

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021



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**STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
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YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Edward M. Lamont, Jr.,
Governor of the State of Connecticut
State of Connecticut Special Transportation Fund
Hartford, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund the Special Transportation Fund (the Fund) of the State of Connecticut (the State), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the entity's basic 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.

Auditors' Responsibility

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

Honorable Edward M. Lamont, Jr.
Governor of the State of Connecticut
State of Connecticut Special Transportation Fund

Opinion


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund of the State of Connecticut Special Transportation Fund as of June 30, 2021, and the changes in its financial position thereof, and the 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 Matter

As discussed in Note 1, the financial statements present only the Special Transportation Fund of the State of Connecticut, and do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2021, 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.



CliftonLarsonAllen LLP

West Hartford, Connecticut
October 26, 2021

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021
(IN THOUSANDS)

| | Special Revenue Fund | Debt Service Fund | Restricted Grants Fund | Total |
|---|-------------------------|-------------------------|---------------------------|-------------------------|
| ASSETS | | | | |
| Cash And Cash Equivalents | \$ 99,543 | \$ - | \$ 78,394 | \$ 177,937 |
| Restricted Investments Held By Trustee | - | 1,103,038 | - | 1,103,038 |
| Receivables: | | | | |
| Taxes, Net of Allowance for Doubtful Accounts of \$129 for the Special Revenue Fund | 223,847 | - | - | 223,847 |
| Accounts, Net of Allowance for Doubtful Accounts of \$22,592 and \$560 for the Special Revenue Fund and Restricted Grants Fund, Respectively | 36,726 | - | 6,238 | 42,964 |
| Interest | 19 | 25 | - | 44 |
| Restricted Federal Grants | - | - | 102,943 | 102,943 |
| Due From Other Funds of The State | 25 | - | - | 25 |
| Material and supplies | 27,182 | - | - | 27,182 |
| Total Assets | <u>387,342</u> | <u>1,103,063</u> | <u>187,575</u> | <u>1,677,980</u> |
| LIABILITIES | | | | |
| Accounts Payable | 17,321 | - | 57,242 | 74,563 |
| Wages and Benefits Payable | 16,632 | - | 4,377 | 21,009 |
| Due to Other Funds of the State | - | 25 | 366 | 391 |
| Due to Trustee | - | - | 1,450 | 1,450 |
| Total Liabilities | <u>33,953</u> | <u>25</u> | <u>63,435</u> | <u>97,413</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Receivables to be Collected in Future Periods | 32,751 | - | 1,702 | 34,453 |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Material and supplies | 27,182 | - | - | 27,182 |
| Restricted For: | | | | |
| Transportation Programs | 293,456 | - | - | 293,456 |
| Debt Service | - | 1,103,038 | - | 1,103,038 |
| Federal Programs | - | - | 122,438 | 122,438 |
| Total Fund Balances | <u>320,638</u> | <u>1,103,038</u> | <u>122,438</u> | <u>1,546,114</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ 387,342</u> | <u>\$ 1,103,063</u> | <u>\$ 187,575</u> | <u>\$ 1,677,980</u> |

See accompanying Notes to Financial Statements.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)

