

NEW ISSUE – BOOK - ENTRY ONLY

In the opinion of Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance by the State of Connecticut with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, interest on the 2009 Series 1 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 for individuals and corporations. Interest on the 2009 Series 1 Bonds may be included in the calculation of certain taxes, including the Federal alternative minimum tax on corporations, as described under "Tax Exemption" herein. In the opinion of Bond Counsel, under existing statutes, interest on the 2009 Series 1 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 2009 Series 1 Bonds in the definition of "gross income" for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes and other Federal and State tax consequences of ownership or disposition of the 2009 Series 1 Bonds, see "Tax Exemption" herein.

\$415,035,000
State of Connecticut
Second Lien Special Tax Obligation Refunding Bonds
Transportation Infrastructure Purposes
2009 Series 1

Dated: Date of Delivery

Due: February 1, as shown herein

The \$415,035,000 State of Connecticut Second Lien Special Tax Obligation Refunding Bonds, 2009 Series 1 Bonds (the "2009 Series 1 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 2009 Series 1 Bonds. Purchases of the 2009 Series 1 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 2009 Series 1 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 2009 Series 1 Bonds. See "Book-Entry Only System" herein.

Principal of and semiannual interest on the 2009 Series 1 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 2009 Series 1 Bonds will be payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009. 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 2009 Series 1 Bonds are subject to redemption prior to maturity as more fully described herein.

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

The 2009 Series 1 Bonds will be issued on a parity with outstanding Second Lien Bonds (as defined herein) and any future series of Second Lien Bonds issued by the State of Connecticut (the "State") for the Infrastructure Program (as defined herein) under the Second Lien Indenture (as defined herein). The purpose of the issuance of the 2009 Series 1 Bonds is to refund prior series of Second Lien Bonds as more particularly described herein. All Second Lien Bonds, including the 2009 Series 1 Bonds, are junior in right of payment to the Senior Bonds (as defined herein) issued pursuant to the Senior Indenture (as defined herein) and any other obligations on a parity with Senior Bonds as provided in the Senior Indenture. Bonds issued pursuant to the Indentures (as defined herein), including the 2009 Series 1 Bonds, are special obligations of the State payable solely from the taxes and other revenues of the State pledged therefor. Neither Senior Bonds nor Second Lien Bonds (collectively, the "Bonds") shall 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 Bonds pursuant to the 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 (except for taxes included in such pledged revenues) whatever therefor or to make any additional appropriations for their payment.

The 2009 Series 1 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, Hartford, Connecticut, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York and Pullman & Comley, LLC, Hartford, Connecticut. It is expected that the 2009 Series 1 Bonds in definitive form will be available for delivery at DTC in New York, New York, on or about January 29, 2009.

Honorable Denise L. Nappier
Treasurer of the State of Connecticut

Goldman, Sachs & Co.

Banc of America Securities LLC

Citi

Siebert Brandford Shank & Co., LLC

Barclays Capital

Belle Haven Investments, L.P.

Cabrera Capital Markets, LLC

Estrada Hinojosa & Company, Inc.

Loop Capital Markets, LLC

Merrill Lynch & Co.

Morgan Stanley

Ramirez & Co., Inc.

Raymond James & Associates, Inc.

RBC Capital Markets

Rice Financial Products Company

Roosevelt & Cross, Inc.

Sterne, Agee & Leach, Inc.

January 22, 2009

\$415,035,000
State of Connecticut

Second Lien Special Tax Obligation Refunding Bonds
Transportation Infrastructure Purposes
2009 Series 1

MATURITY SCHEDULE

<u>February 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>February 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2010	\$ 2,605,000	3.00%	0.43%	2016	\$ 7,075,000	4.00%	2.93%
2011	2,790,000	3.00	1.52	2016	60,020,000	5.00	2.93
2012	3,340,000	3.00	1.62	2017	3,335,000	3.25	3.15
2013	9,825,000	2.00	2.05	2017	10,270,000	4.25	3.15
2013	14,165,000	5.00	2.05	2017	48,420,000	5.00	3.15
2014	9,605,000	2.50	2.49	2018	6,800,000	4.25	3.37
2014	11,050,000	4.00	2.49	2018	31,905,000	5.00	3.37
2014	33,510,000	5.00	2.49	2019	3,005,000	4.50	3.61
2015	5,965,000	2.75	2.71	2019	45,865,000	5.00	3.61
2015	10,980,000	4.00	2.71	2020	36,950,000	3.90	3.99
2015	22,515,000	5.00	2.71	2021	27,320,000	4.25	4.30
2016	4,160,000	3.00	2.93	2022	3,560,000	4.25	4.35

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 2009 Series 1 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. 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 2009 Series 1 Bonds and the proceedings of the State Treasurer relating thereto are qualified in their entirety by reference to the definitive forms of the 2009 Series 1 Bonds and such proceedings. This Official Statement is submitted only in connection with the sale of the 2009 Series 1 Bonds by the State and may not be reproduced or used in whole or in part for any other purpose, except as specifically authorized by the State. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2009 Series 1 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 2009 SERIES 1 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$415,035,000
State of Connecticut
Second Lien Special Tax Obligation Refunding Bonds
Transportation Infrastructure Purposes
2009 Series 1

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 \$415,035,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2009 Series 1 (the "2009 Series 1 Bonds"). The 2009 Series 1 Bonds are being issued to refund certain outstanding Second Lien Bonds (as defined below).

The State provides capital funding for its Transportation Infrastructure Program (the "Infrastructure Program") by issuing senior and second lien special tax obligation bonds (the "Bonds") pursuant to Public Act No. 84-254 of the General Assembly of the State of Connecticut, February Session of 1984, as amended, and other public and special acts adopted by the General Assembly (the "Act"). The Bonds are payable solely from the taxes and other revenues of the State pledged therefor, including revenues pledged therefor which are credited to the Special Transportation Fund pursuant to the Act, and are issued either as senior bonds pursuant to the Senior Indenture, as defined below (the "Senior Bonds"), or as second lien bonds pursuant to the Second Lien Indenture, as defined below (the "Second Lien Bonds"), such as the 2009 Series 1 Bonds.

The Special Transportation Fund is pledged to the payment of Debt Service Requirements on Senior Bonds and Senior Notes. In addition to principal of and interest on, and the purchase price of, Senior Bonds and Senior Notes, included in the definition of "Debt Service Requirements" in the Senior Indenture are amounts coming due under reimbursement agreements or similar agreements entered into pursuant to the proceedings authorizing the issuance of a series of Senior Bonds, including any credit facility such as a letter of credit or policy of bond insurance. Senior Bonds and the obligations secured on a parity with Senior Bonds shall be known herein as "Senior Obligations." Senior Obligations have a first claim on the Special Transportation Fund.

The Special Transportation Fund is also pledged to the payment of Debt Service Requirements on Second Lien Bonds and Second Lien Notes. In addition to principal of and interest on, and the purchase price of, Second Lien Bonds and Second Lien Notes, included in the definition of "Debt Service Requirements" in the Second Lien Indenture are amounts coming due under reimbursement agreements or similar agreements entered into pursuant to the proceedings authorizing the issuance of a series of Second Lien Bonds, including any credit facility such as a letter of credit or policy of bond insurance. Second Lien Bonds and the obligations secured on a parity with Second Lien Bonds, which include obligations to the provider of a Credit Facility or a Qualified Swap (as such terms are defined in the section below entitled "Summary of Certain Provisions of the Second Lien Indenture"), shall be known herein as "Second Lien Obligations." The claim of any Second Lien Obligation on the Special Transportation Fund is junior to the claim of all Senior Obligations.

Senior Bonds are issued under the Indenture of Trust, dated as of September 15, 1984, between the State and The Connecticut National Bank, the initial trustee, as amended by the Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1, dated as of December 9, 1994, and as supplemented by the First through the Thirty-Ninth Supplemental Indentures to provide for the issuance of 42 series of Senior Bonds (collectively, the "Senior Indenture"). The forty-second series of Senior Bonds was delivered on December 10, 2008, in the aggregate principal amount of \$300,000,000. U.S. Bank National Association, Hartford, Connecticut is the successor trustee under the Senior Indenture.

Second Lien Bonds are issued under the Indenture of Trust, dated as of December 1, 1990, between the State and The Connecticut National Bank, the initial trustee, as amended by the Second Lien Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1, dated as of December 9, 1994, and as supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture and the Fourth Supplemental Indenture (collectively, with the Fifth Supplemental Indenture defined below, the "Second Lien Indenture"). The first series of Second Lien Bonds was issued in 1990 (the "1990 Series 1 Bonds"), the second series of Second Lien Bonds was issued in 2000 (the "2000 Series 1 Bonds"), the third and fourth Series of Second Lien Bonds were issued in 2003 (the "2003 Series 1 and 2 Bonds") and the fifth series of Second Lien Bonds was issued on October 1, 2008 (the "2008 Series 1 Bonds") to refund the 2000 Series 1 Bonds. The particular terms of the 2009 Series 1 Bonds are set forth in the Fifth Supplemental Indenture of Trust dated as of the date of delivery of the 2009 Series 1 Bonds (the "Fifth Supplemental Indenture") among the State, U.S. Bank National Association, Hartford, Connecticut, the successor trustee (the "Trustee") under the Second Lien Indenture. The 2009 Series 1 Bonds, if issued, and other funds available to the State will be used to refund the 2003 Series 1 and 2 Bonds.

There follows in this Official Statement a description of the Infrastructure Program, the nature of the obligation and the security for Bonds, the terms of the 2009 Series 1 Bonds, the establishment and maintenance of the Special Transportation Fund, including the transportation related revenues of the State to be credited to the Special Transportation Fund and the method of accounting therefor, and the Department of Transportation (the "Department"), which is charged with the management of the 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 the respective Indenture, copies of which are available from the State, and all references to the 2009 Series 1 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Second Lien Indenture.

