289,750 | 58,919,750 | 360,225,625 |
| 2034 | 241,585,000 | 33,243,788 | 274,828,788 | 44,765,000 | 14,104,875 | 58,869,875 | 333,698,663 |
| 2035 | 205,300,000 | 22,259,225 | 227,559,225 | 47,005,000 | 11,810,625 | 58,815,625 | 286,374,850 |
| 2036 | 167,260,000 | 13,541,025 | 180,801,025 | 49,350,000 | 9,401,750 | 58,751,750 | 239,552,775 |
| 2037 | 118,570,000 | 7,172,950 | 125,742,950 | 51,820,000 | 6,872,500 | 58,692,500 | 184,435,450 |
| 2038 | 60,805,000 | 3,040,250 | 63,845,250 | 54,410,000 | 4,216,750 | 58,626,750 | 122,472,000 |
| 2039 | 0 | 0 | 0 | 57,130,000 | 1,428,250 | 58,558,250 | 58,558,250 |
| Total ^(c) | \$5,304,930,000 | \$2,280,793,839 | \$7,585,723,839 | \$850,105,000 | \$476,890,893 | \$1,326,995,893 | \$8,912,719,732 |

- (a) Outstanding Senior and Second Lien Bonds as of the date of delivery of the 2018 Series B and C Bonds (debt service on previously refunded Bonds is not included).
- (b) Pursuant to the federal American Recovery and Reinvestment Act of 2009, the State expects to receive a cash subsidy payment directly from the United States Treasury equal to 35% of the interest payable for any outstanding Taxable Build America Bonds – Direct Pay, except as may be reduced as a result of federal sequestration measures. All such federal subsidy payments received or collected will be deposited in the Special Transportation Fund as Pledged Revenues and are then pledged for the payment of debt service of the Bonds outstanding.
- (c) Principal and Interest may not add to Totals due to rounding.
- (d) Reflects principal and interest payments on all Outstanding Bonds as of the date of delivery of the 2018 Series B and C Bonds to the end of the current fiscal year.

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) the Petroleum Products Gross Earnings Tax (such tax is commonly, and hereinafter, referred to as the “Oil Companies Tax”); (iii) specific amounts of the general retail sales tax imposed under Section 12-408(1)(A) of the Connecticut General Statutes and specific amounts of the use tax imposed under Section 12-411(1)(A) of the Connecticut General Statutes (such specific amounts hereinafter referred to as the “Sales and Use Tax”); (iv) specific amounts of the sales and use tax paid on the sale of motor vehicles under Sections 12-408(1)(A) and (H) and 12-411(1)(A) and (H) (such specific amounts hereinafter referred to as the “Sales and Use Tax on Motor Vehicles”); (v) Motor Vehicle Receipts (e.g., fee for registration of motor

vehicles); (vi) License, Permit and Fee Revenue (e.g., fee for license to sell or repair motor vehicles) (“LPF Revenue”); (vii) 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 (such specific amounts hereinafter referred to as the “Sales Tax - DMV” and such payments are hereinafter referred to as the “Sales Tax - DMV Payments”); (viii) moneys formerly 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); (ix) specific amounts from the resources of the General Fund; and (x) other receipts, funds, and moneys credited to the Special Transportation Fund. See “Description of Revenue Sources of the Special Transportation Fund” herein for a more detailed discussion of these revenues.

All Pledged Revenues, as collected by the State or any officer thereof, along with all other revenues of the State, are deposited in various bank accounts of the State. The Pledged Revenues are promptly identified and credited to the Special Transportation Fund.

The following table displays a five-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 Motor Fuels Tax, Oil Companies Tax, Sales and Use Tax, Motor Vehicle Receipts and LPF Revenue:

TABLE 1
Summary of Five Largest Revenue Sources
(\$ In Millions)

| State Fiscal Year | Historical Collections | | | | |
|------------------------------|---|---------------------------------|---------------------------------|------------------------|-----------------------|
| | Motor Fuels | Oil Companies | Sales and Use | Motor Vehicle | LPF |
| <u>Ending June 30</u> | <u>Tax</u> | <u>Tax^(a)</u> | <u>Tax^(b)</u> | <u>Receipts</u> | <u>Revenue</u> |
| 2014 | 508.1 | 416.3 | - | 236.1 | 138.4 |
| 2015 | 516.6 | 337.9 | - | 249.5 | 145.4 |
| 2016 | 518.2 | 250.0 | 109.0 | 251.5 | 143.9 |
| 2017 | 498.5 | 238.4 | 188.4 | 242.9 | 144.0 |
| 2018 ^(c) | 499.8 | 312.5 | 327.5 | 253.1 | 141.9 |
| State Fiscal Year | Projected Collections at Current Rates | | | | |
| | Motor Fuels | Oil Companies | Sales and Use | Motor Vehicle | LPF |
| <u>Ending June 30</u> | <u>Tax</u> | <u>Tax^(a)</u> | <u>Tax^(b)</u> | <u>Receipts</u> | <u>Revenue</u> |
| 2019 | 499.9 | 330.0 | 361.4 ^(d) | 253.2 | 140.0 |
| 2020 | 500.4 | 346.5 | 459.7 ^(d) | 255.2 | 140.6 |
| 2021 | 497.9 | 355.2 | 552.5 ^(d) | 257.1 | 141.1 |
| 2022 | 495.5 | 364.0 | 632.2 ^(d) | 259.2 | 141.7 |

- (a) Represents the total Oil Companies Tax collections. Prior to July 1, 2015, the Oil Companies Tax had been transferred to various funds, including a specified amount to the Special Transportation Fund. Pursuant to section 91 of Public Act 15-244, beginning July 1, 2015, and thereafter, all Oil Companies Tax revenues are being deposited directly into the Special Transportation Fund.
- (b) Beginning in fiscal year 2016, a portion of the general retail sales taxes are being deposited into the Special Transportation Fund pursuant to section 132 of Public Act 15-5 of the June Special Session, as amended by section 32 of Public Act 15-1, December Special Session, and section 45 of Public Act 16-2, May Special Session. Pursuant to section 638 of Public Act 17-2 of the June Special Session, beginning on and after July 1, 2017, a portion of the use tax is being deposited into the Special Transportation Fund. See “Description of Revenue Sources of the Special Transportation Fund-Sales and Use Tax” herein.
- (c) Per the Comptroller’s report of September 28, 2018 for the period ending June 30, 2018, unaudited.
- (d) Pursuant to sections 62 and 63 of Public Act 18-81, the Sales and Use Tax on Motor Vehicles to be deposited into the Special Transportation Fund is being phased in over five (5) years as follows: 8% in fiscal year 2019, 33% in fiscal year 2020, 56% in fiscal year 2021, 75% in fiscal year 2022 and 100% in fiscal year 2023.

SOURCE: Office of Policy and Management

Discussion of Projected Pledged Revenues

The projections of the Pledged Revenues provided herein reflect the adjustments enacted by the General Assembly that were made to the Special Transportation Fund that have or will become effective during fiscal years 2018-2022 together with economic trends and other assumptions utilized by the State in its revenue forecasting methodologies.

Legislative Changes to Pledged Revenues

The following table summarizes the adjustment in projected revenues that were made to the Special Transportation Fund in the 2018 Session of the General Assembly:

TABLE 2
Summary of Enacted Revenue Adjustments^(a)
(\$ In Millions)

| | <u>Effective</u> | Fiscal Year Ending June 30 | | | |
|--|------------------|-----------------------------------|-------------|-------------|-------------|
| | | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
| <u>2018 Legislative Session^(b)</u> | | | | | |
| Sales and Use Tax on Motor Vehicles ^(c) | 07/01/2018 | 29.0 | 120.1 | 141.9 | 130.1 |
| Sales and Use Tax on Vessels ^(d) | 07/01/2018 | (0.2) | (0.2) | (0.2) | (0.2) |
| Motor Fuels Tax ^(e) | 07/01/2018 | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| Total Impact on Special Transportation Fund | | 28.8 | 119.9 | 137.7 | 129.9 |

- (a) Reflects impact of revenue adjustments per the Office of Policy and Management in relation to the previously projected revenue prior to the legislative sessions. See “Legislative Changes” herein.
- (b) Pursuant to Public Act 18-81.
- (c) Pursuant to sections 62 and 63 of Public Act 18-81, which amended sections 637 and 638 of Public Act 17-2 of the June Special Session, the Sales and Use Tax on Motor Vehicles to be deposited into the Special Transportation Fund is being phased in over five (5) years as follows: 8% in fiscal year 2019, 33% in fiscal year 2020, 56% in fiscal year 2021, 75% in fiscal year 2022 and 100% in fiscal year 2023.
- (d) Pursuant to C.G.S. Sections 12-407(a)(24) and 15-127, “vessel” means every description of watercraft, other than a seaplane on water, used or capable of being used as a means of transportation on water. Pursuant to sections 62 and 63 of Public Act 18-81, the sales and use tax rate for vessels is reduced from 6.35% to 2.99%.
- (e) Sections 64 and 65 of Public Act 18-81 establishes conditions under which (i) dyed diesel fuel sold to marine fuel dock owners or operators exclusively for marine purposes is exempt from the Motor Fuels Tax and (ii) marine fuel dock owners and operators may purchase and sell such tax-exempt fuel.

SOURCE: Office of Policy and Management

Forecasting of Pledged Revenues

In making the projections of the Pledged Revenues provided herein for fiscal years 2019-2022, the State considered a variety of sources of economic data, including economic forecasts prepared by the State and outside economic forecasting services. These projections 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 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.

Section 2-36c of the Connecticut General Statutes requires the Office of Policy and Management and legislature’s Office of Fiscal Analysis to issue consensus revenue estimates each year by November 10. The estimates must cover a five-year period that includes the current biennium and the three following fiscal years. It also requires the two offices, by January 15 and April 30 of each year, to issue either (1) a consensus revision of their previous estimate or (2) a statement that no revision is needed. If the two agencies cannot arrive at a consensus revenue estimate, they must issue separate ones. In such a case, the Comptroller must issue the consensus estimate based upon the separate estimates. The revenue projections for fiscal years 2020-2022 are based upon the April 30, 2018 consensus revenue estimate revised to include the legislative changes detailed in Table 2 and the Office of Policy and Management’s estimated projections.

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 such projections are dependent upon the occurrence of future events. For example, political unrest or war and natural disasters in oil producing and refining regions could substantially reduce petroleum and motor fuels supplies and increase prices. Changes in worldwide demand for petroleum and motor fuel or economic slowdowns may increase or decrease prices, respectively. Thus, actual results achieved may vary from the projections and such variations may be materially adverse. The accompanying projected financial information from 2019-2022 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 amount of revenue that each source of Pledged Revenues and other receipts is projected to produce through fiscal year 2022.

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

| | Fiscal Year Ending June 30 | | | | |
|--|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2018^(a)</u> | <u>2019^(a)</u> | <u>2020^(a)</u> | <u>2021^(a)</u> | <u>2022^(a)</u> |
| Motor Fuels Tax ^(b) | 499.8 | 499.9 | 500.4 | 497.9 | 495.5 |
| Oil Companies Tax | 312.5 | 330.0 | 346.5 | 355.2 | 364.0 |
| Sales and Use Tax ^(c) | 327.5 | 361.4 | 459.7 | 552.5 | 632.2 |
| Motor Vehicle Receipts..... | 253.1 | 253.2 | 255.2 | 257.1 | 259.2 |
| LPF Revenue..... | 141.9 | 140.0 | 140.6 | 141.1 | 141.7 |
| Sales Tax - DMV ^(d) | 85.9 | 86.8 | 87.6 | 88.5 | 89.4 |
| Federal Payments ^(e) | 12.2 | 12.1 | 12.1 | 11.8 | 11.0 |
| Interest Income ^(f) | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Transfers From/To Other Funds ^(g) | <u>(5.5)</u> | <u>(5.5)</u> | <u>(5.5)</u> | <u>(5.5)</u> | <u>(5.5)</u> |
| Total..... | 1,645.0 | 1,696.0 | 1,815.0 | 1,917.4 | 2,006.7 |
| Refunds ^(h) | <u>(14.9)</u> | <u>(18.7)</u> | <u>(19.5)</u> | <u>(20.3)</u> | <u>(20.7)</u> |
| TOTAL PLEDGED REVENUES..... | 1,630.1 | 1,677.3 | 1,795.5 | 1,897.1 | 1,986.0 |

- (a) For fiscal year ending 2018, per the Comptroller's report of September 28, 2018 for the period ending June 30, 2018, unaudited. Pursuant to Public Act 18-81 for fiscal year ending 2019, as revised by the Office of Policy and Management. Revenue projections for fiscal years 2020-2022 are based upon the April 30, 2018 consensus revenue estimate revised to include legislative changes detailed in Table 2 and the Office of Policy and Management's estimated projections.
- (b) On and after July 1, 2008, the motor fuels tax on diesel fuels is determined by the Commissioner of Revenue Services annually pursuant to C.G.S. Section 12-458h. The motor fuels tax on diesel fuels is 43.9 cents effective July 1, 2018.
- (c) Beginning in fiscal year 2016, a portion of the general retail sales taxes are being deposited into the Special Transportation Fund pursuant to section 132 of Public Act 15-5 of the June Special Session, as amended by section 32 of Public Act 15-1, December Special Session, and section 45 of Public Act 16-2, May Special Session. Pursuant to section 638 of Public Act 17-2 of the June Special Session, beginning on and after July 1, 2017, a portion of the use tax is being deposited into the Special Transportation Fund. Pursuant to sections 62 and 63 of Public Act 18-81, the Sales and Use Tax on Motor Vehicles to be deposited into the Special Transportation Fund is being phased in over five (5) years as follows: 8% in fiscal year 2019, 33% in fiscal year 2020, 56% in fiscal year 2021, 75% in fiscal year 2022 and 100% in fiscal year 2023.
- (d) Pursuant to C.G.S. Section 13b-61b, the Commissioner of Motor Vehicles shall deposit all funds from the tax imposed under C.G.S. Section 12-431 attributable to motor vehicles to the Special Transportation Fund.
- (e) Pursuant to the federal American Recovery and Reinvestment Act of 2009, the State expects to receive a cash subsidy payment directly from the United States Treasury equal to 35% of the interest payable for any Taxable Build America Bonds – Direct Pay outstanding, except as may be reduced as a result of federal sequestration measures.
- (f) 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, (B) amounts expected to be held by the Trustee in the respective Debt Service Accounts under the Senior Indenture and 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, if any, to be received upon delivery of each series of Bonds.
- (g) Pursuant to C.G.S. Section 14-164m effective October 1, 2017, \$5.5 million is transferred annually from the Special Transportation Fund to the Emission Enterprise Fund.
- (h) Represents refunds for Oil Companies Taxes, Motor Fuel Taxes, and Motor Carrier Road Taxes when an overpayment of tax liability has been made. Pursuant to C.G.S. Sections 14-23 and 14-31, which became effective July 1, 2001, refunds of payments in the Special Transportation Fund are funded with revenues of the Special Transportation Fund.

SOURCE: Office of Policy and Management

Description of Revenue Sources of the Special Transportation Fund

The Special Transportation Fund receives moneys from the following sources: Motor Fuels Tax, Oil Companies Tax, Sales and Use Tax, Motor Vehicle Receipts, LPF Revenue, Sales Tax – DMV Payments, and Other Revenues (as described below for each source), as well as Federal Build America Bonds Subsidies received by the State, and other sources including investment earnings. The Act provides for periodic adjustments in the taxes, fees and charges. See “Discussion of Projected Pledged Revenues” herein.

Motor Fuels Tax

The Motor Fuels Tax revenue has been credited to the Special Transportation Fund since July 1, 1984 and 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

| | Fiscal Year Ending June 30 | | | | | | | | | |
|---|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018^(a)</u> |
| Totals | | | | | | | | | | |
| Amount collected (millions \$)..... | 495.0 | 503.6 | 483.5 | 492.8 | 501.3 | 508.1 | 516.6 | 518.2 | 498.5 | 499.8 |
| Unit total (millions \$) ^(b) | 17.716 | 17.880 | 17.684 | 17.353 | 17.144 | 17.003 | 17.304 | 17.811 | 18.011 | 18.046 |
| Unit percentage growth (%)..... | (3.18) | 0.93 | (1.10) | (1.87) | (1.20) | (0.83) | 1.77 | 2.93 | 1.12 | 0.19 |
| Gasoline Tax | | | | | | | | | | |
| Amount collected (millions \$)..... | 372.1 | 376.6 | 371.2 | 364.3 | 359.3 | 355.7 | 361.4 | 373.2 | 378.1 | 378.3 |
| Unit total (millions \$) ^(b) | 14.883 | 15.063 | 14.847 | 14.571 | 14.371 | 14.227 | 14.457 | 14.928 | 15.125 | 15.131 |
| Unit percentage growth (%)..... | (1.82) | 1.21 | (1.44) | (1.86) | (1.37) | (1.00) | 1.62 | 3.25 | 1.32 | 0.03 |
| Tax Rate (¢/ gallon)..... | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| Special Fuels Tax | | | | | | | | | | |
| Amount collected (millions \$)..... | 104.9 | 107.6 | 98.6 | 112.7 | 124.6 | 133.1 | 136.1 | 128.4 | 106.3 | 109.1 |
| Unit total (millions \$) ^(b) | 2.417 | 2.385 | 2.489 | 2.440 | 2.433 | 2.424 | 2.497 | 2.553 | 2.549 | 2.615 |
| Unit percentage growth (%)..... | (10.08) | (1.32) | 4.36 | (1.94) | (0.29) | (0.38) | 3.02 | 2.22 | (0.14) | 2.60 |
| Tax Rate (¢/ gallon) ^(c) | 43.4 | 45.1 | 39.6 | 46.2 | 51.2 | 54.9 | 54.5 | 50.3 | 41.7 | 41.7 |
| Motor Carrier Road Tax | | | | | | | | | | |
| Amount collected (millions \$)..... | 18.1 | 19.5 | 13.8 | 15.8 | 17.4 | 19.3 | 19.1 | 16.6 | 14.0 | 12.5 |
| Unit total (millions \$) ^(b) | 0.416 | 0.432 | 0.349 | 0.342 | 0.340 | 0.352 | 0.350 | 0.330 | 0.336 | 0.300 |
| Unit percentage growth (%)..... | (7.94) | 3.82 | (19.39) | (2.01) | (0.46) | 3.40 | (0.57) | (5.58) | 1.89 | (10.80) |
| Tax Rate (¢/ gallon) ^(c) | 43.4 | 45.1 | 39.6 | 46.2 | 51.2 | 54.9 | 54.5 | 50.3 | 41.7 | 41.7 |

(a) Per the Comptroller’s report of September 28, 2018 for the period ending June 30, 2018, unaudited.

(b) The unit total represents millions of dollars of revenue collected per penny of tax.

(c) On and after July 1, 2008, the motor fuels tax on diesel fuels is determined by the Commissioner of Revenue Services annually pursuant to C.G.S. Section 12-458h.

SOURCE: Office of Policy and Management

The motor fuel tax rate on gasoline and gasohol is 25¢ per gallon, and on diesel fuel is 43.9¢ per gallon. The first two Motor Fuels Taxes are the gasoline tax and the special fuels tax, which are levied under Section 12-458 of the Connecticut General Statutes 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. Distributors are required to pay the Motor Fuels Tax on the twenty-fifth calendar day of each month (on the basis of gallons of fuel used or sold during the preceding month) thus providing a constant monthly stream of revenues to be credited to the Special Transportation Fund.

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 Sections 12-479 and 12-483 of the Connecticut General Statutes 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.

Oil Companies Tax

The Oil Companies Tax revenue is credited to the Special Transportation Fund and is received from the tax imposed on the gross earnings from the sale of petroleum products. The principal petroleum product subject to the tax is motor vehicle fuel, but such 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. The revenue collected from the tax imposed on the sale of aviation fuel is not credited to the Special Transportation Fund.

The ten-year history of Oil Companies Tax collections is shown in the following table.

**TABLE 5
Ten-Year History of Oil Companies Tax**

| | Fiscal Year Ending June 30 | | | | | | | | | |
|---|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018^(a)</u> |
| Total Amount Collected (millions \$) ^(b) | 267.8 | 264.9 | 334.5 | 373.0 | 374.9 | 416.3 | 337.9 | 250.0 | 238.4 | 312.5 |
| Revenue Per 1% (millions \$) ^(c) | 38.259 | 37.845 | 47.780 | 53.281 | 53.561 | 51.393 | 41.716 | 30.864 | 29.426 | 38.581 |
| Percentage Growth Rate (%)..... | (27.18) | (1.08) | 26.25 | 11.51 | 0.53 | (4.05) | (18.83) | (26.01) | (4.66) | 31.11 |
| Tax Rate (%)..... | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 |

(a) Per the Comptroller's report of September 28, 2018 for the period ending June 30, 2018, unaudited.

(b) Represents the total Oil Companies Tax collections. Prior to July 1, 2015, the Oil Companies Tax had been transferred to various funds, including a specified amount to the Special Transportation Fund. Pursuant to section 91 of Public Act 15-244, beginning July 1, 2015, and thereafter, all Oil Companies Tax revenues are being deposited directly into the Special Transportation Fund.

(c) Revenue Per 1% represents millions of dollars of revenue collected per each one percent of the tax rate.

SOURCE: Office of Policy and Management

Section 91 of Public Act 15-244 modified Section 13b-61a of the Connecticut General Statutes to require the Oil Companies Tax revenue to be deposited by the Commissioner of Revenue Services directly into the Special Transportation Fund on and after July 1, 2015. Prior to July 1, 2015, Section 13b-61a of the Connecticut General Statutes specified the amount of Oil Companies Tax revenue to be transferred into the Special Transportation Fund from the General Fund.

The Oil Companies Tax was levied, pursuant to Section 12-587 of the Connecticut General Statutes, at a rate of 5% of the gross earnings from the sale of petroleum products in the State prior to July 1, 2005. Pursuant to Section 40 of Public Act 05-4 of the June 2005 Special Session the tax rates were increased as follows: 5.8% effective July 1, 2005, 6.3% effective July 1, 2006, 7.0% effective July 1, 2007, 7.5% effective July 1, 2008, and 8.1% effective July 1, 2013. Pursuant to Public Act 08-2 of the June 11, 2008 Special Session, Section 1 eliminated the 0.5% increase from 7.0% to 7.5% in the Oil Companies Tax that was set to become effective July 1, 2008.

Sales and Use Tax

The Sales and Use Tax revenue represents a Pledged Revenue which began in fiscal year 2016. As further described below and herein, the Sales and Use Tax represents a portion of the State's general retail sales and use tax revenues. The State levies a statewide sales tax on the gross receipts of retailers from the sale of tangible personal property at retail, from the rental or leasing of tangible personal property, and on the gross receipts from the rendering of certain services. Additionally, the State levies a use tax on goods or services purchased for use in the State for which State of Connecticut sales tax was not paid. There are no local sales taxes in the State. The following table illustrates the ten-year history of the State's general retail sales tax revenue.

TABLE 6
Ten-Year History of General Retail Sales and Use Tax Revenue

| | Fiscal Year Ending June 30 | | | | | | | | | |
|--|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 ^(a) |
| General Retail Sales and Use Tax Revenue (millions \$) ^(b) | 3,152.8 | 3,043.8 | 3,185.6 | 3,682.3 | 3,756.7 | 3,895.5 | 4,005.3 | 4,117.4 | 4,161.2 | 4,303.2 |
| Revenue Per 0.1% of General Retail Sales and Use Tax Rate (millions \$)..... | 52.547 | 50.730 | 50.166 | 57.989 | 59.161 | 61.347 | 63.076 | 64.841 | 65.530 | 67.767 |
| Percentage Growth Rate (%)..... | (7.36) | (3.46) | (1.11) | 15.59 | 2.02 | 3.69 | 2.82 | 2.80 | 1.06 | 3.41 |
| General Retail Sales and Use Tax Rate (%) ^(c) | 6.00 | 6.00 | 6.35 | 6.35 | 6.35 | 6.35 | 6.35 | 6.35 | 6.35 | 6.35 |

(a) Per the Comptroller's report of September 28, 2018 for the period ending June 30, 2018, unaudited.

(b) Represents approximately 95% of amount collected as estimated by the Office of Policy and Management pursuant to C.G.S. Section 12-408(1)(A).

(c) Pursuant to C.G.S. Section 12-408(1)(A).

SOURCE: Office of Policy and Management

Pursuant to Sections 12-408 and 12-411 of the Connecticut General Statutes, the State imposes sales and use taxes on various transactions, subject to certain exceptions. Sections 12-408(1)(A) and 12-411(1)(A) of the Connecticut General Statutes impose a general retail sales and use tax on all retailers at the rate of 6.35% of the gross receipts from the sale of and use of tangible personal property sold at retail or from the rendering of certain services. The general retail sales and use tax represents approximately 95% of the total sales taxes collected by the State. Section 12-407(a)(2) of the Connecticut General Statutes defines what constitutes a "sale" or "use" for the Sales and Use Tax, which includes, among other things, the sale of tangible personal property; the production, fabrication, processing, printing, or imprinting of tangible personal property to special order or with materials furnished by the consumer; the furnishing, preparing or serving of food, meals, or drinks; the rendering of certain services; the leasing or rental of tangible personal property; the rendering of telecommunication services, community antenna television services and competitive video services; and the sale of certain naming rights.

The State receives revenues from the Sales and Use Tax on a monthly, quarterly or annual basis. Taxpayers file their tax returns and submit accompanying payments to the Department of Revenue Services. Pursuant to section 132 of Public Act 15-5 of the June Special Session, as amended by section 32 of Public Act 15-1 of the December Special Session, beginning in fiscal year 2016, a portion of the sales tax (which represents a portion of the State's general retail sales tax revenues) is being deposited by the Commissioner of Revenue Services on a monthly basis directly into the Special Transportation Fund.

The Sales and Use Tax on Motor Vehicles represents a Pledged Revenue stream which begins in fiscal year 2019 and was created pursuant to sections 637 and 638 of Public Act 17-2 of the June Special Session, as amended by sections 62 and 63 of Public Act 18-81. Under Section 12-408(1)(A) of the Connecticut General Statutes, the State imposes a sales tax of 6.35% on various transactions, including on the sale of motor vehicles. Section 12-408(1)(H) of the Connecticut General Statutes provides for a sales tax of 7.75% on certain motor vehicles with a sales price over \$50,000. Under Section 12-411(1)(A) of the Connecticut General Statutes, the State imposes a use tax of 6.35% on various transactions, including on the sale of motor vehicles for use in the State. Section 12-411(1)(H) of the Connecticut General Statutes provides for a use tax of 7.75% on certain motor vehicles with respect to the acceptance or receipt in the State of certain motor vehicles having a sales price over \$50,000. The projected revenues from the Sales and Use Tax on Motor Vehicles to be deposited into the Special Transportation Fund by fiscal year are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Five-Year Phase-In (%)^(a)</u> | <u>Sales and Use Tax on Motor Vehicles (\$ In Millions)^(b)</u> |
|---------------------------------------|---|---|
| 2019 | 8 | 29.0 |
| 2020 | 33 | 120.0 |
| 2021 | 56 | 204.8 |
| 2022 | 75 | 275.7 |
| 2023 | 100 | 368.2 |

(a) Pursuant to sections 62 and 63 of Public Act 18-81, the Sales and Use Tax on Motor Vehicles to be deposited into the Special Transportation Fund is being phased in over five (5) years as follows: 8% in fiscal year 2019, 33% in fiscal year 2020, 56% in fiscal year 2021, 75% in fiscal year 2022 and 100% in fiscal year 2023.

(b) In fiscal year 2017 the State collected \$453.9 million in Sales and Use Tax from Motor Vehicle and Parts Dealers (NAICS code 441). Using national data on auto dealership trends, it is estimated that approximately 80%, or about \$363.1 million, is the result of auto sales. The remaining Sales and Use Tax on Motor Vehicles is attributed to parts and repair services.

SOURCE: Office of Policy and Management

Motor Vehicle Receipts / LPF Revenue

Other sources of revenues include the Motor Vehicle Receipts and LPF Revenue. The ten-year history of collections of Motor Vehicle Receipts and LPF Revenue is shown in the following table.

TABLE 7
Ten-Year History of Motor Vehicle Receipts and LPF Revenue
(\$ In Millions)

| | Fiscal Year Ending June 30 | | | | | | | | | |
|---|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 ^(a) |
| Motor Vehicle Receipts | | | | | | | | | | |
| Motor Vehicle Registrations..... | 175.5 | 178.2 | 176.1 | 185.5 | 186.0 | 185.9 | 196.2 | 199.3 | 190.7 | 201.0 |
| Other ^(b) | <u>45.3</u> | <u>42.5</u> | <u>44.0</u> | <u>49.9</u> | <u>48.5</u> | <u>50.2</u> | <u>53.3</u> | <u>52.2</u> | <u>52.2</u> | <u>52.1</u> |
| Total Motor Vehicle Receipts..... | 220.8 | 220.7 | 220.1 | 235.4 | 234.5 | 236.1 | 249.5 | 251.5 | 242.9 | 253.1 |
| LPF Revenue^(c) | 142.4 | 135.0 | 135.5 | 136.0 | 137.3 | 138.4 | 145.4 | 143.9 | 144.0 | 141.9 |
| Total Motor Vehicle Receipts and LPF Revenue | 363.2 | 355.7 | 355.6 | 371.4 | 371.8 | 374.5 | 394.9 | 395.4 | 386.9 | 394.9 |

(a) Per the Comptroller's report of September 28, 2018 for the period ending June 30, 2018, unaudited.