| | Special Revenue Fund | Debt Service Fund | Restricted Grants Fund | Total |
|--|-------------------------|----------------------|---------------------------|---------------------|
| REVENUES | | | | |
| Motor Fuel Taxes | \$ 693,270 | \$ - | \$ - | \$ 693,270 |
| Sales Taxes | 600,108 | - | - | 600,108 |
| License, Permit, and Fee Revenues | 402,281 | - | - | 402,281 |
| Sales and Other Services | 22,087 | - | - | 22,087 |
| Fines and Rents | 16,661 | - | - | 16,661 |
| Investment Income | 345 | 1,056 | - | 1,401 |
| Intergovernmental Grants | 11,957 | - | 972,058 | 984,015 |
| Miscellaneous | 6,124 | - | 37,940 | 44,064 |
| Total Revenues | <u>1,752,833</u> | <u>1,056</u> | <u>1,009,998</u> | <u>2,763,887</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 8,557 | - | - | 8,557 |
| Regulation and Protection | 119,448 | - | - | 119,448 |
| Conservation and Development | 5,151 | - | - | 5,151 |
| Transportation | 899,171 | - | 1,015,566 | 1,914,737 |
| Debt Service: | | | | |
| Principal Retirement | - | 339,585 | - | 339,585 |
| Interest and Fiscal Charges | 276 | 308,086 | 933 | 309,295 |
| Total Expenditures | <u>1,032,603</u> | <u>647,671</u> | <u>1,016,499</u> | <u>2,696,773</u> |
| Net (Expense) Revenue and Changes in Net Assets | 720,230 | (646,615) | (6,501) | 67,114 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Refunding Bonds | - | 11,695 | - | 11,695 |
| Premium on Bonds Issued | - | 907 | - | 907 |
| Payment to Escrow Agent | - | (12,611) | - | (12,611) |
| Transfers from Other State Funds | 1,172 | 726,269 | 777 | 728,218 |
| Transfers to Other State Funds | (669,889) | (1,184) | - | (671,073) |
| Total Other Financing Sources (Uses) | <u>(668,717)</u> | <u>725,076</u> | <u>777</u> | <u>57,136</u> |
| NET CHANGES IN FUND BALANCES | 51,513 | 78,461 | (5,724) | 124,250 |
| Fund Balances - Beginning of Year | 267,193 | 1,024,577 | 128,162 | 1,419,932 |
| Change in Reserve for Inventories | 1,932 | - | - | 1,932 |
| FUND BALANCES - END OF YEAR | <u>\$ 320,638</u> | <u>\$ 1,103,038</u> | <u>\$ 122,438</u> | <u>\$ 1,546,114</u> |

See accompanying Notes to 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
YEAR ENDED JUNE 30, 2021
(IN THOUSANDS)

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Over (Under) |
|--|------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Budgeted: | | | | |
| Taxes, Net of Refunds | \$ 1,360,500 | \$ 1,269,100 | \$ 1,292,530 | \$ 23,430 |
| License, Permit, and Fee Revenues | 452,500 | 451,000 | 452,167 | 1,167 |
| Federal Grants | 11,800 | 12,000 | 11,957 | (43) |
| Other | 36,700 | 1,900 | 1,922 | 22 |
| Refunds of Payments | (5,200) | (5,400) | (5,359) | 41 |
| Operating Transfers in | 30,000 | 30,000 | 30,000 | - |
| Operating Transfers out | (5,500) | (5,500) | (5,500) | - |
| Total Revenues | <u>1,880,800</u> | <u>1,753,100</u> | <u>1,777,717</u> | <u>24,617</u> |
| EXPENDITURES | | | | |
| Budgeted: | | | | |
| General Government | 8,934 | 10,034 | 9,905 | (129) |
| Regulation and Protection | 77,906 | 77,991 | 67,745 | (10,246) |
| Conservation and Development | 2,865 | 2,865 | 2,865 | - |
| Transportation | 747,336 | 747,661 | 709,711 | (37,950) |
| Nonfunctional | 1,042,796 | 1,042,386 | 908,284 | (134,102) |
| Total Expenditures | <u>1,879,837</u> | <u>1,880,937</u> | <u>1,698,510</u> | <u>(182,427)</u> |
| Appropriations Lapsed | <u>31,700</u> | <u>148,813</u> | <u>-</u> | <u>(148,813)</u> |
| Excess of Revenues Over Expenditures | 32,663 | 20,976 | 79,207 | 58,231 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Prior Year Appropriations Carried Forward | 31,804 | 31,804 | 31,804 | - |
| Appropriations Continued to Fiscal Year 2021-2022 | - | - | (38,307) | (38,307) |
| Miscellaneous | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>31,804</u> | <u>31,804</u> | <u>(6,503)</u> | <u>(38,307)</u> |
| Net Change in Fund Balance | <u>\$ 64,467</u> | <u>\$ 52,780</u> | <u>72,704</u> | <u>\$ 19,924</u> |
| Budgetary Fund Balance - Beginning of Year | | | 230,234 | |
| Miscellaneous adjustments to budgetary fund balance | | | 259 | |
| Change in Reserve for Continuing Appropriations | | | <u>(23,756)</u> | |
| Budgetary Fund Balance - End of Year | | | <u>\$ 279,441</u> | |