THE TRANSPORTATION INFRASTRUCTURE PROGRAM

The Infrastructure Program was established in 1984 and is a continuous program which finances the ongoing requirements of the State for the planning, acquisition, removal, construction, equipping, reconstruction, repair, rehabilitation and improvement of, and acquisition of easements and rights-of-way with respect to, State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program (the "interstate trade-in program"), waterway facilities, mass transportation and transit facilities, aeronautic facilities (excluding Bradley International Airport), the highway safety program, maintenance garages and administrative facilities of the Department, payment of the State's share of the costs of the local bridge program established under the Act, and payment of State contributions to the local bridge revolving fund established under the Act (all such projects being collectively herein called the "Infrastructure Program"). The Infrastructure Program is administered by the Department. For a more detailed description of the Department and the Infrastructure Program, see "The Department of Transportation."

The cost of the Infrastructure Program for State fiscal years 1985-2012, which will be met from federal, State, and local funds, is currently estimated at \$23.5 billion. The State's share of such cost, estimated at \$9.5 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of special tax obligation bonds. The portion of State program costs not financed by special tax obligation bonds is estimated at \$0.6 billion and includes the expenses of the Infrastructure Program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the Infrastructure Program for State fiscal years 1985-2012 to be financed by special tax obligation bonds is currently estimated at \$8.9 billion. The actual amount may exceed \$8.9 billion to finance reserves and cost of issuance amounts. The issuance of such special tax obligation bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. Special tax obligation bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

During fiscal years 1985-2007, \$18.3 billion of the total infrastructure program was approved by the appropriate governmental authorities. The remaining \$5.2 billion is required for fiscal years 2008-2012. The \$5.2 billion of such infrastructure costs is anticipated to be funded with proceeds of \$1.8 billion from the anticipated issuance of new special tax obligation bonds, \$63 million in anticipated revenues, and \$3.3 billion in anticipated federal funds.

The aggregate of motor fuels taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, Oil Companies Tax Payments (as hereinafter defined), Sales Tax - DMV Payments (as hereinafter defined), motor vehicle related fines, penalties and other charges and other transportation related revenue sources, including enacted adjustments in all the foregoing sources, are intended to cover the cost of the State's share of the Infrastructure Program, including debt service requirements. After providing for debt service requirements 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, the Department of Motor Vehicles (the "DMV"), and the Department of Public Safety.

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." In addition, the State has established an Infrastructure Improvement Fund to account for the net proceeds of bonds and bond anticipation notes (the "Notes") issued under public and special acts adopted annually by the General Assembly authorizing such obligations. The 2009 Series 1 Bonds are neither payable from nor secured by the Infrastructure Improvement Fund.

During the June 30, 2003 Special Session of the State General Assembly, the General Assembly enacted Public Act 03-1 and Public Act 03-4 to implement certain recommendations of the State Transportation Strategy Board (the "TSB") relative to the

financing of various transportation related projects and purposes. Public Act 05-4 of the June 2005 Special Session (“Public Act 05-4”) repealed and modified various provisions of Public Act 03-4 (as amended by Public Act 04-182) and provides that annually, the Department, in consultation with the Secretary of the Office of Policy and Management, the State Treasurer and the TSB, is required to prepare financing plans which are to provide for the annual funding and financing of those projects and purposes identified in such annual financing plans (the “TSB Projects and Purposes”) based upon funding available or anticipated to be available in the TSB projects account of the Special Transportation Fund (the “TSB projects account”).

Public Act 05-4 also repealed the prior diversion of certain revenues which constituted Pledged Revenues (“Incremental Revenues”) which had been available to fund TSB Projects and Purposes by deposit into the TSB projects account and instituted transfers from the resources of the Special Transportation Fund to the TSB projects account of specific dollar amounts starting in fiscal year 2006 through fiscal year 2016 and thereafter. At present, it is not anticipated that additional funding will be required to fund TSB Projects and Purposes. See “The Transportation Strategy Board.”

For purposes of the discussions and descriptions in this Official Statement, the TSB Projects and Purposes shall be deemed to be part of the Infrastructure Program.

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, as amended) is empowered to authorize special tax obligation bonds of the State for transportation infrastructure projects and uses, subject to the annual legislative authorizations (the “Special Acts”). The Act also authorizes the issuance of special tax obligation bonds to refund outstanding special tax obligation bonds and to refund certain general obligation bonds of the State issued for transportation purposes, and authorizes the execution of the Indentures as contracts of the State with the holders of the Bonds. The Act expressly provides that holders of Bonds may sue the State upon such express contract in the Connecticut Superior Court for the Judicial District of Hartford.

The State Bond Commission consists of the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of the Office of Policy and Management, the Commissioner of the Department of Public Works of the State and the Co-chairpersons and the Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding of the General Assembly. The Secretary of the Office of Policy and Management serves as secretary to the Commission.

Source of Payment

Special Transportation Fund

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

The Act further provides that the Treasurer shall apply the resources in the Special Transportation Fund first to pay or to provide for the payment of debt service requirements (the “Debt Service Requirements”) on Bonds or on Notes in such amount or amounts and in such manner as required by the Indentures and then to pay from the TSB projects account certain amounts identified in approved annual financing plans for TSB Projects and Purposes. 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 Indentures and are the accounts from which payments of Principal and Interest Requirements on Bonds, and Interest Requirements on Notes (as defined in the Indentures), 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 the principal of and interest on general obligation bonds of the State issued for Transportation Purposes, as defined in the

Act, or any obligations refunding the same, (ii) payment of State budget appropriations for the Department and the DMV and (iii) payment of State budget appropriations made to or for the Department of Public Safety as described in the Act.

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

Effective October 1, 2003, Connecticut adopted changes to Article 9 of the Uniform Commercial Code concerning the creation and perfection of security interests in collateral created by the State or a governmental unit of the State. This legislation exempts the applicability of Article 9 of the Uniform Commercial Code to pledges, liens and other security interests granted by the State to the extent that another state statute, such as the Act, expressly governs the creation, perfection, priority or enforcement of a security interest created by the State. Accordingly, the most recent changes to Article 9 of the Uniform Commercial Code as adopted in Connecticut do not change the pledges, liens and security interests granted by the State to secure the Bonds, as described above.

Agreements of the State

Pursuant to the Act and under the Indentures, 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 Bonds or Notes are outstanding. In addition, the State has covenanted that it will not limit, or otherwise alter, the rights or obligations of the appropriate officers of the State with respect to the application of the Pledged Revenues or to impose, maintain, charge or collect the taxes, fees, charges and other receipts constituting the Pledged Revenues as may be necessary to fulfill the terms of the proceedings authorizing the issuance of the Bonds, including the Pledged Revenue coverage requirement described below.

The Second Lien Bonds are secured by a separate Reserve Account established under the Second Lien Indenture, and the Senior Bonds are secured by a separate Reserve Account established under the Senior Indenture. The Senior Indenture Reserve Account is not available to pay debt service on Second Lien Bonds, and the Second Lien Indenture Reserve Account is not available to pay debt service on Senior Bonds. Nevertheless, under the terms of the Indentures, the required funding for both Reserve Accounts is required to be determined in the aggregate pursuant to the definition of the "Debt Service Reserve Requirement" set forth in the Second Lien Indenture, which must be satisfied as a precondition to the issuance of any additional Senior Bonds or additional Second Lien Bonds, including the 2009 Series 1 Bonds.

So long as Second Lien Bonds, including the 2009 Series 1 Bonds, are outstanding under the Second Lien Indenture, the State is 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 the sections below entitled "Summary of Certain Provisions of the Second Lien Indenture" and "Summary of Certain Provisions of the Senior Indenture."

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

then to be issued. See the section below entitled “Summary of Certain Provisions of Second Lien Indenture-Events of Default” for a more detailed description.

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

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

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

Flow of Funds under the Indentures

All Pledged Revenues collected by the State or any officer thereof, along with other revenues of the State (such as sales tax revenues), are deposited in various bank accounts of the State throughout the State. The Pledged Revenues will be credited to the Special Transportation Fund held by the State, and, as provided by the Senior Indenture, will be transferred monthly to the extent required to meet Debt Service Requirements (including any required deposits into the Senior Reserve Account) for the Senior Bonds and the Senior Notes as set forth in the Senior Indenture and as otherwise required to meet any other Senior Obligations.

Thereafter, after satisfaction of the monthly payments required to meet Debt Service Requirements 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, 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, 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 Second Lien Debt Service Reserve Requirement or (ii) one-twelfth (1/12th) of the Second Lien Debt Service Reserve Requirement, or (iii) if a shortfall arises because of an increase in the Second Lien 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. No such earlier deposits will be made for the 2009 Series 1 Bonds.

Following the transfers described above for the benefit of the holders of any Senior Obligations or Second Lien Obligations, the Pledged Revenues of the Special Transportation Fund may be applied, subject to appropriation and allotment, to 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, the DMV and the Department of Public Safety.

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 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 Indentures also provide that the State shall at all times do and perform all acts and things permitted by law and necessary to assure that the Pledged Revenues received by the State and credited to the Special Transportation Fund shall be applied first to the payment of Debt Service Requirements. Such covenants provide, 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 Indentures to be issued by the State having equal rank and on a parity, respectively, with the Senior Bonds or the Second Lien Bonds, as the case may be, 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 2009 Series 1 Bonds are being issued as Refunding Bonds under the Act and the Second Lien Indenture.

Additional Bonds

Additional Bonds may be issued by the State under the Senior Indenture having equal rank and on a parity with the Senior Bonds heretofore issued for the Infrastructure Program. Additional Bonds may also be issued by the State under the Second Lien Indenture having equal rank and on a parity with the Second Lien Bonds heretofore issued for the Infrastructure Program. The Public and Special Acts provide for the issuance of Bonds for the Infrastructure Program in principal amounts not exceeding in the aggregate \$8,806,652,104 of which \$2,610,001,352 will be authorized and unissued after the issuance of the 2009 Series 1 Bonds. Of such \$2,610,001,352 unissued amount, \$1,417,522,242 has been authorized by the State Bond Commission. As indicated above, the 2009 Series 1 Bonds are issued as Refunding Bonds and do not constitute Additional Bonds. It is anticipated that Additional Bonds will be authorized by public and special acts annually in an amount necessary to finance the Infrastructure Program.