(b) Amounts listed as "Other" Motor Vehicle Receipts represent collections for (i) motor vehicle safety marker fee licenses; (ii) other motor vehicle transactions; (iii) motor vehicle registration late fees; and (iv) motor vehicle operator licenses.

(c) LPF Revenue represents collections for (i) sale of commercial information; (ii) motor vehicle fines, penalties and surcharges; (iii) filing and reproduction fees; (iv) royalties; (v) motor carrier permits; (vi) operator license examination fees; (vii) vehicle inspection fees; (viii) gasoline handling charges; (ix) 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; (x) special vehicle permits; (xi) miscellaneous recoveries; (xii) miscellaneous rentals; (xiii) searches for and copies of motor vehicle records; (xiv) tolls on ferries; (xv) operator license information and licenses for drivers' education instructors; (xvi) sales of excess State property; (xvii) emission inspection late fee; (xviii) registration of weighing devices; and (xix) 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 levied under numerous statutory sections. The five largest sources of LPF Revenue are: motor vehicle related fines, penalties, or other charges; sale of commercial information; filing and reproduction fees; operator license examination fees; and vehicle inspection fees.

Beginning in fiscal year 1985, the Act began crediting to the Special Transportation Fund three other types of LPF Revenue: fees for documents and services provided under Section 14-192(a) of the Connecticut General Statutes; royalty payments for retail sales of gasoline pursuant to Section 13a-80 of the Connecticut General Statutes; and 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, pursuant to Sections 13b-61(7) through 13b-61(14) of the Connecticut General Statutes, transportation related revenue such as the sale of commercial information by the DMV and from other user fees and licenses previously deposited in the General Fund, has been credited to the Special Transportation Fund as LPF Revenue.

Motor Vehicle Receipts and LPF Revenue received throughout the year as collections are dependent upon transactions, such as car registrations and new license requests.

Sales Tax – DMV Payments

Section 13-61b of the Connecticut General Statutes requires 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.

Other Revenues

In addition to the above categories of transportation related revenues, interest earnings also are credited to the Special Transportation Fund. 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-Investment and Cash Management."

Due to budgetary changes at the federal level, the State is not expecting to receive further funding as operating assistance grants from the FTA, which were previously credited to the Special Transportation Fund. FTA operating assistance grants were included in Pledged Revenues upon receipt and were generally available for payment of debt service or program expenses. These grant funds were treated by the State as a reimbursement for mass transit operating expenses previously budgeted and generally paid from other available State cash. These funds which had previously been received as operating assistance grants, however, will likely continue to be received in the future, but as funds for capital improvements.

Pursuant to Public Act 09-3 of the June 2009 Special Session, all cash subsidy payments received or collected by the State as the issuer of Taxable Build America Bonds – Direct Pay are credited to the Special Transportation Fund and are then pledged to the payment of all Bonds subject to the lien of the Indentures.

Starting in fiscal year 2010, the General Assembly authorized an annual transfer from the resources of the General Fund to the resources of the Special Transportation Fund. Section 13b-61c of the Connecticut General Statutes authorized the transfer of \$71.2 million in fiscal year 2010, \$107.6 million in fiscal year 2011, \$81.6 million in fiscal year 2012 and \$95.3 million in fiscal year 2013 to the Special Transportation Fund. Sections 89 and 102 of Public Act 13-184 required that \$76.5 million be transferred from the resources of the Special Transportation Fund to the General Fund in fiscal year 2014. Public Act 14-47 eliminated the \$2.1 million transfer from the General Fund to the Special Transportation Fund in fiscal year 2015. Section 92 of Public Act 15-244 eliminated future transfers from the General Fund to the Special Transportation Fund.

Transportation Grants and Restricted Accounts Fund

Public Act 04-2 created the Transportation Grants and Restricted Accounts Fund to facilitate financial reporting under the State's then new financial management and human resources computer system called Core-CT. The Grants and Restricted Accounts Fund was created to isolate transportation related activities that are funded through restricted sources of receipts such as federal and private grants and intercepts from general revenue sources. Prior to the implementation of Core-CT these activities were accounted for and reported within the Special Transportation Fund. Because of the operational requirements of Core-CT, separating restricted receipts from other general revenue sources for transportation related activities facilitated financial reporting. The creation of the Transportation Grants and Restricted Accounts Fund was not intended to change the nature of Pledged Revenues within the Special Transportation Fund. It was created to better accommodate the administrative and operational requirements of Core-CT.

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 DMV. See "The Transportation Infrastructure Program" herein. The Special Transportation Fund appropriations included in the budget for the 2017-2018 and 2018-2019 fiscal years are set forth in Appendix B.

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.

Accounting Procedures for the Transportation Fund

Since the inception of the Infrastructure Program, the audited financial statements of the Special Transportation Fund have been prepared in accordance with generally accepted accounting principles ("GAAP"). The Special Transportation Fund utilizes the following basis of accounting for budgetary purposes: the Motor Fuels Tax, Oil Companies Tax and Sales and Use Tax are recorded as revenue under the modified accrual method of accounting; Motor Vehicle Receipts, LPF Revenue, Sales Tax - DMV Payments, Federal Build America Bonds Subsidies 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. Prior to fiscal year 2014, expenditures of the Special Transportation Fund were recorded when the obligation was paid and beginning in fiscal year 2014 the budget reported expenditures using GAAP based accrual methodologies.

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

| Actual & Projected Revenues | Fiscal Year Ending June 30 | | | | | | | | | |
|--|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2013^(a) | 2014^(a) | 2015^(a) | 2016^(a) | 2017^(a) | 2018^(b) | 2019^(c) | 2020^(c) | 2021^(c) | 2022^(c) |
| Motor Fuels Tax ^(d) | 501.3 | 508.0 | 516.6 | 518.2 | 498.5 | 499.8 | 499.9 | 500.4 | 497.9 | 495.5 |
| Oil Companies Tax ^(d) | 199.4 | 380.7 | 337.9 | 250.0 | 238.4 | 312.5 | 330.0 | 346.5 | 355.2 | 364.0 |
| Sales and Use Tax ^(d) | -- | -- | -- | 109.0 | 188.4 | 327.5 | 361.4 | 459.7 | 552.5 | 632.2 |
| Motor Vehicle Receipts ^(d) | 234.5 | 236.1 | 249.5 | 251.5 | 242.9 | 253.1 | 253.2 | 255.2 | 257.1 | 259.2 |
| LPF Revenue ^(d) | 137.3 | 138.4 | 145.4 | 143.9 | 144.0 | 141.9 | 140.0 | 140.6 | 141.1 | 141.7 |
| Sales Tax - DMV ^(d) | 79.0 | 82.2 | 83.9 | 87.2 | 85.0 | 85.9 | 86.8 | 87.6 | 88.5 | 89.4 |
| Federal Payments ^(d) | 12.4 | 12.1 | 12.1 | 12.2 | 12.2 | 12.2 | 12.1 | 12.1 | 11.8 | 11.0 |
| Interest Income ^(d) | 4.1 | 6.8 | 6.9 | 8.2 | 9.0 | 17.7 | 18.1 | 18.4 | 18.8 | 19.2 |
| Transfers from/(to) Other Funds ^(c) | 88.7 | (83.0) | 34.7 | (6.5) | (6.5) | (5.5) | (5.5) | (5.5) | (5.5) | (5.5) |
| Transfers to Transportation Strategy Board ^(f) | <u>(15.0)</u> | <u>(15.0)</u> | <u>(15.0)</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| Total Revenues | 1,241.7 | 1,266.3 | 1,372.0 | 1,373.6 | 1,411.7 | 1,645.0 | 1,696.0 | 1,815.0 | 1,917.4 | 2,006.7 |
| Refunds | <u>(9.2)</u> | <u>(10.6)</u> | <u>(11.1)</u> | <u>(20.8)</u> | <u>(17.3)</u> | <u>(14.9)</u> | <u>(18.7)</u> | <u>(19.5)</u> | <u>(20.3)</u> | <u>(20.7)</u> |
| Total Net Revenues | 1,232.5 | 1,255.7 | 1,360.9 | 1,352.8 | 1,394.4 | 1,630.1 | 1,677.3 | 1,795.5 | 1,897.1 | 1,986.0 |
| Actual & Projected Debt Service and Expenditures | | | | | | | | | | |
| Debt Service on the Bonds ^(g) | 431.7 | 449.6 | 459.9 | 493.3 | 542.6 | 575.0 | 645.7 | 690.6 | 764.9 | 830.8 |
| Debt Service on Transportation related General Obligation Bonds ^(h) | 6.2 | 0.3 | 0.1 | 0.6 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DOT Budgeted Expenses ⁽ⁱ⁾ | 545.7 | 555.7 | 593.5 | 603.5 | 592.8 | 639.9 | 683.5 | 714.2 | 754.5 | 796.4 |
| DMV Budgeted Expenses ⁽ⁱ⁾ | 53.2 | 57.1 | 64.0 | 65.4 | 62.6 | 59.7 | 65.4 | 68.3 | 71.4 | 74.5 |
| Other Budget Expenses ^(k) | 169.9 | 183.2 | 212.7 | 213.0 | 227.4 | 195.8 | 215.6 | 224.6 | 242.7 | 259.2 |
| Program Costs Paid from Current Operations | 7.0 | 5.4 | 19.7 | 14.1 | 13.6 | 11.5 | 13.6 | 14.2 | 14.9 | 15.6 |
| Estimated Unallocated Lapses ^(l) | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>(6.5)</u> | <u>(12.0)</u> | <u>(12.0)</u> | <u>(12.0)</u> |
| Total Expenditures | 1,213.7 | 1,251.3 | 1,349.9 | 1,390.0 | 1,439.6 | 1,482.0 | 1,617.3 | 1,699.9 | 1,836.4 | 1,964.5 |
| Excess (Deficiency) | 18.8 | 4.4 | 11.0 | (37.2) | (45.2) | 148.1 | 60.0 | 95.6 | 60.7 | 21.5 |
| Revised Cumulative Excess (Deficiency) | 164.6 | 169.0 | 180.0 | 142.8 | 97.6 | 245.7 | 305.7 | 401.3 | 462.0 | 483.5 |

* Figures may not add due to rounding

- (a) Actual per Comptroller's Annual Reports, presented to conform to budgetary categories. Certain fiscal year 2015 expenditures were adjusted to reflect the conversion to GAAP budgeting in fiscal year 2014. See footnotes (i), (j) and (k) below.
- (b) Per the Comptroller's report of September 28, 2018 for the period ending June 30, 2018, unaudited.
- (c) Pursuant to Public Act 18-81 for fiscal year ending 2019, as revised by the Office of Policy and Management. Revenue projections for fiscal years 2020-2022 are based upon the April 30, 2018 consensus revenue estimate revised to include legislative changes detailed in Table 2 and the Office of Policy and Management's estimated projections.
- (d) See "Discussion of Projected Pledged Revenues," footnotes to Table 3, and "Description of Revenue Sources of the Special Transportation Fund" herein.
- (e) Pursuant to C.G.S. Section 14-164m, \$6.5 million will be transferred annually from the Special Transportation Fund to the Emission Enterprise Fund. Section 671 of Public Act 17-2 of the June Special Session reduces the Emission Enterprise Fund transfer to \$5.5 million beginning October 1, 2017. Pursuant to C.G.S. 13b-61c, \$107.6 million shall be transferred from the General Fund to the Special Transportation Fund in fiscal year 2011, \$81.6 million in fiscal year 2012, and \$95.3 million in fiscal year 2013. Sections 89 and 102 of Public Act 13-184 require that \$76.5 million be transferred from the resources of the Special Transportation Fund to the General Fund in fiscal year 2014. In fiscal year 2015, pursuant to C.G.S. Section 13b-61a(c), a transfer of \$41.2 million was required from the General Fund to fully fund the statutorily required transfer amount for the Oil Companies Tax. No further transfers from the General Fund are provided for statutorily.
- (f) Public Act 05-4 instituted a transfer from the resources of the Special Transportation Fund to the State Transportation Strategy Board projects account of the Special Transportation Fund (the "TSB Projects Account") in the amount of \$15.3 million in each of fiscal years 2009-2015 and \$0.3 million thereafter. Public Act 11-6 reduced the transfer to the TSB Projects Account by \$0.3 million annually, thereby reducing the transfer to \$15.0 million in fiscal years 2012-2015 and eliminating it thereafter.
- (g) These figures represent Principal and Interest Requirements on special tax obligation bonds, and include the Bonds listed in the table under "Debt Service On Outstanding Bonds" excluding Principal and Interest Requirements on refunded Bonds. 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 interest costs for each of the following fiscal years: \$750 million at 5.25% for fiscal year 2020; \$1 billion at 5.50% for fiscal year 2021; and \$1.2 billion at 5.75% for fiscal year 2022. Such amounts for additional bonds, and the projected Debt Service on the Bonds, reflect adjustments made in projected expenditures funded by the Special Transportation Fund. See "The Department of Transportation - Implementation of and Funding for the Infrastructure Program" herein. Includes budgeted amounts for actual and estimated rebate liability on the Bonds under the Code, as well as ancillary banking and auditing fees. Assumes no issuance of Notes.
- (h) Represents payment of that portion of debt service on outstanding general obligation bonds which bear 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.

- (i) 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; and (iv) salaries, data processing and other general administrative costs. In fiscal year 2015, DOT expenses were adjusted by \$11.8 million to reflect the conversion to GAAP budgeting in fiscal year 2014. Certain contingent liabilities arising from defective highway lawsuits are not included in the projected amounts of annual budgeted expenses. See “Litigation.” The adopted fiscal year 2016 and fiscal year 2017 budgets include \$3.3 million and \$2.3 million, respectively, related to the Connecticut Airport Authority. See “Organization and Responsibilities-Former Bureau of Aviation/Connecticut Airport Authority” herein.
- (j) In fiscal year 2015, DMV expenses were adjusted by \$1.8 million to reflect the conversion to GAAP budgeting in fiscal year 2014.
- (k) Represents the cost of fringe benefits, pension costs and salary adjustments for the Department, the DMV and the Department of Energy and Environmental Protection. In fiscal year 2015, Other Budget Expenses were adjusted by \$6.6 million to reflect the conversion to GAAP budgeting in fiscal year 2014.
- (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 by a corresponding amount as agency lapses are identified within specific accounts.

SOURCE: Office of Policy and Management and Department of Transportation.

Debt Service Coverage

Under the Senior Indenture, the State has covenanted to provide Pledged Revenues in each fiscal year equal to at least two (2) times the aggregate Principal and Interest Requirements on Senior Bonds and Interest Requirements on Senior Notes in such fiscal year. So long as Second Lien Bonds are outstanding, the State also has covenanted in the Second Lien Indenture to provide Pledged Revenues in each fiscal year equal to at least two (2) times the aggregate Principal and Interest Requirements on all Bonds and Notes in such fiscal year. Principal and Interest Requirements on Second Lien Bonds are calculated according to the Second Lien Indenture. The following table indicates the actual and projected calculation of such coverage tests for all bonds outstanding as of the date of delivery of the 2018 Series B and C Bonds.

TABLE 9
Actual and Projected Debt Service Coverage
(\$ In Millions, Where Applicable)

| | Fiscal Year Ending June 30 | | | | | | | | | |
|---|----------------------------|-------------|-------------|------------|------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 ^(a) | 2019 ^(b) | 2020 ^(b) | 2021 ^(b) | 2022 ^(b) |
| Actual and Projected Pledged Revenues | | | | | | | | | | |
| Special Transportation Fund Net Revenues | \$1,232.5 | \$1,255.7 | \$1,360.9 | \$1,352.8 | \$1,394.4 | \$1,630.1 | \$1,677.3 | \$1,795.5 | \$1,897.1 | \$1,986.0 |
| TSB Project Account Pledged Revenues ^(c) | <u>15.0</u> | <u>15.0</u> | <u>15.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> | <u>0.0</u> |
| 1. Total Pledged Revenues..... | \$1,247.5 | \$1,270.7 | \$1,375.9 | \$1,352.8 | \$1,394.4 | \$1,630.1 | \$1,677.3 | \$1,795.5 | \$1,897.1 | \$1,986.0 |
| 2. Principal and Interest Requirements of the 2004B – 2018C Senior Bonds ^(d) | \$371.5 | \$366.2 | \$376.0 | \$400.0 | \$459.4 | \$502.7 | \$587.3 | \$597.9 | \$599.2 | \$596.6 |
| 3. Actual and Projected Debt Service Coverage for the 2004B – 2018C Senior Bonds ^(e) | 3.4x | 3.5x | 3.7x | 3.4x | 3.0x | 3.2x | 2.9x | 3.0x | 3.2x | 3.3x |
| 4. Projected Principal and Interest Requirements for Additional Senior Lien Bonds ^(f) | - | - | - | - | - | - | - | \$47.7 | \$126.5 | \$223.6 |
| 5. Actual and Projected Aggregate Debt Service Coverage for Outstanding and Projected Senior Lien Bonds ^(g) | 3.4x | 3.5x | 3.7x | 3.4x | 3.0x | 3.2x | 2.9x | 2.8x | 2.6x | 2.4x |
| 6. Principal and Interest Requirements on the Outstanding Second Lien Bonds ^(h) | \$59.3 | \$82.5 | \$83.0 | \$92.4 | \$82.6 | \$71.0 | \$54.3 | \$40.0 | \$34.2 | \$5.6 |
| 7. Actual and Projected Debt Service Coverage for all Outstanding Senior Bonds and Outstanding Second Lien Bonds ⁽ⁱ⁾ | 2.9x | 2.8x | 3.0x | 2.8x | 2.6x | 2.8x | 2.6x | 2.6x | 2.5x | 2.4x |

For a discussion of the assumptions and enacted tax, fee and charge adjustments underlying these projections, see “Discussion of Projected Pledged Revenues” herein.

- (a) Per the Comptroller’s report of September 28, 2018 for the period ending June 30, 2018, unaudited.
- (b) Pursuant to Public Act 18-81 for fiscal year ending 2019, as revised by the Office of Policy and Management. Revenue projections for fiscal years 2020-2022 are based upon the April 30, 2018 consensus revenue estimate revised to include legislative changes detailed in Table 2 and the Office of Policy and Management’s estimated projections.
- (c) TSB Projects Account revenues are utilized for non-budgeted expenditures, are part of the Special Transportation Fund and constitute Pledged Revenues for special tax obligation bonds.
- (d) 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.
- (e) Line 1 divided by Line 2.
- (f) Assumes issuance of Additional Bonds under the Senior Indenture authorized and to be authorized by Public and 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 fiscal years: \$750 million at 5.25% for fiscal year 2020; \$1 billion at 5.50% for fiscal year 2021; and \$1.2 billion at 5.75% for fiscal year 2022. Assumes no issuance of Notes. Such amounts for additional bonds, and Projected Principal and Interest Requirements for Additional Senior Lien Bonds, reflect adjustments made in projected expenditures funded by the Special Transportation Fund.

- (g) Line 1 divided by the sum of Lines 2 and 4.
- (h) Reflects actual Principal and Interest Requirements on the Second Lien Bonds.
- (i) Line 1 divided by the sum of Lines 2, 4 and 6.

SOURCE: Office of Policy and Management and Office of the State Treasurer

Legislative Changes

During the 2018 legislative session, the General Assembly passed Public Act 18-81 (the “Appropriations Act”), which made adjustments to the revenues credited to the Special Transportation Fund. Sections 62 and 63 of the Appropriations Act accelerated the transfer of Sales and Use Tax on Motor Vehicles payments by two years. This acceleration is projected to increase revenue in fiscal year 2019 by \$29.0 million, \$120.1 million in fiscal year 2020, \$137.9 million in fiscal year 2021, and \$130.1 million in fiscal year 2022. In addition, sections 62 and 63 of the Appropriations Act reduced the sales tax on marine vessels to 2.99%, which will result in a projected reduction in Sales and Use Tax on Motor Vehicles revenues of approximately \$200,000 annually. Sections 64 and 65 of the Appropriations Act created an exemption for certain dyed diesel fuel, which is projected to reduce Oil Companies Tax revenues by less than \$100,000 annually.

During the 2018 legislative session, the General Assembly passed Public Act 18-178 (the “Bond Act”), which provides authorization for general obligation bonds to be authorized by the State Bond Commission for issuance for transportation projects. Section 41 of the Bond Act provides that whenever any general statute or public or special act authorizes special tax obligation bonds or general obligation bonds to be issued for any purpose, such general statute or public or special act shall be deemed to have authorized such bonds to be issued as either special tax obligation bonds or general obligation bonds for transportation projects; and further provides that the State Bond Commission shall authorize \$250.0 million in general obligation bonds for transportation projects in each of the calendar years 2018 and 2019.

Section 44(a)(2) of the Bond Act established a limit on the issuance of special tax obligation bonds for transportation projects of \$750 million for fiscal year 2019 and \$750 million for fiscal year 2020.

Pursuant to Section 705 of Public Act 17-2 of the June Special Session (the “2017 Budget Act”), on and after July 1, 2019, the General Assembly is prohibited from authorizing Transportation Fund appropriations for any fiscal year that, in the aggregate, exceed a specified percentage (99.5% in fiscal year 2020, and declining by 0.25% in each subsequent fiscal year, to 98% in fiscal year 2026 and each fiscal year thereafter) of the estimated revenues included in such fiscal year’s budget act, subject to certain exceptions. The General Assembly may not alter the State’s obligation to comply with such cap on Transportation Fund aggregate appropriations prior to June 20, 2023.

THE DEPARTMENT OF TRANSPORTATION

The State Transportation System

The State’s transportation system includes approximately 21,508 miles of public roads (of which approximately 4,143 miles are maintained by the Department); 5,296 state and locally maintained roadway bridges; 306 state maintained railroad bridges; 629 route miles of railroad track; 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; New Haven Line rail commuter service between New Haven and New York City and related points, operated by MTA Metro-North Railroad which provides 304 weekday trains; Shore Line East rail service between New London and New Haven and on to Stamford, operated by Amtrak which provides 26 weekday trains; and approximately 1,176 publicly-owned buses and paratransit vehicles.

Organization and Responsibilities

The Department was established in 1969 and replaced the Connecticut Highway Department. The Department, as of August 27, 2018, had 2,862 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 is comprised of 78 employees who perform communications, internal audits, security, legal services, management and legislative services, consultant selection, equal opportunity and diversity, state traffic administration, strategic organizational planning, staff development, information systems management 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.

James P. Redeker was named Commissioner of the Connecticut Department of Transportation by Governor Dannel P. Malloy on August 25, 2011. He had served as Acting Commissioner since March 2011. Prior to being named Acting Commissioner, Mr. Redeker was Deputy Commissioner of the agency and also served as Chief of the Bureau of Public Transportation. Mr. Redeker joined the Department in 2009 after a 30-year career with the New Jersey Department of Transportation and NJ Transit—the third-largest transit agency in the country.

In September 2012, Anna M. Barry was named Deputy Commissioner of the Department. Prior to joining the Department, Ms. Barry had 35 years in the field of transportation, including having served as Senior Director of Vehicle Engineering and Quality Assurance for the Massachusetts Bay Transportation Authority in Boston. At the Department, she serves as Chief Operating Officer, with day-to-day responsibility for the operations of the Bureaus of Public Transportation, Highway Operations and Maintenance, and Engineering and Construction.

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

Bureau of Highway Operations

The Bureau of Highway Operations has 1,445 employees and is responsible for the safe operation and maintenance of the State's highway and bridge system, including snow and ice control, and equipment repair and maintenance.

Bureau of Engineering and Construction

The Bureau of Engineering and Construction has 853 employees and is responsible for the implementation of the capital program for all transportation modes. This Bureau is organized into two offices. The Office of Engineering includes all engineering and design functions, including property acquisition and management. The Office of Construction is responsible for oversight of all capital construction projects statewide and includes a materials testing division.

Bureau of Finance and Administration

The Bureau of Finance and Administration has 283 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, and external audit. This Bureau provides the administration and oversight of the Infrastructure Program.

Bureau of Policy and Planning

The Bureau of Policy and Planning has 98 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.

Bureau of Public Transportation

The Bureau of Public Transportation has 96 employees and is comprised of the Office of Rail, the Office of Transit and Ridesharing, the Office of Program Management, and the Office of System Safety. The Bureau is responsible for all public transportation services in the State of Connecticut, either directly through service provider contracts or in collaboration with the municipally-operated transit districts. Such services include the New Haven Line, the Hartford Line and Shore Line East services; CTtransit and CTfastrak bus services in eight urban areas; express bus services; urban and rural transit district bus services; Americans With Disabilities Act and dial-a-ride paratransit services; and Connecticut River ferry services. These services, along with the transit district services, provide over 84 million passenger trips per year with a total annual state subsidy of more than \$330 million. In addition, regulatory sub-units within the Bureau execute the Commissioner of

Transportation's regulatory responsibilities relating to the operations of 12 private rail carriers and over 875 companies providing taxi, livery and bus services in the State.

Former Bureau of Aviation/Connecticut Airport Authority

In 2011, the General Assembly passed legislation creating the Connecticut Airport Authority (the "CAA"). Public Act 11-84 established the CAA to develop, improve and operate Bradley International Airport and the State's five other General Aviation Airports (Danielson, Groton/New London, Hartford-Brainard, Waterbury-Oxford and Windham airports). Public Act 11-84 authorized the transfer of airport-related powers, duties and functions from the Department to the CAA, which transfer was effective as of July 1, 2013.

Implementation of and Funding for the Infrastructure Program

The Infrastructure Program began on July 1, 1984. In the first 28 years (fiscal years 1985-2012), \$24.8 billion has been utilized to fund the Infrastructure Program, consisting of the issuance of \$9.8 billion in Senior and Second Lien Bonds, \$645 million in State appropriations, \$14.3 billion in federal funds and \$118.5 million in other resources.

The following is a brief description of the components of the Infrastructure Program for fiscal years 2013-2022. The sources of funding for this period of the program are set forth in Table 10. 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 10 for fiscal years 2020-2022 are projections based upon the current federal Fixing America's Surface Transportation Act (FAST Act), enacted December 4, 2015. Moving Ahead for Progress in the 21st Century Act (MAP-21), enacted July 6, 2012, provided federal funding for surface transportation programs for federal fiscal years 2013 and 2014. Passage of numerous short-term extensions provided funding to continue specified federal-aid highway programs and other federal programs under MAP-21 until passage of the FAST Act.

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 \$938.3 million of which \$706.3 million is expected to be paid by federal funds and the remainder, or \$232 million, is expected to be paid by State funds.

Intrastate

The Intrastate Program provides for improvements to the State's primary and secondary roads. The costs of this program are estimated at \$1.86 billion. A portion of the program is eligible for federal funding, which is currently projected at \$1.41 billion. State funds are expected to pay for \$450 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 \$1.73 billion. The State's share of such costs is estimated to be \$430 million, with the balance of \$1.30 billion to be met from federal funds.

Local Bridges

The State Local Bridge Program assists municipalities throughout the State in undertaking the rehabilitation, restoration, removal, replacement and reconstruction of local bridges. To finance the local bridge program, the State has legislated a grants-in-aid program that provides an incentive to municipalities to complete repairs to their bridges. The grants-in-aid program provides grants equal to 50% of total project costs in accordance with Public Act 16-151 for projects receiving commitments to fund on or after July 1, 2016. The grants are prioritized based on the physical condition of the bridge.

Transit

The Transit Capital Program provides a detailed public transportation capital project listing. The plan forecasts and programs the capital needs associated with all bus and rail capital projects administered or approved by the Bureau of Public Transportation. The capital investments are programmed to ensure system safety, maintain the transportation infrastructure, and provide system improvements.

The bus portion of the capital program includes ongoing replacement of older buses on a regular schedule, construction of new or rehabilitation of existing bus maintenance and storage facilities, renovation and improvement of passenger facilities, including CTfastrak.

The rail portion of the Transit Capital Program provides for maintenance and upgrade of the Connecticut-owned New Haven line. The program costs reflect the cost sharing requirements in the agreement between New York and Connecticut which resulted from arbitration rulings. The rail program also includes investments in Shore Line East and Hartford Line. The total Transit Capital Program is estimated to cost \$3.9 billion of which \$1.7 billion is estimated to be supported by federal funds and \$2.2 billion is estimated to be funded from State bond proceeds.

Aviation

Through fiscal year 2017, the Aviation Program included the costs of capital improvements to the major airport facilities in the State excluding Bradley International Airport. Capital projects for the State's five General Aviation Airports in Windham, Oxford, Groton, Danielson, and Hartford, as well as improvements at municipal airports in New Haven, Meriden, Danbury, Bridgeport, and Plainville, totaled \$89.0 million, of which \$10.0 million was financed with State funds. Beginning in fiscal year 2018, the CAA is responsible for capital improvements at such airports.

Resurfacing

The Resurfacing Program consists of resurfacing and restoring the State highway system. The Department currently anticipates resurfacing approximately 250 two-lane miles of highway per year. Over the period, the cost of the program is estimated to be \$956.8 million, of which \$826.2 million is expected to be paid from bond proceeds, \$33.0 million from other Department budget appropriations, and \$97.6 million from federal funds.

Fix-It-First Bridge and Roadway Program

The State Fix-It-First Bridge and Roadway Program (the "Fix-It-First Program") includes the cost of rehabilitating and reconstructing the State's roads and bridges that are in need of immediate repair. The Fix-It-First Program was created to supplement the federal highways program, providing state funding that is in addition to the amount required as state match to federal funds. It is estimated that the cost of \$1.5 billion for this program will be funded from State bond proceeds, as no additional federal funds are available.