See accompanying Notes to Financial Statements.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 1 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 revenues of the State pledged therefor as provided in the Act (the Pledged Revenues) for payment of Special Tax Obligation bonds (the Bonds) issued by the State for transportation infrastructure purposes. Pledged Revenues consist of taxes, fees, charges and other receipts, funds or moneys of the State credited to the Special Transportation Fund and include: motor fuel taxes; oil companies taxes; a portion of the general retail sales and use taxes; the sales and use taxes on motor vehicle sales at dealers; 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 and certain transportation related federal revenues of the State credited to the Special Transportation Fund.

After providing for debt service requirements of the Bonds, the balance of the revenues and other financing sources of the Fund may 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 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, 2021 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.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

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.

Recent Legislative Changes

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.

During the 2017 legislative special session, the General Assembly passed Public Act 17-2 (the 2017 Budget Act). Pursuant to section 705 of the 2017 Budget Act, the General Assembly is prohibited from authorizing Special Transportation Fund appropriations for any fiscal year that, in the aggregate, exceed a specified percentage (99.5% in fiscal year 2020, 99.25% in fiscal year 2021 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 exemptions. The General Assembly may not alter the State's obligation to comply with such cap on Special Transportation Fund aggregate appropriations prior to June 20, 2023.

During the 2019 legislative session, the General Assembly passed Public Act 19-117 (the Appropriations Act), which made several adjustments to the revenues credited to the Special Transportation Fund. Sections 317 and 218 of the Appropriation Act partially modified the phase-in schedule for the transfer of motor vehicle sales and use tax as follows: 8% in fiscal year 2019, 17% (previously 33%) in fiscal year 2020, 25% (previously 56%) in fiscal year 2021, 75% in fiscal year 2022, and 100% in fiscal year 2023. In addition, the Appropriations Act included various expansions to the sales and use tax.

During the 2019 legislative session, the General Assembly passed Public Act 19-165 (the DMV Act), which increased the renewal period for operator licenses and registrations. For operator licenses, the DMV Act increased the renewal period by two years, from six to eight years. For operator registration, the DMV Act increased the renewal period by one year, from two to three years.

During the 2020 legislative session, the General Assembly passed Public Act 20-1 (the Bond Act), which provides for special tax obligation bond authorizations for transportation projects of \$777.6 billion in fiscal year 2020 and \$782.4 billion in fiscal year 2021. The Bond Act also provides for general obligation bond authorizations for transportation projects of \$200 million in each of fiscal year 2020 and fiscal year 2021.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Legislative Changes (Continued)

During the 2021 legislative session, the General Assembly passed Public Act 21-111 (the "Bond Act"), which provides for special tax obligation bond authorizations for transportation projects of \$836.9 million in fiscal year 2022 and \$929.6 million in fiscal year 2023. The Bond Act also provides for general obligation bond authorizations for transportation projects of \$30 million in fiscal year 2022 and \$30 million in fiscal year 2023.

During the 2021 June Special Session, the General Assembly passed Public Act 21-2 (the "Appropriations Act"). The Appropriations Act included an expansion to the Sales and Use tax for cannabis, which is estimated to result in revenue gain in the Special Transportation Fund of \$1.0 million in fiscal year 2023, \$1.9 million in fiscal year 2024, \$2.9 million in fiscal year 2025 and \$3.0 million in fiscal year 2026.