Subject to such statutory authorization, issuance of Additional Bonds requires compliance with the conditions contained in the respective Indenture. In addition, 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 Second Lien Indenture provides that Additional Second Lien 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 (the "Additional Second Lien Bonds Test"):

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

(2) Pledged Revenues and other receipts, funds or moneys pledged under the Second Lien Indenture, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged thereunder for reserves required by the Senior Indenture or the Second Lien 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, Principal and Interest Requirements on Second Lien Bonds and Interest Requirements on Second Lien Notes, with respect to all Senior Bonds, Second Lien Bonds and Second Lien Notes then outstanding and the Second Lien Bonds to be issued, for the current and each succeeding State fiscal year, after adjusting such Pledged Revenues and other receipts, funds or moneys pledged thereunder only to reflect any increase(s) or decrease(s) in

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

(3) The State shall have received a letter from the accountant appointed by the State (i) substantially to the effect that in connection with their examination of the Special Transportation Fund pursuant to the Second Lien Indenture, nothing came to their attention that caused them to believe that the State was not then in compliance with the requirement of paragraph (1) above and (ii) reporting on the certificates delivered by the State pursuant to the requirement of paragraphs (1) and (2) above, without material qualification; and

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

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 under the Senior Indenture and having deposited in the Bond Service Sub-Account for the Senior Bonds an amount equal to one-twelfth of the Principal and Interest Requirements on such Additional Senior Bonds for the ensuing twelve months in which Senior Bonds are to be outstanding.

Qualified Swaps

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

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

A "Qualified Swap" is defined in the Second Lien Indenture as any financial arrangement (i) entered into by the State with an entity that is a "Qualified Swap Provider" at the time the arrangement is entered into; (ii) with respect to which such entity is not then in default; (iii) which provides that the State shall pay to such entity an amount based on the interest accruing at a fixed rate (the "Swap Amount") equal to all or part of the outstanding principal amount of a series of 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 arrangements (which need not be the same as the actual rate of interest borne by the Second Lien Bonds), or that one shall pay to the other any net amounts due under such arrangement; and (iv) 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.

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

It is anticipated that effective upon delivery of the 2009 Series 1 Bonds, the State will be a party to Qualified Swaps only as to the 1990 Series 1 Bonds.

Bond Anticipation Notes and Subordinated Indebtedness

Bond Anticipation Notes

Pursuant to the Act and each Indenture, interest on Notes issued in accordance with the particular Indenture and in anticipation of the receipt of the proceeds of Additional Bonds is payable on a parity with principal and interest on Bonds issued under that Indenture. The Second Lien Indenture provides that as long as Second Lien Bonds, such as the 2003 Series 1 and 2 Bonds, are outstanding, the State shall not issue any Senior Notes.

The Second Lien Indenture permits Second Lien Notes to be issued in anticipation of Senior Bonds and Second Lien Bonds, and provides that no Second Lien Notes shall be issued (i) unless the Senior Bonds or 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 under the Second Lien Indenture 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 Second Lien Bonds, maturing in equal annual installments of principal and interest, the last installment of which shall mature not later than thirty years after such date, and bearing interest at such rate as the State shall determine in its best judgment to be equivalent to the average interest rate which would have been paid had such Second Lien Bonds been issued at such time.

Second Lien Notes shall be special obligations of the State payable solely from the proceeds of Bonds issued under the particular Indenture and, to the extent provided in the Second Lien Indenture or deemed necessary or desirable by the State, from the Special Transportation Fund.

The Second Lien Indenture provides that 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 the principal and interest with respect to the Senior Bonds or Second Lien Bonds or interest with respect to Second Lien Notes.

Subordinated Indebtedness

Nothing in either 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 separate Note Repayment Account and Debt Service Account for the Senior Bonds and the separate Note Repayment Account and Debt Service Account for the Second Lien Bonds, or (ii) from securing other indebtedness and the payment thereof by a call upon the Pledged Revenues and a lien on and pledge of the Special Transportation Fund junior and inferior to the call on the Pledged Revenues and to the lien on and pledge of the Special Transportation Fund created in the respective Indenture for the payment and security of the Senior Bonds and the Second Lien Bonds, respectively.

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 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 2009 SERIES 1 BONDS

Purpose of the 2009 Series 1 Bonds

The Public and Special Acts currently provide for the issuance of \$8,806,652,104 in special tax obligation bonds, in one or more series, to fund, together with anticipated federal grants, a portion of the costs of various purposes of the Infrastructure Program. The 2009 Series 1 Bonds are issued as refunding bonds and not under the authorized but unissued balance for Bonds of \$1,417,522,242 currently remaining pursuant to the Public and Special Acts and authorization by the State Bond Commission. It is expected that in each year special legislation will empower the State Bond Commission to authorize additional special tax obligation bonds to finance the Infrastructure Program.

On February 29, 2008, the State Bond Commission authorized the issuance and sale by the Treasurer of the 2009 Series 1 Bonds to refund certain Bonds, including the 2003 Series 1 and 2 Bonds, as well as the execution of the Fifth Supplemental Indenture by the Governor, the Treasurer, and the Comptroller, the Official Statement, a Continuing Disclosure Agreement and a Certificate of Determination executed by the Treasurer and filed with the Secretary of the State Bond Commission.

Description of the 2009 Series 1 Bonds

The 2009 Series 1 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 2009 Series 1 Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2009. The 2009 Series 1 Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

Principal of and interest on the 2009 Series 1 Bonds will be paid directly to The Depository Trust Company ("DTC") by U.S. Bank National Association, the Trustee under the Senior Indenture, as Paying Agent so long as DTC or its nominee, Cede & Co., is the Bondowner. (See "Book-Entry-Only System" herein.)

Optional Redemption

The 2009 Series 1 Bonds maturing on or after February 1, 2020 will be subject to redemption, at the election of the Treasurer, on or after February 1, 2019 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>
February 1, 2019 and thereafter	100%

Notice of Redemption

Notice of redemption shall be mailed not less than thirty (30) nor more than sixty (60) days prior to the redemption date, by registered mail, to the registered owner of such 2009 Series 1 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 2009 Series 1 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 2009 Series 1 Bonds will be governed by the customary practices and procedures of DTC and said Participants and Indirect Participants. 2009 Series 1 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 2009 Series 1 Bonds called for redemption together with the applicable redemption premium, if any, and the interest to accrue to the redemption date on such 2009 Series 1 Bonds are held for the purpose of payment by the Trustee or Paying Agent.

Plan of Refunding

The 2009 Series 1 Bonds are being issued to refund the following maturities and principal amounts of outstanding Second Lien Bonds on the date 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>	<u>CUSIP</u>
2003 Series 1	2/1/2022	\$212,105,000	Variable	1/29/2009	100%	2077575B7
2003 Series 2	2/1/2022	\$194,180,000	Variable	1/29/2009	100%	2077575C5

As part of the Plan of Refunding it is anticipated that the Qualified Swaps on the 2003 Series 1 and 2 Bonds will be terminated.

Sources and Uses of Funds

The proceeds to be derived from the sale of the 2009 Series 1 Bonds are estimated to be applied as follows:

Sources

Principal Amount of 2009 Series 1 Bonds.....	\$415,035,000
Original Issue Premium	\$ 35,191,791
Total	\$450,226,791

Uses

Redemption of the Refunded Bonds.....	\$406,285,000
Qualified Swaps Termination Payments.....	\$ 41,186,742
Costs of Issuance	\$ 552,774
Underwriters' Discount	\$ 2,202,275
Total	\$450,226,791

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2009 Series 1 Bonds. The 2009 Series 1 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 2009 Series 1 Bond certificates will be issued for each maturity of the 2009 Series 1 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2009 Series 1 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series 1 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2009 Series 1 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written 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 2009 Series 1 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 2009 Series 1 Bonds, except in the event that use of the book-entry system for the 2009 Series 1 Bonds is discontinued.

To facilitate subsequent transfers, all 2009 Series 1 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 2009 Series 1 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 2009 Series 1 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2009 Series 1 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 2009 Series 1 Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2009 Series 1 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 2009 Series 1 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the 2009 Series 1 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, 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 2009 Series 1 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 2009 Series 1 Bonds, (3) any notice which is permitted or required to be given to Bondowners, (4) any consent given by DTC or other action taken by DTC on behalf of Cede & Co. as Bondowner or (5) the selection by DTC or any of its Direct Participants or any Indirect Participants or any Beneficial Owners to receive payment in the event of a partial redemption of the 2009 Series 1 Bonds.

For so long as Cede & Co. is the registered owner of the 2009 Series 1 Bonds, all references herein to the Bondowner or owners of the 2009 Series 1 Bonds shall mean Cede & Co. and shall not mean any Beneficial Owner or Beneficial Owners of the 2009 Series 1 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 2009 Series 1 Bonds.

<u>Series</u>	<u>Amount Originally Issued</u>	<u>Original Issuance Amount Outstanding</u>	<u>Dated Date</u>	<u>True Interest Cost</u>
Senior Bonds:				
1990 Series A ⁽¹⁾	\$250,000,000	\$43,985,000	May 15, 1990	7.155%
1991 Series B ⁽¹⁾	266,000,000	77,655,000	September 15, 1991	6.553%
1992 Series B ⁽¹⁾	275,000,000	82,860,000	September 1, 1992	6.056%
1996 Series C (Refunding) ⁽²⁾	79,795,000	23,940,000	October 1, 1996	5.246%
1998 Series A (Refunding) ⁽²⁾	197,500,000	175,440,000	April 15, 1998	4.831%
1998 Series B ⁽¹⁾	225,000,000	62,925,000	September 15, 1998	4.686%
1999 Series A ⁽¹⁾	150,000,000	19,735,000	November 15, 1999	5.461%
2000 Series A ⁽¹⁾	125,000,000	43,110,000	July 15, 2000	5.042%
2001 Series A ⁽¹⁾	175,000,000	39,205,000	September 15, 2001	4.706%
2001 Series B (Refunding) ⁽²⁾	533,335,000	270,125,000	September 15, 2001	4.086%
2002 Series A ⁽¹⁾	112,000,000	55,145,000	May 1, 2002	4.741%
2002 Series B ⁽¹⁾	215,000,000	133,250,000	November 1, 2002	4.230%
2003 Series A (Refunding) ⁽²⁾	338,610,000	58,290,000	July 1, 2003	2.134%
2003 Series B	200,000,000	163,840,000	November 15, 2003	4.221%
2004 Series A	200,000,000	174,170,000	November 15, 2004	4.159%
2004 Series B (Refunding) ⁽²⁾	89,725,000	89,725,000	November 15, 2004	3.852%
2005 Series A	250,000,000	227,105,000	December 15, 2005	4.326%
2007 Series A	250,000,000	242,020,000	October 25, 2007	4.342%
2008 Series A	300,000,000	<u>300,000,000</u>	December 10, 2008	4.762%
SENIOR BONDS SUB-TOTAL		\$2,282,525,000		
Second Lien Bonds:				
1990 Series 1	\$250,000,000	\$ 43,000,000	December 19, 1990	Variable ⁽³⁾
2008 Series 1 (Refunding) ⁽²⁾	97,690,000	97,690,000	October 1, 2008	3.555%
2009 Series 1 (Refunding) ⁽²⁾	415,035,000	<u>415,035,000</u>	January 29, 2009	4.854% ⁽⁴⁾
SECOND LIEN BONDS SUB-TOTAL		\$555,725,000		
TOTAL BONDS OUTSTANDING		\$2,838,250,000		

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

(2) Refunding Bonds do not constitute Additional Bonds.