Local Transportation Capital Improvement Program (LOTICIP)

The State Local Transportation Capital Improvement Program will provide State moneys to urbanized area town governments in lieu of federal funds otherwise available through the federal transportation legislation. This program will provide funding for projects in the state and local system otherwise eligible for federal program funding ranging from roadway reconstruction, bridge repairs, intersection improvements, and signalization in an effort to streamline the flow of capital funding to local governments. The Department in turn will utilize the federal funds, and deal with federal procedures and restrictions. It is estimated to cost \$565.0 million for this program which will be funded from State bond proceeds.

Let's Go CT!

The "Let's Go CT!" initiative is a long-term strategic plan for the State's transportation infrastructure network and will provide funding for a multi-modal mix of projects across all regions in the State. Public Act 15-1 of the June Special Session implemented the first phase of funding this plan with bond authorizations as follows: \$274.8 million in fiscal year 2016, \$520.2 million in fiscal year 2017, \$551.7 million in fiscal year 2018, \$749.8 million in fiscal year 2019 and \$706 million in fiscal year 2020.

Other

The Infrastructure 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 Infrastructure Program also provides funding for STP/Urban Systems, Special Projects, DOT Facilities, Hazardous Waste and Waterways.

Other components of the Infrastructure Program are not financed by proceeds of special tax obligation bonds and include such expenses as bituminous patching, liquid resurfacing, minor bridge repairs, highway maintenance activities, safety activities, and other minor transportation improvements. 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 2013-2022 and includes projections of amounts to be appropriated as current expenses of the Special Transportation Fund for such purposes:

TABLE 10
Sources of Funding for the Infrastructure Program^(a)
(\$ In Millions)

| AUTHORIZATIONS | Fiscal Year Ending June 30 | | | | | | | | | | |
|---|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
| INTERSTATE | | | | | | | | | | | |
| BONDS | 15.0 | 113.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 13.0 | 232.0 |
| FEDERAL | 10.1 | 23.6 | 21.5 | 97.3 | 92.3 | 92.3 | 92.3 | 92.3 | 92.3 | 92.3 | 706.3 |
| INTRASTATE | | | | | | | | | | | |
| BONDS | 44.0 | 54.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 44.0 | 450.0 |
| FEDERAL | 106.0 | 122.6 | 94.7 | 127.3 | 160.0 | 160.0 | 160.0 | 160.0 | 106.0 | 160.0 | 1,410.6 |
| STATE BRIDGE | | | | | | | | | | | |
| BONDS | 123.0 | 33.0 | 33.0 | 33.0 | 43.0 | 33.0 | 33.0 | 33.0 | 33.0 | 33.0 | 430.0 |
| FEDERAL | 243.2 | 50.6 | 57.3 | 154.4 | 132.0 | 132.0 | 132.0 | 132.0 | 132.0 | 132.0 | 1,297.5 |
| LOCAL BRIDGE | | | | | | | | | | | |
| BONDS | 0.0 | 15.0 | 10.0 | 10.0 | 10.0 | 0.0 | 24.0 | 10.0 | 10.0 | 10.0 | 99.0 |
| TRANSIT | | | | | | | | | | | |
| BONDS | 167.0 | 143.0 | 185.5 | 205.3 | 268.1 | 236.3 | 246.0 | 236.0 | 240.0 | 265.0 | 2,192.2 |
| FEDERAL | 148.5 | 151.9 | 158.3 | 169.3 | 172.2 | 175.1 | 178.1 | 181.1 | 181.1 | 181.1 | 1,696.7 |
| AVIATION ^(b) | | | | | | | | | | | |
| BONDS | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 |
| FEDERAL | 9.4 | 33.0 | 12.8 | 11.9 | 11.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 79.0 |
| RESURFACING | | | | | | | | | | | |
| BONDS | 68.9 | 68.9 | 68.9 | 75.0 | 75.0 | 75.0 | 75.0 | 106.5 | 106.5 | 106.5 | 826.2 |
| APPROPRIATIONS - PAYGO | 3.0 | 3.5 | 3.5 | 1.7 | 0.7 | 1.0 | 1.0 | 6.2 | 6.2 | 6.2 | 33.0 |
| FEDERAL | 50.0 | 47.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 97.6 |
| FIX-IT-FIRST (BRIDGE & ROAD) | | | | | | | | | | | |
| BONDS | 121.7 | 115.7 | 115.4 | 125.0 | 125.0 | 166.1 | 154.8 | 185.0 | 185.0 | 185.0 | 1,478.7 |
| SAFETY - PAYGO | | | | | | | | | | | |
| APPROPRIATIONS | 1.2 | 1.2 | 1.2 | 1.2 | 0.8 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 7.6 |
| FEDERAL | 10.8 | 2.9 | 2.9 | 3.4 | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 21.9 |
| STP/URBAN SYSTEMS | | | | | | | | | | | |
| BONDS | 8.5 | 8.5 | 8.5 | 10.1 | 12.1 | 14.8 | 16.2 | 17.0 | 17.0 | 17.0 | 129.7 |
| FEDERAL | 20.4 | 39.2 | 39.2 | 50.9 | 55.4 | 70.6 | 73.3 | 76.4 | 76.4 | 76.4 | 578.2 |
| OTHER ^(c) | 1.8 | 3.0 | 2.1 | 2.8 | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.1 |
| PAYGO: OTHER ROAD & BRIDGE | | | | | | | | | | | |
| APPROPRIATIONS | 18.5 | 15.0 | 15.0 | 11.2 | 13.1 | 12.2 | 12.2 | 26.4 | 26.4 | 26.4 | 176.4 |
| FEDERAL | 26.0 | 23.8 | 24.0 | 17.0 | 21.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 | 236.8 |
| LOCAL TRANS CAPITAL IMPR PROG (LOTICIP) | | | | | | | | | | | |
| BONDS | 0.0 | 45.0 | 45.0 | 74.0 | 74.0 | 62.0 | 64.0 | 67.0 | 67.0 | 67.0 | 565.0 |
| LET'S GO CT! | | | | | | | | | | | |
| BONDS | 0.0 | 0.0 | 0.0 | 274.8 | 520.2 | 129.0 | 275.0 | 475.0 | 525.0 | 603.0 | 2,802.0 |
| SPECIAL PROJECTS | | | | | | | | | | | |
| BONDS | 30.0 | 60.4 | 15.4 | 20.4 | 10.8 | 40.4 | 40.4 | 46.0 | 46.0 | 46.0 | 355.8 |
| OTHER: DOT FACILITY + HAZ WASTE & WATERWAYS | | | | | | | | | | | |
| BONDS | 33.9 | 23.7 | 36.7 | 43.6 | 46.7 | 80.8 | 59.2 | 19.3 | 38.2 | 100.2 | 482.3 |
| TOTALS | | | | | | | | | | | |
| BONDS | 614.0 | 682.2 | 577.4 | 930.2 | 1,243.9 | 894.4 | 1,044.6 | 1,251.8 | 1,324.7 | 1,489.7 | 10,052.9 |
| APPROPRIATIONS | 22.7 | 19.7 | 19.7 | 14.1 | 14.6 | 13.6 | 13.6 | 33.0 | 33.0 | 33.0 | 217.0 |
| FEDERAL | 624.4 | 495.2 | 410.7 | 631.5 | 646.7 | 655.0 | 660.7 | 666.8 | 666.8 | 666.8 | 6,124.6 |
| OTHER | 1.8 | 3.0 | 2.1 | 2.8 | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.1 |
| TOTAL | 1,262.9 | 1,200.1 | 1,009.9 | 1,578.6 | 1,906.6 | 1,563.0 | 1,718.9 | 1,951.6 | 2,024.5 | 2,189.5 | 16,405.6 |
| ISSUANCE & RESERVE | 21.3 | 24.7 | 26.0 | 26.0 | 40.0 | 55.0 | 55.0 | 60.0 | 65.0 | 70.0 | |

(a) Through fiscal year 2017, all line items captioned "Bonds" refer to legislative bond authorizations, not bond issuances. For fiscal years 2018-2022, the amounts represent the portion of authorizations that are anticipated to be utilized. The Fixing America's Surface Transportation Act (FAST Act), enacted December 4, 2015, authorizes federal highway, safety, transit and rail programs for five years from federal fiscal years 2016 through 2020. See "Implementation of and Funding for the Infrastructure Program" herein. For a summary of the enacted tax, fee and charge adjustments underlying these projections, see Table 2 and Table 3.

(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 2022.

TABLE 11
Program Project Commitments and Actual and Projected Annual Bond Issuances
(\$ In Millions)

| | <u>Fiscal Year Ending June 30</u> | | | | | | | | | | | |
|---|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------|-------------|-------------|--------------|
| | <u>1985 - 2012^(a)</u> | <u>2013^(a)</u> | <u>2014^(a)</u> | <u>2015^(a)</u> | <u>2016^(a)</u> | <u>2017^(a)</u> | <u>2018^(a)</u> | <u>2019^(a)</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>Total</u> |
| Program Project Commitments | 9,754.9 | 614.0 | 682.2 | 577.4 | 930.2 | 1,243.9 | 894.4 | 1,044.6 | 1,251.8 | 1,324.7 | 1,489.7 | 19,807.7 |
| Issuance and Reserve Authority | 776.9 | 21.3 | 24.7 | 26.0 | 26.0 | 40.0 | 55.0 | 55.0 | 60.0 | 65.0 | 70.0 | 1,219.9 |
| Actual and Projected Annual Issuances ^{(b)(c)} | 7,517.9 | 502.3 | 600.0 | 600.0 | 700.0 | 800.0 | 800.0 | 750.0 | 750.0 | 1,000.0 | 1,200.0 | 15,220.2 |

(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 2022, additional special tax obligation bonds in an amount estimated at \$5.8 billion (which is equal to the Total Program Project Commitments of \$19.8 billion plus the Total Issuance and Reserve Authority of \$1.2 billion minus the Total Actual and Projected Annual Issuances of \$15.2 billion) are expected to be issued to pay the balance of the cost of program commitments and fund reserves, if necessary.

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 is 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 capital program-related financial control mechanisms utilized by the Department are the implementation of a budget constrained capital plan, monthly project status review meetings to document project budget and scheduling changes, and project cost controls within the State's integrated financial system (Core-CT) to monitor and limit encumbrances and expenditures against available funds.

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

State Funds

Following the allocation of the State's bond funds by the State Bond Commission and approval by the Governor of allotment thereof, individual project budgets are established in CORE-CT. Purchase orders are then prepared by the operational units of the Department for commitments to outside vendors and automatically checked against available project budgets by CORE-CT.

If a project, or a portion of a project, is to be accomplished with Department staff, the staff is required to record the time spent on each project and to fill out requisitions for materials and equipment used on such project. Central controls are in place and are designed to ensure that payments, other than payroll, 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. 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 ensure proper progress of the project, Department liaisons make site checks. The Department's Office of Finance must approve all outside invoices and verify billed amounts against negotiated or awarded limits to ensure that payments are accurate and appropriate. The Comptroller, after review and upon a warrant to the Treasurer, then disburses the appropriate funds.

Federal Funds

The Department expects to receive approximately \$17.8 billion in federal funds with respect to the Infrastructure Program projects that have been approved by the State Bond Commission. An additional \$628 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"). Based upon the annual apportionment of federal highway funds, the Department submits project grant agreements to FHWA for authorization. The Department may update estimated project budgets during the life of the project, but requested changes must be approved by FHWA. After FHWA approval of an individual project agreement or modification is granted, a federal-aid receivable account is established by the Comptroller. Once the State and federal funds are approved, the project is moved to Open status in CORE-CT. This status enables the expenditures of funds up to the approved project budget amounts. 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 at least every two weeks through the State's integrated CORE-CT financial system. 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 ("FTA") and project capital grants for the improvement of the track and infrastructure from New Haven to Springfield from the Federal Railroad Administration ("FRA"). As with FHWA grants, all capital FTA and FRA requests for reimbursement are also processed through CORE-CT.

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 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.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits relating to the operations of the Department. The Attorney General's office has reviewed the status of pending lawsuits in which a financial judgment adverse to the State would be payable from the Special Transportation Fund. Any amounts payable from the Fund to meet such financial judgments are subject to the prior lien of the Bondholders granted under the Act and the 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 payable from the Special Transportation Fund is expected to be less than \$10 million.

Eminent Domain Lawsuits

There are 26 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 of Transportation 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 27 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

The Attorney General's Office is not aware of any pending lawsuits where the fiscal impact of an adverse judgment payable from the Special Transportation Fund is expected to be more than \$10 million.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Continuing Disclosure Agreement

The State will enter into a Continuing Disclosure Agreement with respect to the 2018 Series B and C Bonds, substantially in the form attached as Appendix G to this Official Statement (the "Continuing Disclosure Agreement"), to provide or cause to be provided, in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12 (the "Rule"), (i) certain annual financial information and operating data, (ii) in a timely manner, not in excess of ten business days after the occurrence of the event, notice of the occurrence of certain events with respect to the 2018 Series B and C Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information and operating data on or before the date specified in the Continuing Disclosure Agreement. The Underwriters' obligation to purchase the 2018 Series B and C Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2018 Series B and C Bonds, an executed copy of the Continuing Disclosure Agreement.

Under the Rule, the State must undertake to provide the required annual financial information and operating data commencing with its fiscal year ending June 30, 2018.

To its knowledge, in the last five years the State has not failed to comply in any material respect with its undertakings pursuant to a continuing disclosure agreement executed by the State. The State has determined it did not file an event notice for (i) a rating upgrade of its Bradley International Airport Special Obligation Parking Revenue Bonds, Series 2000A in May, 2016 and (ii) a rating downgrade of its Certificates of Participation (Connecticut Juvenile Training School Energy Center Project) in April, 2018. The State promptly filed such notices after discovering each omission. In making this disclosure, the State has not concluded and does not admit that these omissions are a material failure to comply with its continuing disclosure obligations. The State has modified its disclosure practices to prevent such failures in the future.

Certain prior annual reports of the State and other required reports are available from the Electronic Municipal Market Access website ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB"), or such other website as may be designated from time to time by the MSRB or the Securities and Exchange Commission. Filings through EMMA are linked to particular obligations by a 9-digit CUSIP number, based on base (6-digit) CUSIP numbers, which are subject to being changed after the issuance of obligations as a result of various actions. The State has entered into continuing disclosure agreements requiring filings to be made with respect to thousands of CUSIP numbers. Most filings by the State through EMMA, such as annual reports, are made using the base 6-digit CUSIP numbers. Although the State endeavors through this process to link each report filed through EMMA to the correct CUSIP number (including those assigned without its knowledge), there can be no guarantee of complete accuracy in this process, given the large number of 9-digit CUSIP numbers assigned to the State's obligations. The State does not believe an inaccuracy resulting from such CUSIP process is a material failure to comply with its continuing disclosure obligations.

Absence of Litigation

Upon delivery of the 2018 Series B and C Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the 2018 Series B and C Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened seeking to prohibit, restrain or enjoin the issuance, sale, execution or delivery of the 2018 Series B and C Bonds, or the levy or collection of the Pledged Revenues or other receipts, funds or moneys pledged for the security of the 2018 Series B and C Bonds under the Act, the Special Acts and the Indentures, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2018 Series B and C Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the 2018 Series B and C Bonds. In

addition, such certificate shall state that there is no controversy or litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could materially adversely affect the power of the State to levy, collect and enforce the collection of the Pledged Revenues and other receipts, funds or moneys pledged for the security of the 2018 Series B and C Bonds under the Act, the Special Acts and the Indentures which has not been disclosed in this Official Statement.

Certain Legal Matters

Legal matters related to the authorization, issuance and delivery of the 2018 Series B and C Bonds are subject to the approval of Updike, Kelly & Spellacy, P.C., Hartford, Connecticut, Bond Counsel and Lewis & Munday, A Professional Corporation, Detroit, Michigan, with offices in Glastonbury, Connecticut, Co-Bond Counsel. The opinions of Bond Counsel and Co-Bond Counsel will be attached to the 2018 Series B and C Bonds in substantially the form included in this Official Statement as Appendix F. Certain legal matters will be passed upon for the Underwriters by their counsel, Pullman & Comley, LLC, Hartford, Connecticut.

Certificate of State Officials

The purchasers of the 2018 Series B and C Bonds shall receive a certificate, dated the date of delivery of the 2018 Series B and C Bonds, of the State Treasurer, the Secretary of the Office of Policy and Management and the Commissioner of the Department of Transportation, or their duly authorized deputies, stating that the Official Statement, as of its date, and as of the date of the certificate, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that there has been no material adverse change (not in the ordinary course of the operations of the State) in the financial condition of the State from that set forth in or contemplated by the Official Statement.

LEGALITY FOR INVESTMENT

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

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to delivery of the 2018 Series B and C Bonds in order that interest on the 2018 Series B and C Bonds be excludable from gross income of the owners thereof for Federal income tax purposes. Failure to comply with such continuing requirements may cause interest on the 2018 Series B and C Bonds to be includable in gross income for Federal income tax purposes retroactively to the date of their issuance irrespective of the date on which noncompliance occurs. The Tax Regulatory Agreement of the State which will be delivered concurrently with the delivery of the 2018 Series B and C Bonds will contain representations, covenants and procedures relating to compliance with such requirements of the Code. Pursuant to Section 13b-76 of the Connecticut General Statutes, the State agrees and covenants that it shall at all times perform all acts and things necessary or appropriate under any valid provision of law in order to ensure that interest on the 2018 Series B and C Bonds shall be excludable from the gross income of the owners thereof for Federal income tax purposes under the Code.

In the opinion of Bond Counsel and Co-Bond Counsel, under existing law, interest on the 2018 Series B and C Bonds is excludable from gross income of the owners thereof for Federal income tax purposes and is not treated as a preference item in calculating the Federal alternative minimum tax that may be imposed on individuals and corporations; however, with respect to certain corporations (as defined for Federal income tax purposes) for a tax year that began before January 1, 2018, interest on the 2018 Series B and C Bonds is included in such corporation's adjusted current earnings for purposes of computing the Federal alternative minimum tax that was in effect prior to January 1, 2018. Pursuant to the federal legislation, Public Law No. 115-97 enacted on December 22, 2017, the alternative minimum tax on corporations has been repealed for corporations for taxable years beginning on or after January 1, 2018.

In rendering the foregoing opinions, Bond Counsel and Co-Bond Counsel have assumed compliance by the State with the Tax Regulatory Agreement for the 2018 Series B and C Bonds. For other Federal tax information with respect to the 2018 Series B and C Bonds, see "Original Issue Discount," "Original Issue Premium" and "Certain Additional Tax Information" below under this "Tax Exemption" section.

Further, in the opinion of Bond Counsel and Co-Bond Counsel, under existing statutes, interest on the 2018 Series B and C Bonds is excludable from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excludable 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 2018 Series B and C Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the 2018 Series B and C Bonds and the disposition of the 2018 Series B and C 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 2018 Series B and C Bonds, in gross income for purposes of the Corporation Business Tax.

Original Issue Discount

With respect to any of the 2018 Series B and C Bonds where the initial public offering price of such 2018 Series B and C Bonds is less than the amount payable on those 2018 Series B and C Bonds at maturity (the "Discount Bonds"), the difference between the initial public offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Discount Bonds of any maturity are sold and the amount payable on such Discount Bonds at maturity constitutes original issue discount. Accrued original issue discount is excludable from gross income for Federal income tax purposes if interest on the Discount Bonds is excluded therefrom. Accrued original issue discount on a Discount Bond is also excludable from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excludable from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any bond during each day it is owned is added to the adjusted basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bonds by such owner. Original issue discount on any bond is treated as accruing on the basis of economic accrual, computed by a constant semiannual compounding method using the yield to maturity on such bond, and the adjusted basis of such Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. Owners of the Discount Bonds are advised to consult with their tax advisors with respect to the Federal, state and local tax consequences of owning the Discount Bonds.

Original Issue Premium

With respect to any of the 2018 Series B and C Bonds where the initial public offering price of such 2018 Series B and C Bonds is greater than the amount payable on those 2018 Series B and C Bonds at maturity (the "Premium Bonds"), the excess of the price paid by the first owner of a Premium Bond over the principal amount payable at the maturity or the earlier call date, if any, of such Premium Bond constitutes original issue premium. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer's yield to maturity using the taxpayer's adjusted basis and a constant semiannual compounding method. The portion of such premium amortizing over the period the Premium Bond is held by the owner does not reduce taxable income for purposes of either the Federal income tax or the Connecticut income tax on individuals, trusts and estates and does not reduce amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax, but it does reduce the owner's adjusted basis in the Premium Bond for purposes of determining gain or loss on its disposition. Owners of Premium Bonds are advised to consult with their tax advisors with respect to the Federal, state and local tax consequences of owning the Premium Bonds.

Certain Additional Tax Information

The following is a brief discussion of certain Federal income tax matters under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular Beneficial Owners. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2018 Series B and C Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Ownership of the 2018 Series B and C 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. Prospective purchasers of the 2018 Series B and C Bonds should consult their tax advisors regarding the applicability of such consequences.

Federal, state or local legislation, administrative pronouncements or court decisions may affect the tax-exempt status of interest on the 2018 Series B and C Bonds, gain from the sale or other disposition of the 2018 Series B and C Bonds, the market value of the 2018 Series B and C Bonds, or the marketability of the 2018 Series B and C Bonds, or otherwise prevent the owners of the 2018 Series B and C Bonds from realizing the full current benefit of the exclusion from gross income of the interest thereon. From time to time there are legislative proposals pending in the Congress of the United States that, if enacted, could alter or amend the Federal tax matters referred to herein, or adversely affect the market price for, or marketability of, the 2018 Series B and C Bonds. No assurance can be given with respect to the impact of future legislation on the 2018 Series B and C Bonds. Prospective purchasers of the 2018 Series B and C Bonds should consult their own tax and financial advisors regarding such matters. Bond Counsel and Co-Bond Counsel will express no opinion regarding any pending or proposed Federal tax legislation.

The opinions of Bond Counsel and Co-Bond Counsel are rendered as of their date and Bond Counsel and Co-Bond Counsel assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may come to their attention or any changes in law or the interpretation thereof that may occur after the date of their opinions. Bond Counsel and Co-Bond Counsel have not undertaken to advise in the future whether any events after the date of issuance of the 2018 Series B and C Bonds may affect the tax status of interest on the 2018 Series B and C Bonds. No assurance can be given that future legislation, or proposed 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 2018 Series B and C 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 and Co-Bond Counsel express no opinion regarding any state or Federal tax consequences of ownership or disposition of the 2018 Series B and C Bonds not specifically stated herein.

The discussion above does not purport to address all aspects of Federal, state or local taxation that may be relevant to a particular owner of a 2018 Series B and C Bond. Prospective owners of the 2018 Series B and C Bonds, particularly those who may be subject to special rules, are advised to consult their tax advisors regarding the Federal, state and local tax consequences of owning and disposing of the 2018 Series B and C Bonds.

RATINGS

S&P Global Ratings (“S&P”), Kroll Bond Rating Agency (“Kroll”) and Fitch Ratings (“Fitch”) have assigned their municipal bond ratings of “AA,” “AA+” and “A+,” respectively, to the 2018 Series B and C Bonds. Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of such rating should be obtained from such rating agency, at the following addresses: S&P Global Ratings, 55 Water Street, New York, New York 10041; Kroll Bond Rating Agency, 845 3rd Avenue, New York, NY 10022; and 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 2018 Series B and C 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 2018 Series B and C Bonds. On October 10, 2018, S&P Global Ratings released (i) an updated “Advance Notice Of Proposed Criteria Change: Priority-Lien Tax Revenue Debt” in which it announced that it intends to publish on October 22, 2018 its revised criteria for assigning ratings and related credit products to priority-lien tax revenue debt issued by municipal governments, state governments, or other U.S. public finance obligors where the pledged revenue stream is limited and (ii) “Updated Advance Notice Of Proposed Criteria Change For Priority-Lien Tax Revenue Debt Published” in which it provides “[i]n accordance with our stated policies, we will review ratings under the new criteria within a reasonable period, but no later than 18 months from the effective date of the new criteria.”

FINANCIAL ADVISORS

The State has appointed Public Resources Advisory Group and Public Financial Management, Inc. to serve as co-financial advisors to assist it in the issuance of the 2018 Series B and C Bonds.

UNDERWRITING

The Underwriters have agreed to purchase the 2018 Series B and C Bonds at a purchase price of \$929,930,402.40 which is the sum of the purchase price of the 2018 Series B and C Bonds (representing the principal amount of the 2018 Series B and C Bonds plus original issue premium of \$83,570,735.05 and less the underwriters' discount of \$3,745,332.65). The 2018 Series B and C Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the 2018 Series B and C Bonds into investment trusts) at prices lower than such initial public offering prices, and such initial public offering prices may be changed, from time to time, by the Underwriters.

MISCELLANEOUS

The State has furnished the information in this Official Statement.

Information with respect to the Infrastructure Program may be obtained from James P. Redeker, Commissioner of the Department of Transportation of the State of Connecticut, located at 2800 Berlin Turnpike, Newington, Connecticut 06111, (860) 594-2802. Copies of the Indentures and information with respect to the Bonds may be obtained upon request from the Office of the State Treasurer, Attention: Christopher P. Martin, Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3288.

This Official Statement is submitted in connection with the sale of the 2018 Series B and C Bonds and may not be reproduced or used as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the State and duly executed and delivered on its behalf by the officials signing below. The State's independent auditors have agreed by letter to the State dated as of the date hereof that the Independent Auditors' report, which is Appendix C to this Official Statement, may be included in this Official Statement.

Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the State are fully set forth in the Indentures in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the State and the purchasers or owners of any of the 2018 Series B and C Bonds.

STATE OF CONNECTICUT

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

By: /s/ Benjamin Barnes
Hon. Benjamin Barnes
Secretary of the
Office of Policy and Management

By: /s/ James P. Redeker
Hon. James P. Redeker
Commissioner of the
Department of Transportation

Dated at Hartford, Connecticut
This 17th day of October, 2018

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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 February 15, 2018 and have not been updated except in limited respects, as of August 16, 2018 and September 28, 2018.

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.

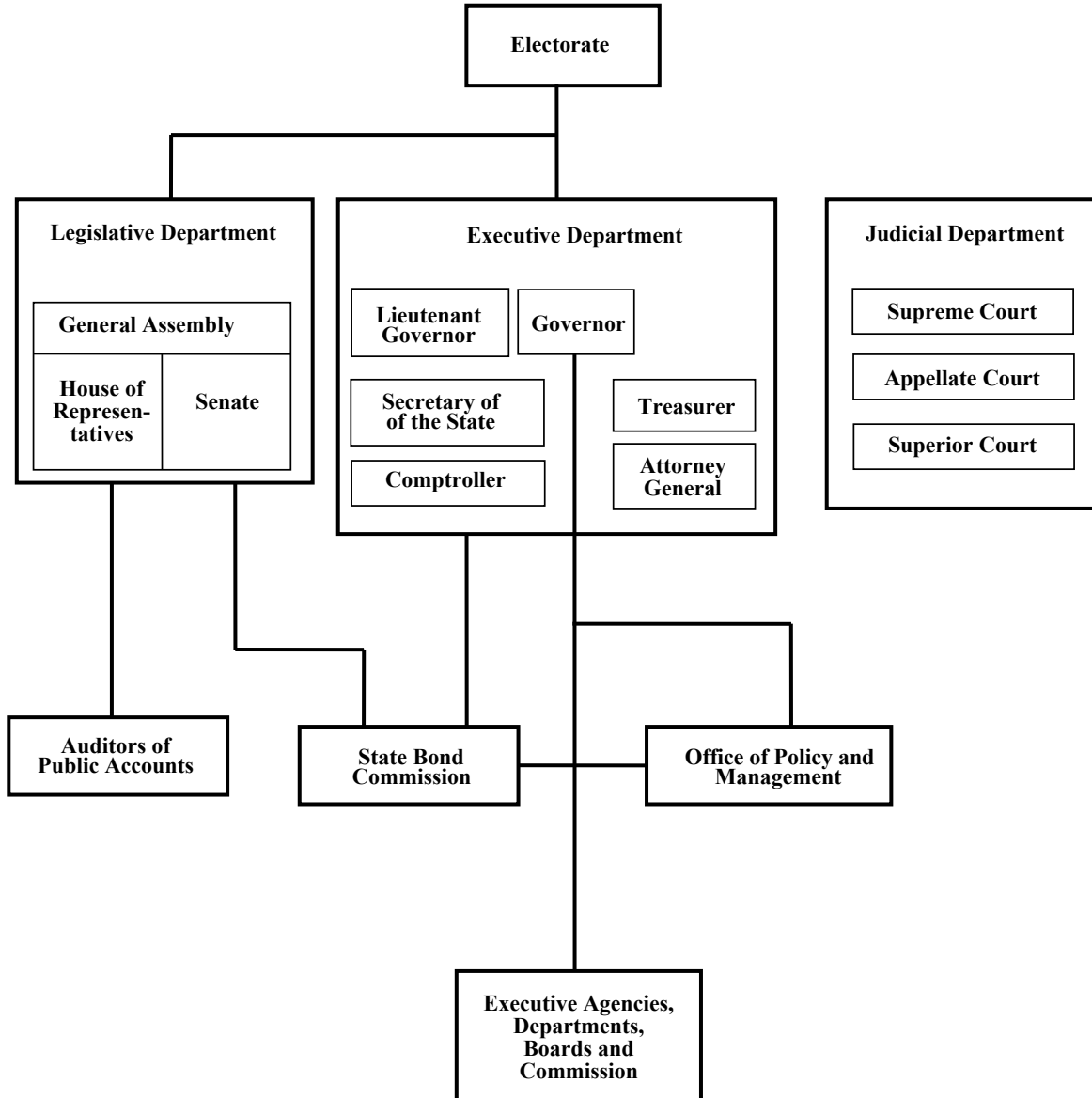
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute 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 2016, and the new members took office in January 2017.