During the 2021 legislative session, the General Assembly passed Section 45 of Special Act 21-15 approving an adjustment to the sales and use tax which resulted in an increase of \$5.0 million in each of fiscal years 2022 through 2026 in the Special Transportation Fund. The adjustment reflects the increased sales and use tax revenues the State has experienced as a result of economic growth.

Pursuant to Sections 438 through 443 of the Appropriations Act, effective July 1, 2022, the State will impose a convenience fee (Convenience Fee) for the use of a credit card or debit card for the payment of fees that constitute pledged revenues under Chapters 246 and 247 of the Statutes.

In addition, the General Assembly passed Public Act 21-177 (the "Highway Use Fee Act"). Beginning on January 1, 2023, the Highway Use Fee Act imposes a highway use fee (the "Highway Use Fee") on certain heavy, multi-unit motor vehicles operated on any public road in the State. The Highway Use Fee is calculated based on a vehicle's weight and the number of miles driven in the State. Revenue from the implementation of the Highway Use Fee is estimated to result in an increase in revenue of \$45.0 million in fiscal year 2023 and \$90.0 million in fiscal year 2024.

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.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

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 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 60 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.

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.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

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 Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less when purchased, exclusive of restricted investments held by the trustee.

Investments

Investments are measured at fair value, except for investments in certain external investment pools.

Investments in external investments pools consists of amounts invested in the State of Connecticut Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund is an investment pool managed by the State Treasurer's Office. Investments in these types of funds, which are permitted to measure their investment holdings at amortized costs (which approximates fair value), are measured at the net asset value per share as determined by the pool.

Materials and Supplies

Material and supplies are reported at cost using either the first-in first-out or average costing methods. Materials and supplies consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported materials and supplies are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of 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 reports unavailable revenue from certain receivables that are expected to be collected in future periods as deferred inflows of resources. The Fund will recognize such amounts as revenues in the period that the amounts become available.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

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.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 2 BUDGETARY INFORMATION AND LEGAL COMPLIANCE

By statute, the Governor of the State of Connecticut must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for several funds of the State, including the Special Transportation Fund.

Pursuant to section 705 of the 2017 Budget Act, the General Assembly is prohibited from authorizing Special Transportation Fund appropriations for any fiscal year that, in the aggregate, exceed a specified percentage (99.25% in fiscal year 2021, 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 exemptions. The General Assembly may not alter the State's obligation to comply with such cap on Special Transportation Fund aggregate appropriations prior to June 20, 2023.

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 Statutory Basis (GAAP Based Budgeting)*. 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% of the fund or 5% of the appropriation amount. Modifications beyond those limits, but not in excess of 5% of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5% 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
JUNE 30, 2021
(AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 2 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. Certain tax payments received by the Commissioner of Revenue Services not later than five business days after the last day of July immediately following the end of the fiscal year are subject to statutory accrual. Federal and other restricted grant revenues 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:

| | Special Revenue Fund |
|--|-------------------------|
| Net Change in Fund Balance - Budgetary Basis | \$ 72,704 |
| Decrease in Receivables | 97 |
| Decrease in Accounts Payable | 2,208 |
| Statutory Surplus Reserve for Fiscal Year 2021 * | (30,000) |
| Decrease in Continuing Appropriations | 6,504 |
| Net Change in Fund Balance - GAAP Basis | \$ 51,513 |

*Section 371 of Public Act 19-117 authorized a \$30 million transfer of resources of the Special Transportation Fund for the fiscal year ended June 30, 2020, to be accounted for as revenue of the Special Transportation Fund for the fiscal year ending June 30, 2021.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
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NOTE 3 RESTRICTION OF FUND REVENUES

Under the terms and provisions of special acts of the General Assembly of the State of Connecticut, the State Bond Commission is empowered to authorize the issuance of special tax obligation bonds in one or more series to fund a portion of the costs of the State's infrastructure improvement projects. The bonds issued to date are described more fully in Note 7. The bonds are payable solely from, and secured by, a first pledge on the revenues of the Fund pursuant to the Act and the Indenture of Trust dated September 15, 1984, as supplemented, and the Indenture of Trust dated December 1, 1990, as supplemented (the Indentures).