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

(4) Includes costs of terminating the Qualified Swaps on the 2003 Series 1 and 2003 Series 2 Bonds.

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 \$2,838,250,000 Bonds issued and outstanding as of the date of delivery of the 2009 Series 1 Bonds, excluding principal and interest on previously refunded Bonds. The anticipated issuance of Additional Bonds to finance the Infrastructure Program for State fiscal years 2010 - 2012 is reflected in Tables 7 and 8.

Fiscal Year Ending June 30th	Outstanding Senior Bonds ^(a)			Outstanding Second Lien Bonds ^{(a)(b)}			2009 Series 1 Bonds			Total Debt Service ^(c)
	Principal	Interest	Subtotal ^(c)	Principal	Interest	Subtotal ^(c)	Principal	Interest	Subtotal ^(c)	
2009 ^(d)	\$21,235,000	\$33,417,364	\$54,652,364	\$ -	\$2,297,513	\$2,297,513	\$ -	\$ -	\$ -	\$ 56,949,876
2010	261,910,000	108,121,614	370,031,614	20,800,000	5,680,402	26,480,402	2,605,000	18,798,107	21,403,107	417,915,122
2011	230,880,000	94,940,546	325,820,546	22,200,000	4,448,206	26,648,206	2,790,000	18,616,100	21,406,100	373,874,852
2012	230,005,000	83,105,591	313,110,591	5,740,000	3,812,050	9,552,050	3,340,000	18,532,400	21,872,400	344,535,041
2013	234,495,000	70,819,182	305,314,182	13,250,000	3,639,850	16,889,850	23,990,000	18,432,200	42,422,200	364,626,232
2014	162,340,000	60,418,409	222,758,409	7,590,000	3,221,350	10,811,350	54,165,000	17,527,450	71,692,450	305,262,209
2015	123,390,000	53,196,244	176,586,244	25,400,000	2,943,675	28,343,675	39,460,000	15,169,825	54,629,825	259,559,744
2016	93,230,000	47,809,821	141,039,821	5,775,000	1,905,063	7,680,063	71,255,000	13,440,838	84,695,838	233,415,722
2017	75,150,000	43,680,326	118,830,326	8,885,000	1,666,538	10,551,538	62,025,000	10,032,038	72,057,038	201,438,901
2018	78,280,000	40,051,319	118,331,319	23,970,000	1,295,438	25,265,438	38,705,000	7,066,175	45,771,175	189,367,932
2019	87,865,000	36,065,420	123,930,420	-	285,444	285,444	48,870,000	5,181,925	54,051,925	178,267,789
2020	86,925,000	31,812,393	118,737,393	-	285,444	285,444	36,950,000	2,753,450	39,703,450	158,726,287
2021	91,770,000	27,464,948	119,234,948	5,285,000	285,444	5,570,444	27,320,000	1,312,400	28,632,400	153,437,792
2022	96,415,000	22,825,528	119,240,528	1,795,000	74,044	1,869,044	3,560,000	151,300	3,711,300	124,820,872
2023	101,290,000	17,941,466	119,231,466	-	-	-	-	-	-	119,231,466
2024	80,340,000	13,457,388	93,797,388	-	-	-	-	-	-	93,797,388
2025	68,690,000	9,471,375	78,161,375	-	-	-	-	-	-	78,161,375
2026	55,960,000	6,462,238	62,422,238	-	-	-	-	-	-	62,422,238
2027	38,725,000	4,142,938	42,867,938	-	-	-	-	-	-	42,867,938
2028	40,700,000	2,160,656	42,860,656	-	-	-	-	-	-	42,860,656
2029	22,930,000	573,250	23,503,250	-	-	-	-	-	-	23,503,250
Total(d)	\$2,282,525,000	\$807,938,017	\$3,090,463,017	\$140,690,000	\$31,840,460	\$172,530,460	\$415,035,000	\$147,014,207	\$562,049,207	\$3,825,042,683

(a) Outstanding Senior and Second Lien Bonds as of the date of delivery of the 2009 Series 1 Bonds (debt service on refunded bonds is not included).

(b) The State entered into Qualified Swaps at the time the 1990 Series 1 Bonds were delivered. Principal and Interest Requirements on the 1990 Series 1 Bonds are calculated based on the fixed interest rates payable by the State in connection with the Qualified Swaps.

(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 2009 Series 1 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) Motor Vehicle Receipts (e.g., fee for registration of motor vehicles); (iii) License, Permit and Fee (“LPF”) Revenue (e.g., fee for license to sell or repair motor vehicles); (iv) specific amounts of the Petroleum Products Gross Earnings Tax beginning in fiscal year 1998-99 (such tax is commonly, and hereinafter, referred to as the “Oil Companies Tax” and such payments are hereinafter referred to as the “Oil Companies Tax Payments.” See “Oil Companies Tax Payments” for a more detailed discussion); (v) specific amounts of the tax imposed on casual sales of motor vehicles, vessels, snowmobiles and aircraft pursuant to Section 12-431 of the Connecticut General Statutes attributable to motor vehicles beginning for the fiscal year ending June 30, 2000 and all of such tax for the fiscal year beginning July 1, 2000 (such tax hereinafter referred to as the “Sales Tax - DMV” and such payments are hereinafter referred to as the “Sales Tax - DMV Payments.” See “Sales Tax - DMV Payments” for a more detailed discussion); (vi) moneys 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); and (vii) other receipts, funds, and moneys credited to the Special Transportation Fund. See “Description of Revenue Sources of the Special Transportation Fund” for a more detailed discussion of these revenues. Other receipts, funds or moneys pledged under the Indentures include investment earnings and moneys in the funds and accounts established thereunder, subject to the application thereof as permitted by the Indentures.

The following table displays a 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, Motor Vehicle Receipts and LPF Revenue:

TABLE 1
Historical Collections
(In Millions \$)

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Motor Fuels</u> <u>Tax</u>	<u>Motor Vehicle</u> <u>Receipts</u>	<u>LPF</u> <u>Revenue</u>
2003.....	458.0	204.8	136.6
2004.....	464.5	219.2	155.1
2005.....	483.8	233.9	155.1
2006.....	480.9	227.3	160.4
2007.....	478.3	224.7	170.5

Projected Collections at Current Rates
(In Millions \$)

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Motor Fuels</u> <u>Tax</u>	<u>Motor Vehicle</u> <u>Receipts</u>	<u>LPF</u> <u>Revenue</u>
2008 ^(a)	495.1	225.5	153.8
2009.....	499.7	229.3	155.8
2010.....	499.7	233.2	157.4
2011.....	494.7	237.1	159.0
2012.....	499.7	241.6	160.6

(a) As estimated per the Comptroller’s monthly report of September 2, 2008 for the period ending June 30, 2008.

SOURCE: Office of Policy and Management

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

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

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

Discussion of Projected Pledged Revenues

The projections of Pledged Revenues provided herein reflect the adjusted taxes, fees and charges which have been enacted by the General Assembly and which have or will become effective during State fiscal years 2003-2012. The following table summarizes the tax, fee and charge adjustments in three categories of revenues which have been or will be credited to the Special Transportation Fund:

TABLE 2
Summary of Enacted Tax and Fee Adjustments

	Fiscal Year Ending June 30 ^(a)									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Motor Fuels Tax (adj. per gallon) ^{(b)(c)} ..	0¢	0¢	0¢	0¢	0¢	0¢	0¢	0¢	0¢	0¢
Motor Vehicle Receipts (\$ increase) ^(d)	3.3	11.3	9.4	0	0	0	0	0	0	0
LPF Revenue (\$ increase) ^(d)	0	7.3	6.4	0	0	0	0	0	0	0

- (a) Except as noted in footnote (b), each tax, fee or charge adjustment were effective on the first day (July 1) of each fiscal year.
- (b) The Motor Fuels Tax on diesel fuels was increased from 18¢ to 26¢ effective on August 1, 2002. The Motor Fuels Tax on gasohol was increased from 24¢ to 25¢ effective on July 1, 2004.
- (c) The Motor Fuels Tax on diesel fuels was increased from 26¢ to 37¢ effective on July 1, 2007. On and after July 1, 2008, the motor fuels tax on diesel fuels will be determined by the Commissioner of Revenue Services pursuant to Public Act 07-1, section 136 of the June Special Session. The motor fuels tax on diesel fuels effective July 1, 2008 is 43.4¢.
- (d) Includes (i) changes in driver's license from 4-year to 6-years effective 7/1/01; (ii) increases in various permits, registration and license fees, effective on 1/1/04 and 7/1/04.

SOURCE: Office of Policy and Management

In making the projections of the Motor Fuels Tax provided herein for fiscal years 2008-2012 (the "Projection Period"), the State considered a variety of sources of economic data, including economic forecasts prepared by the State and outside economic forecasting services. The projections of the Motor Fuels Tax are based on estimates of a variety of economic variables for the State and the nation as a whole, including real disposable income, employment and size of the fleet of commercial and passenger vehicles.