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 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 2014 for terms beginning in January 2015. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

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

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

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. By statute, there are 201 authorized Superior Court judges, with approximately 145 sitting judges as of January 1, 2018, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

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 54 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>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|---------------|---------------|---------------|---------------|---------------|
| Legislative | 660 | 706 | 721 | 693 | 557 |
| General Government..... | 3,064 | 3,072 | 3,092 | 2,995 | 2,849 |
| Regulation and Protection..... | 4,188 | 4,349 | 4,345 | 4,201 | 4,075 |
| Conservation and Development.... | 1,367 | 1,381 | 1,397 | 1,365 | 1,491 |
| Health and Hospitals..... | 7,082 | 6,979 | 6,977 | 6,807 | 5,906 |
| Transportation..... | 3,759 | 3,885 | 4,008 | 4,258 | 4,638 |
| Human Services..... | 1,817 | 1,824 | 1,915 | 1,834 | 1,677 |
| Education | 16,129 | 16,689 | 17,272 | 17,311 | 17,232 |
| Corrections | 8,446 | 8,813 | 8,826 | 8,695 | 8,248 |
| Judicial..... | <u>4,479</u> | <u>4,555</u> | <u>4,543</u> | <u>4,490</u> | <u>4,068</u> |
| Total | <u>50,991</u> | <u>52,253</u> | <u>53,096</u> | <u>52,649</u> | <u>50,741</u> |

(a) Table shows count of employees by fund category and function of government paid in April of each year. Employees working in multiple government functions or paid through multiple fund sources are counted multiple times.
 (b) A breakdown of the budgeted 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 April 2017^{(a)(b)}
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>TOTALS</u> |
|------------------------------|---------------------|------------------------------------|---------------------------------|---|----------------------|---------------|
| Legislative | 557 | | | | | 557 |
| General Government | 2,601 | | 20 | 98 | 130 | 2,849 |
| Regulation and Protection | 2,122 | 677 | 408 | 610 | 258 | 4,075 |
| Conservation and Development | 779 | 31 | 125 | 61 | 495 | 1,491 |
| Health and Hospitals | 5,541 | | 6 | | 359 | 5,906 |
| Transportation | | 3,043 | | 637 | 958 | 4,638 |
| Human Services | 1,622 | | | | 55 | 1,677 |
| Education | 5,523 | | 6 | 11,226 | 477 | 17,232 |
| Corrections | 8,151 | | | 79 | 18 | 8,248 |
| Judicial | <u>4,008</u> | | <u>21</u> | | <u>39</u> | <u>4,068</u> |
| Total | 30,904 | 3,751 | 586 | 12,711 | 2,789 | 50,741 |

(a) Table shows a count of employees by fund categories. Employees working in multiple government functions or paid through multiple fund sources are counted multiple times.

(b) Reflects funding source based on Core-CT chart of accounts coding.

SOURCE: Office of Policy and Management

Collective Bargaining Units and Process. The General Statutes guarantee 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 42 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.

If an agreement is rejected, the matter shall be returned to the parties who shall initiate arbitration. The parties may submit any award issued pursuant to such arbitration to the General Assembly in the same manner as the rejected agreement. If the arbitration award is rejected by the General Assembly, the matter shall be returned again to the parties for further arbitration. Any award issued pursuant to such further arbitration shall be deemed approved by the General Assembly.

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 in the following table:

TABLE A-4
Full-Time Work Force
Collective Bargaining Units and
Those Not Covered by Collective Bargaining

| <u>Bargaining Unit/Status Group</u> | <u>Percentage of State Employees Represented^(a)</u> | <u>Contract Status, if any^(b)</u> |
|---|--|--|
| <u>Covered by Collective Bargaining</u> | | |
| Administrative and Residual (P-5) | 5.52% | Contract in place through 6/30/2021 |
| Administrative Clerical (NP-3) | 6.03 | Contract in place through 6/30/2021 |
| American Federation of School Administrators | 0.10 | Contract in place through 6/30/2021 |
| Assistant Attorneys General | 0.36 | Contract in negotiation |
| Board for State Academic Awards | 0.13 | Contract in place through 6/30/2021 |
| Community College Administration - AFSCME | 0.17 | Contract in place through 6/30/2021 |
| Community College Administration – CCCC | 1.44 | Contract in place through 6/30/2021 |
| Community College AFT – Counselors/Librarians | 0.03 | Contract in place through 6/30/2021 |
| Community College Faculty – AFT | 0.35 | Contract in place through 6/30/2021 |
| Community College Faculty – CCCC | 1.30 | Contract in place through 6/30/2021 |
| Connecticut Association of Prosecutors | 0.47 | Contract in place through 6/30/2021 |
| Correctional Officers (NP-4) | 8.78 | Contract in place through 6/30/2021 |
| Correctional Supervisor (NP-8) | 0.97 | Contract in place through 6/30/2021 |
| Criminal Justice Inspectors | 0.12 | Contract in place through 6/30/2021 |
| Criminal Justice Residual | 0.23 | Contract in place through 6/30/2021 |
| DPDS Public Defenders | 0.31 | Contract in place through 6/30/2021 |
| DPDS Supervising Attorney - AFSCME | 0.05 | Contract in place through 6/30/2021 |
| Education Administrative (P-3A) | 0.43 | Contract in place through 6/30/2021 |
| Education Technical (P-3B) | 0.99 | Contract in place through 6/30/2021 |
| Engineering, Scientific and Technical (P-4) | 4.86 | Contract in place through 6/30/2021 |
| Health Care Unit-Non-Professional (NP-6) | 5.34 | Contract in place through 6/30/2021 |
| Health Care Unit-Professional (P-1) | 5.83 | Contract in place through 6/30/2021 |
| Higher Education – Professional Employees | 0.05 | Contract in place through 6/30/2021 |
| Judicial - Judicial Marshals | 1.12 | Contract in place through 6/30/2021 |
| Judicial – Law Clerks | 0.11 | Contract in place through 6/30/2021 |
| Judicial – Non-Professional | 2.31 | Contract in place through 6/30/2021 |
| Judicial – Professional | 2.34 | Contract in place through 6/30/2021 |
| Judicial - Supervising Judicial Marshals | 0.11 | Contract in place through 6/30/2021 |
| Protective Services (NP-5) | 1.60 | Contract in place through 6/30/2021 |
| Service/Maintenance (NP-2) | 7.36 | Contract in place through 6/30/2021 |
| Social and Human Services (P-2) | 7.90 | Contract in place through 6/30/2021 |
| State Vocational Federation of Teachers | 2.33 | Contract in place through 6/30/2021 |
| State Police (NP-1) | 2.00 | Contract in place through 6/30/2018 |
| State Police Lieutenants and Captains (NP-9) | 0.07 | Contract in place through 6/30/2021 |
| State University-Faculty | 2.95 | Contract in place through 6/30/2021 |
| State University- Non-Faculty Professional | 1.58 | Contract in place through 6/30/2021 |
| UHC – Faculty | 0.74 | Contract in place through 6/30/2021 |
| UHC University Health Professionals | 3.68 | Contract in place through 6/30/2021 |
| UConn – Faculty | 3.55 | Contract in place through 6/30/2021 |
| UConn – Graduate Employees | 2.90 | Contract in place through 6/30/2021 |
| UConn – Law School Faculty | 0.09 | Contract in place through 6/30/2021 |
| UConn - Non-Faculty | 3.68 | Contract in place through 6/30/2021 |
| Total Covered by Collective Bargaining | <u>90.27%</u> | |
| <u>Not Covered by Collective Bargaining</u> | | |
| Auditors of Public Accounts | 0.22% | Not Applicable |
| Other Employees | <u>9.51%</u> | Not Applicable |
| Total Not Covered by Collective Bargaining ^(c) | <u>9.73%</u> | |
| Total Full-Time Work Force | 100.00% | |

(a) Percentage expressed reflects approximately 48,245 filled full-time positions as of February 5, 2018.

(b) With the exception of the State Police bargaining unit which expires June 30, 2018, and the newly-formed Assistant Attorneys General bargaining unit, all collective bargaining contracts expire on June 30, 2021.

(c) Additional bargaining units have been certified and are in negotiations and other bargaining units have made applications for certification.

SOURCE: Office of Policy and Management

Governmental Services

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

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

| | | |
|--|--|---|
| <p><u>Legislative</u> Legislative Management Auditors of Public Accounts Commission on Women, Children and Seniors Commission on Equity and Opportunity</p> <p><u>General Government</u> Governor’s Office Lieutenant Governor’s Office Secretary of the State Office of Governmental Accountability State Treasurer State Comptroller Department of Revenue Services Office of Policy and Management Department of Veterans Affairs Department of Administrative Services Attorney General Division of Criminal Justice</p> | <p><u>Regulation and Protection</u> Department of Emergency Services and Public Protection Department of Motor Vehicles Military Department Department of Banking Insurance Department Office of Consumer Counsel Office of the Health Care Advocate Department of Consumer Protection Department of Labor Commission on Human Rights and Opportunities Workers’ Compensation Commission</p> <p><u>Conservation and Development</u> Department of Agriculture Department of Energy and Environmental Protection Council on Environmental Quality Department of Economic and Community Development Department of Housing Agricultural Experiment Station</p> <p><u>Health and Hospitals</u> Department of Public Health Office of Health Strategy Office of the Chief Medical Examiner Department of Developmental Services Department of Mental Health and Addiction Services Psychiatric Security Review Board</p> | <p><u>Transportation</u> Department of Transportation</p> <p><u>Human Services</u> Department of Social Services Department of Rehabilitation Services</p> <p><u>Education, Libraries and Museums</u> Department of Education State Library Office of Early Childhood University of Connecticut University of Connecticut Health Center Connecticut State Colleges and Universities Office of Higher Education Teachers’ Retirement Board</p> <p><u>Corrections</u> Department of Corrections Department of Children and Families</p> <p><u>Judicial</u> Judicial Department Public Defender Services Commission</p> |
|--|--|---|

- (a) In addition to the ten listed government function headings, the State also employs a “non-functional” heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
- (b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2017.

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.

Department of Emergency Services and Public Protection. The Department of Emergency Services and Public Protection (DESPP) is responsible for providing a coordinated, integrated program for the protection of life and property and for state-wide emergency management and homeland security. Through the Division of Emergency Management and Homeland Security (DEMHS), the Department is responsible for the preparation of a comprehensive civil preparedness plan and program, including integration and coordination with planning and activities of the federal government, other states, and towns, cities and tribal nations within the State. The State's plans include the State Response Framework and the State Recovery Framework. For planning purposes, DEMHS has given priority for preparedness to the following potential scenarios: (i) a severe weather event in or affecting Connecticut; (ii) a terrorist attack in or affecting Connecticut (cyber and/or physical), and (iii) a release of contamination from the Millstone Power Plant. Current planning activities at the State level include multiple cyber security initiatives. DESPP also operates the State fusion center – the Connecticut Intelligence Center, a multi-agency, multi-jurisdictional entity which collects, analyzes and disseminates intelligence information to law enforcement and other related groups. DEMHS includes a Radiological Emergency Preparedness Unit, which, among other things, conducts regular exercises evaluated by the Federal Emergency Management Agency (FEMA). Pursuant to the Connecticut General Statutes, the Commissioner of the Department is required to file an annual report each January to the joint standing committee of the General Assembly having cognizance of matters relating to public safety, which report specifies and evaluates statewide emergency management and homeland security activities during the preceding calendar year. In April 2015, the State received accreditation for its emergency management and homeland security activities from the nationally recognized Emergency Management Accreditation Program.

STATE ECONOMY

The information in this section contains information through February 15, 2018 except as may otherwise be set forth below.

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 the Long Island Sound, New York, Massachusetts and Rhode Island. Over one quarter of the total population of the United States and more than 50% of the Canadian population live within a 500-mile radius of the State.

Economic Resources

Population Characteristics. The State's population growth rate, which exceeded the United States' rate of population growth during the period from 1940 to 1970, slowed substantially and trailed the national average markedly during the past four decades. The following table presents the population trends of Connecticut, New England, and the United States since 1940. Connecticut's population increased 1.42% from 2008 to 2017 versus 3.3% in New England and 7.1% for the nation. The mid-2017 population in Connecticut was estimated at 3,588,184, a 0.0% change from a year ago, compared to increases of 0.4% and 0.7% for New England and the United States, respectively. From 2008 to 2017, within New England, Massachusetts (6.0%) and New Hampshire (2.0%) experienced growth higher than Connecticut (1.42%); while Rhode Island (0.4%), Maine (0.4%), and Vermont (-0.1%) all experienced lower or falling growth.

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 |
| 2010 Census | 3,574 | 4.9 | 14,445 | 3.7 | 308,746 | 9.7 |
| 2008.... | 3,546 | 0.5 | 14,340 | 0.4 | 304,094 | 1.0 |
| 2009.... | 3,562 | 0.5 | 14,404 | 0.4 | 306,772 | 0.9 |
| 2010.... | 3,574 | 0.3 | 14,445 | 0.3 | 308,746 | 0.6 |
| 2011.... | 3,592 | 0.5 | 14,529 | 0.6 | 311,644 | 0.9 |
| 2012.... | 3,598 | 0.2 | 14,585 | 0.4 | 313,993 | 0.8 |
| 2013.... | 3,602 | 0.1 | 14,643 | 0.4 | 316,235 | 0.7 |
| 2014.... | 3,600 | (0.1) | 14,696 | 0.4 | 318,623 | 0.8 |
| 2015.... | 3,594 | (0.2) | 14,726 | 0.2 | 321,040 | 0.8 |
| 2016.... | 3,588 | (0.2) | 14,758 | 0.2 | 323,406 | 0.7 |
| 2017.... | 3,588 | 0.0 | 14,810 | 0.4 | 325,719 | 0.7 |

Note: 1940-2010, April 1 Census. Figures are for census comparison purposes.
2008-2017 Mid-year estimates. Estimates for New England include the sum of six states – Connecticut, Massachusetts, New Hampshire, Rhode Island, Maine and Vermont.

SOURCE: United States Census Bureau

The State is highly urbanized with a 2017 population density of 741 persons per square mile, as compared with 92 for the United States as a whole. Of the eight counties in the State, according to the U.S. Bureau of Census for the 2010 Census count, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

SUPPLEMENTARY INFORMATION AS OF AUGUST 16, 2018

Education. In 2016 Connecticut ranked 4th in the nation with 38% of the State population over the age of 25 holding a bachelor's degree or higher.

Connecticut is home to over 45 colleges and universities, including among others: Yale University, Wesleyan University, Trinity College, Connecticut College, University of Connecticut, Southern Connecticut State University, Central Connecticut State University, Eastern Connecticut State University, Western Connecticut State University, Fairfield University, Quinnipiac University, Hartford Seminary, Coast Guard Academy, University of New Haven, University of Hartford, and Sacred Heart University.

Industry Landscape. Connecticut is home to some of the country's leading companies, including the following members of the 2017 Fortune 500: United Technologies, Aetna, Cigna, Hartford Financial Services, Praxair, Stanley Black & Decker, Terex, Emcor Group, and Priceline.com. The historical presence of the insurance industry in the State, and especially in its capital city of Hartford, has caused it to be referred to as the "insurance capital of the world".

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, currently offers approximately 100 weekday departures to 34 non-stop destinations and is served by virtually all the major passenger and cargo air carriers. It is accessible from all areas of the State and western Massachusetts.

The Connecticut Department of Transportation funds and oversees the operation of rail, bus, paratransit and ferry services throughout the State. The New Haven Line (including the Waterbury, Danbury and New Canaan branch lines) and Shore Line East provide service to communities between New London and New York City and intermediate points, serving approximately 43 million passengers per year. New state-funded, CTrail high-speed rail service will begin on the Hartford Line in 2018, serving communities between New Haven, CT and Springfield, MA. State-funded, contracted public bus and paratransit transportation programs provide over 43 million passenger trips a year on urban transit, commuter express bus, rural transit, and Americans with Disabilities Act paratransit services. The overall program includes State-funded CTtransit bus services in 8 urbanized areas and CTfastrak bus rapid transit services provided in the greater Hartford area, as well as urban and rural transit and paratransit services provided by 13 independent transit districts. The State also operates two historic passenger and vehicular ferries, linking communities on the Connecticut River.

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. Positioned between the ports of New York and Boston, with access to European and South American markets, the State's deep draft harbors at Bridgeport, New Haven, and New London offer similar direct access to international markets and U.S. ports.

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, Massachusetts and Rhode Island. 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, the Regional Transmission Organization for New England. An independent system operator, ISO New England, Inc., operates this regional system.

Most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. Consumers that do not choose an independent electric supplier will automatically be placed on Connecticut's standard service. The electricity is delivered to the consumer over the wires of the regulated distribution companies (Eversource Energy and The United Illuminating Company). Electric suppliers are not subject to rate regulation by the State Public Utilities Regulatory Authority (PURA), formerly known as the Department of Public Utility Control (DPUC), but must receive a license issued by the PURA before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory can continue to purchase and receive their electrical needs from the municipal electric company.

Legislation enacted in 2011 merged PURA under a new Department of Energy and Environmental Protection (DEEP) structure, where it continues its mandates related to rates, reliability and safety, but now must also be guided in accordance with the goals of DEEP as outlined in its Integrated Resource Plan and Comprehensive Energy Strategy. These include a focus on clean energy, creating jobs and building a state energy economy. The legislation declares DEEP as a successor to the PURA, and divides DEEP into three bureaus, Energy, Environmental Protection and PURA. This legislation also established the position of a procurement manager which now resides within PURA.

The procurement manager is responsible for developing a plan for the procurement of electric generation services and related wholesale electricity market products that will enable each electric distribution company to manage a portfolio of contracts to reduce the average cost of "standard service" while maintaining "standard service" cost volatility within reasonable levels.

Lastly, the legislation created a quasi-public authority, the Connecticut Green Bank to administer the Clean Energy Fund which is funded by a charge on consumer's electric bills. Pursuant to legislation, Green Bank's scope was expanded to include more types of projects the fund can support with respect to the financing of clean energy sources and energy efficiency.

Natural gas is delivered to Connecticut through pipelines that traverse the State. Natural gas pipeline supplies are generally shipped to Connecticut from Canada and the Gulf of Mexico area. Connecticut also receives natural gas through the interstate pipelines from a terminal located in Boston, Massachusetts which is supplied by tanker ships. Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Eversource Energy, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, UIL Holdings Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. UIL Holdings Corp., the parent company of The United Illuminating Company, is a New Haven, Connecticut-based utility holding company.

Since 1996 the PURA has allowed 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 open 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 Frontier Corporation and Verizon New York, Inc. Connecticut also has 116 CLECs certified to provide local exchange services including Comcast Phone of Connecticut, Inc., 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.

Although Connecticut is heavily dependent upon petroleum, the State is ranked one of the most efficient states for energy consumption. According to the most recent available data from the Energy Information Administration, an independent agency within the U.S. Department of Energy that collects and analyzes energy data, Connecticut consumed 3.3 thousand British Thermal Units (BTU) per 2009 chained dollar of Gross State Product in 2015, the latest available data, ranking it the 2nd most efficient state among the 50 states and 44.1% less than the national average of 5.9 thousand BTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 210 million BTU of energy per person in 2015, ranking it 46th among the 50 states and 30.7% less than the national average of 303 million BTU.

Energy prices in Connecticut were up compared to 2016, and remain elevated relative to the nation. Nationally, home heating oil, gasoline and natural gas prices have begun to rise after hitting a 10 year low in 2016, signaling a market correction may be occurring after dramatic declines in prices starting in 2014. For the past decade the United States has experienced a significant rise in oil production, due in large part to technological innovations in the area of shale oil fracking. To maintain market share oil exporters increased production, even as prices declined, as many of their economies rely heavily on such energy resources. All of this, in combination with a reduction in demand in Europe and weak economic growth in China and emerging markets, have led to a historic oversupply in the oil market which drove prices down.

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. In calendar year 2016, per capita personal income in Connecticut equaled \$69,085, the highest of any state in the nation. This high level of personal income is not concentrated in a single county, but is widely distributed throughout the State. County-level data from the United States Department of Commerce, Bureau of Economic Analysis for calendar year 2015 indicates that if they were states, five of the State's eight counties would each rank within the top ten of all states in the nation for state per capita personal income. The following table shows total and per capita personal income for Connecticut residents during the period from 2007 to 2016 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 Percent of</u> | |
|--------------------------|---------------------------------------|--------------------------------|---|----------------------|
| | <u>Total</u> (Millions of Dollars) | <u>Per Capita</u> (Dollars) | <u>New England</u> | <u>United States</u> |
| 2007 | \$204,296 | \$57,872 | 117.7% | 145.8% |
| 2008 | 217,102 | 61,199 | 119.4 | 149.3 |
| 2009 | 215,234 | 60,393 | 119.6 | 153.6 |
| 2010 | 222,405 | 62,109 | 119.3 | 154.4 |
| 2011 | 229,212 | 63,807 | 118.1 | 150.4 |
| 2012 | 233,711 | 64,951 | 116.6 | 146.9 |
| 2013 | 230,615 | 64,029 | 115.4 | 144.2 |
| 2014 | 239,070 | 66,424 | 115.7 | 143.1 |
| 2015 | 244,941 | 68,170 | 113.6 | 140.9 |
| 2016 | 247,887 | 69,085 | 112.9 | 140.4 |

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> (Current) | <u>New England</u> (Current) | <u>U.S.</u> (Current) | <u>Conn.</u> (Constant) | <u>New England</u> (Constant) | <u>U.S.</u> (Constant) |
|----------------------|---------------------------|---------------------------------|--------------------------|----------------------------|----------------------------------|---------------------------|
| 2007 | 7.2% | 5.2% | 5.3% | 4.6% | 2.7% | 2.7% |
| 2008 | 6.3 | 4.7 | 4.2 | 3.2 | 1.7 | 1.1 |
| 2009 | (0.9) | (1.0) | (3.3) | (0.5) | (0.6) | (3.2) |
| 2010 | 3.3 | 3.5 | 3.2 | 2.4 | 2.1 | 1.5 |
| 2011 | 3.1 | 4.3 | 6.2 | 1.0 | 2.0 | 3.7 |
| 2012 | 2.0 | 3.5 | 5.0 | (0.2) | 1.9 | 3.0 |
| 2013 | (1.3) | (0.0) | 1.1 | (2.0) | (1.2) | (0.2) |
| 2014 | 3.7 | 3.8 | 5.3 | 2.0 | 2.2 | 3.7 |
| 2015 | 2.5 | 4.8 | 5.0 | 2.0 | 4.4 | 4.6 |
| 2016 | 1.2 | 2.2 | 2.4 | 0.0 | 1.0 | 1.2 |

Note — Real dollars are adjusted for inflation using the national personal consumption expenditures price index and regional price parities.

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

The following table indicates the sources of personal income by place of residence for Connecticut and the United States in 2016.

TABLE A-9
Sources of Personal Income By Place of Residence
Calendar Year 2016
(In Millions)

| | <u>Conn.</u> | <u>Percent of Total</u> | <u>U.S.</u> | <u>Percent of Total</u> |
|---|------------------|-----------------------------|---------------------|-----------------------------|
| Wages in Non-manufacturing..... | \$112,481 | 45.4% | \$ 7,277,400 | 45.7% |
| Property Income (Div., Rents & Int.) | 53,958 | 21.8 | 3,085,100 | 19.4 |
| Wages in Manufacturing..... | 13,906 | 5.6 | 807,800 | 5.1 |
| Transfer Payments less Social Insurance Paid..... | 14,080 | 5.7 | 1,523,100 | 9.6 |
| Other Labor Income..... | 28,162 | 11.4 | 1,893,400 | 11.9 |
| Proprietor's Income | <u>25,299</u> | <u>10.2</u> | <u>1,341,900</u> | <u>8.4</u> |
| Personal Income — Total | <u>\$247,887</u> | <u>100.0%</u> | <u>\$15,928,700</u> | <u>100.0%</u> |

Note—Columns may not add due to rounding.

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

Gross State Product. The State's and the region's economic vitality are evidenced in the rate of growth of their respective Gross State Products. The State's Gross State Product is the current market value of all final goods and services produced by labor and property located within the State.

In 2016, the State produced \$259.9 billion worth of goods and services and \$227.6 billion worth of goods and services in 2009 chained dollars.

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)

| Calendar Year | Connecticut | | New England^(a) | | United States^(b) | |
|--------------------------|--------------------|---------------------------|----------------------------------|---------------------------|------------------------------------|---------------------------|
| | <u>\$</u> | <u>Percent Growth</u> | <u>\$</u> | <u>Percent Growth</u> | <u>\$</u> | <u>Percent Growth</u> |
| 2007 | 236,640 | 6.9% | 799,219 | 4.8% | 14,477,636 | 4.5% |
| 2008 | 238,211 | 0.7 | 807,857 | 1.1 | 14,718,588 | 1.7 |
| 2009 | 233,562 | (2.0) | 805,107 | (0.3) | 14,418,740 | (2.0) |
| 2010 | 234,528 | 0.4 | 828,780 | 2.9 | 14,964,383 | 3.8 |
| 2011 | 234,233 | (0.1) | 845,612 | 2.0 | 15,517,934 | 3.7 |
| 2012 | 239,462 | 2.2 | 872,280 | 3.2 | 16,155,255 | 4.1 |
| 2013 | 240,976 | 0.6 | 885,847 | 1.6 | 16,691,517 | 3.3 |
| 2014 | 244,628 | 1.5 | 913,977 | 3.2 | 17,427,609 | 4.4 |
| 2015 | 255,517 | 4.5 | 963,385 | 5.4 | 18,120,714 | 4.0 |
| 2016 | 259,919 | 1.7 | 990,817 | 2.8 | 18,624,475 | 2.8 |

(a) Sum of the New England States' Gross State Products.

(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 2009 chained dollars.

TABLE A-11
Gross State Product
(In Millions of 2009 Chained Dollars*)

| Calendar Year | Connecticut | | New England | | United States | |
|--------------------------|--------------------|---------------------------|--------------------|---------------------------|----------------------|---------------------------|
| | \$ | Percent Growth | \$ | Percent Growth | \$ | Percent Growth |
| 2007 | 247,248 | 4.2% | 830,459 | 2.1% | 14,873,734 | 1.8% |
| 2008 | 243,856 | (1.4) | 825,187 | (0.6) | 14,830,359 | (0.3) |
| 2009 | 233,562 | (4.2) | 805,106 | (2.4) | 14,418,739 | (2.8) |
| 2010 | 232,357 | (0.5) | 821,438 | 2.0 | 14,783,809 | 2.5 |
| 2011 | 228,454 | (1.7) | 826,442 | 0.6 | 15,020,565 | 1.6 |
| 2012 | 228,212 | (0.1) | 834,016 | 0.9 | 15,354,627 | 2.2 |
| 2013 | 224,931 | (1.4) | 830,130 | (0.5) | 15,612,175 | 1.7 |
| 2014 | 223,311 | (0.7) | 838,425 | 1.0 | 16,013,283 | 2.6 |
| 2015 | 227,503 | 1.9 | 861,775 | 2.8 | 16,471,516 | 2.9 |
| 2016 | 227,592 | 0.0 | 870,654 | 1.0 | 16,716,164 | 1.5 |

* 2009 chained dollar series are calculated as the product of the chain-type quantity index and the 2009 current-dollar value of the corresponding series, divided by 100. Figures for the United States represent Gross Domestic Product.

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 economy. The table shows that in 2016 Connecticut's production was concentrated in four areas: finance, insurance and real estate (FIRE), services, manufacturing and government. Production in these four industries accounted for 76.3% of total production in Connecticut compared to 78.6% in 2009 and 72.0% for the nation in 2016. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and that this concentration has changed little in recent years.

The output contribution of manufacturing, however, has been declining over time as the contributions of services has been increasing. The share of production from the manufacturing sector decreased from 11.9% in 2009 to 10.9% in 2016 caused by increased competition with foreign countries and other states. The broadly defined services in the private sector, which excludes industries in agriculture and construction, wholesale and retail trades, but includes industries in information, professional and technical services, health care and education, FIRE, and other services, have decreased to 59.9% of the total GSP in 2016 from 60.7% in 2009. The broadly defined services in the private sector increased by 9.8% from 2009 to 2016 compared to 13.9% for the public sector during the comparable period. A stable service sector may help smooth the business cycle, reducing the span and depth of recessions and prolonging the length of expansions. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and somewhat less vulnerable to foreign competition. Therefore, this shift to the service sectors may serve to smooth output fluctuations.