Included in intergovernmental revenues are certain restricted grants. These grants represent amounts received from federal and local governments and other sources specifically to fund their share of certain program costs incurred. These revenues totaled approximately \$984.0 million for the year ended June 30, 2021 and are not available for debt service.

NOTE 4 CASH DEPOSITS - CUSTODIAL CREDIT RISK

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%, 25%, 100% or 120% 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 \$61,166 as of June 30, 2021. Because the Fund's cash deposits are commingled with those of other funds of the State, the amount of the Fund's cash deposits subject to custodial credit risk is not readily determinable as of June 30, 2021.

Investments in the State Treasurer's Short-Term Investment Fund (STIF) totaling \$116,771 are included in cash and cash equivalents in the accompanying balance sheet. For purposes of disclosure, such amounts are considered investments and are included in the disclosure in Note 5.

NOTE 5 INVESTMENTS

As of June 30, 2021, the Fund's investments consist of the following:

| Investment Type | Fair Value | Investment Maturities (In Years) | | |
|----------------------------|--------------|----------------------------------|--------|---------|
| | | Less Than 1 | 1 to 5 | 6 to 10 |
| Debt Securities | | | | |
| Short-Term Investment Fund | \$ 1,103,038 | \$ 1,103,038 | \$ - | \$ - |

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NOTE 5 INVESTMENTS (CONTINUED)

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, 2021 is as follows:

| | |
|--|---------------------|
| Bond Service Account | \$ 387,034 |
| Debt Service Reserve Account | 716,004 |
| Restricted Investments Held by Trustee | <u>\$ 1,103,038</u> |

Investments held by the Trustee in the bond service account and the debt service reserve account are restricted by and invested pursuant to the terms of the Indentures.

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 the Indentures.

Credit Risk

The Fund’s investment restrictions are delineated in the Indentures. 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, 2021:

| <u>Debt Securities</u> | <u>Fair Value</u> | <u>Standard & Poors</u> | <u>Moody’s</u> | <u>Fitch</u> |
|----------------------------|-------------------|-----------------------------|----------------|--------------|
| Short-Term Investment Fund | \$ 1,103,038 | AAA | Unrated | Unrated |

Concentrations of Credit Risk

The Fund places no limit on the amount of investment in any one issuer. As of June 30, 2021, 100% of the Fund’s investments were invested in the State Treasurer’s Short-Term Investment Fund.

NOTE 6 SPECIAL TAX OBLIGATION BONDS

A summary of special tax obligation bonds issued, pursuant to the State Bond Commission’s authorization, and the outstanding principal balances as of June 30, 2021 is as follows.

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
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NOTE 6 SPECIAL TAX OBLIGATION BONDS (CONTINUED)