Other important variables used to determine the projections of the Motor Fuels Tax include the anticipated price of motor fuels, the fuel efficiency of commercial and passenger vehicle fleets, and economic activity as expressed by the United States index of industrial production.

The Motor Fuels Tax Receipts are projected to decline by 3.0% for fiscal year 2009 and remain unchanged for fiscal year 2010, and grow by 1.0% for fiscal years 2011 and 2012. Motor Vehicle Receipts are projected to grow at 1.7% in fiscal years 2009-2012. LPF revenue is projected to grow at 0.8% in fiscal year 2009 and grow by 1.0% in fiscal years 2010-2012. Interest Income is projected as set forth in footnote (f) to Table 3.

While the State believes that the assumptions which underlie its projections are appropriate, actual achievement of amounts projected may be affected by less favorable economic conditions than those assumed, and is dependent upon the occurrence of future events. For example, political unrest or war and natural disasters in oil producing and refining regions could substantially reduce petroleum and motor fuels supplies and increase prices. Increased worldwide demand for petroleum and motor fuel may also increase prices. Thus, actual results achieved may vary from the projections and such variations may be materially adverse. The accompanying projected financial information from 2008-2012 was prepared by the State and was not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information (the AICPA Audit and Accounting Guide for Prospective Financial Information). The prospective financial information is based on assumptions which the State believes to be reasonable; however, there is no assurance that the prospective financial information will prove to be accurate. There will usually be differences between forecasted or projected results and actual results, and those differences may be material. Neither the Special Transportation Fund's independent auditors, nor any other independent accountants, have compiled or examined the prospective financial information. As such, no opinion or any other form of assurance has been expressed thereon and no responsibility for such prospective financial information has been assumed by the Special Transportation Fund's independent auditors.

Historical collections, enacted tax, fee and charge adjustments and economic projections provide the basis for the projections of the major categories of Pledged Revenues that are to be credited to the Special Transportation Fund. The following table summarizes the level of revenue that each category of Pledged Revenues and other receipts is projected to produce through State fiscal year 2012 based upon enacted rates.

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

	Fiscal Year Ending June 30				
	2008^(a)	2009	2010	2011	2012
Motor Fuels Tax ^(b)	495.1	499.7	499.7	494.7	499.7
Sales Tax - DMV ^(c)	64.9	60.5	61.1	61.7	62.3
Oil Companies Tax ^(d)	127.8	141.9	141.9	165.3	165.3
Motor Vehicle Receipts.....	225.5	229.3	233.2	237.1	241.6
LPF Revenue.....	153.8	155.8	157.4	159.0	160.6
FTA Grants ^(e)	-	-	-	-	-
Interest Income ^(f)	36.6	25.0	25.0	25.0	25.0
Transfers From/To Other Funds ^(g)	7.2	(8.0)	(9.5)	(9.5)	(9.5)
Transfer to TSB Projects Account ^(h)	(20.8)	(15.3)	(15.3)	(15.3)	(15.3)
TOTAL	1,090.0	1,088.9	1,093.5	1,118.0	1,129.7
Refunds ⁽ⁱ⁾	(9.7)	(10.4)	(10.6)	(10.8)	(11.0)
TOTAL NET PLEDGED REVENUES	1,080.3	1,078.5	1,082.9	1,107.2	1,118.7
TSB Projects Account Pledged Revenues ^(j)	20.8	15.3	15.3	15.3	15.3
NH Line Project Account Pledged Revenue ^(k)	-	-	1.1	3.0	4.8
TOTAL PLEDGED REVENUES	1,101.1	1,093.8	1,099.3	1,125.5	1,138.0

(a) As estimated per the Comptroller's report of September 2, 2008 for the period ending June 30, 2008.

(b) The Motor Fuels Tax on diesel fuels was increased from 26 cents to 37 cents effective on July 1, 2007. On and after July 1, 2008, the motor fuels tax on diesel fuels will be determined by the Commissioner of Revenue Services pursuant to Public Act 07-1, section 136 of the June Special Session. The motor fuels tax on diesel fuels effective July 1, 2008 is 43.4¢.

(c) Pursuant to C.G.S. 13b-61b, the Commissioner of Motor Vehicles shall deposit all funds from the tax imposed under Section 12-431 of the General Statutes attributable to motor vehicles to the Special Transportation Fund.

(d) C.G.S. 13b-61a specifies the amount of tax collected on Gross Earnings from the sale of petroleum products attributable to the sale of motor vehicle fuel to be transferred annually to the Special Transportation Fund. Section 36 of Public Act 03-02 suspended the \$20 million scheduled for transfer to the Special Transportation Fund in fiscal 2003. In addition, Section 65 of Public Act 03-01 of the June 30 Special Session reduced the transfer from \$21 million to \$10.5 million in fiscal 2004 and from \$21 million to \$13 million in fiscal 2005. In section 41 of Public Act 05-4 of the June Special Session the scheduled transfers were increased to \$43.5 million in fiscal 2006, \$61 million in fiscal 2007, \$84 million in fiscal 2008 and \$100.9 million annually in fiscal years 2009 through 2013. Beginning in fiscal 2014, the annual transfer will be \$119.4 million. PA 06-136, section 15, increased the previous scheduled transfers to \$141.0 million in fiscal 2007, \$164.0 million in fiscal 2008, \$180.9 million in fiscal years 2009 and 2010, \$200.9 million in fiscal years 2011, 2012, and 2013. Beginning in fiscal 2014 the annual transfer will be \$219.4 million. Section 138 of PA 07-1 of the June Special Session reduced the previously scheduled transfers to \$127.8 million in fiscal 2008, \$141.9 million in fiscal 2009 and fiscal 2010, \$165.3 million in fiscal years 2011, 2012, and 2013. Beginning in fiscal 2014, the annual transfer will be \$179.2 million.

(e) The state does not expect to receive any further annual FTA grants due to actions at the federal level. The lien which secures payment of the Bonds did not extend to these transportation-related federal revenues, formerly approximately \$3.0 million to \$3.3 million each year, until such revenues were credited to the Special Transportation Fund. See Description of Revenue Sources of the Special Transportation Fund-Other Revenues."

(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 or temporarily utilized for other State purposes, (B) amounts expected to be held by the Trustee in the Debt Service Account under the Senior Indenture and the trustee in the Debt Service Account under the Second Lien Indenture, and (C) balances in the Special Transportation Fund plus (ii) expected investment earnings on amounts held in the Reserve Account under the Senior Indenture and the Reserve Account under the Second Lien Indenture, plus (iii) accrued interest expected to be received upon the delivery of each series of Bonds.

(g) C.G.S. 12-460a specifies the annual transfer to the state's Conservation Fund. Section 118 of Public Act 03-01 of the June 30 Special Session directed that the transfer to the state's Conservation Fund be \$2 million for fiscal 2004 and fiscal 2005. Pursuant to C.G.S. 14-164m effective 7/1/01, an additional \$6.5 million will be transferred annually from the Special Transportation Fund to the Emission Enterprise Fund. Section 27 of Public Act 05-3 of the June Special Session reduced the transfer to the Emission Enterprise Fund by \$4.9 million in fiscal 2006 and \$2.5 million in fiscal 2007. Public Act 05-251 appropriated \$8 million from the General Fund Surplus for Town Aid roads for use in fiscal 2006 and \$8 million for use in fiscal 2007, which is reflected in this table as a transfer into the fund. Public Act 07-1 of the June Special session appropriated \$8 million from the General Fund surplus for Town Aid Roads, \$2.2 million for Bus Operations, and \$3.9 million for Elderly Demand Responsive Transportation. A transfer of \$2.57 million from the General Fund to the Special Transportation Fund was made in fiscal 2008 from the energy contingency appropriation, which is reflected in this table as a transfer into the fund. For fiscal year 2009, sections 22 and 23 of HB 5095 of the 2009 Legislative Session transfers \$1,166,440 from the Emergency Relief account and \$287,000 from the Insurance Recoveries account to the Special Transportation Fund.

(h) Public Act 03-04 of the June 30 Special Session provides that revenues which are attributable to increases in taxes or fees provided for in sections 1-1h, 14-35, 14-44i, 14-47, 14-48b, 14-49, 14-50, 14-66, 14-67 and 14-381 of the general statutes and revenue specified in sections 113 and 114 of Public Act 03-01 of the June 30 Special Session are defined as "Incremental Revenues" and are dedicated to fund the Transportation Strategy Board projects and purposes by deposit into the TSB projects account which is a non-lapsing account within the Special Transportation Fund. Public Act 05-4 of the June Special Session, sections 43, 52 and 53, repeals the dedication of the "incremental revenues" and institutes a transfer from the resources of the Special Transportation Fund to the TSB projects account in the amount of \$25.3 million in fiscal 2006, \$20.3 million in fiscal 2007 and \$15.3 million in fiscal 2008-2015. For fiscal years 2016 and thereafter, \$0.3 million shall be transferred to the TSB projects account. PA 07-7 of the June Special Session, section 96 transferred \$5.5 million from the resources of the Special Transportation Fund to the Transportation Strategy Board Project account.

(i) Represents refunds for Motor Fuel Taxes, and Motor Carrier Road Taxes when an overpayment of tax liability has been made. Per C.G.S. 14-23 and 14-31, effective 7/1/01 Refunds of Payments in the Special Transportation Fund will be funded with revenue similar to Refunds of Taxes.

(j) TSB projects account revenues as described in footnote (h) are utilized for non-budgeted expenditures, are part of the Special Transportation Fund and constitute Pledged Revenues for Special Tax Obligation Bonds and are also included in the calculation of debt service coverage in Table 7.

(k) The New Haven line revitalization account revenues are part of the Special Transportation Fund and constitute pledged revenues for special tax obligation bonds.