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

| <u>Calendar Year</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sector | | | | | | | | |
| Manufacturing | \$ 27,688 | \$ 28,080 | \$ 26,734 | \$ 27,636 | \$ 28,635 | \$ 27,618 | \$ 28,740 | \$ 28,273 |
| Construction ^(a) | 7,380 | 6,816 | 6,787 | 7,172 | 7,221 | 7,517 | 8,211 | 8,644 |
| Agriculture ^(b) | 295 | 320 | 306 | 316 | 362 | 279 | 281 | 274 |
| Utilities ^(c) | 7,887 | 7,892 | 8,040 | 7,964 | 8,278 | 8,675 | 8,927 | 8,533 |
| Wholesale Trade | 13,032 | 13,831 | 14,149 | 15,168 | 15,523 | 16,012 | 16,768 | 16,842 |
| Retail Trade | 11,498 | 11,617 | 12,046 | 12,782 | 12,922 | 13,315 | 13,920 | 14,269 |
| Information | 9,907 | 9,779 | 9,594 | 9,788 | 11,298 | 11,208 | 12,734 | 13,126 |
| Finance ^(d) | 74,106 | 72,976 | 71,426 | 69,981 | 66,718 | 66,812 | 69,345 | 71,540 |
| Services ^(e) | 57,780 | 58,785 | 60,353 | 63,824 | 64,626 | 67,062 | 69,357 | 71,092 |
| Government | <u>23,990</u> | <u>24,435</u> | <u>24,799</u> | <u>24,834</u> | <u>25,393</u> | <u>26,132</u> | <u>27,236</u> | <u>27,327</u> |
| Total GSP | \$233,562 | \$234,528 | \$234,234 | \$239,463 | \$240,976 | \$244,627 | \$255,518 | \$259,918 |

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, education, health care 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, and farm and household domestic workers. The following table compares non-agricultural establishment employment for Connecticut, New England, and the United States between 2007 and 2016. Connecticut's nonagricultural employment reached a high in March 2009 of 1,713,300 persons employed, but began declining with the onset of the recession falling to 1,594,200 jobs by February 2010, and has since risen to 1,685,200 by December 2017.

TABLE A-13
Non-agricultural Employment^{(a)(b)}
(In Thousands)

| Calendar Year | Connecticut | | New England | | United States | |
|--------------------------|--------------------|---------------------------|--------------------|---------------------------|----------------------|---------------------------|
| | Employment | Percent Growth | Employment | Percent Growth | Employment | Percent Growth |
| 2007 | 1,698.5 | 1.0% | 7,070.0 | 0.9% | 137,997.2 | 1.1% |
| 2008 | 1,699.1 | 0.0 | 7,071.4 | 0.0 | 137,240.3 | (0.5) |
| 2009 | 1,626.3 | (4.3) | 6,817.1 | (3.6) | 131,300.2 | (4.3) |
| 2010 | 1,607.9 | (1.1) | 6,802.7 | (0.2) | 130,353.3 | (0.7) |
| 2011 | 1,624.3 | 1.0 | 6,866.6 | 0.9 | 131,941.0 | 1.2 |
| 2012 | 1,637.7 | 0.8 | 6,950.7 | 1.2 | 134,170.7 | 1.7 |
| 2013 | 1,650.0 | 0.8 | 7,035.4 | 1.2 | 136,379.4 | 1.6 |
| 2014 | 1,661.2 | 0.7 | 7,133.4 | 1.4 | 138,937.3 | 1.9 |
| 2015 | 1,674.1 | 0.8 | 7,239.1 | 1.5 | 141,813.1 | 2.1 |
| 2016 | 1,679.5 | 0.3 | 7,331.5 | 1.3 | 144,305.5 | 1.8 |

(a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.

(b) In March 2009, the Connecticut Department of Labor revised and updated employment statistics back to 2004.

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 2016. The table shows that Connecticut has a larger share of employment in services, manufacturing, and finance than the nation as a whole.

TABLE A-14
Connecticut Non-agricultural Employment, Calendar Year 2016
(In Thousands)

| | Connecticut | | United States | |
|-----------------------------|--------------------|----------------|----------------------|----------------|
| | Total | Percent | Total | Percent |
| Services ^(a) | 766.2 | 45.6% | 64,047.5 | 44.4% |
| Trade ^(b) | 298.5 | 17.8 | 27,236.3 | 18.9 |
| Manufacturing | 156.3 | 9.3 | 12,348.3 | 8.6 |
| Government | 236.5 | 14.1 | 22,228.1 | 15.4 |
| Finance ^(c) | 130.0 | 7.7 | 8,284.8 | 5.7 |
| Information ^(d) | 32.3 | 1.9 | 2,772.3 | 1.9 |
| Construction ^(e) | 59.6 | 3.6 | 7,388.3 | 5.1 |
| Total ^(f) | 1,679.5 | 100.0% | 144,305.5 | 100.0% |

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

(b) Includes wholesale and retail trade, transportation, and utilities.

(c) Includes finance, insurance, and real estate.

(d) Includes publishing, broadcasting, telecommunications, internet providers, and data processing.

(e) Includes natural resources and mining.

(f) Totals may not equal sum of individual categories due to rounding and seasonal statistical data adjustments.

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 five decades, while manufacturing employment in Connecticut has been steadily declining, employment in the services industries has surged. In calendar year 2016, approximately 90.7% 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)

| Calendar Year | Manufacturing | Trade^(a) | Services^(b) | Government | Finance^(c) | Information^(d) | Construction^(e) | Total Non-agricultural Employment^(f) |
|----------------------|----------------------|----------------------------|-------------------------------|-------------------|------------------------------|----------------------------------|-----------------------------------|--|
| 2007 | 187.8 | 308.0 | 698.6 | 251.7 | 144.6 | 38.4 | 69.4 | 1,698.5 |
| 2008 | 184.4 | 305.7 | 706.8 | 254.8 | 143.4 | 37.8 | 66.1 | 1,699.1 |
| 2009 | 168.4 | 289.0 | 691.2 | 250.6 | 137.6 | 34.3 | 55.2 | 1,626.3 |
| 2010 | 162.8 | 285.9 | 695.3 | 246.4 | 135.2 | 31.7 | 50.6 | 1,607.9 |
| 2011 | 163.4 | 288.9 | 711.0 | 242.8 | 135.0 | 31.3 | 52.0 | 1,624.3 |
| 2012 | 161.8 | 291.2 | 727.2 | 241.0 | 133.1 | 31.3 | 52.0 | 1,637.7 |
| 2013 | 160.2 | 293.8 | 738.9 | 240.5 | 130.6 | 32.0 | 54.0 | 1,650.0 |
| 2014 | 157.2 | 295.7 | 751.4 | 240.1 | 128.8 | 32.1 | 56.0 | 1,661.2 |
| 2015 | 156.9 | 297.1 | 760.0 | 239.1 | 130.1 | 32.5 | 58.4 | 1,674.1 |
| 2016 | 156.3 | 298.5 | 766.2 | 236.5 | 130.0 | 32.3 | 59.6 | 1,679.5 |

(a) Includes wholesale and retail trade, transportation, and utilities.

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

(c) Includes finance, insurance, and real estate.

(d) Includes publishing, broadcasting, telecommunications, internet providers, and data processing.

(e) Includes natural resources and mining.

(f) Totals may not equal sum of individual categories due to rounding and seasonal statistical adjustments.

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 ranked 21st in the nation for its dependency on manufacturing wages in calendar year 2016. 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 manufacturing employment levels is also reflected in the New England region and the nation. The transformation in the State's manufacturing base confirms that the State's employment share in the manufacturing sector is converging to the national average. In calendar year 2016 approximately 9.3% of the State's workforce, versus 8.6% for the nation, was employed in the manufacturing sector.

TABLE A-16
Manufacturing Employment
(In Thousands)

| Calendar Year | Connecticut | | New England | | United States | |
|--------------------------|--------------------|---------------------------|--------------------|---------------------------|----------------------|---------------------------|
| | Number | Percent Growth | Number | Percent Growth | Number | Percent Growth |
| 2007 | 187.8 | (1.6)% | 705.9 | (1.6)% | 13,877.8 | (2.0)% |
| 2008 | 184.4 | (1.8) | 687.8 | (2.6) | 13,403.4 | (3.4) |
| 2009 | 168.4 | (8.7) | 620.0 | (9.9) | 11,847.8 | (11.6) |
| 2010 | 162.8 | (3.3) | 602.5 | (2.8) | 11,528.7 | (2.7) |
| 2011 | 163.4 | 0.3 | 603.5 | 0.2 | 11,727.1 | 1.7 |
| 2012 | 161.8 | (0.9) | 601.3 | (0.4) | 11,927.0 | 1.7 |
| 2013 | 160.2 | (1.0) | 598.2 | (0.5) | 12,019.5 | 0.8 |
| 2014 | 157.2 | (1.8) | 595.1 | (0.5) | 12,185.1 | 1.4 |
| 2015 | 156.9 | (0.2) | 595.9 | 0.1 | 12,335.3 | 1.2 |
| 2016 | 156.3 | (0.4) | 591.1 | (0.8) | 12,348.3 | 0.1 |

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, machinery, and computer and electronics for the total number employed in 2016.

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

| Calendar Year | Transportation Equipment | Fabricated Metals | Computer & Electronics | Machinery | Other^(a) | Total Manufacturing Employment^(b) |
|--------------------------|-------------------------------------|------------------------------|---------------------------------------|------------------|----------------------------|---|
| 2007 | 43.6 | 33.4 | 14.1 | 18.2 | 78.6 | 187.8 |
| 2008 | 44.3 | 33.1 | 14.2 | 17.7 | 75.1 | 184.4 |
| 2009 | 43.1 | 29.4 | 13.4 | 16.0 | 66.5 | 168.4 |
| 2010 | 42.2 | 28.1 | 13.3 | 15.0 | 64.2 | 162.8 |
| 2011 | 42.2 | 28.6 | 13.4 | 14.8 | 64.4 | 163.4 |
| 2012 | 42.0 | 29.2 | 13.0 | 14.5 | 63.0 | 161.8 |
| 2013 | 41.4 | 30.0 | 12.8 | 14.1 | 61.9 | 160.2 |
| 2014 | 40.1 | 29.7 | 12.6 | 14.0 | 60.8 | 157.2 |
| 2015 | 40.7 | 29.2 | 12.3 | 14.1 | 60.6 | 156.9 |
| 2016 | 41.8 | 29.3 | 11.6 | 13.6 | 60.1 | 156.3 |

(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.

(b) Totals may not equal sum of individual categories due to rounding and seasonal statistical adjustments.

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

During the past ten years, Connecticut's manufacturing employment was at its highest in 2007 at 187,800 workers. Since that year, employment in manufacturing continued on a downward trend. A number of factors, such as heightened foreign competition, outsourcing to offshore locations, 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 156,300 in 2016. The total number of manufacturing jobs dropped 31,500, or 16.8%, from its decade high in 2007.

Exports. In Connecticut, the export sector of manufacturing is an important component of the overall economy. According to figures published by the United States Census Bureau Foreign Trade Division, compiled by the World Institute for Strategic Economic Research, exports of manufacturing products registered at \$14.4 billion in 2016, accounting for 5.5% of Gross State Product. From 2012 to 2016, the State's export of goods fell at a compound annual rate of 2.4% versus 2.1% growth for the Gross State Product. The following table shows the growth in exports of manufacturing products.

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

| | <u>Calendar Year</u> | | | | | <u>Percent of</u> <u>2016</u> | <u>Compound</u> <u>Annual</u> <u>Growth Rate</u> |
|---|----------------------|----------------|----------------|----------------|----------------|----------------------------------|--|
| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>Total</u> | <u>2012-2016</u> |
| A. Manufacturing Products | | | | | | | |
| Transportation Equipment | \$ 7,158.2 | \$ 8,004.8 | \$ 7,318.6 | \$ 7,012.6 | \$ 6,217.3 | 43.2% | (3.5)% |
| Computer & Electronics | 1,365.9 | 1,237.0 | 1,270.6 | 1,191.0 | 1,109.0 | 7.7 | (5.1) |
| Machinery, Except Electronics | 1,761.2 | 1,758.8 | 2,072.8 | 1,666.6 | 1,770.4 | 12.3 | 0.1 |
| Fabricated Metal Production | 690.4 | 720.2 | 733.6 | 706.7 | 789.0 | 5.5 | 3.4 |
| Chemicals | 1,026.2 | 992.6 | 971.0 | 1,039.5 | 864.7 | 6.0 | (4.2) |
| Misc. Manufacturing | 273.1 | 307.8 | 330.7 | 326.2 | 327.3 | 2.3 | 4.6 |
| Electrical Equipment | 873.3 | 900.1 | 1,002.9 | 1,032.9 | 958.7 | 6.7 | 2.4 |
| Plastics & Rubber | 267.6 | 239.8 | 233.5 | 230.3 | 224.9 | 1.6 | (4.3) |
| Paper | 146.3 | 141.1 | 142.7 | 131.2 | 137.0 | 1.0 | (1.6) |
| Primary Metal Mfg. | 704.3 | 648.2 | 637.8 | 675.6 | 505.1 | 3.5 | (8.0) |
| Others | <u>1,604.6</u> | <u>1,476.3</u> | <u>1,248.6</u> | <u>1,229.7</u> | <u>1,490.8</u> | <u>10.4</u> | <u>(1.8)</u> |
| Total | \$ 15,871.1 | \$ 16,426.7 | \$ 15,962.8 | \$ 15,242.4 | \$ 14,394.2 | 100.0% | (2.4)% |
| % Growth | (2.2)% | 3.5% | (2.8)% | (4.5)% | (5.6)% | | |
| B. Gross State Product^(a) | | | | | | | |
| | \$239,461.8 | \$240,975.5 | \$244,627.8 | \$255,517.0 | \$259,918.5 | | 2.1% |
| Mfg Exports as a % of GSP | 6.6% | 6.8% | 6.5% | 6.0% | 5.5% | | |

(a) In millions.

SOURCE: United States Census Bureau Foreign Trade Division
World Institute for Strategic Economic Research

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 since the early 1980s. Connecticut had witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State; however, these amounts have

been climbing most years since federal Fiscal Year 2002. In federal Fiscal Year 2016 Connecticut received \$14.1 billion of prime contract awards. These total awards accounted for 5.1% of national total awards and ranked 4th in total defense dollars awarded and first in per capita dollars awarded among the 50 states. In federal Fiscal Year 2016, Connecticut had \$3,952 in per capita defense awards, compared to the national average of \$863. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut-based firms were 5.0% of Gross State Product in Fiscal Year 2016.

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, Lockheed Martin with its Sikorsky Division in Stratford, and 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>Percent Change from Prior Year</u> | |
|----------------------------|---|---|---------------------------------------|-------------|
| | | | <u>Connecticut</u> | <u>U.S.</u> |
| 2007 | \$ 8,616,669 | 12 th | 12.4% | 14.0% |
| 2008 | 12,225,659 | 9 th | 41.9 | 18.8 |
| 2009 | 11,851,941 | 9 th | (3.1) | (6.7) |
| 2010 | 11,238,751 | 8 th | (5.2) | (2.4) |
| 2011 | 12,491,324 | 7 th | 11.1 | 2.0 |
| 2012 | 12,750,298 | 7 th | 2.1 | (3.1) |
| 2013 | 10,032,845 | 8 th | (21.3) | (15.8) |
| 2014 | 13,207,927 | 4 th | 31.6 | (3.0) |
| 2015 | 12,146,972 | 5 th | (8.0) | (2.8) |
| 2016 | 14,139,317 | 4 th | 16.4 | 10.1 |

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 90.7% by 2016. This trend has diluted the State’s dependence on manufacturing. From 2007 to 2016, Connecticut had a loss of 19,000 jobs in non-agricultural employment. During this period total non-manufacturing jobs increased by 12,400, while manufacturing jobs declined by 31,500.

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)

| Calendar Year | Connecticut | | New England | | United States | |
|--------------------------|--------------------|---------------------------|--------------------|---------------------------|----------------------|---------------------------|
| | Number | Percent Growth | Number | Percent Growth | Number | Percent Growth |
| 2007 | 1,510.7 | 1.4% | 6,364.2 | 1.2% | 124,119.3 | 1.5% |
| 2008 | 1,514.7 | 0.3 | 6,383.5 | 0.3 | 123,836.8 | (0.2) |
| 2009 | 1,457.9 | (3.7) | 6,197.1 | (2.9) | 119,452.3 | (3.5) |
| 2010 | 1,445.1 | (0.9) | 6,200.2 | 0.1 | 118,824.6 | (0.5) |
| 2011 | 1,461.0 | 1.1 | 6,263.2 | 1.0 | 120,213.9 | 1.2 |
| 2012 | 1,475.9 | 1.0 | 6,349.3 | 1.4 | 122,243.7 | 1.7 |
| 2013 | 1,489.9 | 0.9 | 6,437.2 | 1.4 | 124,359.9 | 1.7 |
| 2014 | 1,504.0 | 0.9 | 6,538.3 | 1.6 | 126,752.2 | 1.9 |
| 2015 | 1,517.2 | 0.9 | 6,643.2 | 1.6 | 129,477.8 | 2.2 |
| 2016 | 1,523.1 | 0.4 | 6,740.4 | 1.5 | 131,957.3 | 1.9 |

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 92.8% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 2007, 2014, 2015 and 2016 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the year and over the decade are also provided. Between 2007 and 2016, employment in the service industry expanded by 67,600 workers driving an increase of 12,400 non-manufacturing jobs, amid a time when all other non-manufacturing jobs registered a decrease in jobs.

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

| <u>Industry</u> | <u>Calendar</u> <u>Year</u> <u>2007</u> | <u>Calendar</u> <u>Year</u> <u>2014</u> | <u>Calendar</u> <u>Year</u> <u>2015</u> | <u>Calendar</u> <u>Year</u> <u>2016</u> | <u>Percent</u> <u>Change</u> <u>2014-16</u> | <u>Percent</u> <u>Change</u> <u>2007-16</u> |
|--|---|---|---|---|---|---|
| Construction ^(a) | 69.4 | 56.0 | 58.4 | 59.6 | 2.1% | (14.0)% |
| Information | 38.4 | 32.1 | 32.5 | 32.3 | (0.4) | (15.9) |
| Trade ^(b) | 308.0 | 295.7 | 297.1 | 298.5 | 0.5 | (3.1) |
| Finance, Insurance & Real Estate | 144.6 | 128.8 | 130.1 | 130.0 | (0.1) | (10.1) |
| Services ^(c) | 698.6 | 751.4 | 760.0 | 766.2 | 0.8 | 9.7 |
| Federal Government | 19.6 | 17.4 | 17.7 | 17.9 | 0.8 | (8.9) |
| State and Local Government | <u>232.1</u> | <u>222.7</u> | <u>221.3</u> | <u>218.6</u> | <u>(1.2)</u> | <u>(5.8)</u> |
| Total Non-manufacturing Employment ^(d) | 1,510.7 | 1,504.0 | 1,517.2 | 1,523.1 | 0.4% | 0.8% |

(a) Includes natural resources and mining.

(b) Includes wholesale & retail trade, transportation, and utilities.

(c) Covers a considerable variety of activities, including professional, business, education, health care and personal services.

(d) Totals may not agree with detail due to rounding and seasonal statistical data adjustments.

SOURCE: Connecticut State Labor Department

Retail Trade. Personal spending on goods and services generally accounts for over 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 by 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 North American Industry Classification System (NAICS) code as well as the State's retail trade history for the past five fiscal years. Connecticut retail trade in Fiscal Year 2017 totaled \$56,030.3 billion, an increase of 1.2% from Fiscal Year 2016. Sales in the durable goods category, which were severely impacted during the recession, registered three consecutive yearly declines before beginning to recover in Fiscal Year 2011 and accelerating further through Fiscal Year 2017. Durable goods are mostly big ticket items such as appliances, furnishings, and automobiles.

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

| NAICS | | Percent of Fiscal | | Percent of Fiscal | | Percent of Fiscal | | Percent of Fiscal | | Percent of Fiscal | | Compound Annual Growth Rate 2013-2017 |
|-------|--|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|-------------------|------------|--|
| | | Fiscal Year 2013 | Year Total | Fiscal Year 2014 | Year Total | Fiscal Year 2015 | Year Total | Fiscal Year 2016 | Year Total | Fiscal Year 2017 | Year Total | |
| 441 | Motor Vehicle and Parts Dealers | \$ 8,392.7 | 16.1% | \$9,098.9 | 17.0% | \$ 9,585.4 | 17.6% | \$ 9,898.6 | 17.9% | \$10,072.3 | 18.0% | 4.7% |
| 442 | Furniture and Home Furnishings Stores | 1,665.0 | 3.2 | 1,706.5 | 3.2 | 1,768.2 | 3.2 | 1,897.6 | 3.4 | 2,009.3 | 3.6 | 4.8 |
| 443 | Electronics and Appliance Stores | 1,619.7 | 3.1 | 1,641.0 | 3.1 | 1,653.1 | 3.0 | 1,643.8 | 3.0 | 1,656.5 | 3.0 | 0.6 |
| 444 | Building Material and Garden Supply Stores | 2,585.0 | 5.0 | 2,715.1 | 5.1 | 2,836.0 | 5.2 | 3,034.6 | 5.5 | 3,020.9 | 5.4 | 4.0 |
| 445 | Food and Beverage Stores ^(b) | 11,101.7 | 21.3 | 11,183.5 | 20.9 | 10,742.8 | 19.7 | 10,964.2 | 19.8 | 11,045.6 | 19.7 | (0.1) |
| 446 | Health and Personal Care Stores | 4,413.1 | 8.5 | 4,714.6 | 8.8 | 4,847.5 | 8.9 | 5,074.7 | 9.2 | 5,274.6 | 9.4 | 4.6 |
| 447 | Gasoline Stations | 3,789.5 | 7.3 | 3,774.4 | 7.0 | 3,329.8 | 6.1 | 3,196.1 | 5.8 | 3,297.8 | 5.9 | (3.4) |
| 448 | Clothing and Clothing Accessories Stores | 2,920.4 | 5.6 | 2,945.6 | 5.5 | 2,992.7 | 5.5 | 3,083.1 | 5.6 | 3,035.6 | 5.4 | 1.0 |
| 451 | Sporting Goods, Hobby, Book and Music Stores | 1,070.9 | 2.1 | 1,055.0 | 2.0 | 1,054.6 | 1.9 | 1,084.9 | 2.0 | 1,125.1 | 2.0 | 1.2 |
| 452 | General Merchandise Stores | 5,439.3 | 10.5 | 5,380.8 | 10.0 | 5,508.7 | 10.1 | 5,503.2 | 9.9 | 5,419.0 | 9.7 | (0.1) |
| 453 | Miscellaneous Store Retailers | 5,163.2 | 9.9 | 5,052.6 | 9.4 | 5,739.5 | 10.5 | 5,773.9 | 10.4 | 5,978.1 | 10.7 | 3.7 |
| 454 | Nonstore Retailers | <u>3,858.6</u> | <u>7.4</u> | <u>4,332.5</u> | <u>8.1</u> | <u>4,496.1</u> | <u>8.2</u> | <u>4,204.1</u> | <u>7.6</u> | <u>4,095.5</u> | <u>7.3</u> | <u>1.5</u> |
| | Total^(a) | \$52,019.2 | 100.0% | \$53,600.6 | 100.0% | \$54,554.4 | 100.0% | \$55,358.8 | 100.0% | \$56,030.3 | 100.0% | 1.9% |
| | Durables (NAICS 441, 442, 443, 444) | \$14,262.0 | 27.4% | \$15,162.0 | 28.3% | \$15,843.0 | 29.0% | \$16,475.0 | 29.8% | \$16,759.0 | 29.9% | 4.1% |
| | Non Durables (all other NAICS) | \$37,757.0 | 72.6% | \$38,439.0 | 71.7% | \$38,712.0 | 71.0% | \$38,884.0 | 70.2% | \$39,271.0 | 70.1% | 1.0% |

(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 late 1990s, Connecticut, as well as the rest of the Northeast and the Nation, experienced an economic slowdown during the recession of the early 2000s. The unemployment rate in the State reached a low of 2.4% in 2000, compared to New England's average of 2.8% and the national average of 4.0%. After climbing to 5.4% in 2003, Connecticut's unemployment rate declined to 4.3% by 2006, but climbed during the most recent recession to 9.1% in 2010. Connecticut's average unemployment rate fell to 4.8% in 2017 (average of the first six months) compared to the New England average of 3.9% and the national average of 4.5% for the same period.

The following table compares the unemployment rate averages of Connecticut, New England, and the United States for the calendar years 2008 through 2017.

SUPPLEMENTARY INFORMATION AS OF AUGUST 16, 2018

**TABLE A-23
Unemployment Rate**

| Calendar Year | Unemployment Rate | | |
|--------------------------|--------------------------|--------------------|----------------------|
| | Connecticut | New England | United States |
| 2008 | 5.7% | 5.6% | 5.8% |
| 2009 | 8.1 | 8.2 | 9.3 |
| 2010 | 9.1 | 8.3 | 9.6 |
| 2011 | 8.8 | 7.7 | 8.9 |
| 2012 | 8.3 | 7.2 | 8.1 |
| 2013 | 7.7 | 6.8 | 7.4 |
| 2014 | 6.6 | 5.8 | 6.2 |
| 2015 | 5.6 | 4.8 | 5.3 |
| 2016 | 5.0 | 4.0 | 4.9 |
| 2017 ^(a) | 4.7 | 3.8 | 4.4 |

(a) On a preliminary basis, Connecticut's unemployment rate was estimated at 4.5% for April 2018 compared to the national average of 3.9%. No assurances can be provided that such rates will not change.

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

FINANCIAL PROCEDURES

The information in this section contains information through February 15, 2018 except as may otherwise be set forth below.

SUPPLEMENTARY INFORMATION AS OF AUGUST 16, 2018

The State has in place a number of constitutional provisions, statutes, regulations, and administrative policies and procedures that bear on fiscal management and accountability. These include provisions that limit debt and expenditures and provisions that lay out a sequence for planning future budgets, the development and adoption of a biennial budget, and the monitoring of the State's financial position against the current budget. Taken as a whole, the State believes these provisions provide budgetary discipline, financial controls and forecasting and monitoring resulting in sound fiscal management and accountability. These provisions include the following elements, each of which are explained in more detail in the text that follows:

| | | |
|-----------------------------------|---|---|
| Budget Discipline | <i>Balanced Budget Requirement</i> | The State Constitution provides that the General Assembly may not authorize general budget expenditures in excess of estimated revenues. State law (CGS 2-35) requires that total net appropriations for each fund shall not exceed estimated revenues for such fund. |
| Financial Controls | <i>Spending Cap</i> | The General Assembly is prohibited from increasing expenditures from year to year by a percentage exceeding the greater of the percentage increase in personal income or the percentage increase in inflation, with certain exceptions. |
| Budget Discipline | <i>Biennial Budget</i> | The budget covers a two year period and the power to propose, enact, and implement such budget rests with the Governor and General Assembly. |
| Budget Discipline | <i>Line Item Veto</i> | 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. |
| Financial Controls | <i>Debt Limit</i> | By statute, the State may not authorize general obligation debt in excess of a multiple of 1.6 of General Fund tax receipts, subject to statutory exceptions. The Treasurer certifies as to the debt limit in connection with each authorization of debt by the General Assembly and the State Bond Commission. In addition, there are additional issuance limits imposed on the Treasurer. |
| Forecasting and Monitoring | <i>Regular Revenue Forecasting, Monitoring of Fiscal Progress and Multiple-Year Planning Tools</i> | Monthly reports from the Comptroller and the Office of Policy and Management, and periodic reports from other governmental entities, including the Legislature's Office of Fiscal Analysis. |
| Financial Controls | <i>Rescission Authority and Deficit Mitigation</i> | The Governor is required to propose mitigation plans should projections indicate a General Fund deficit greater than 1% of total General Fund appropriations. The Governor is authorized to reduce allotments up to 5% of any appropriation, but not to exceed 3% of any fund and to make further reductions with legislative approval. |
| Budget Discipline | <i>Budget Reserve Fund</i> | Constitutional and statutory regime for funding the Budget Reserve Fund. |
| Financial Controls | <i>GAAP Based Budgeting</i> | The State has transitioned from the use of a modified cash basis of accounting to the application of Generally Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board. |
| Transition to GAAP | | See Accounting Procedures – Financial Reporting |

The Budgetary Process

Balanced Budget Requirement and Spending Cap. The State Constitution provides that the amount of general budget expenditures authorized for any fiscal year may not exceed the estimated amount of revenue for such fiscal year. The Constitution also precludes the General Assembly 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 that 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.

In 1996, the Connecticut Supreme Court ruled in *Nielson v. State* 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 for implementation of the spending cap. In a 2015 opinion, the State Attorney General concluded that unless and until the General Assembly adopts, by the necessary three-fifths vote of the members of each house of the General Assembly, the definitions required by the constitutional spending cap, the constitutional spending cap has no legal effect. Pursuant to Public Act No. 17-2 of the June Special Session, (referred to herein as the “2017 Budget Act”), the General Assembly adopted definitions by a three-fifths vote.

The General Assembly had been following a statutory provision similar to the Constitutional budget cap. In addition to the exclusion of debt service from the budget cap, the new definitions exclude expenditures of any federal funds granted to the State or its agencies, expenditures to implement federal mandates and court orders in the first fiscal year in which such expenditures are authorized, expenditures for federal programs in which the State is participating for which the State received federal matching funds in the first fiscal year in which such expenditures are authorized and temporarily payments for a portion of the state employee and teachers’ pension contributions. In addition, a base year adjustment is made in any fiscal year in which an expenditure item is moved on or off budget.

In addition to the above limitations on the authorization of general budget expenditures, on and after July 1, 2019, a new cap on General Fund and Special Transportation Fund appropriations prohibits the General Assembly from authorizing General Fund and Special Transportation Fund appropriations for any fiscal year that, in the aggregate, exceed a specified percentage (declining from 99.5% to 98%) of the estimated revenues included in the budget act, subject to certain exceptions.