| Issue | Interest Rates | Dated Date | Maturing Through Fiscal Year | Amount of Original Issue | Principal Balance at June 30, 2021 |
|-----------------------|----------------|--------------------|------------------------------------|-----------------------------|--|
| Senior Bonds: | | | | | |
| 2009B Bonds | 4.86% - 5.74% | November 10, 2009 | 2030 | \$ 304,030 | \$ 279,955 |
| 2010B Bonds | 4.13% - 5.46% | November 10, 2010 | 2031 | 400,430 | 372,355 |
| 2010C Refunding Bonds | 2.00% - 5.00% | November 10, 2010 | 2023 | 137,675 | 20,230 |
| 2011A Bonds | 3.38% - 5.00% | December 15, 2011 | 2032 | 221,230 | 152,455 |
| 2011B Refunding Bonds | 2.00% - 5.00% | December 15, 2011 | 2023 | 233,845 | 41,775 |
| 2012A Bonds | 2.00% - 5.00% | December 21, 2012 | 2033 | 502,290 | 348,760 |
| 2012B Refunding Bonds | 5.00% | December 21, 2012 | 2025 | 125,100 | 65,505 |
| 2013A Bonds | 2.00% - 5.00% | December 21, 2013 | 2034 | 600,000 | 452,280 |
| 2014A Bonds | 2.00% - 5.00% | October 16, 2014 | 2035 | 600,000 | 481,815 |
| 2014B Refunding Bonds | 3.00% - 5.00% | October 16, 2014 | 2026 | 131,545 | 78,735 |
| 2015A Bonds | 3.00% - 5.00% | October 15, 2015 | 2036 | 700,000 | 583,845 |
| 2015B Refunding Bonds | 2.00% - 5.00% | October 15, 2015 | 2028 | 139,770 | 104,705 |
| 2016A Bonds | 3.00% - 5.00% | September 28, 2016 | 2037 | 800,000 | 696,000 |
| 2016B Refunding Bonds | 2.00% - 5.00% | September 28, 2016 | 2029 | 68,265 | 52,105 |
| 2018A Bonds | 4.00% - 5.00% | February 8, 2018 | 2038 | 800,000 | 719,830 |
| 2018B Bonds | 5.00% | October 25, 2018 | 2039 | 750,000 | 701,515 |
| 2018C Refunding Bonds | 3.00% - 5.00% | October 25, 2018 | 2027 | 100,105 | 87,560 |
| 2020A Bonds | 3.00% - 5.00% | May 29, 2020 | 2040 | 850,000 | 833,145 |
| 2021A Bonds | 3.00% - 5.00% | May 12, 2021 | 2041 | 875,000 | 875,000 |
| 2021B Refunding Bonds | 3.00% - 4.00% | May 12, 2021 | 2029 | 11,695 | 11,695 |
| Total | | | | | <u>\$ 6,959,265</u> |

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 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 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.

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NOTE 6 SPECIAL TAX OBLIGATION BONDS (CONTINUED)

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% of the principal amount outstanding on November 1, 2020 and thereafter. All callable maturities were refunded and redeemed on May 12, 2021.

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% 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% 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% 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% of the principal amount outstanding on January 1, 2023 and thereafter.

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NOTE 6 SPECIAL TAX OBLIGATION BONDS (CONTINUED)

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% 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% 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% of the principal amount outstanding on September 1, 2024 and thereafter.

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% 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% 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% 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% of the principal amount outstanding on September 1, 2026 and thereafter.

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NOTE 6 SPECIAL TAX OBLIGATION BONDS (CONTINUED)

The 2018 Series A Bonds maturing on or after January 1, 2029 will be subject to redemption, at the election of the State, on or after January 1, 2028 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% of the principal amount outstanding on January 1, 2028 and thereafter.

The 2018 Series B Bonds maturing on or after October 1, 2029 will be subject to redemption, at the election of the State, on or after October 1, 2028 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% of the principal amount outstanding on October 1, 2028 and thereafter.

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

The 2020 Series A Bonds maturing on or after May 1, 2031 will be subject to redemption, at the election of the State, on or after May 1, 2030 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% of the principal amount outstanding on May 1, 2030 and thereafter.

The 2021 Series A Bonds maturing on or after May 1, 2032 will be subject to redemption, at the election of the State, on or after May 1, 2031 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% of the principal amount outstanding on May 1, 2031 and thereafter.

The 2021 Series B Refunding Bonds are not subject to optional redemption.

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

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| 2022 | \$ 378,845 | \$ 333,099 | \$ 711,944 |
| 2023 | 401,270 | 316,103 | 717,373 |
| 2024 | 414,125 | 297,446 | 711,571 |
| 2025 | 424,585 | 276,673 | 701,258 |
| 2026 | 418,715 | 254,826 | 673,541 |
| 2027-2031 | 2,172,720 | 947,108 | 3,119,828 |
| 2032-2036 | 1,859,145 | 434,310 | 2,293,455 |
| 2037-2041 | 889,860 | 90,740 | 980,600 |
| Total | <u>\$ 6,959,265</u> | <u>\$ 2,950,305</u> | <u>\$ 9,909,570</u> |

STATE OF CONNECTICUT SPECIAL TRANSPORTATION FUND
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NOTE 6 SPECIAL TAX OBLIGATION BONDS (CONTINUED)

Bonds Authorized But Not Issued

As of June 30, 2021, the State has \$4.0 billion 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.