SOURCE: Office of Policy and Management

Description of Revenue Sources of the Special Transportation Fund

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

Motor Fuels Tax

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

TABLE 4
Ten-Year History of Motor Fuels Tax Collections

Totals	Fiscal Year Ending June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^(a)
Amount collected (millions \$).....	499.9	506.4	417.5	430.3	458.0	464.5	483.8	480.9	478.3	495.1
Unit total (millions \$) ^(b)	16.870	17.123	17.586	18.047	18.289	18.456	19.226	19.105	19.001	18.298
Unit percentage growth (%).....	4.82	1.50	2.70	2.62	1.34	0.91	4.17	(0.63)	(0.54)	(3.70)
Gasoline Tax										
Amount collected (millions \$).....	448.6	453.1	362.4	376.6	383.8	383.7	401.1	395.5	393.1	379.0
Unit total (millions \$) ^(b)	14.014	14.158	14.497	15.063	15.352	15.348	16.045	15.820	15.724	15.158
Unit percentage growth (%).....	4.74	1.00	2.40	3.91	1.92	(0.03)	4.54	(1.40)	(0.61)	(3.60)
Special Fuels Tax										
Amount collected (millions \$).....	41.8	43.6	45.1	45.2	62.7	68.2	69.7	71.0	71.4	99.4
Unit total (millions \$) ^(b)	2.322	2.422	2.506	2.512	2.483	2.623	2.681	2.731	2.746	2.687
Unit percentage growth (%).....	5.60	4.31	3.40	0.24	(1.16)	5.64	2.20	1.87	0.56	(2.14)
Motor Carrier Road Tax										
Amount collected (millions \$).....	9.5	9.8	10.0	8.5	11.5	12.6	13.0	14.4	13.8	16.7
Unit total (millions \$) ^(b)	0.529	0.543	0.556	0.472	0.454	0.485	0.500	0.554	0.530	0.452
Unit percentage growth (%).....	3.53	2.65	2.04	(15.11)	(3.82)	6.74	3.17	10.77	(4.24)	(14.71)

(a) As estimated per the Comptroller’s report of September 2, 2008 for the period ending June 30, 2008.

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

SOURCE: Office of Policy and Management

The motor fuel tax rate on gasoline and gasohol is 25¢ per gallon, and on diesel fuel is 43.4¢ per gallon. The first two Motor Fuels Taxes are the gasoline tax and the special fuels tax, which are levied under Connecticut General Statutes (“C.G.S.”) Section 12-458 on gallons of fuel used or sold by distributors. The principal fuel subject to the tax is gasoline, but the taxes also are levied on any combustible gas or liquid, including diesel fuel and gasohol, which is used or is suitable for use to generate power for propelling motor vehicles. The distributors liable for these taxes are those entities which distribute fuel within the State, import fuel into the State for distribution within the State, or produce or refine fuels within the State.

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

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

Motor Vehicle Receipts

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

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

	Fiscal Year Ending June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008^(a)
Total Collections (millions \$).....	187.0	190.3	196.3	200.7	204.8	219.2	233.9	227.3	224.7	225.5
Adjustments (millions \$) ^(b)	(76.9)	(77.1)	(77.0)	(80.5)	(80.2)	(89.9)	(100.3)	(100.2)	(100.1)	(100.1)
Total Normalized Collections (millions \$) ^(c) ...	110.1	113.2	119.3	120.2	124.6	129.3	133.6	127.1	124.6	125.4
Percent Change In Normalized Collections (%)...	0.9	2.8	5.4	0.8	4.0	3.7	3.4	(4.9)	(2.0)	0.6

(a) As estimated per the Comptroller's report of September 2, 2008 for the period ending June 30, 2008.

(b) Adjusted for: (1) the elimination of the additional vanity plate renewal fees of \$30 effective July 1, 1994 under Public Act 93-74; (2) the transfer of safety plate fees from the General Fund effective July 1, 1995; (3) the collection of truck registration fees under the International Registration Plan commencing fiscal year 1997-98; (4) the extension of driver's license duration from 4 years to 6 years under Public Act 01-6; and (5) adjustments for transfer to Transportation Strategy Board under Public Act 05-4 of the June Special Session.

(c) Total Normalized Collections for each State fiscal year equals Total Collections minus the amount of the Adjustments as described in footnote (b) for each such period. By subtracting the amount of such Adjustments from Total Collections it is possible to view more accurately the annual changes in Motor Vehicle Receipts during the period covered by the table.

SOURCE: Office of Policy and Management

License, Permit and Fee Revenue

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

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

	Fiscal Year Ending June 30									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008^(a)</u>
Motor vehicle fines, penalties and Surcharges.....	27.6	30.8	28.4	31.5	30.4	28.5	28.2	26.8	24.5	24.5
Filing and reproduction fees.....	19.5	20.9	20.7	22.0	22.2	22.8	22.2	21.1	20.8	19.8
Royalties.....	9.1	10.2	11.3	11.9	11.4	11.7	10.5	12.9	10.8	12.0
Motor carrier permits.....	3.7	3.8	3.5	3.2	3.2	3.1	3.2	3.2	0.3	2.1
Operator license examination fee.....	5.6	5.8	5.8	6.0	5.9	5.9	6.4	6.4	6.5	5.7
Vehicle inspection fee.....	6.8	3.0	3.1	3.6	3.6	3.8	3.6	3.5	3.4	3.4
Other ^(b)	40.6	38.1	42.4	52.5	60.0	79.3	81.0	86.5	104.2	86.3
Total.....	<u>112.9</u>	<u>112.6</u>	<u>115.2</u>	<u>130.7</u>	<u>136.6</u>	<u>155.1</u>	<u>155.1</u>	<u>160.4</u>	<u>170.5</u>	<u>153.8</u>

(a) As estimated per the Comptroller's report of September 2, 2008 for the period ending June 30, 2008.

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

SOURCE: Office of Policy and Management

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

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

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

Beginning in State fiscal year 1985, the Act began crediting to the Special Transportation Fund three other types of LPF Revenue: (i) fees for documents and services provided under C.G.S. Section 14-192(a); (ii) royalty payments for retail sales of gasoline pursuant to C.G.S. Section 13a-80; and (iii) gasoline handling charges which the Department receives from other State agencies for handling motor fuel consumed by State vehicles. All other LPF Revenue was credited to the Special Transportation Fund starting in fiscal year 1986. Commencing on July 1, 1997, per C.G.S. Sections 13b-61(7) through 13b-61(14), 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.

Oil Companies Tax Payments

C.G.S. Section 13b-61a specifies the amount of Oil Companies Tax revenue received from the tax imposed on the gross earnings from the sale of petroleum products attributable to sales of motor vehicle fuel was to be deposited by the Commissioner of Revenue Services into the Special Transportation Fund. Section 36 of Public Act 03-02 suspended the \$20 million scheduled transfer to the Special Transportation Fund in fiscal year 2003. In addition, Section 65 of Public Act 03-01 of the June 30 Special Session reduced the transfer of Oil Companies Tax revenue from the General Fund from \$21 million to \$10.5 million in fiscal year

2004 and from \$21 million to \$13 million in fiscal year 2005. Section 41 of Public Act 05-4 of the June 2005 Special Session increased the scheduled transfers to: \$43.5 million in fiscal year 2006, \$61 million in fiscal year 2007, \$84 million in fiscal year 2008, \$100.9 million in fiscal years 2009-2013, and \$119.4 million annually thereafter. Public Act 06-136, section 15, increased the previously scheduled transfers to \$141.0 million in fiscal year 2007, \$164.0 million in fiscal year 2008, \$180.9 million in fiscal years 2009 and 2010 and \$200.9 million in fiscal years 2011, 2012 and 2013. Beginning in fiscal year 2014, the annual transfer will be \$219.4 million. Public Act 07-01 of the June Special Session, section 138, reduced the previously scheduled transfers to \$127.8 million in fiscal year 2008, \$141.9 million in fiscal year 2009 and fiscal year 2010 and \$165.3 million in fiscal years 2011, 2012 and 2013. Beginning in fiscal year 2014, the annual transfer will be \$179.2 million. Each deposit is made over four equal installments. Through fiscal years 1997-1998, revenue from the Oil Companies Tax was deposited exclusively in either the General Fund or the Underground Storage Tank (UST) Petroleum Clean Up Account pursuant to C.G.S. Section 22a-449b.

Prior to July 1, 2005, the Oil Companies Tax was levied, pursuant to C.G.S. Section 12-587, at a rate of five percent (5%) of the gross earnings from the sale of petroleum products in the State. Per Section 40 of Public Act 05-4 of the June 2005 Special Session the tax rates were increased as follows: five and eight-tenths percent effective July 1, 2005, six and three-tenths percent effective July 1, 2006, seven percent effective July 1, 2007, seven and one-half percent effective July 1, 2008, and eight and one-tenth percent effective July 1, 2013. Per Public Act 08-2 of the June 11 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. See 2008 Legislative Changes. The principal petroleum product subject to the tax is motor vehicle fuel, but the gross earnings tax is also levied on the sale of aviation fuel, kerosene, diesel fuel, crude oil, and derivatives of petroleum such as paint, fertilizers and asphalt. In the most recently completed 2007-2008 fiscal year, the Oil Companies Tax generated gross collections of \$367.8 million. It is assumed that the tax revenue received by the Commissioner of Revenue Services on the gross earnings from the sales of petroleum products attributable to sales of motor vehicle fuel will be sufficient to enable the Commissioner to make all required payments to the Special Transportation Fund when due. C.G.S. 13b-61a(c) states that if Oil Companies Tax receipts are insufficient to fund all required transfers, the Commissioner of Revenue Services shall certify to the Treasurer the amount of the shortfall, and the Treasurer shall then transfer the amount equal to the shortfall from the General Fund to the Special Transportation Fund.

Sales Tax – DMV Payments

Connecticut General Statutes Section 13-61b 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.

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 new financial management and human resources computer system called Core-CT (see "Financial Management and Reporting: Core-CT Update"). 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 Revenue within the Special Transportation Fund. It was created to better accommodate the administrative and operational requirements of Core-CT. While the TSB projects account will be reported within the Grants and Restricted Accounts Fund, pursuant to statutory requirements it will continue to constitute a part of Pledged Revenues within the Special Transportation Fund.

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-Cash Management and Investment Procedures.”

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. (See Table 3, footnote (e)).