Biennium Budget. The State’s fiscal year begins on July 1 and ends on June 30. The General Statutes require that the budgetary process be on a biennium basis. The Governor is required to transmit a budget document to the General Assembly 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 that 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, that sets forth estimated revenues and expenditures for the three fiscal years after the biennium in progress.

Preparation of the Budget. Formulation of the budget document 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 (“OPM”) and to the joint legislative standing committee on appropriations and the committee having cognizance of matters relating to such budgeted agency. On or before September 1 of each odd-numbered year, 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 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 OPM’s practice to prepare a preliminary budget report.

Budget Document. The budget document 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 on the day on which the General Assembly first convenes in even-numbered years. By statute, the budget document must contain the Governor’s budget message, the Governor’s 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. The Governor also will recommend the manner in which any deficit will be met or any surplus used.

Adoption of the Budget. Following publication and presentation of the budget document to the General Assembly, 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 related reports. Prior to June 30 of each odd-numbered year, the General Assembly enacts legislation making appropriations for the next two fiscal years and setting forth revenue estimates for those years.

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. The General Assembly may separately reconsider and repass such disapproved appropriation items by a two thirds vote of each house.

Statutory Debt Limit. In addition to the biennial budget, the General Assembly also authorizes a variety of types of debt. Section 3-21 of the Connecticut General Statutes provides that no bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly or issued except as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and (2) the total amount of such indebtedness that has been issued and remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of the State for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. However, in computing the aggregate amount of indebtedness at any time, there are certain statutory exclusions and deductions.

Consensus Revenue Estimates. OPM and the Legislature’s Office of Fiscal Analysis (“OFA”) are required by statute to issue consensus revenue estimates each year by November 10. The estimates must cover a five-year period that includes the current biennium and the three following fiscal years. It also requires the two offices, by January 15 and April 30 each year, to issue either (1) a consensus revision of their previous estimate or (2) a statement that no revision is needed. If the two agencies cannot arrive at a consensus estimate, they must issue separate ones. In such a case, the Comptroller must issue the consensus estimate based upon the separate estimates. The Comptroller’s estimate must equal one of the separate estimates or fall between the two.

Fiscal Accountability Report. By November 15 annually, the Secretary of OPM and the Director of OFA each submit the following to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of State agencies and to finance, revenue and bonding: (1) for the current biennium and the next ensuing three fiscal years an estimate of State revenues, the level of expenditure change from current year expenditures allowable by consensus revenue estimates in each fund, any changes to current year expenditures necessitated by fixed cost drivers, and the aggregate changes to current year expenditures required to accommodate fixed cost drivers without exceeding current revenue estimate; (2) the projected tax credits to be used in the current biennium and the next ensuing three fiscal years, and the assumptions on which such projections are based; (3) a summary of any estimated deficiencies in the current fiscal year, the reasons for such deficiencies, and the assumptions upon which such estimates are based; (4) the projected balance in the Budget Reserve Fund at the end of each uncompleted fiscal year of the current biennium and the next ensuing three fiscal years; (5) the projected bond authorizations, allocations and issuances in each of the next ensuing five fiscal years and their impact on the debt service of the major funds of the State; (6) an analysis of revenue and expenditure trends and of the major cost drivers affecting State spending, including identification of any areas of concern and efforts undertaken to address such areas, including efforts to obtain federal funds; and (7) an analysis of possible uses of surplus funds, including the Budget Reserve Fund, debt retirement and funding of pension liabilities.

By November 30 annually, the legislative committees then meet with the Secretary of OPM and the Director of OFA to consider the submitted reports. Pursuant to the 2017 Budget Act, the November 15, 2017 reports were not required to be submitted.

Financial Controls

Expenditures. The financial control procedures utilized by the State 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 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 in Expenditure Control. Before an appropriation for a budgeted agency becomes available for expenditure, the agency must submit to the Governor 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. If the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one per cent of the total of General Fund appropriations, the Governor is required, within thirty days of such statement date, to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report must include a plan that the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. The Governor is not authorized to reduce allotment requisitions or allotments in force concerning aid to municipalities or any budgeted agency of the legislative or judicial branch, except that the Governor may propose an aggregate allotment reduction of a specified amount for the legislative or judicial branch.

Comptroller's Role in Expenditure Control. 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. The Comptroller is required to issue cumulative monthly financial reports concerning the State General Fund on or before the first day of the following month. OPM provides estimates to the Comptroller by the twentieth day of each month of the revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report.

Treasurer's Role in Expenditure Control. The Treasurer is required to honor all warrants, drafts and orders properly drawn by the Comptroller. Payments of principal or interest of State bonds and payments of interest on funds held by the Treasurer on which the Treasurer is required to pay interest do not require specific appropriations.

Use of Appropriations; Unexpended 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. 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.

SUPPLEMENTARY INFORMATION AS OF SEPTEMBER 28, 2018

Unappropriated Surplus – Budget Reserve Fund. The State Constitution provides that any 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 2017 Budget Act which was passed by a three-fifths vote of each house of the General Assembly restructured the funding and use of the Budget Reserve Fund. All revenue in excess of \$3.15 billion received by the State each fiscal year from estimated and final payments of the personal income tax imposed under chapter 229 of the general statutes is to be transferred by the Treasurer to the Budget Reserve Fund. Pursuant to the midterm budget adjustments enacted into law through Public Act No. 18-81, this amount is subject to annual adjustment by the compound annual growth rate of personal income in the State over the preceding five calendar years and further subject to amendment by a vote of at least three-fifths of the members of each house of the General Assembly due to changes in State or federal tax law or policy or significant adjustments to economic growth or tax collections. The State received approximately \$3.164 billion in Fiscal Year 2017 from estimated and final payments of such personal income tax, which does not include withholding tax receipts. The Treasurer is also required to 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 15% of the net General Fund appropriation for the current fiscal year, no further transfers shall be made by the Treasurer and the amount of such funds in excess of that transferred to such fund shall be deemed to be appropriated, as selected by the Treasurer in the best interests of the State to (i) the State Employees Retirement Fund according to a formula set forth in the general statutes or (ii) the Teachers' Retirement Fund up to 5% of the unfunded actuarial accrued liability. Thereafter, amounts are appropriated for redemption, purchase or extinguishment of outstanding indebtedness or additional contributions to the State Employees Retirement Fund or Teachers' Retirement Fund or, under specified conditions, may be transferred to the General Fund. Whenever the amount in the Budget Reserve Fund equals 5% or more of the net General Fund appropriations for the current fiscal year, the General Assembly may transfer funds in excess of the 5% threshold from the Budget Reserve

Fund, the purpose of paying unfunded past service liability of the State Employees Retirement Fund or the Teachers' Retirement Fund as the General Assembly, in consultation with the Treasurer determines to be in the best interests of the State. Whenever in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to the Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit. In addition, the General Assembly may transfer funds from the Budget Reserve Fund to the General Fund if any consensus revenue estimate for the current biennium projects a decline in General Fund revenues for the current biennium of 1% or more from the total amount of General Fund estimated revenue on which the budget act or adjusted revenue plan enacted by the General Assembly was based or from the April 30th annual consensus revenue estimate. Any such transfer may be made at any time during the remainder of the current biennium.

Notwithstanding the above, legislation is passed from time to time that assigns different uses to such surpluses. The balance in the Budget Reserve Fund as of June 30, 2017, was \$212.9 million, which is 1.1% of the net General Fund appropriations for Fiscal Year 2018. The balance in the Budget Reserve Fund as of June 30, 2018, as estimated by the Comptroller, is \$1,185.3 million, which is 6.2% of the net General Fund appropriations for Fiscal Year 2019.

Accounting Procedures

Books and Records. The State uses an enterprise resource planning system called Core-CT to address its automated financial accounting and human resources needs. This statewide system uses technology to manage financial transaction activities ranging from contracting and purchasing to payment and reporting. The State's financial applications are fully integrated with human resources, providing a single comprehensive management and reporting system.

Financial Reporting. For a number of years, the State has prepared annual financial statements in two ways: financial statements prepared using the guidance of Generally Accepted Accounting Principles ("GAAP"), as prescribed by the Government Accounting Standards Board ("GASB"), and financial statements prepared on a statutory basis (that is, following the adopted budget and related statutes, "statutory basis"). As described below, the State has transitioned to both budgeting and statutory financial statement reporting more in line with GAAP standards.

While not required to prepare financial statements in accordance with GAAP, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by GASB. These reports include audited annual financial statements prepared using the guidance of GAAP. The State does not prepare GAAP statements on an interim basis.

The Comptroller prepares financial statements annually on a statutory basis for submission to the Governor by September 30 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.

The statutory basis of accounting used for budgetary 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. As described below under "**GAAP Based Budgeting**", commencing in Fiscal Year 2014 appropriations have been made in line with the accrual of expenses for GAAP purposes, and the differences between the two methods are less significant than they would be without the budgetary conversion to GAAP budgeting, discussed below. Under the statutory basis, expenditures are recorded in the fiscal year in which the payment is processed versus when the expense is realized under a GAAP basis. In addition, there is a recording of expenditure accruals to the fiscal year in which specific goods and services are received

even though payment is not processed until the next fiscal year. Such accrued expenditures include State of Connecticut payroll expenses, general agency operating expenses, and Medicaid expenses. Certain appropriations that have not lapsed are reflected in the balance sheet through a reserve for continuing appropriations. Under the statutory basis, there are limited modifications from the cash basis in recording revenues which are permitted by statute or decision of the Comptroller. Under the modified accrual basis used for GAAP financial recording, generally all revenues are recognized when they are realized or realizable and earned.

GAAP Based Budgeting. Legislation passed in 2011 required the transition from the previously used modified cash basis of accounting to GAAP. This legislation required that the budget, commencing with Fiscal Year 2014, be prepared in accordance with GAAP, commonly referred to as GAAP budgeting. While GASB does not recognize a concept of GAAP budgeting or prescribe standards for GAAP budgeting, the State interprets the policy objectives of the GAAP budgeting requirement as a requirement to authorize expenditures in line with the accrual of the expenditures, to estimate revenues in line with the accrual of revenues, and an intention, over time, to eliminate the GAAP deficit. The transition to the implementation of the use of GAAP accrual principles with respect to the preparation of the biennial budget included changing the meaning of a deficit as it relates to the requirement that the Governor's budget includes recommendations to the General Assembly regarding the manner in which any deficit shall be met. As a result, prior to the start of the biennium for which the budget document is transmitted to the General Assembly, the Governor now accounts for the amount necessary to extinguish any unreserved negative balance in each budgeted fund as addressed in the most recently issued statutory basis annual financial report issued by the Comptroller. The Governor is not required to account for the extinguishment of any unreserved negative balance resulting from adjustments that are not accounted for within the budget process.

The Comptroller initiated a process intended to result in the implementation of the policy objectives of GAAP with respect to the preparation and maintenance of the biennial budget and the annual financial statements of the State previously prepared on a modified cash basis. The Comptroller established an opening combined balance sheet for each appropriated fund reflecting GAAP accrual principles. This combined balance sheet reflected as a deferred charge the accumulated deficit in the General Fund on June 30, 2013 of \$1,217.1 million, as determined on the modified accrual basis of GAAP and identified in the comprehensive annual financial report of the State as the unassigned fund balance in the General Fund, commonly referred to as the accumulated GAAP deficit. As part of a two-part plan to extinguish such deficit, the State issued bonds in October 2013 in the amount of \$560.43 million generating net proceeds of approximately \$600 million, which was deposited in the General Fund and applied to reduce the accumulated GAAP deficit ("GAAP Bonds"). The second part of the plan was additional legislation that deemed appropriated the amounts needed to amortize the difference between the remaining accumulated GAAP deficit from Fiscal Year 2016 to Fiscal Year 2028. The GAAP Bonds contain a contractual covenant with bondholders that no future action of the General Assembly shall diminish the appropriation so long as the GAAP Bonds are outstanding, unless the Governor declares an emergency or there are other extraordinary circumstances.

In accordance with the second part of the plan, the deferred charge of the accumulated deficit discussed above is required to be amortized in each fiscal year of each biennial budget commencing with Fiscal Year 2016, and for the next succeeding twelve fiscal years. Commencing with Fiscal Year 2018 and for the succeeding ten years, the Secretary of OPM is required to annually publish an amortization schedule to fully reduce the negative unassigned balance by June 30, 2028. Additionally, the unreserved negative balance in the General Fund reported in the comprehensive annual financial report of the State for Fiscal Year 2014, reduced by (i) the negative unassigned balance of the General Fund for Fiscal Year 2013 and (ii) any funds from resources deposited in the General Fund for the purpose of reducing the negative unassigned balance of the General Fund, resulting in \$108.7 million, is required to be amortized in each fiscal year of each biennial budget commencing with Fiscal Year 2018 and for the succeeding ten fiscal years. To date, there has been one amortization payment made

for the GAAP deficit in the amount of \$47.6 million in Fiscal Year 2016. In recent years, enacted budgets have postponed the amortization payments and most recently, pursuant to the 2017 Budget Act, the Fiscal Year 2018 and Fiscal Year 2019 amortization payments of \$57.5 million in each year were postponed. While delaying the amortization of the accumulated GAAP deficit, this plan is intended to result in the elimination of the accumulated GAAP deficit as of June 30, 2013 by the end of Fiscal Year 2028. Although the State's two-part plan has resulted in the reduction of the overall GAAP deficit and the mitigation of its growth, the GAAP deficit has continued to grow over time largely due to the growth in spending accruals within the budgeted funds.

The negative unassigned fund balance in the General Fund to be amortized by June 30, 2028 pursuant to Public Act No. 17-61 was \$679,628,154 as of June 30, 2017.

Cash Management and Investment

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 funds under the control of the Treasurer, subject to certain conditions, including in certain circumstances the approval of the Investment Advisory Council, in a variety of investments allowed by statute.

Cash Management. The cash management system and the investment by the Treasurer of State monies, other than monies invested on a longer-term basis, including pension and certain trust funds, are based on the concept of available cash. Available cash consists of the State's common cash pool and funds invested in certain accounts in the Short-Term Investment Fund ("STIF"), including proceeds of various State bonding programs and miscellaneous other STIF accounts. The common cash pool is comprised of the operating cash of most State funds, including the General Fund and the Budget Reserve Fund, and is held or invested in bank deposits, STIF, and other short term investments. It is the State's practice to permit temporary inter-fund transfers to the common cash pool as needed to address mismatches in the timing of receipts and disbursements. This cash management policy is intended to provide flexibility for expenditures to occur when they are needed without the need to resort to short-term financing mechanisms that could impose additional costs on the State. Cash transferred pursuant to these temporary inter-fund transfers is returned as cash pool balances allow. The State's available cash varies from day to day. The week-ending balances of available cash for Fiscal Year 2017 averaged \$2.3 billion.

In addition, the Treasurer has the authority to establish, and has in the past established, lines of credit and other short-term financing mechanisms to secure the availability of cash.

On a daily basis, the Treasurer calculates expected cash receipts and disbursements, necessary bank balances, and amounts available for investment. The Treasurer is required to submit a monthly report to certain legislative members and the OFA that includes among other items, a weekly list of the State's cash balance, a year to date total of authorized but unissued bonds, debt instruments or commercial paper of the State, and the amounts in the State's common cash pool.

Short-Term Investment Fund. STIF is a combined investment pool of high quality, short-term money market instruments, which is an investment vehicle for the temporary surplus cash of all funds for 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 and the investment

restrictions of Section 3-27d of the Connecticut General Statutes. These investment guidelines prohibit investment in derivative securities other than floating rate securities that 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. STIF is rated "AAAm" by Standard & Poor's.

Other Funds. Other State monies are held in certain other funds. Up to \$100 million of the State's operating cash may be invested in certificates of deposit of community banks and credit unions, pursuant to Section 3-24k of the CGS. In addition, investments may be made in individual securities pursuant to Section 3-31a of the CGS. Allowable investments under Section 3-31a of the CGS include United States government and agency obligations, shares or interests in an investment company or investment 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 collateralized by such obligations, certificates of deposit, commercial paper, savings accounts, and bank acceptances. The Treasurer has adopted guidelines for investments made under Section 3-31a of the CGS that specify credit and diversification standards, and limit individual security maturities to three years and the total amount invested to \$1.5 billion. Pursuant to Section 3-28a of the CGS and guidelines adopted by the Treasurer, the Treasurer is authorized to invest 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.

Investment and Payment of Bond Proceeds. Proceeds of bonds are accounted for in various bond funds. Generally, all invested assets of the bond funds are invested in STIF. Bond proceeds are expended in accordance with the authorization and allotment procedure of the State Bond Commission and the Governor. Assets of the bond funds may from time to time be transferred temporarily to the common cash pool in accordance with the State's overall cash flow needs. Under the State's accounting system, transfer 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 temporary transfer 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.

Investment Advisory Council. Trust fund investments by the Treasurer are reviewed by the Investment Advisory Council, comprised of the Treasurer and the Secretary of 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. Under certain limited circumstances, all private equity or real estate investments require approval of the Investment Advisory Council. 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.

Investment of Pension Funds. Eleven 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 Mutual Equity Fund, the Developed Markets International Stock Fund, the Emerging Markets International Stock Fund, the Core Fixed Income Fund, the Inflation Linked Bond Fund, the Emerging Markets Debt Fund, the High Yield Debt Fund, the Private Investment Fund, the Real Estate Fund, the Liquidity Investment Fund, and the Alternative Investment Fund. The pension, retirement and trust funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the eleven investment 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.

BUDGET APPROPRIATIONS OF THE STATE SPECIAL TRANSPORTATION FUND FOR
FISCAL YEARS 2017-2018 AND 2018-2019

| APPROPRIATIONS | 2017-2018 | 2018-2019 |
|--|----------------------|----------------------|
| I. DEPARTMENT OF TRANSPORTATION | | |
| A. Personal Services | 175,824,829 | 175,874,964 |
| B. Other Expenses | 53,727,023 | 53,214,223 |
| C. Equipment | 1,341,329 | 1,341,329 |
| D. Minor Capital Projects | 449,639 | 449,639 |
| E. Highway Planning and Research | 3,060,131 | 3,060,131 |
| F. Rail Operations | 173,370,701 | 211,673,193 |
| G. Bus Operations | 156,352,669 | 191,687,787 |
| H. ADA Para-Transit Program | 38,039,446 | 41,839,446 |
| I. Non-ADA Dial-A-Ride Program | 1,576,361 | 1,576,361 |
| J. Pay-As-You-Go Transportation Projects | 13,629,769 | 13,629,769 |
| K. Port Authority | 400,000 | 400,000 |
| L. Transportation to Work | 2,370,629 | 2,370,629 |
| AGENCY TOTAL TRANSPORTATION FUND | 620,142,526 | 697,117,471 |
| II. MOTOR VEHICLE DEPARTMENT | | |
| A. Personal Services | 49,601,226 | 49,296,260 |
| B. Other Expenses | 15,897,378 | 15,397,378 |
| C. Equipment | 468,756 | 468,756 |
| D. Commercial Vehicle Information Systems and Networks Project | 214,676 | 214,676 |
| AGENCY TOTAL | 66,182,036 | 65,377,070 |
| III. GENERAL GOVERNMENT | | |
| DEPARTMENT OF ADMINISTRATIVE SERVICES | | |
| A. State Insurance and Risk Mgmt Operations | 8,353,680 | 8,508,924 |
| TOTAL GENERAL GOVERNMENT | 8,353,680 | 8,508,924 |
| IV. CONSERVATION AND DEVELOPMENT | | |
| DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION | | |
| A. Personal Services | 2,060,488 | 2,060,488 |
| B. Other Expenses | 701,974 | 701,974 |
| TOTAL CONSERVATION AND DEVELOPMENT | 2,762,462 | 2,762,462 |
| V. NON-FUNCTIONAL | | |
| DEBT SERVICE - STATE TREASURER | | |
| Debt Service - State Treasurer | 614,679,938 | 651,223,716 |
| RESERVE FOR SALARY ADJUSTMENT | | |
| Reserve for Salary Adjustment | 2,301,186 | 2,301,186 |
| DEPARTMENT OF ADMINISTRATIVE SERVICES | | |
| Worker's Compensation Claims | 6,723,297 | 6,723,297 |
| APPROPRIATIONS ADMINISTERED BY THE COMPTROLLER | | |
| Unemployment Compensation | 203,548 | 203,548 |
| STATE EMPLOYEES RETIREMENT CONTRIBUTIONS | | |
| Other Expenses | 132,842,942 | 126,280,942 |
| INSURANCE - GROUP LIFE | | |
| Other Expenses | 273,357 | 277,357 |
| EMPLOYERS SOCIAL SECURITY TAX | | |
| Other Expenses | 15,655,534 | 15,674,834 |
| STATE EMPLOYEES HEALTH SERVICE COST | | |
| Other Expenses | 46,110,687 | 46,618,403 |
| OTHER POST EMPLOYMENT BENEFITS | | |
| Other Expenses | 6,000,000 | 6,000,000 |
| OTHER | | |
| Non-functional - Change to Accruals | 675,402 | 213,133 |
| TOTAL NON-FUNCTIONAL | 825,465,891 | 855,516,416 |
| TOTAL - Special Transportation Fund | 1,522,906,595 | 1,629,282,343 |
| Less: Estimated Lapse | (12,000,000) | (12,000,000) |
| NET - SPECIAL TRANSPORTATION FUND | 1,510,906,595 | 1,617,282,343 |

SOURCES: Public Act 17-2, June Special Session, as amended by Public Act 18-81

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**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017

CONTENTS

| | Page |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| 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 - Special Revenue Fund | 5 |
| Notes to Financial Statements | 6 |

INDEPENDENT AUDITOR'S REPORT

To the Honorable Dannel P. Malloy
Governor of the State of Connecticut

Report of the Financial Statements

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, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 as of June 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note A, the financial statements present only the Special Transportation Fund and do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2017, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Mahoney Sabol + Company, LLP

Glastonbury, Connecticut
October 26, 2017

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017
(Amounts Expressed in Thousands)

| | <u>Special Revenue Fund</u> | <u>Debt Service Fund</u> | <u>Restricted Grants Fund</u> | <u>Total</u> |
|---|---------------------------------|------------------------------|-----------------------------------|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 33,671 | \$ - | \$ - | \$ 33,671 |
| Restricted investments held by Trustee | - | 827,125 | - | 827,125 |
| Receivables: | | | | |
| Taxes | 139,358 | - | - | 139,358 |
| Accounts, net of allowance for doubtful accounts of \$1,780 and \$332 for the Special Revenue Fund and Restricted Grants Fund, respectively | 19,530 | - | 659 | 20,189 |
| Interest | 236 | 1,419 | - | 1,655 |
| Restricted federal grants | - | - | 105,899 | 105,899 |
| Due from other funds of the State | 1,419 | - | - | 1,419 |
| Inventories | 26,906 | - | - | 26,906 |
| Total assets | <u>\$ 221,120</u> | <u>\$ 828,544</u> | <u>\$ 106,558</u> | <u>\$ 1,156,222</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued liabilities | \$ 30,771 | \$ - | \$ 110,609 | \$ 141,380 |
| Due to other funds of the State | - | 1,419 | 828 | 2,247 |
| Total liabilities | <u>30,771</u> | <u>1,419</u> | <u>111,437</u> | <u>143,627</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Receivables to be collected in future periods | 13,835 | - | 326 | 14,161 |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Inventories | 26,906 | - | - | 26,906 |
| Restricted for: | | | | |
| Transportation programs | 149,608 | - | - | 149,608 |
| Debt service | - | 827,125 | - | 827,125 |
| Federal grant programs | - | - | (5,205) | (5,205) |
| Total fund balances (deficit) | <u>176,514</u> | <u>827,125</u> | <u>(5,205)</u> | <u>998,434</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 221,120</u> | <u>\$ 828,544</u> | <u>\$ 106,558</u> | <u>\$ 1,156,222</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
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(Amounts Expressed in Thousands)

| | Special Revenue Fund | Debt Service Fund | Restricted Grants Fund | Total |
|---|-------------------------|----------------------|---------------------------|-------------------|
| REVENUES | | | | |
| Motor fuel taxes | \$ 808,723 | \$ - | \$ - | \$ 808,723 |
| Sales taxes | 188,380 | - | - | 188,380 |
| License, permit and fee revenues | 331,080 | - | - | 331,080 |
| Investment income | 3,001 | 5,670 | - | 8,671 |
| Intergovernmental grants | 12,168 | - | 805,721 | 817,889 |
| Fines and rents | 19,777 | - | - | 19,777 |
| Sales and other services | 23,514 | - | - | 23,514 |
| Miscellaneous | 9,243 | 34 | 4,730 | 14,007 |
| Total revenues | <u>1,395,886</u> | <u>5,704</u> | <u>810,451</u> | <u>2,212,041</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 4,583 | - | 10 | 4,593 |
| Regulation and protection | 108,074 | - | 1 | 108,075 |
| Conservation and development | 4,548 | - | - | 4,548 |
| Transportation | 762,421 | - | 802,714 | 1,565,135 |
| Human services | 2,370 | - | - | 2,370 |
| Debt service: | | | | |
| Principal retirement | 530 | 270,550 | - | 271,080 |
| Interest and fiscal charges | 627 | 231,259 | 594 | 232,480 |
| Total expenditures | <u>883,153</u> | <u>501,809</u> | <u>803,319</u> | <u>2,188,281</u> |
| Excess (deficiency) of revenues over expenditures | 512,733 | (496,105) | 7,132 | 23,760 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refunding bonds issued | - | 68,265 | - | 68,265 |
| Payment to refunded bond escrow agent | - | (83,669) | - | (83,669) |
| Premium on bonds issued | - | 13,858 | - | 13,858 |
| Transfers from other State funds | 6,430 | 592,966 | 601 | 599,997 |
| Transfers to other State funds | (548,532) | (6,430) | - | (554,962) |
| Total other financing sources (uses) | <u>(542,102)</u> | <u>584,990</u> | <u>601</u> | <u>43,489</u> |
| Net changes in fund balances | (29,369) | 88,885 | 7,733 | 67,249 |
| FUND BALANCES (DEFICIT), beginning of year | 208,627 | 738,240 | (12,938) | 933,929 |
| CHANGE IN RESERVE FOR INVENTORIES | (2,744) | - | - | (2,744) |
| FUND BALANCES (DEFICIT), end of year | <u>\$ 176,514</u> | <u>\$ 827,125</u> | <u>\$ (5,205)</u> | <u>\$ 998,434</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 - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017
(Amounts Expressed in Thousands)

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Over (Under)</u> |
|---|-------------------------|--------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Budgeted: | | | | |
| Taxes, net of refunds | \$ 1,050,800 | \$ 994,900 | \$ 996,904 | \$ 2,004 |
| License, permit, and fee revenues | 403,300 | 386,300 | 386,939 | 639 |
| Federal grants | 12,100 | 12,100 | 12,168 | 68 |
| Other | 8,500 | 8,100 | 8,995 | 895 |
| Refunds of payments | (3,800) | (4,100) | (4,103) | (3) |
| Operating transfers out | (6,500) | (6,500) | (6,500) | - |
| Total revenues | <u>1,464,400</u> | <u>1,390,800</u> | <u>1,394,403</u> | <u>3,603</u> |
| EXPENDITURES | | | | |
| Budgeted: | | | | |
| General government | 8,961 | 8,961 | 6,221 | (2,740) |
| Regulation and protection | 77,442 | 77,442 | 63,812 | (13,630) |
| Transportation | 618,385 | 618,385 | 604,733 | (13,652) |
| Conservation and development | 2,799 | 2,799 | 2,663 | (136) |
| Human services | 2,371 | 2,371 | 2,371 | - |
| Non-functional | 788,060 | 788,060 | 752,050 | (36,010) |
| Total expenditures | <u>1,498,018</u> | <u>1,498,018</u> | <u>1,431,850</u> | <u>(66,168)</u> |
| Appropriations lapsed | <u>15,300</u> | <u>44,701</u> | <u>-</u> | <u>(44,701)</u> |
| Excess (deficiency) of revenues over expenditures | (18,318) | (62,517) | (37,447) | 25,070 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Prior year appropriations carried forward | 22,610 | 22,610 | 22,610 | - |
| Appropriations continued to fiscal year 2017-2018 | (30,389) | (30,389) | (30,389) | - |
| Total other financing sources (uses) | <u>(7,779)</u> | <u>(7,779)</u> | <u>(7,779)</u> | <u>-</u> |
| Net change in fund balance | <u>\$ (26,097)</u> | <u>\$ (70,296)</u> | <u>(45,226)</u> | <u>\$ 25,070</u> |
| BUDGETARY FUND BALANCE, beginning of year | | | 165,451 | |
| CHANGE IN RESERVE FOR CONTINUING APPROPRIATIONS | | | <u>7,779</u> | |
| BUDGETARY FUND BALANCE, end of year | | | <u>\$ 128,004</u> | |

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

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Special Transportation Fund (the "Fund") of the State of Connecticut have been prepared in conformity with accounting principles generally accepted in the United States of America as promulgated 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 used for the payment of debt service on general obligation bonds of the State issued for transportation infrastructure 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 financial position and changes in financial position of the Fund are subject to legislative actions enacted by the General Assembly of the State of Connecticut. C.G.S. Section 13b-61a and C.G.S. Section 13b-61c specify the amounts of the transfers from the General Fund to the Special Transportation Fund. P.A. 15-244 Section 91 eliminated all General Fund transfers to the Special Transportation Fund as of July 1, 2015 and provides that the tax collected on gross earnings from the sale of petroleum products will be deposited directly to the Special Transportation Fund. In addition, P.A. 15-5 Section 132 of the June 2015 Special Session, as amended by P.A. 15-1 Section 32 of the December 2015 Special Session provided for a portion of the State's general retail sales tax imposed under C.G.S. Section 12-408(1)(A) be deposited directly into the Special Transportation Fund, which began on December 1, 2015.