Accrued Interest

As of June 30, 2021, accrued interest on the special tax obligations bonds paid from the Debt Service Fund totaled \$96.6 million and will be recognized as a debt service expenditure when paid.

NOTE 7 CHANGES IN LONG TERM OBLIGATIONS

Although the Fund does pay certain long-term obligations, these obligations have not been reported in the accompanying fund financial statements. A summary of changes in long-term obligations of the Fund for the year ended June 30, 2021 is as follows:

| Description | Balance, July 1, 2020 | Additions | Reductions | Balance, June 30, 2021 |
|--|--------------------------|-------------------|-------------------|---------------------------|
| Special Tax Obligation Bonds and Refunding Bonds | \$ 6,424,705 | \$ 886,695 | \$ 352,135 | \$ 6,959,265 |
| Compensated Absences | 52,646 | - | 713 | 51,933 |
| Claims and Judgements (See Note 9) | 667 | 3,433 | - | 4,100 |
| Total | <u>\$ 6,478,018</u> | <u>\$ 890,128</u> | <u>\$ 352,848</u> | <u>\$ 7,015,298</u> |

NOTE 8 INTERFUND BALANCES

Interfund Receivables and Payables Amounts

A summary of interfund receivables and payables as of June 30, 2021 are as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------------|------------------------|---------------|
| Special Revenue Fund | Debt Service Fund | <u>\$ 25</u> |
| Other Funds of the State | Restricted Grants Fund | <u>\$ 366</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.

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NOTE 8 INTERFUND BALANCES (CONTINUED)

Interfund Transfers

A summary of interfund transfers for the year ended June 30, 2021 is as follows:

| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> |
|--------------------------|--------------------------|-------------------|
| Special Revenue Fund | Debt Service Fund | \$ 1,172 |
| Debt Service Fund | Special Revenue Fund | \$ 664,389 |
| | Other funds of the State | 61,880 |
| | | <u>\$ 726,269</u> |
| Restricted Grants Fund | Debt Service Fund | \$ 12 |
| | Other funds of the State | 765 |
| | | <u>\$ 777</u> |
| Other funds of the State | Special Revenue Fund | <u>\$ 5,500</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.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Litigation, Claims, and Assessments

The State is party to various claims and legal actions brought against it, some of which may ultimately result in settlements or judgments against the State for which amounts may ultimately be paid from the Fund. Any amounts payable from the Fund to meet such settlements or judgements are subject to the prior lien in favor of the Bonds. The State of Connecticut, Office of the Attorney General has determined that it is probable that some of these actions will result in a loss to the State. The estimated liabilities for probable cases against the State for which amounts may ultimately be payable from the Fund totaled approximately \$4.1 million as of June 30, 2021. In addition, there are a number of cases where the outcome is either uncertain or it is reasonably possible that a loss may be incurred for which the estimated exposure totaled approximately \$1.4 million as of June 30, 2021.

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 U.S. government. In accordance with this regulation, the Fund may be 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, 2021. There was no liability for arbitrage rebate as of June 30, 2021.

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NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contractual Commitments

The State entered into a contractual agreement with H.N.S. Management Company, Inc., doing business as CTTransit, to manage and operate the bus transportation system for the State. The State pays 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 CTTransit, 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 construction projects. As of June 30, 2021, the aggregate contractual commitments for such projects totaled approximately \$555.9 million. Funding of these expenditures is expected to be received from federal and other grants and other revenues to be received by the Fund.

Pension and Other Postemployment Benefits

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 and other postemployment benefit costs other than the annual contributions, 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 and other postemployment benefit 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 net contributions made by the Fund totaled \$156.2 million for pension benefits and \$5.5 million for other postemployment benefits for the year ended June 30, 2021.