Debt Service Coverage

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

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

	<u>Fiscal Year Ending June 30</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008^(a)</u>	<u>2009^(b)</u>	<u>2010^(c)</u>	<u>2011^(c)</u>	<u>2012^(c)</u>
1. Actual and Projected Pledged Revenues ^(d)										
Special Transportation Fund Net Revenues.....	827.1	903.9	939.8	1,001.0	1,098.3	1,080.3	1,078.5	1,082.9	1,107.2	1,118.7
TSB Projects Account Pledged Revenues ^(e)	0.0	22.8	28.7	25.3	20.3	20.8	15.3	15.3	15.3	15.3
New Haven Line Project Account Pledged Revenue ^(f)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	3.0	4.8
Total Pledged Revenues (Actual).....	827.1	926.7	968.5	1,026.3	1,118.6	1,101.1	1,093.8	1,099.3	1,125.5	1,138.8
2. Principal and Interest Requirements for the 1990 A-2008 A Senior Bonds ^(g)	356.7	357.7	368.3	375.7	369.1	368.4	367.8	357.8	323.1	313.8
3. Actual and Projected Principal and Interest Coverage for the 1990A-2008A Senior Bonds ^(h)	2.3x	2.6x	2.6x	2.7x	3.0x	3.0x	3.0x	3.1x	3.5x	3.6x
4. Principal and Interest Requirements on the Outstanding Second Lien Bonds ⁽ⁱ⁾	28.7	40.2	41.2	42.3	43.3	47.3	49.8	49.3	49.4	31.4
5. Actual and Projected Principal and Interest Coverage for All Outstanding Senior Bonds and Outstanding Second Lien Bonds ^(j)	2.1x	2.3x	2.4x	2.5x	2.7x	2.6x	2.6x	2.7x	3.0x	3.3x
6. Projected Principal and Interest Requirements for Additional Bonds ^(k)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	37.6	81.2	124.8
7. Actual and Projected Aggregate Debt Service Coverage for all Bonds ^(l)	2.1x	2.3x	2.4x	2.5x	2.7x	2.6x	2.6x	2.5x	2.5x	2.4x

Updated for Biennial Budget ending 6/30/09, Public Act 07-1.

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

- (a) As estimated per the Comptroller's report of September 2, 2008 for the period ending June 30, 2008.
- (b) Per the January 20, 2009 monthly OPM letter to the State Comptroller.
- (c) Fiscal Years 2010-2012 values for projected pledged revenues are based on Office of Policy and Management projections.
- (d) These revenues are budgeted revenues.
- (e) TSB project account revenues are utilized for non-budgeted expenditures, are part of the Special Transportation Fund and constitute Pledged Revenues for special tax obligation bonds.
- (f) The New Haven line revitalization account revenues are utilized for projects, are part of the Special Transportation Fund and constitute Pledged Revenues for special tax obligation bonds.
- (g) 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.
- (h) Line 1 divided by Line 2.
- (i) Reflects actual Principal and Interest Requirements on the Second Lien Bonds; debt service on the 1990 Series 1 Bonds assumes the continuation of Qualified Swaps. Does not include variable rate bond fees but it does include an additional \$1.5 million per year basis risk assumption.
- (j) Line 1 divided by the sum of Lines 2 and 4.
- (k) Assumes issuance of Additional Bonds (whether under the Senior Indenture or the Second Lien 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 State fiscal years: 2010-2012 - \$500.0 million each year at 6.0%. Assumes no issuance of Notes.
- (l) Line 1 divided by the sum of Lines 2, 4 and 6.

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

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." The Special Transportation Fund appropriations included in the budget for the 2007-2008 and 2008-2009 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.

2007 Legislative Changes

During the 2007 regular Legislative session, the Connecticut General Assembly adopted a limited capital budget for the special tax obligation bond program when it passed Special Act 07-02 which provided \$54 million for road resurfacing in fiscal year 2008. Public Act 07-1 of the June Special Session, the Appropriations Act, includes a minimal net increase to the Special Transportation Fund to fund the State share of costs for increased staffing for maintenance, motorist assistance and in-house inspectors for contracts under \$50 million. Bus operations were increased by \$3 million each year to contract for the Southeast Tourism Transit System. Rail Operations increased by \$5.7 million in fiscal year 2009 for the expansion of Shore Line East rail service between New Haven and New London.

Public Act 07-199, later modified by Public Act 07-1 of the June special session of the General Assembly, increased the tax on each gallon of diesel fuel from \$0.26 to \$0.37 effective July 1, 2007. The Motor Fuels Tax rate on diesel fuels will be determined annually by the Commissioner of Revenue Services pursuant to Section 136 of Public Act 07-1 of the June special session. Public Act 07-1 also correspondingly exempts diesel fuel from the Oil Companies tax for sales effective July 1, 2007. In order to maintain revenue neutrality to the Special Transportation Fund, the statutory General Fund Oil Companies tax transfers to the Special Transportation Fund were reduced to \$127.8 million in fiscal year 2008, \$141.9 million in fiscal year 2009 and fiscal year 2010, \$165.3 million in fiscal years 2011, 2012 and 2013, and \$179.2 million annually thereafter.

Table 8 includes only Special Transportation Fund appropriations; however, Public Act 07-1 of the June Special Session includes general fund surplus appropriations of nearly \$9.5 million (\$2.2 million in fiscal year 2008 and nearly \$7.3 million in fiscal year 2009) to increase the frequency of bus service for a total of \$116.4 million in fiscal year 2009. Also included is \$16 million (\$8 million each year) for Town Aid Roads for a total of \$30 million per year.

On October 30, 2007, during a special session, the Connecticut General Assembly passed Public Act 07-7 of the June Special Session which provided for \$543.2 million in fiscal year 2008 and \$307.3 million in fiscal year 2009 of special tax obligation bond authorizations. PA 07-7, also repealed the \$1.00 per trip surcharge on the New Haven rail line that was set to begin January 1, 2008 and replaced it with a schedule of fare increases beginning with a 1.25% fare increase effective January 1, 2010. The revenue from the fare increase will be deposited into the New Haven Line Project Account. See Table 7 footnote (f). In addition, the bill also credits \$5.5 million on deposit in the Special Transportation Fund in fiscal year 2008 to the Transportation Strategy Board's project account for various transportation related studies. The Governor signed the bill on November 2, 2007.

2008 Legislative Changes

The 2008 General Assembly adjourned without making any midterm adjustments to the fiscal year 2009 special tax obligation bond program or the fiscal year 2009 Special Transportation Fund appropriations. The General Assembly did pass PA 08-2 of the June 11 Special Session, that 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. These funds are deposited into the General Fund and the statutory transfers from the General Fund to the Special Transportation Fund remain unchanged, therefore there was no fiscal impact on the Transportation Fund due to this change.

Financial and Management Reporting: Core-CT Update

In July 2003, the State implemented the first phase of a new fully integrated, Internet based financial management and human resources system called Core-CT. The financial software modules (accounts payable, accounts receivable, commitment control, general ledger and reporting) came online first in July 2003, followed by the human resources and payroll applications

(payroll, time and labor) in October 2003. Asset management and inventory control applications, as well as contract and billing applications came online in fiscal year 2004-2005. Additional financial enhancements relating to project management are expected to go online in future years.

The new system provides a single point of entry for all State financial, human resources and payroll data. The implementation of Core-CT is the product of several years of work to improve the State's financial reporting and management information systems. From an information technology perspective, Core-CT has allowed the State to standardize and modernize its computer technology bringing uniformity to the computers, programming languages, and data base packages utilized by State government. Core-CT utilizes PeopleSoft ERP software.

Core-CT was implemented coincident with an unanticipated and significant downsizing of the State's workforce. In order to create budget stability, layoffs were implemented in 2002 followed by an early retirement incentive program in 2003. The layoffs and early retirements significantly reduced staffing levels in State agency business and financial offices. This left the State with the task of implementing the most ambitious upgrade to its financial systems in history with a smaller and less experienced workforce. In addition, as with the implementation of any large-scale information technology system, Core-CT experienced some initial difficulties. Software anomalies have been detected, certain application processing was slow, and some users did not fully understand new coding conventions and accounting entries required for system processing. These problems were aggravated by technical complications relating to an interface to Core-CT from a new revenue management system implemented in January 2004 at the Department of Revenue Services. While this system is not part of Core-CT, it must interface effectively with Core-CT applications.

Many of the initial Core-CT implementation problems outlined above have been resolved. A State team consisting of employees from the Office of the State Comptroller, the Office of Policy and Management, the Office of Information and Technology and the Department of Administrative Services has been working on an ongoing basis with State agencies, consultants and PeopleSoft representatives to resolve other outstanding system performance issues.

As a result of these initial implementation problems, however, the preparation of certain financial statements and reports for the Special Transportation Fund for fiscal year 2004-2005 and fiscal year 2005-2006 were delayed. The Senior Indenture requires the State's financial statements for the Special Transportation Fund to be audited annually and an audit report to be delivered to the State within 120 days after the close of each fiscal year. However, in fiscal years 2005 and 2006, the State was delayed in completing the necessary financial information for submission to the auditors in time to enable them to prepare the required audit report within the 120 day deadline. Such delays did not constitute an event of default under the Indentures. The audited financial statements for fiscal years ending June 30, 2007 and June 30, 2008 were delivered to the State within the 120 day-deadline, and it is anticipated that future audited financial statements will be delivered in a timely manner.