The Special Revenue Fund is included in the basic financial statements of the State of Connecticut as a major governmental fund, while the Debt Service Fund and Restricted Grants Fund are combined with similar funds of the State. The financial statements of the Special Transportation Fund of the State of Connecticut are intended to present the financial position, and the changes in financial position, of only that portion of each major fund and the aggregate remaining fund information 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 as of June 30, 2017 and the changes in the State's financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Fund has not presented a management's discussion and analysis ("MD&A") in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* because Management believes 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.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Basis of Presentation

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 Special Transportation 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 Special Transportation Fund are reported in the following major governmental funds in the accompanying fund financial statements:

- Special Revenue Fund - This fund is used to account for all transportation related taxes, fees and revenues and other receipts collected that are restricted 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 State Department of Transportation. The State 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 that are restricted for, and the payment of, principal and interest on special tax obligation bonds issued by the State for transportation infrastructure purposes.
- Restricted Grants Fund - This fund is used to account for transportation related restricted federal and non-federal grant revenues and expenditures.

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 45 days of the end of the current period except for federal revenues that are considered collectible within one year. 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 unearned revenue.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement Focus and Basis of Accounting - *Continued*

- Intergovernmental Grants and Similar Non-Exchange Transactions - Intergovernmental grants and similar non-exchange transactions 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 unearned revenue.
- Investment Income - Investment income from restricted investments held by the trustee in the bond service account and the debt service reserve account, and from other investments is recognized when earned.
- License, Permit, and Fee and Other Revenues - License, permit and fee 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.

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, exclusive of restricted investments held by the trustee. As of June 30, 2017, cash equivalents total \$31,421, and consist of investments in the State Treasurer's Short-Term Investment Fund. The State Treasurer's Short-Term Investment Fund is an investment pool managed by the State Treasurer's Office. The balance in the pool is reported at net asset value per share, which is representative of the fair value of the Fund's pool shares.

Investments

The Fund presents all investments at fair value. The fair value of investments traded on public markets, with the exception of investments in the State Treasurer's Short-Term Investment Fund, as described above, is determined using quoted market prices.

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.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund has no items that qualify for this reporting category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund only has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for this reporting in this category. The Fund reports unavailable revenue from various receivables and other revenues that are to be collected in future periods which are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

Employees hired on or before June 30, 1978, 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.

Fund Balances (amounts expressed in thousands)

The Fund may report the following fund balance categories:

Nonspendable - Amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through enabling legislation.

Committed - Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the State of Connecticut General Assembly.

Assigned - Amounts are constrained by the Fund's intent to be used for specific purposes, but are not restricted or committed.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Fund Balances (amounts expressed in thousands - *Continued*)

Unassigned - Residual classification for amounts necessary in other governmental funds to eliminate otherwise negative fund balance amounts in the other four categories.

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. When committed, assigned and unassigned resources are available for use, it is the Fund's policy to use committed resources first, then assigned resources and then unassigned resources as they are needed.

The deficit fund balance of the Restricted Grants Fund of \$5,205 as of June 30, 2017 does not constitute a statutory violation and is expected to be funded by miscellaneous revenue sources or future restricted grant revenues within the next fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 B - 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.

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 amounts appropriated for a particular purpose, such amounts must be allotted for the specific purpose by the Governor and encumbered by the State Comptroller upon request by the agency. Such amounts 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 amounts 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 modifications 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, 2017

NOTE B - BUDGETARY INFORMATION AND LEGAL COMPLIANCE - *Continued*

All funds of the State 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 fiscal 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 for 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.

The Special Revenue Fund is the only fund of the Special Transportation Fund for which a budget is legally adopted. 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 final adopted budget is presented in the accompanying statement of revenues, expenditures and changes in fund balances - budget and actual – non- GAAP budgetary basis.

A reconciliation between budgetary amounts and GAAP amounts for the Special Revenue Fund is as follows (amounts expressed in thousands):

| | Special Revenue Fund |
|---|---------------------------------|
| Net change in fund balance - budgetary basis | \$ (45,226) |
| Increase in receivables | 1,184 |
| Decrease in accounts payable and accrued liabilities | 6,029 |
| Decrease in other liabilities | 865 |
| Increase in continuing appropriations | 7,779 |
| Net change in fund balance - GAAP basis | \$ (29,369) |

NOTE C - 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 G. 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").

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE C - RESTRICTION OF FUND REVENUES - *Continued*

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 approximately \$805.7 million for the year ended June 30, 2017 and are not available for debt service.

NOTE D - CASH DEPOSITS – CUSTODIAL CREDIT RISK (amounts expressed in thousands)

Custodial credit risk is the risk that, in the event of a bank failure, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The State maintains its deposits in qualified financial institutions located in the state to reduce its exposure to this risk. These institutions are required to maintain, segregated from their other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent or 120 percent of its public deposits. The collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

The carrying value of the Fund’s cash deposits totaled \$2,250 as of June 30, 2017. Because the Fund’s cash deposits are commingled with those of other funds of the State, the amount of deposits subject to custodial credit risk of the Fund’s cash deposits in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* is not readily determinable as of June 30, 2017.

Investments in the State Treasurer’s Short-Term Investment Fund totaling \$31,421 are included in cash and cash equivalents in the accompanying balance sheet. For purposes of disclosure under GASB Statement No. 40, such amounts are considered investments and are included in the disclosure in Note E.

NOTE E - INVESTMENTS (amounts expressed in thousands)

As of June 30, 2017, the Fund’s investments consist of the following:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities (In Years)</u> | | |
|-------------------------------|-------------------|---|---------------|-------------------|
| | | <u>Less Than 1</u> | <u>1 to 5</u> | <u>6 to 10</u> |
| Debt Securities | | | | |
| Short-Term Investment Fund | \$ 721,490 | \$ 721,490 | \$ - | \$ - |
| Federal Fixed Rate Securities | <u>137,056</u> | <u>-</u> | <u>-</u> | <u>137,056</u> |
| | <u>\$ 858,546</u> | <u>\$ 721,490</u> | <u>\$ -</u> | <u>\$ 137,056</u> |

Because the State Treasurer’s Short-Term Investment Fund had a weighted average maturity of less than 90 days, it has been presented as an investment with a maturity of less than one year.

A reconciliation of the Fund’s investments as presented in the accompanying balance sheet as of June 30, 2017 is as follows:

| | |
|--|-------------------|
| Bond service account | \$ 283,935 |
| Debt service reserve account | <u>543,190</u> |
| Restricted investments held by Trustee | 827,125 |
| Cash and cash equivalents | <u>31,421</u> |
| | <u>\$ 858,546</u> |

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE E - INVESTMENTS (amounts expressed in thousands) - *Continued*

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 Indenture.

Interest Rate Risk

The Fund's investment policy to limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates is delineated in Article VI of the Indenture of Trust dated September 15, 1984.

Credit Risk

The Fund's investment policies are delineated in Article VI of the Indenture of Trust dated September 15, 1984. No investments of the Fund may have a maturity date longer than 10 years. In addition, in accordance with Connecticut General Statutes, allowable investments include 1) obligations, securities and investments set forth in subsection (f) of Section 3-20 of the Connecticut General Statutes and 2) participation certificates in the State Treasurer's Short-Term Investment Fund created under Section 3-27a of the General Statutes.

The Fund's investments in debt securities were rated as follows at June 30, 2017:

| <u>Debt Securities</u> | <u>Fair Value</u> | <u>Standard & Poors</u> | <u>Moody's</u> | <u>Fitch</u> |
|-------------------------------|-----------------------|---------------------------------|----------------|--------------|
| Short-Term Investment Fund | \$ 721,490 | AAAm | Unrated | Unrated |
| Federal Fixed Rate Securities | 137,056 | AA+ | Aaa | AAA |
| | <u>\$ 858,546</u> | | | |

Concentrations of Credit Risk

The Fund places no limit on the amount of investment in any one issuer. None of the Fund's investments met the requirements for disclosure of any concentrations of credit risk as investments in the State Treasurer's Short-Term Investment Fund does not consist of securities that exist in physical or book entry form.

NOTE F - FAIR VALUE MEASUREMENTS (amounts expressed in thousands)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as of the measurement date. Authoritative guidance establishes a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). The Fund classifies its assets and liabilities measured at fair value into Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which market inputs are observable, either directly or indirectly, and Level 3 (securities valued based on unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE F – FAIR VALUE MEASUREMENTS (amounts expressed in thousands) - *Continued*

The Fund’s financial assets that are accounted for at fair value on a recurring basis as of June 30, 2017, by level within the fair value hierarchy are presented in the table below.

| Financial Assets Measured at Fair Value | Prices in Active Market (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|--|--|--|--------------|
| Federal Fixed Rate Securities | \$ - | \$ 137,056 | \$ - | \$ 137,056 |

NOTE G - 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, 2017 is as follows:

| Issue | Interest Rates | Dated Date | Maturing Through Fiscal Year | Amount of Original Issue | Principal Balance at June 30, 2017 |
|---------------|---------------------------|--------------------|---|---|---|
| 2004B Bonds* | 3.00% - 5.25% | November 15, 2004 | 2020 | \$ 89,725,000 | \$ 32,150,000 |
| 2007A Bonds | 3.50% - 5.00% | October 25, 2007 | 2028 | 250,000,000 | 11,695,000 |
| 2008 1 Bonds* | 3.50% - 5.00% | October 1, 2008 | 2022 | 97,690,000 | 31,050,000 |
| 2008A Bonds | 3.50% - 5.00% | December 10, 2008 | 2029 | 300,000,000 | 136,805,000 |
| 2009 1 Bonds* | 3.50% - 5.00% | January 29, 2009 | 2022 | 415,035,000 | 155,405,000 |
| 2009A Bonds | 2.50% - 5.00% | November 10, 2009 | 2030 | 195,970,000 | 69,005,000 |
| 2009B Bonds | 4.86% - 5.74% | November 10, 2009 | 2030 | 304,030,000 | 304,030,000 |
| 2010A Bonds | 2.00% - 5.00% | November 10, 2010 | 2020 | 199,570,000 | 76,610,000 |
| 2010B Bonds | 4.13% - 5.46% | November 10, 2010 | 2031 | 400,430,000 | 400,430,000 |
| 2010C Bonds* | 2.00% - 5.00% | November 10, 2010 | 2023 | 137,675,000 | 82,015,000 |
| 2011A Bonds | 3.38% - 5.00% | December 15, 2011 | 2032 | 221,230,000 | 190,285,000 |
| 2011B Bonds* | 2.00% - 5.00% | December 15, 2011 | 2023 | 233,845,000 | 86,735,000 |
| 2012A Bonds | 2.00% - 5.00% | December 21, 2012 | 2033 | 502,290,000 | 427,135,000 |
| 2012B Bonds* | 5.00% | December 21, 2012 | 2025 | 125,100,000 | 107,100,000 |
| 2013A Bonds | 2.00% - 5.00% | November 21, 2013 | 2034 | 600,000,000 | 542,350,000 |
| 2014A Bonds | 2.00% - 5.00% | October 16, 2014 | 2035 | 600,000,000 | 570,750,000 |
| 2014B Bonds* | 3.00% - 5.00% | October 16, 2014 | 2026 | 131,545,000 | 131,545,000 |
| 2015A Bonds | 3.00% - 5.00% | October 15, 2015 | 2036 | 700,000,000 | 678,710,000 |
| 2015B Bonds* | 2.00% - 5.00% | October 15, 2015 | 2028 | 139,770,000 | 139,770,000 |
| 2016A Bonds | 3.00% - 5.00% | September 28, 2016 | 2037 | 800,000,000 | 800,000,000 |
| 2016B Bonds* | 2.00% - 5.00% | September 28, 2016 | 2029 | 68,265,000 | 68,265,000 |
| | | | | | <u>\$ 5,041,840,000</u> |

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

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE G - SPECIAL TAX OBLIGATION BONDS – *Continued*

Proceeds from the sale of special tax obligation bonds were used to: fund the State's Infrastructure Improvement Fund, fund any required deposits to the debt service reserve fund (held as restricted investment by Trustee – see Note E) and to pay costs associated with the sale of the bonds. The Infrastructure Improvement Fund was established by the State to account for the net bond proceeds to be used for Transportation 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 Special Transportation Fund and funds are 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 debt service 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 future fiscal year.

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

The 2007 Series A Bonds maturing on or after August 1, 2018 will be subject to redemption, at the election of the State, on or after August 1, 2017 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 August 1, 2017 and thereafter.

The 2008 Series 1 Bonds maturing on or after February 1, 2021 will be subject to redemption, at the election of the State, on or after February 1, 2018 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 February 1, 2018 and thereafter.

The 2008 Series A Bonds maturing on or after November 1, 2019 will be subject to redemption, at the election of the State, on or after November 1, 2018 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 November 1, 2018 and thereafter.

The 2009 Series 1 Bonds maturing on or after February 1, 2020 will be subject to redemption, at the election of the State, on or after February 1, 2019 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 February 1, 2019 and thereafter.

The 2009 Series A Bonds maturing after December 1, 2019 will be subject to redemption, at the election of the State, on or after December 1, 2019 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 December 1, 2019 and thereafter.

The 2009 Series B Bonds are subject to both make-whole and extraordinary optional redemption, prior to their stated maturity dates at the election of the State, in whole or in part at any time at a redemption price equal to the greater of: 1) the original issue price set forth in the official statement (but not less than 100% of the principal amount); or 2) the sum of the present value of the remaining payments of principal and interest to maturity discounted to the payment date per the provisions set forth in the bond documents at the time of issuance.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE G - SPECIAL TAX OBLIGATION BONDS – *Continued*

The 2010 Series A Bonds are not subject to redemption prior to maturity.

The 2010 Series B Bonds are subject to both make-whole and extraordinary optional redemptions, prior to their stated maturity dates at the election of the State, in whole or in part at any time at a redemption price equal to the greater of : 1) the original issue price set forth in the official statement (but not less than 100% of the principal amount); or 2) the sum of the present value of the remaining payments of principal and interest to maturity discounted to the payment date per the provisions set forth in the bond documents at the time of issuance.

The 2010 Series C Bonds maturing on or after November 1, 2021 will be subject to redemption, at the election of the State, on or after November 1, 2020 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 November 1, 2020 and thereafter.

The 2011 Series A Bonds maturing on or after December 1, 2022 will be subject to redemption, at the election of the State, on or after December 1, 2021 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 December 1, 2021 and thereafter.

The 2011 Series B Bonds maturing on or after December 1, 2022 will be subject to redemption, at the election of the State, on or after December 1, 2021 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 December 1, 2021 and thereafter.

The 2012 Series A Bonds maturing on or after January 1, 2024 will be subject to redemption, at the election of the State, on or after January 1, 2023 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 January 1, 2023 and thereafter.

The 2012 Series B Bonds maturing on or after January 1, 2024 will be subject to redemption, at the election of the State, on or after January 1, 2023 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 January 1, 2023 and thereafter.

The 2013 Series A Bonds maturing on or after October 1, 2024 will be subject to redemption, at the election of the State, on or after October 1, 2023 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 October 1, 2023 and thereafter.

The 2014 Series A Bonds maturing on or after September 1, 2025 will be subject to redemption, at the election of the State, on or after September 1, 2024 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 September 1, 2024 and thereafter.

The 2014 Series B Bonds maturing on or after September 1, 2025 will be subject to redemption, at the election of the State, on or after September 1, 2024 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 September 1, 2024 and thereafter.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE G - SPECIAL TAX OBLIGATION BONDS – *Continued*

The 2015 Series A Bonds maturing on or after August 1, 2026 will be subject to redemption, at the election of the State, on or after August 1, 2025 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 August 1, 2025 and thereafter.

The 2015 Series B Bonds maturing on or after August 1, 2026 will be subject to redemption, at the election of the State, on or after August 1, 2025 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 August 1, 2025 and thereafter.

The 2016 Series A Bonds maturing on or after September 1, 2027 will be subject to redemption, at the election of the State, on or after September 1, 2026 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 September 1, 2026 and thereafter.

The 2016 Series B Bonds maturing on or after September 1, 2027 will be subject to redemption, at the election of the State, on or after September 1, 2026 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 September 1, 2026 and thereafter.

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> |
|-----------------------------|---------------------|---------------------|---------------------|
| 2018 | \$ 301,345 | \$ 241,891 | \$ 543,236 |
| 2019 | 295,190 | 228,146 | 523,336 |
| 2020 | 293,820 | 214,067 | 507,887 |
| 2021 | 308,960 | 199,907 | 508,867 |
| 2022 | 289,370 | 185,150 | 474,520 |
| 2023-2027 | 1,471,955 | 706,435 | 2,178,390 |
| 2028-2032 | 1,356,525 | 337,082 | 1,693,607 |
| 2033-2037 | 724,675 | 66,324 | 790,999 |
| | <u>\$ 5,041,840</u> | <u>\$ 2,179,002</u> | <u>\$ 7,220,842</u> |

Debt Refundings (amounts expressed in thousands)

During the year ended June 30, 2017, the State issued \$68,265 of special tax obligation refunding bonds with an average coupon rate of 4.92% to advance refund \$75,565 of special tax obligation revenue bonds with an average coupon rate of 4.98%.

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.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE G - SPECIAL TAX OBLIGATION BONDS – *Continued*

Debt Refundings (amounts expressed in thousands) - *Continued*

The State advance refunded these bonds to reduce its total debt service payments over the next twelve years by \$10,811 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$9,023.

As of June 30, 2017, \$228,340 of outstanding special tax obligation revenue bonds, including prior year's refundings, are considered defeased.

Bonds Authorized But Not Issued

As of June 30, 2017, the State has \$3,633 million of special tax obligation bonds that have been authorized by the State Bond Commission but not issued. These bonds would be payable from the revenues of the Fund if issued.

NOTE H - TRANSPORTATION RELATED GENERAL OBLIGATION BONDS

The table below includes amounts for debt service that the State will charge the Fund for various non-transportation related general obligation refunding bonds and cash defeasances. 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> |
|-----------------------------|------------------|-----------------|--------------|
| 2018 | \$ 525 | \$ 14 | \$ 539 |

NOTE I - CHANGES IN LONG TERM OBLIGATIONS (amounts expressed in thousands)

Although the Fund does pay certain long-term obligations, these 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, 2017 is as follows:

| <u>Description</u> | <u>Balance, July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance, June 30, 2017</u> |
|---------------------------------------|----------------------------------|-------------------|---------------------|-----------------------------------|
| Special tax obligation bonds | \$ 4,519,690 | \$ 868,265 | \$ (346,115) | \$ 5,041,840 |
| General obligation refunding bonds | 1,055 | - | (530) | 525 |
| Compensated absences | 51,466 | 1,765 | - | 53,231 |
| Claims and judgements (See Note L) | 3,602 | 4,900 | (3,572) | 4,930 |
| | <u>\$ 4,575,813</u> | <u>\$ 874,930</u> | <u>\$ (350,217)</u> | <u>\$ 5,100,526</u> |

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2017**

NOTE J - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following as of June 30, 2017 (amounts expressed in thousands):

| | Special Revenue Fund | Restricted Grants Fund | Total |
|-------------------------------|-------------------------------------|---------------------------------------|-------------------|
| Accounts payable | \$ 17,367 | \$ 97,873 | \$ 115,240 |
| Salaries and wages payable | 13,404 | 2,527 | 15,931 |
| Contracts payable - retainage | - | 10,209 | 10,209 |
| | <u>\$ 30,771</u> | <u>\$ 110,609</u> | <u>\$ 141,380</u> |

NOTE K - INTERFUND BALANCES

Interfund Receivables and Payables

A summary of interfund receivables and payables as of June 30, 2017 are as follows (amounts expressed in thousands):

| Receivable Fund | Payable Fund | Amount |
|--------------------------|------------------------|-----------------|
| Special Revenue Fund | Debt Service Fund | <u>\$ 1,419</u> |
| Other funds of the State | Restricted Grants Fund | <u>\$ 828</u> |

The above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

A summary of interfund transfers for the year ended June 30, 2017 is as follows (amounts expressed in thousands):

| Transfer In | Transfer Out | Amount |
|--------------------------|--------------------------|-------------------|
| Special Revenue Fund | Debt Service Fund | <u>\$ 6,430</u> |
| Debt Service Fund | Special Revenue Fund | \$ 542,032 |
| | Other funds of the State | 50,934 |
| | | <u>\$ 592,966</u> |
| Restricted Grants Fund | Other funds of the State | <u>\$ 601</u> |
| Other funds of the State | Special Revenue Fund | <u>\$ 6,500</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) to move receipts restricted for 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, 2017

NOTE L - COMMITMENTS AND CONTINGENCIES

Litigation

The State is a defendant 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, the estimated exposure of which approximates \$4.9 million, subject to a prior lien in favor of the Bonds.

The Fund is involved in certain legal proceedings and is subject to certain lawsuits and claims in the ordinary course of its business. Such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the Fund which would materially affect its financial position.

Lease-Leaseback Commitment

On September 30, 2003, the State (acting through the Commissioner of the Department of Transportation) executed three U.S. Lease-to-Service Contract of Rolling Stock Agreements ("Agreements") whereby the State entered into a head lease of certain rolling stock consisting of rail coaches and locomotives to statutory trusts established for the benefit of three equity investors. Simultaneously, the State executed sublease agreements to lease back the rolling stock in order to allow the State to have continued use of the property. The terms of the head leases are for periods ranging from 40 years to 67 years, expiring through March 2071, while the subleases have terms ranging from 18 years to 28 years, expiring through January 2032.

In connection with the transaction, the Fund received net proceeds of \$29,357,051 representing the consideration paid for the tax benefits received by the equity investors. The net proceeds received were calculated as follows:

| | |
|---|----------------------|
| Prepayment of Head Lease rent | \$ 366,405,000 |
| Payment to custodian and/or debt payment undertakers | (334,590,492) |
| Payment of lease closing costs | <u>(2,457,457)</u> |
| Cash wired to Head Lessor's operating account | <u>\$ 29,357,051</u> |

On September 30, 2003, proceeds from the prepayment of the head lease rents were paid to debt payment undertakers and custodians in amounts sufficient, together with investment earnings thereon, to provide for all future obligations of the State under the sublease agreements and the end of lease term purchase options. With respect to payments made to custodians, the State pledged assets as collateral to the custodians for the benefit of the lessors, and granted a first security interest in such assets. The pledged assets were primarily intended to be used to pay the end of lease term purchase options.

The State had the right to terminate the subleases early under certain circumstances and upon payment of a termination value to the equity investors. The State has exercised its termination rights under the Agreements and subleases utilizing the pledged assets and other available funds. As of June 30, 2017 there were no longer any outstanding balances or commitments under the Agreements or subleases.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE L - COMMITMENTS AND CONTINGENCIES – *Continued*

Arbitrage Rebate Requirements

Section 148 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986, requires that 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. There were no rebate payments made during the year ended June 30, 2017. There was no liability for arbitrage rebate as of June 30, 2017.

Contractual Commitments

The State entered into a contractual agreement with H.N.S. Management Company, Inc. (“HNS”) to manage and operate the bus transportation system (“System”) 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 HNS, including all pension liabilities described below. 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, 2017, the aggregate contractual commitments totaled approximately \$3.12 billion. Funding of these expenditures is expected to be received from federal and other grants and other revenues to be received by the Fund.

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 SERS 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 SERS 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 \$129.2 million for the year ended June 30, 2017.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2017

NOTE M - INTERFUND ALLOCATIONS

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 Bank Charges (amounts expressed in thousands)

The Fund invests in the State Treasurer's Short-Term Investment Fund, 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 \$420 for the year ended June 30, 2017.

Risk Management (amounts expressed in thousands)

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. Workers' compensation insurance and unemployment insurance allocated to the Fund totaled \$7,223 and \$305, respectively for the year ended June 30, 2017.

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

- (i) the amount of interest accruing on all Senior Bonds of such series in such period; plus
- (ii) the amount of principal accruing in such period with respect to all serial bonds of such series then outstanding, assuming the principal of any serial bond accrues ratably over the year preceding the maturity of such serial bond; plus
- (iii) the Amortization Requirement accruing for the term bonds of such series for such period; plus
- (iv) any other amortization or accrual of original issue discount or principal with respect to Senior Bonds of such series required to be made for such period pursuant to the proceedings authorizing Senior Bonds of such series; plus
- (v) the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Senior Bonds.

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

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

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

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

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

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

“Trustee” means U.S. Bank National Association successor to The Connecticut National Bank, original trustee, and its successor or successors hereafter appointed in the manner provided in the Senior Indenture.

Pledge of Trust Estate

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

The Senior Bonds, including the principal thereof and interest and premium, if any, thereon, are payable solely from the Pledged Revenues or other receipts, funds or moneys pledged therefor pursuant to the Senior Indenture. The Senior Bonds shall be equally and ratably secured under the Senior Indenture by the assignments, pledges and charges made or created in the Senior Indenture of or on the properties of the Trust Estate for the payment and security of the Senior Bonds and by a co-equal lien thereon. The aforesaid lien and charge of the Senior Bonds shall constitute a prior and paramount lien and charge on the Special Transportation Fund and the other receipts, funds and moneys pledged to the payment of the Senior Bonds and from time to time held under the Senior Indenture, subject only to the provisions of the Senior Indenture permitting the application of moneys in the Special Transportation Fund and such other receipts, funds and moneys for the purposes and on the terms and conditions thereof, over and ahead of any parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice of the foregoing lien and charge and over and ahead of all other indebtedness payable from or secured by the Pledged Revenues and such other receipts, funds and moneys which may thereafter be created or incurred. The pledges, liens, charges and assignments to the Trustee of the Trust Estate made in the Senior Indenture are to be valid and binding from the time of the delivery of and payment for the first series of Senior Bonds issued under the Senior Indenture and the moneys representing the Pledged Revenues and other receipts, funds or moneys so pledged received by the State are to be subject immediately to the lien of such pledge, upon receipt thereof by the State or the Trustee or a Paying Agent under the Senior Indenture without any physical delivery thereof or further act.

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

Funds and Accounts

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

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

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

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

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

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

be transferred to the credit of the Special Transportation Fund. All proceeds realized from the investment of moneys held to the credit of the Note Repayment Account are to remain therein.

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

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

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

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

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

(3) Moneys in the Redemption Sub-Account are to be applied to the purchase or redemption of Senior Bonds in the following order: (a) term bonds of each series, if any, issued under the Senior Indenture, in the order of maturity as the State shall determine, to the extent of the Amortization Requirement, if any, fixed for the then current period for such term bonds and any deficiency in preceding periods in the purchase or redemption of such term bonds; provided, however, that if none of the term bonds of a series is subject to redemption from moneys in the Debt Service Account and if the Trustee is at any time unable to exhaust the moneys applicable to the Senior Bonds of such series in the purchase of such Bonds, such moneys or the balance of such moneys, as the case may be, is to be retained and, as soon as feasible, applied to the retirement of the Senior Bonds of such series; (b) to the purchase of any Senior Bonds secured by the Senior Indenture and then outstanding whether or not such Senior Bonds are subject to redemption; (c) to the redemption of the term bonds of each series in proportion (as nearly as practicable) to the aggregate principal amount of the Senior Bonds of such series originally issued; and (d) after the retirement of all term bonds, to the redemption of the serial bonds issued under the provisions of the Senior Indenture in the manner provided therein or in the Supplemental Indenture providing for the issuance of such serial bonds, and to the extent that serial bonds of different series mature on the same date, in proportion (as nearly as practicable) to the principal amount of each series maturing on such date.

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

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

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

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

Application of Proceeds of Bonds and Notes

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

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

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

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

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

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

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

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

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

(a) There will be deposited to the credit of the Note Repayment Account an amount sufficient, when adjusted for investment earnings as provided below, and taking into account any other

funds available or to be available for such purpose, to pay when due, the principal of and the interest on all Senior Notes then outstanding which are to be renewed or refunded by the present issue. Any deposit made to the Note Repayment Account pursuant to this paragraph shall be adjusted to take into account the income, if any, which may be earned from investment of said deposit between the date of deposit and the maturity date of the Senior Notes then outstanding which are to be renewed or refunded.

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

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

Depositories of Moneys/Investments

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

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

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

Junior Lien Obligations

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

Covenants

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

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

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

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

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

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

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

The State is to prepare balance sheets and statements of revenues, expenditures and changes in fund balances for each of the above specified funds and is to cause the Special Transportation Fund to be audited by the Accountant, with such restrictions on audit procedures performed by the Accountant with respect to operating expenses and program costs of the Department as the State may request, provided the State shall cause such operating expenses and program costs to be subject to the customary audit procedures of the State Auditor. Such Accountant is to be selected with special reference to his general

knowledge, skill and experience in auditing books and accounts. Such audit is to be made annually and the audit report of the Accountant is to be delivered to the State within one hundred twenty (120) days after the close of each Fiscal Year. A copy of each such annual audit is to be open for public inspection, and is to be mailed to any holder of Senior Bonds filing with the State Treasurer a request for the same. The Trustee is to cooperate fully with the Accountant in completing such audit, and is to make available all books and accounts in its possession pertaining to the Senior Bonds for this purpose.