Federal Awards

Grant amounts received or receivable by the Special Revenue and Restricted Grants Funds from federal agencies are subject to audit and adjustment by these agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal government cannot be determined at this time, although the State expects such amounts, if any, to be immaterial.

NOTE 10 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.

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NOTE 10 INTERFUND ALLOCATIONS (CONTINUED)

Allocation of Bank Charges

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 \$109.2 thousand for the year ended June 30, 2021.

NOTE 11 RISK MANAGEMENT AND UNCERTAINTIES

Risk Management

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board (the Board). The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer.

The State is self-insured for general liability risks because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a statute (e.g., per Statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract. Amounts allocated and expended by the Fund for general liability, automobile, and property insurance totaled approximately \$9.9 million for the year ended June 30, 2021.

The State is self-insured for liabilities associated with worker compensation claims. Amounts allocated and expended by the Fund for workers compensation insurance totaled approximately \$6.1 million for the year ended June 30, 2021.

Uncertainties

Reliance on Certain Taxes

A significant portion of the revenues of the Special Transportation Fund are derived from motor fuel taxes, oil companies taxes, and a portion of the general retail sales taxes. Such taxes may be directly affected by economic conditions. Periods of less favorable economic conditions could result in substantially reduced revenues generated from such taxes and could have a material adverse effect on the Special Transportation Fund.

Impact of COVID-19

In early March 2020, there was a global outbreak of COVID-19 that was declared a Public Health Emergency of International Concern by the World Health Organization and was subsequently declared a state of emergency by the Governor of Connecticut and a national emergency by the President of the United States. The outbreak of the virus has affected travel, commerce and financial markets globally, and is widely expected to affect economic growth worldwide.

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NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Uncertainties (Continued)

Impact of COVID-19 (Continued)

On March 27, 2020, the United States Congress enacted the Coronavirus Aid, Relief, and Economic Stabilization Act (the "CARES Act") that provides in excess of \$2 trillion of relief to industries and entities throughout the country, including state and local governments. In addition to funding received by the State under the CARES Act to cover statewide costs associated with the response to the outbreak, the State of Connecticut Department of Transportation has been awarded \$487.5 million in CARES Act funding from the Federal Transit Administration for the support of operational expenses of statewide public transportation, including bus and rail.

On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act, 2020 (the "CRRSA Act"), which includes \$900 billion in supplemental appropriations for COVID-19 relief, \$14 billion of which will be allocated to support the transit industry during the COVID-19 public health emergency, was signed into law. Under the CRRSA Act, the Department of Transportation expects to receive \$333 million of grants from the FTA for the support of operational expenses of statewide public transportation, including bus and rail. In addition, the Department of Transportation expects to receive \$125 million of grants from the Federal Highway Administration (FHWA) for surface transportation projects.

On March 11, 2021, the United States Congress enacted the American Rescue Plan Act of 2021 (the "ARP Act") that provides additional relief to individuals, grants to businesses, and support to state and local governments. The State of Connecticut received approximately \$2.812 billion to respond to the impacts of the COVID-19 pandemic. In addition, the FTA has provided \$600 million of grants for the support of the operational and capital expenses of the statewide public transportation system, including bus and rail. On April 26, 2021, Governor Lamont presented his proposal on the usage of the ARP Act funds for the State, and section 306 and 307 of Public Act 21-2 of the June Special Session outline the legislature's approved allocation of the ARPA funds awarded to the State. All allocations are subject to the United States Treasury's regulations and guidance regarding allowable uses.

The extent to which COVID-19 will impact the State's operations and its financial condition, including the activities of the Special Transportation Fund, will depend on future developments that are uncertain and cannot be fully predicted with confidence at this time.

NOTE 12 SUBSEQUENT EVENTS

On October 19, 2021 the State of Connecticut issued \$144,190 of Special Tax Obligation Forward Refunding Bonds (2021 Series C) with a coupon rate of 5%. These bonds were issued to refund certain maturities of the 2011 Series A and 2011 Refunding Series B Bonds.

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