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

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

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

In addition, the State covenants:

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

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

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

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

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

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

Events of Default

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

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

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

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

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

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

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

Remedies for Defaults

Upon the happening and continuance of any of the Events of Default, and in addition to other remedies provided in the Senior Indenture, the Trustee, for and on behalf of the holders of the Senior Bonds (A) shall have the same rights under the Senior Indenture which are possessed by any of the holders of the Senior Bonds; (B) is authorized to proceed in its own name and as trustee of an express trust; (C) may and, upon the written request of the holders of not less than ten percent (10%) in aggregate principal amount of the Senior Bonds then outstanding, is required to pursue any available remedy by action at law or suit in

equity to enforce the payment of the principal of interest and premium, if any, on the Senior Bonds; and (D) may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of the Senior Bonds allowed in any judicial proceeding relative to the State, or its creditors, its property, or the Senior Bonds.

Defeasance

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

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

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

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

Supplemental Indentures

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

covenants or agreements of the State contained in the Senior Indenture as originally executed by the State and the Trustee or as amended or supplemented with the consent of the holders of the Senior Bonds.

The Senior Indenture may be amended, by the State and the Trustee, upon the consent of not less than sixty percent (60%) of the Senior Bonds then outstanding in aggregate principal amount, for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Senior Indenture, or modifying or amending the rights and obligations of the State and the Trustee thereunder, or modifying in any manner the rights of the holders of the Senior Bonds then outstanding; provided, however, that, without the specific consent of the holder of each such Senior Bond which would be affected thereby, no such Supplemental Indenture amending or supplementing the provisions of the Senior Indenture may: (1) change the fixed maturity date for the payment of the principal of any Senior Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Senior Bond or the rate of interest thereon or the redemption premium payable upon the redemption or prepayment thereof; or (2) reduce the aforesaid percentage of Senior Bonds, the holders of which are required to consent to any such Supplemental Indenture amending or supplementing the provisions of the Senior Indenture; or (3) give to any Senior Bond or Senior Bonds any preference over any other Senior Bond or Senior Bonds; or (4) authorize the creation of any pledge or prior call on the moneys and other assets of the Trust Estate or any lien or charge thereof prior, superior or equal to the pledge of and lien and charge thereon created in the Indenture for the payment of the Senior Bonds; or (5) deprive any holder of the Senior Bonds of the security afforded by the Senior Indenture.

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SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE

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

Definitions

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

“Accountant” means the independent accountant or firm of independent accountants appointed by the State pursuant to Section 7.4 of the Second Lien 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 Senior Bonds to be issued under the Senior Indenture or Second Lien Bonds to be issued under the Second Lien Indenture, as the same may be amended from time to time.

“Amortization Requirement” for any period (as applied to term bonds issued under the provisions of Sections 2.2 and 2.3 of the Second Lien Indenture), means the respective amount of principal of term bonds to be amortized in such period with respect to such Second Lien Bonds as fixed by resolution of the State Bond Commission prior to the delivery of such Second Lien Bonds. Such Amortization Requirement shall be accrued ratably over the period for which such Amortization Requirement was fixed, and the Amortization Requirement on term bonds of any series accruing for any period other than that for which the State Bond Commission shall have fixed an Amortization Requirement shall be the total of the Amortization Requirement for term bonds of such series accruing in such period. The aggregate amount of such Amortization Requirements for the term bonds of any series shall be equal to the principal amount of the term bonds of such series. The Amortization Requirements for the term bonds of any series shall begin in such year as the State Bond Commission shall determine and shall not end later than the year immediately preceding the maturity of such term bonds.

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

“Credit Facility” means a credit facility, the costs of which constitute Debt Service Requirements. The Standby Bond Purchase Agreement is a Credit Facility.

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

an agreement approved by the proceedings authorizing the issuance of Second Lien Bonds or Second Lien Notes.

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

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

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

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

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

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

(i) the amount of interest payable on all Second Lien Bonds of such series within such period;
plus

(ii) the amount of principal payable within such period with respect to all serial bonds of such series then outstanding; plus

(iii) the Amortization Requirement established for the term bonds of such series for a period ending within such period; plus

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

(v) the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal, purchase price, or interest on Second Lien Bonds.

In computing Principal and Interest Requirements on Second Lien Bonds for any period for the Second Lien Bonds of any series, the Trustee shall assume that an amount of the term bonds (if any) of such series equal to the Amortization Requirement for the term bonds of such series for such period will be

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

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

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

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

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

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

“Second Lien Note” means any note issued in anticipation of Second Lien Bonds pursuant to Section 2.4 of the Second Lien Indenture, including any renewal and replacement Second Lien Notes.

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

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

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

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

“Trustee” means U.S. Bank National Association successor to The Connecticut National Bank, original trustee, and its successor or successors hereafter appointed in the manner provided in the Second Lien Indenture.

Pledge of Trust Estate

To secure the payment of the Debt Service Requirements on the Second Lien Bonds and Senior Notes, and all other amounts due in connection therewith, including the obligation to make payments to the provider of a Credit Facility or Qualified Swap, and the performance and observance by the State of all the covenants expressed or implied in the Second Lien Indenture and in the Second Lien Bonds and Second Lien Notes and any Credit Facility or Qualified Swap, the State, in the Second Lien Indenture, has granted to the Trustee a junior 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 junior lien upon and a security interest in (1) any and all amounts held to the credit of the Special Transportation Fund from time to time, exclusive of amounts held to the credit of such Special Transportation Fund which represent (a) amounts borrowed by the Treasurer of the State in anticipation of revenues pursuant to Section 3-16 of the General Statutes of Connecticut, and (b) transportation related federal revenues of the State, and (2) any and all amounts held by the Trustee to the credit of any fund or account created under the Second Lien Indenture (collectively, the “Trust Estate”).

The call upon Pledged Revenues and the lien on and pledge of the Special Transportation Fund under the Act and the Second Lien Indenture for the benefit of the holders of Second Lien Bonds is subject and junior to the senior call and lien thereon under the Act and the Senior Indenture for the benefit of the holders of Senior Bonds and other Senior Obligations secured on a parity with the obligations to the holders of Senior Bonds as provided in the Senior Indenture.

Each Second Lien Bond shall be equally and ratably secured under the Second Lien Indenture by the assignments, pledges and charges made or created in the Second Lien Indenture of or on the properties of the Trust Estate for the payment and security of the Second Lien Bonds and amounts due in connection with any Credit Facility and any Qualified Swap and by a co-equal lien thereon, with respect to all other Second Lien Bonds. The pledges, liens, charges and assignments to the Trustee of the Trust Estate made in the Second Lien Indenture are to be valid and binding from the time of the delivery of and payment for the first series of Second Lien Bonds issued under the Second Lien 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 Second Lien Indenture without any physical delivery thereof or further act.

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

Funds and Accounts

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

1. *Special Transportation Fund.* After satisfaction of the monthly payments required to meet Debt Service Requirements (as defined below in the section entitled “Summary of Certain Provisions of the Senior Indenture”) for the Senior Bonds and Senior Notes as set forth in the Senior Indenture and any other transfers required to meet any other Senior Obligations, the State shall withdraw from the moneys held by it to the credit of the Special Transportation Fund, and deposit to the credit of the following accounts or subaccounts held by the Trustee under the Second Lien Indenture for the benefit of the owners of Second Lien Bonds and Notes and other Second Lien Obligations, the following sums:

(a) to the credit of the Bond Service Sub-Account, Note Repayment Account and Redemption Sub-Account, respectively, established under the Second Lien Indenture, 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 Second Lien 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 Second Lien 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 Second Lien Notes and interest payable pursuant to any reimbursement agreement entered into with respect to a Credit Facility providing for payment of the principal of Second Lien 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 for the Second Lien Bonds established under the Second Lien Indenture, from time to time, but at least monthly, out of any balance remaining after making the deposits under (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 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 Second Lien Bonds bearing interest at a variable rate, one-twelfth of such increase.

Unless an earlier time is specified in the supplemental indenture, any Credit Facility reimbursement agreement or any Qualified Swap entered into with respect to a series of Second Lien Bonds, the deposits described under (a) above 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 established under the Second Lien Indenture from time to time.

2. *Note Repayment Account.* Proceeds of Additional Bonds, proceeds of renewal or replacement Second Lien Notes issued pursuant to the Second Lien Indenture and deposits described above under the heading “Special Transportation Fund” shall be deposited by the Trustee to the credit of the Note Repayment Account established under the Second Lien Indenture in the amounts specified in Sections 2.4(a) and 2.2(c) of the Second Lien Indenture. Moneys held to the credit of the Note Repayment Account are to be used by the Trustee for the purpose of paying the interest on outstanding Second Lien Notes, interest pursuant to any reimbursement agreement entered into with respect to a credit facility for the payment of principal of Second Lien Notes, and principal on refunded Second Lien Notes. Upon such deposit to the credit of the Note Repayment Account of amounts to refund Second Lien Notes, the principal of Second Lien 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 Second Lien Note the principal of such Second Lien Note shall be deemed for purposes of the Second Lien Indenture to be unrefunded. Any moneys remaining in the Note Repayment Account after the last maturity date of such outstanding Second Lien 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 established under the Second Lien Indenture 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 Second Lien Bonds as such interest becomes due, (b) the payment of principal on Second Lien Bonds at their respective maturities, (c) the payment of the purchase or redemption price of the Second Lien Bonds before maturity, (d) the payment of the unrefunded principal on Second Lien Notes at their respective maturities, or (e) the payment of principal and interest pursuant to any reimbursement agreement or other agreement entered into with respect to a Credit Facility or Qualified Swap, and under the Second Lien Indenture such moneys are pledged to and charged with such payments as follows:

a. *Bond Service Sub-Account.* In addition to other deposits to the Bond Service Sub-Account, the Trustee shall deposit thereto any amounts received from any provider of a Qualified Swap. The Trustee, from time

to time as required, is to withdraw from the Bond Service Sub-Account and, if necessary, from the Reserve Account and the Unrefunded Note Sub-Account, and is to deposit in trust with the Paying Agent sufficient moneys for paying the principal of and the interest on the Second Lien Bonds as the same shall become due, and shall pay principal and interest pursuant to any reimbursement agreement entered into with respect to any Credit Facility or any amount due to the provider of a Qualified Swap. To the extent moneys on deposit in the Bond Service Sub-Account are not then required for such purpose, at the written direction of the State, the Trustee is to withdraw moneys from the Bond Service Sub-Account and deposit said moneys to the credit of the Special Transportation Fund. Accrued interest deposited to the Bond Service Sub-Account on the sale of Second Lien Bonds may be used to pay costs of issuance of such Second Lien 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 Second Lien Bonds issued under the provisions of the Second Lien Indenture as follows:

(1) Subject to the provisions of (3) below, the Trustee is to endeavor to purchase Second Lien Bonds secured by the Second Lien Indenture and then outstanding, whether or not such Second Lien Bonds are subject to redemption, at the most advantageous price obtainable with reasonable diligence, having regard to the interest rate and price, such price, including brokerage expenses, not to exceed the principal of such Second Lien Bonds plus the amount of the premium, if any, which would be payable on the next redemption date to the holders of such Second Lien Bonds under the provisions of Article IV of the Second Lien Indenture if such Second Lien Bonds should be called for redemption on such date. The Trustee is to pay the interest accrued on such Second Lien 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 Second Lien Bonds are subject to call for redemption under the provisions of the Second Lien Indenture except from moneys in excess of the amounts set aside or deposited for the redemption of Second Lien Bonds.

(2) Subject to the provisions of (3) below, the Trustee is to call for redemption on each interest payment date on which Second Lien Bonds are subject to redemption from moneys in the Debt Service Account such amount of Second Lien 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 \$100,000 in principal amount of Second Lien Bonds are to be called for redemption at any one time. Such redemption is to be made pursuant to Article IV of the Second Lien Indenture. Not less than five 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 Second Lien Bonds so called for redemption and the principal of, and the premium on, such Second Lien Bonds.

(3) Moneys in the Redemption Sub-Account are to be applied to the purchase or redemption of Second Lien Bonds in the following order: (a) term bonds of each series, if any, issued under the Second Lien 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 Second Lien 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 Second Lien Bonds of such series; (b) to the purchase of any Second Lien Bonds secured by the Second Lien Indenture and then outstanding whether or not such Second Lien 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 Second Lien 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 Second Lien 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), 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 Second Lien 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 Second Lien 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 Second Lien Notes will be transferred to the credit of the Special Transportation Fund.

4. *Reserve Account.* Moneys held to the credit of the Reserve Account established under the Second Lien Indenture are to be used for the purpose of paying the principal and interest on the Second Lien Bonds and meeting the Amortization Requirements for any term bonds whenever and to the extent that the moneys held to the credit of the Bond Service Sub-Account and the Redemption Sub-Account, respectively, are insufficient for such purposes. 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 Second Lien 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 Second Lien Indenture, if at any time the moneys held for the credit of the Reserve Account (as calculated pursuant to the Second Lien Indenture) exceed 10% of the original proceeds of the Second Lien Bonds, then at the option of the State Treasurer either such excess is to be withdrawn by the Trustee from the Reserve Account and deposited to the credit of the Special Transportation Fund, or invested at restricted yield.

In lieu of any deposit required to be made to the Reserve Account by the terms of any provisions of the Second Lien 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 Second Lien Bonds and Second Lien Notes, to the extent required by the Second Lien 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 Second Lien Bonds.

Application of Proceeds of Bonds and Notes

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

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

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

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

(d) to the credit of such other funds or accounts, such deposits or credits, if any, as shall be specified in the supplemental indenture providing for the issuance of such series of Second Lien Bonds; and

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

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

Issuance of Second Lien Notes and Application of Second Lien Note Proceeds. The Second Lien Indenture authorizes the issuance of one or more series of Second Lien Notes to provide temporary financing for transportation purposes pending the issuance of Second Lien Bonds. No Second Lien Notes shall be issued (i) unless the Second Lien Bonds in anticipation of which they are to be issued have been duly authorized in accordance with the Act and the Second Lien Indenture, and (ii) if the aggregate principal amount of all Second Lien Notes then outstanding and to be issued exceeds \$50,000,000, unless, as of the date of issuance of such Second Lien Notes, the State could have issued under the terms of the Second Lien Indenture an equivalent aggregate principal amount of serial bonds, maturing in equal annual installments of principal and interest, the last installment of which shall be due not later than 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 Second Lien Bonds been issued at such time.

Said Second Lien Notes shall be special obligations of the State payable solely from the proceeds of the Second Lien Bonds issued under the Second Lien Indenture and, to the extent provided in the Second Lien 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 Second Lien 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 Second Lien Notes, shall be subordinate to any obligation of the State to pay Debt Service Requirements with respect to Senior Bonds and Second Lien Bonds or any Debt Service Requirements with respect to Second Lien Notes other than Debt Service Requirements relating to unrefunded principal of Second Lien Notes or to obligations under a credit facility for the payment of such unrefunded principal. The Second Lien Indenture further provides that the State may not enter into any contract with any Second Lien Noteholder inconsistent with the terms of the Second Lien Indenture. The full faith and credit of the State will not be pledged to the repayment of such Second Lien Notes and the State will not be obligated to make appropriations from its general fund for the repayment of such Second Lien Notes. Such Second Lien Notes may be renewed and refunded from time to time as may be determined by the State Treasurer. Said Second Lien Notes may be made redeemable. The proceeds of the sale of any issue of Second Lien Notes are 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 Second Lien 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 Second Lien 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 Second Lien 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 Second Lien Indenture are to be deposited in the name of the State in one or more funds and accounts with such depository or depositories as the State Treasurer shall designate, except that the Note Repayment Account, the Debt Service Account and the Reserve Account are to be held only by the Trustee. All moneys deposited under the provisions of the Second Lien 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 Second Lien 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 Second Lien Indenture.

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

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.

Subordinate Obligations

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

Covenants

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

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

(2) *Coverage Requirements.* To provide Pledged Revenues and other receipts, funds or moneys pledged under the Second Lien Indenture in each Fiscal Year beginning in the first full Fiscal Year after the issuance of Second Lien Bonds or Second Lien Notes, after deducting payments out of such revenues for reserves required under the Second Lien Indenture, computed as of the final business day of such Fiscal Year, in an amount equal to at least two (2) times the aggregate Principal and Interest Requirements on all Senior Bonds outstanding in such Fiscal Year, Principal and Interest Requirements on all Second Lien Bonds outstanding in such Fiscal Year and the Interest Requirements on Second Lien 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 holder of Second Lien Bonds pursuant to the terms of the Second Lien Indenture shall have been made, the State will not make any payments from the Special Transportation Fund on account of any obligation whatsoever other than the Senior Bonds, Second Lien Bonds and Second Lien Notes, except from amounts held to the credit of the

Special Transportation Fund which represent amounts borrowed by the Treasurer of the State in anticipation of revenues pursuant to Section 3-16 of the Connecticut General Statutes or from transportation related federal revenues of the State once such revenues are credited to the Special Transportation Fund. If at any time any such amounts required to be paid to the Trustee for the Second Lien Bonds 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 for the Senior Bonds to the extent of any moneys then owed in respect of Senior 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 Second Lien 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 Second Lien Indenture, the principal of and interest and premium, if any, on each and every Second Lien Note and Second Lien Bond at the place, on the dates and in the manner provided in the Second Lien Indenture and in such Second Lien Notes and Second Lien Bonds according to the true intent and meaning of such Second Lien Notes and Second Lien Bonds and the Second Lien 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 Second Lien Indenture and the application of such Pledged Revenues and amounts in the Infrastructure Improvement Fund to the purposes specified in the Second Lien Indenture and the Act.

The State is to prepare balance sheets and statements of revenues, expenditures and changes in fund balances for each of the above specified funds and is to cause the Special Transportation Fund to be audited by the Accountant, with such restrictions on audit procedures performed by the Accountant with respect to operating expenses and program costs of the Department as the State may request, provided the State shall cause such operating expenses and program costs to be subject to the customary audit procedures of the State Auditor. Such Accountant is to be selected with special reference to his general knowledge, skill and experience in auditing books and accounts. Such audit is to be made annually and the audit report of the Accountant is to be delivered to the State within 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 Second Lien 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 Second Lien 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 Second Lien Indenture, or involving the rights of any holder of Second Lien Bonds under the Second Lien Indenture and to indemnify and save harmless all holders of Second Lien Bonds 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 such holder 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 Second Lien Bonds are no longer outstanding and all indebtedness and obligations secured by the Second Lien Indenture may have been fully paid and satisfied and the lien, pledge and charge of the Second Lien Indenture may have been released and discharged.

(7) *Federal Taxation.* To at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Second Lien Notes and Second Lien Bonds, for the purposes of Federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation and not permit at any time any of the proceeds of the Second Lien Notes and Second Lien Bonds or other funds of the State to be used, directly or indirectly, to acquire any asset or obligation the acquisition of which would cause any such bond or note to be an “arbitrage bond” for the purposes of Section 103(c) of the Code.

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

(9) *Issuance of Senior Bonds.* To not issue Senior Bonds under the Senior Indenture unless Second Lien Bonds could have been issued under the Second Lien Indenture upon the same terms and in the same principal amount. The State will not issue any bond anticipation notes under the Senior Indenture.

In addition, the State covenants, except as provided in the Senior Indenture:

(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 Second Lien 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 Second Lien Indenture and in the Act;

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

(5) not to in any way impair the rights, exemptions or remedies of the holders of any Second Lien Bonds or Second Lien 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 Second Lien Bonds, including Pledged Revenue coverage requirements set forth in the Second Lien Indenture, and provided nothing in the Second Lien Indenture precludes the State from exercising its power through a change in law, to limit, modify, rescind, repeal or otherwise alter the character or amount of such Pledged Revenues or to substitute like or different sources of taxes, fees, charges or other receipts as Pledged Revenues if, for the ensuing Fiscal Year, as evidenced by the proposed or adopted budget of the State with respect to the Special Transportation Fund, the projected revenues meet or exceed the estimated expenses of the Special

Transportation Fund including accumulated deficits, if any, Debt Service Requirements, and any Pledged Revenue coverage requirement set forth in the Second Lien Indenture.

Events of Default

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

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

(b) the State fails to pay any installment of interest on Second Lien 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 Second Lien Bonds, the Second Lien 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 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 20% in principal amount of the Second Lien Bonds then outstanding; provided that if any such failure is such that it cannot be cured or corrected within such 90-day period, it does not constitute an Event of Default if curative or corrective action is instituted within such period and diligently pursued until the failure of performance is cured or corrected; and provided further, that no failure to observe the covenant as to the amount of Pledged Revenues shall constitute an Event of Default unless within one year after written notice by the Trustee of such failure the State shall not have enacted legislation such that the conditions contained in the Second Lien 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 Second Lien 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 Second Lien Indenture, the Trustee, for and on behalf of the holders of the Second Lien Bonds (A) shall have the same rights under the Second Lien Indenture which are possessed by any of the holders of the Second Lien 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 10% in aggregate principal amount of the Second Lien Bonds then outstanding or the provider of a Credit Facility providing for the payment of the principal or purchase price of such aggregate principal amount of Second Lien Bonds, is required to pursue any available remedy by action at law or suit in equity to enforce the payment of the principal of interest and premium, if any, on the Second Lien 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 Second Lien Bonds allowed in any judicial proceeding relative to the State, or its creditors, its property, or the Second Lien Bonds.

For all purposes of Events of Default and remedies under the Second Lien Indenture, except the giving of notice of default to Bondholders, the Bond Insurer shall be deemed to be the sole holder of the 2003 Series 1 and 2 Bonds.

Defeasance

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

(i) when such Second Lien 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 Second Lien Indenture; or

(ii) as to any Second Lien 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 Second Lien Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise), either (A) has been made or caused to be made in accordance with the terms of the Second Lien Indenture, or (B) has been provided by irrevocably depositing with the Trustee or Paying Agent for such Second Lien 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 Second Lien 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 Second Lien 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 Second Lien Indenture or any Supplemental Indenture authorizing the issuance of Second Lien Bonds.

At such time as a Second Lien Bond is deemed to be no longer outstanding, such Second Lien Bond shall cease to draw interest from the due date thereof (whether such due date be by reason of maturity, or upon redemption or prepayment, or otherwise) and, except for the purpose of any payment from such moneys or Governmental Obligations, shall no longer be secured by or entitled to the benefits of the Second Lien 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 Second Lien 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 Second Lien Indenture, or amendments, additions or deletions to the Second Lien Indenture which may be required to permit the Second Lien Indenture to be qualified under the Trust Indenture Act of 1939, as amended, (iii) to provide for the issuance of Second Lien Bonds or any series of Second Lien Bonds in book-entry form, in coupon form or registered as to principal only, and (iv) if the provisions of such supplemental indentures do not adversely affect the rights of the holders of Second Lien Bonds then outstanding, for any one or more of the purposes enumerated in Section 10.1 of the Second Lien Indenture. Except for supplemental indentures of the type referred to in (i) to (iii) above, the State and the Trustee will not enter into any supplemental indentures authorized by the above unless (A) in the opinion of counsel, the adoption of such supplemental indentures is permitted by the foregoing provisions, (B) the provisions of such supplemental indentures do not adversely affect the rights of the holders of the Second Lien Bonds then outstanding, and (C) except for a supplemental indentures which has no effect as to any Second Lien Bond then outstanding, the provisions of such supplemental indentures are not contrary to or inconsistent with the covenants or agreements of the State contained in the Second Lien Indenture as originally executed by the State and the Trustee or as amended or supplemented with the consent of the holders of the Second Lien Bonds.

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

Form of Opinion of

UPDIKE, KELLY & SPELLACY, P.C.
Bond Counsel

And

LEWIS & MUNDAY, A PROFESSIONAL CORPORATION
Co-Bond Counsel

[Date of Closing]

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

Dear Madam Treasurer:

We have acted as bond counsel to our client, the State of Connecticut (the “State”), in connection with the issuance of its \$750,000,000 State of Connecticut Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B (the “2018 Series B Bonds”) and its \$100,105,000 State of Connecticut Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 Series C (the “2018 Series C Bonds”, together with the 2018 Series B Bonds, the “2018 Series B and C Bonds”). 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 and The Connecticut National Bank (successor trustee is now U.S. Bank National Association), as Trustee, dated September 15, 1984, as amended by the Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 by and between the State of Connecticut and Shawmut Bank Connecticut, National Association (successor trustee is now U.S. Bank National Association), as Trustee, as supplemented by the Forty-Eighth Supplemental Indenture, by and between the State of Connecticut and U.S. Bank National Association, as Trustee, dated as of the date of delivery of the 2018 Series B and C Bonds (the “Senior Indenture”) and (iii) a record of proceedings relative to the issuance of the 2018 Series B and C Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Senior Indenture.

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

We have not been engaged and we have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2018 Series B and C Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement and certain matters which are the subject of a supplemental opinion provided by us to the State).

From such examination we are of the opinion that:

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

2. The 2018 Series B and C Bonds have been duly authorized and issued under the Constitution and laws of the State, particularly the Act, and under proceedings duly had and taken in conformity therewith.

3. The 2018 Series B and C Bonds are valid and binding special obligations of the State payable from the Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Senior Indenture and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Senior Indenture.

4. The 2018 Series B and C Bonds are secured in the manner and to the extent set forth in the Act and the Senior Indenture. Pursuant to the Act, the Senior Indenture creates a valid first call upon Pledged Revenues and lien upon any and all amounts held to the credit of the Special Transportation Fund from time to time, to the extent set forth in the Senior Indenture, including moneys and securities held by the Trustee in the Debt Service Account and Reserve Account established thereunder, which the Senior Indenture purports to create, subject only to the provisions of the Senior Indenture permitting the application thereunder for or to the purposes and on the terms and conditions set forth in the Senior Indenture. Such first call and lien are valid and binding against all parties having claims of any kind in tort, contract or otherwise against the State (including holders of general obligation debt of the State). All amounts necessary for the punctual payment of the Debt Service Requirements (as defined in the Act) with respect to the 2018 Series B and C Bonds are validly deemed to be appropriated by the Act from the Pledged Revenues and other receipts, funds or moneys pledged therefor and the Treasurer is required under the Act to pay such Debt Service Requirements as the same shall accrue, but only from such sources. Such payment by the Treasurer does not require further legislative approval.

5. The State is not obligated to pay the principal of, and interest and premium, if any, on the 2018 Series B and C Bonds except from Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Senior Indenture, and the full faith and credit of the State or any political subdivision thereof is not pledged to the payment of the principal of and interest and premium, if any, on the 2018 Series B and C Bonds.

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

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

8. Under existing law, interest on the 2018 Series B and C Bonds is excludable from the gross income of the owners thereof for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), and 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 (as defined for Federal income tax purposes), and for a tax year that began prior to January 1, 2018, is includable for purposes of computing the Federal alternative minimum tax imposed on such corporations.

9. Under existing law, interest on the 2018 Series B and C Bonds is excludable from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trust and estates and is excludable 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 2018 Series B and C Bonds in order that interest on the 2018 Series B and C Bonds be excludable from the gross income of the owners thereof for Federal income tax purposes under the Code. The State has covenanted in a Tax Regulatory Agreement (the "Tax Regulatory Agreement") that it will at all times perform all acts and things necessary or appropriate under any valid provision of law to ensure that interest on the 2018 Series B and C Bonds shall be excludable from the gross income of the owners thereof for Federal income tax purposes under the Code.

In rendering the foregoing opinions regarding the Federal income tax treatment of interest on the 2018 Series B and C Bonds, we have relied upon and assumed, without undertaking to verify the same by independent investigation, (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Regulatory Agreement and (ii) compliance by the State with covenants set forth in the Tax Regulatory Agreement as to such matters.

In rendering this opinion, we further advise you that the enforceability of rights and remedies with respect to the 2018 Series B and C Bonds may be limited by insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally heretofore or hereafter enacted and by equitable principles and the exercise of judicial discretion, whether considered at law or 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 on 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.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We express no opinion regarding other Federal or state tax consequences caused by ownership of, or receipt of interest on, the 2018 Series B and C Bonds.

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

Respectfully submitted,

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FORM OF CONTINUING DISCLOSURE AGREEMENT

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the State of Connecticut (the "State") will agree, pursuant to a Continuing Disclosure Agreement for the 2018 Series B and C 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) in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of certain events with respect to the 2018 Series B and C 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 2018 Series B and C Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the 25th day of October, 2018 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of \$750,000,000 Special Tax Obligation Bonds Transportation Infrastructure Purposes, 2018 Series B (the "2018 Series B Bonds") and \$100,105,000 Special Tax Obligation Refunding Bonds Transportation Infrastructure Purposes, 2018 Series C (the "2018 Series C Bonds," together with the 2018 Series B Bonds, collectively; the "Bonds") dated October 25, 2018, 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 official statement of the State dated October 17, 2018 prepared in connection with the Bonds.

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

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

"Repository" means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

"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.

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each Repository, 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, 2018) 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 Final Official Statement under the caption **FINANCIAL PROCEDURES** - "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 Final Official Statement; provided, however, that reference to such headings in the Final Official Statement for the Bonds as a means of identifying such financial information and operating data shall not prevent the State from reorganizing such material in subsequent official statements.

(b) The financial statements and other financial information and operating data described above will be provided on or before the date eight (8) 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 available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. 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. Notice of Certain Events.

The State agrees to provide or cause to be provided, in a timely manner, not in excess of ten business days after the occurrence of the event to each Repository notice of the occurrence of any of the following events with respect to the Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders of the Bonds, if material;
- (h) Bond calls, if material and tender offers;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the State;

- (m) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

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) - (n) 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 each Repository 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) All documents provided by the State to a Repository pursuant to the State's undertakings set forth in Sections 2, 3 and 4 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(b) 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.

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

(d) 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 provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver, 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 each Repository. 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.

(e) 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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