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

	Fiscal Year Ending June 30									
	<u>2003^(a)</u>	<u>2004^(a)</u>	<u>2005^(a)</u>	<u>2006^(a)</u>	<u>2007^(a)</u>	<u>2008^(b)</u>	<u>2009</u>	<u>2010^(c)</u>	<u>2011^(c)</u>	<u>2012</u>
<u>Actual & Projected Revenues</u>										
Motor Fuels Tax, Motor Vehicle										
Receipts, Licenses, Permits, Fees ^(d)	799.4	838.7	872.7	868.6	873.4	874.4	884.8	890.3	890.8	901.9
Sales Tax - DMV Payments ^(e)	65.5	70.4	69.7	68.4	67.9	64.9	60.5	61.1	61.7	62.3
Oil Companies Tax Payments ^(e)	0.0	10.5	13.0	43.5	141.0	127.8	141.9	141.9	165.3	165.3
Federal Transit Administration										
Grants ^(e)	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Income ^(e)	27.4	24.5	32.7	40.1	46.0	36.6	25.0	25.0	25.0	25.0
Transfers from / (to) Other										
Funds ^(e)	(60.5)	(8.5)	(8.5)	17.2	1.0	7.2	(8.0)	(9.5)	(9.5)	(9.5)
Transfers to Transportation										
Strategy Board ^(f)	0.0	(22.8)	(28.7)	(25.3)	(20.3)	(20.8)	(15.3)	(15.3)	(15.3)	(15.3)
Release from Reserve Account ^(g)	2.6	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	837.7	916.5	950.9	1,012.5	1,109.0	1,090.0	1,088.9	1,093.5	1,118.0	1,129.7
Refunds	(10.6)	(12.6)	(11.1)	(11.5)	(10.6)	(9.7)	(10.4)	(10.6)	(10.8)	(11.0)
Total Net Revenues	827.1	903.9	939.8	1,001.0	1,098.3	1,080.3	1,078.5	1,082.9	1,107.2	1,118.7
<u>Actual & Projected Debt Service and Expenditures</u>										
Debt Service on the Bonds ^(h)	389.6	402.8	411.8	422.7	414.5	418.3	447.5	445.7	454.7	476.6
Debt Service on Transportation										
Related General Obligation Bonds ⁽ⁱ⁾	17.3	13.8	4.5	3.1	1.8	3.1	2.0	1.0	1.0	1.2
DOT Budgeted Expenses ^(j)	327.5	326.3	362.2	385.7	423.1	473.7	486.7	512.9	529.0	557.2
DMV Budgeted Expenses ^(k)	49.7	63.2	49.3	54.3	59.1	61.0	62.5	65.9	66.4	70.9
Other Budget Expenses ^(l)	83.8	85.6	92.2	115.1	117.4	118.3	145.9	151.7	172.9	164.9
Program Costs Paid from										
Current Operations	15.9	15.9	15.9	19.8	22.9	20.5	20.6	20.6	20.6	20.8
Estimated Unallocated Lapses ^(m)	0.0	0.0	0.0	0.0	0.0	0.0	(21.0)	(11.0)	(11.0)	(11.0)
Total Expenditures	883.8	907.6	935.9	1,000.7	1,038.8	1,094.9	1,144.2	1,186.8	1,233.6	1,280.6
Excess (Deficiency)	(56.7)	(3.7)	3.9	0.3	59.5	(14.6)	(65.7)	(103.9)	(126.4)	(161.9)
Revised Cumulative Excess (Deficiency)	133.0	129.3	133.1	133.4	192.9	178.3	112.6	8.7	(117.7)	(279.6)

- (a) Actual per Comptroller's Annual Reports, presented to conform to budgetary categories.
- (b) As estimated per the Comptroller's report of September 2, 2008 for the period ending June 30, 2008.
- (c) Per Article 28 of the Amendments of the Constitution of the State of Connecticut, the General Assembly must adopt a balanced budget. During the upcoming 2009 Legislative Session, the General Assembly will be required to pass a budget for fiscal years 2010 and 2011 within the requirements of Article 28.
- (d) Motor Fuels Taxes, Motor Vehicle Receipts, and LPF Revenue. For a discussion of the assumptions and enacted tax, fee, and charge increases underlying these revenue projections, see "Discussion of Projected Pledged Revenues".
- (e) See footnotes to Table 3.
- (f) Public Act 03-04 of the June 30 Special Session, as amended by Public Act 04-182, provides that on or after July 1, 2003, and up to and including June 30, 2036 revenues which are attributable to increases in taxes or fees provided for in Sections 1-1h, 14-16, 14-35, 14-41, 14-41a, 14-44i, 14-47, 14-48b, 14-49, 14-50, 14-50b, 14-65, 14-66, 14-67 14-73, 14-192, 14-381, 52-62, 52-63 of the Connecticut General Statutes and revenue specified in Section 113 and 114 of Public Act 03-1 are defined as Incremental Revenues and have been dedicated to fund TSB Projects and Purposes by deposit into the TSB projects account, which is part of the Special Transportation Fund. Public Act 05-4, Sections 43, 52 and 53, repeals the dedication of the Incremental Revenues and institutes a transfer from the resources of the Special Transportation Fund to the TSB projects account in the amount of \$25.3 million in fiscal year 2006, \$20.3 million in fiscal year 2007 and \$15.3 million in each of fiscal years 2008-2015. For fiscal year 2016 and thereafter, \$0.3 million shall be transferred to the TSB projects account. PA 07-7 of the June Special Session transferred an additional \$5.5 million to the TSB projects account for a total transfer in fiscal year 2008 of \$20.8 million.
- (g) The amount in fiscal year 2003 and fiscal year 2004 reflects the release from the Reserve Account under the Senior Indenture resulting from the refunding of special tax obligation bonds.
- (h) These figures represent Principal and Interest Requirements on special tax obligation bonds, and variable rate bond fees for such 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 net interest costs listed below for each of the following State fiscal years: 2010-2012 - \$500.0 million each year at 6.0%. See "The Department of Transportation Implementation of and Funding for the Infrastructure program." Includes actual and estimated rebate liability on the Bonds under the Code. Assumes no issuance of Notes.

- (i) 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.
- (j) 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; (iv) salaries, data processing and other general administrative costs, aeronautics and waterways operations. Certain contingent liabilities arising from defective highway lawsuits are not included in the projected amounts of annual budgeted expenses. See "Litigation."
- (k) Section 33 of Public Act 04-216 as amended by Section 72 of Public Act 04-02 of the May 2004 Special Session transfers \$8.5 million from Debt Service and \$7.0 million from the Department of Transportation to the Department of Motor Vehicles in fiscal year 2004 for the upgrading of the registration and driver license data processing systems.
- (l) Represents the cost of fringe benefits, pension costs and salary adjustments for DMV and the Department.
- (m) The Special Transportation Fund budget includes amounts for unallocated lapses to recognize that not all budget expenditures will be fully expended and will lapse for budget purposes. The unallocated lapse is reduced by a corresponding amount as agency lapses are identified within specific accounts.

For a discussion of the assumptions and enacted tax, fee and charge adjustments underlying these projections, see "discussion of projected pledged revenues."

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

THE TRANSPORTATION STRATEGY BOARD

The TSB was established under Public Act 01-5 of the June 2001 Special Session to propose a transportation strategy, an implementation cost estimate and funding approaches to the Governor and the General Assembly. The initial transportation strategy was presented on January 15, 2002. The Act also required that the first revised strategy be submitted by December 15, 2002. Implementation of the Board's December 2002 recommendations required actions by the General Assembly and the Governor. The TSB consists of fifteen members. On January 6, 2003, the TBS presented its recommendations to the Governor and the General Assembly. The TSB's five strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement of goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the State economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system. The General Assembly authorized approximately \$17 million from General Fund appropriated surplus and \$27 million in Special Transportation Fund Bond authorizations to implement the projects included in Section 16 of Public Act 01-5.

Public Act 03-04 of the June 30 Special Session authorized the issuance of approximately \$265 million in bonding for a ten-year period backed by dedicated revenue to implement the strategy-related projects recommended by the TSB. It also approved the principles set forth in Section I of the transportation strategy submitted by the TSB to the legislature in January 2003.

Public Act 05-4 repealed the prior diversion of Incremental Revenues to the TSB projects account as well as the authorization for the issuance of the approximately \$265 million in special tax obligation bonding over ten years and establishes fixed transfers from the Special Transportation Fund to the TSB projects account in the amounts of \$25.3 million in fiscal year 2006, \$20.3 million in fiscal year 2007, \$15.3 million in each of fiscal years 2008-2015 and \$.3 million in fiscal year 2016 and thereafter. The Department, in consultation with the Secretary of the Office of Policy and Management, the State Treasurer and the TSB is required to prepare annual financing plans which are to provide for the annual funding and financing of those projects and purposes identified in such annual financing plans based upon funding available or anticipated to be available in the TSB projects account.

Public Act 06-136 authorizes \$1.0 billion in new special tax obligation bonding for specific strategic transportation projects and initiatives, supported in the TSB's January 6, 2003 submission. The public act also makes several changes to the TSB's administration and staffing, as well as requiring the TSB to review, and if necessary, revise the State transportation strategy no later than January 1, 2007, and every two years thereafter. The TSB submitted its revised transportation strategy on January 11, 2007. The revised strategy adopts a series of eight guiding principles, which are: (1) a balanced transportation system is essential to Connecticut's economic and social health and welfare; (2) Connecticut's transportation system must be multi-modal; (3) Connecticut's transportation system must be maintained and preserved; (4) Connecticut's transportation policy must support economic development and a sustainable environment; (5) the state's transportation system must be flexible and responsive; (6) the provision of accurate, timely information about system and services is essential; (7) transportation and development investments must support responsible growth, transit oriented development and the Plan of Conservation and Development; and (8) the State's transportation planning must be comprehensive, inclusive and visionary.

THE DEPARTMENT OF TRANSPORTATION

The State Transportation System

The State's transportation system includes approximately 21,295 miles of improved roads (of which approximately 3,716 are maintained by the Department); 5,471 state and local bridges; Bradley International Airport, which is New England's second largest airport, and five other State-owned airports together with numerous municipally and privately owned airports; rail commuter service between New Haven and New York City and related points, provided by Metro-North Commuter Railroad Company which operates 285 trains daily; Shore Line East Rail Commuter Service between New London and New Haven and on to Stamford, which operates 23 trains daily; and publicly and privately owned bus systems which operate 1102 vehicles.

Organization and Responsibilities

The Department was established in 1969 and replaced the Connecticut Highway Department. The Department, as of July 31, 2008, had 3,321 employees. The Department's major responsibility is to provide transportation services and facilities to State residents.

The Department is headed by a Commissioner appointed by and directly responsible to the Governor. The Commissioner's office has 45 employees who perform communications, management and legislative services, and other related functions of that office.

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

In April 2008, Joseph F. Marie was appointed Commissioner of the Department by Governor M. Jodi Rell. Immediately prior to his appointment, Mr. Marie served as the Director of Operations and Maintenance for METRO, the regional public transit system for Phoenix, Arizona. He has more than 22 years of transit industry experience in both the public and private sectors.

H. James Boice has been with the Department for more than 30 years, and has served as Deputy Commissioner of the agency since August 2006. In his capacity as Deputy Commissioner, Mr. Boice oversees engineering and construction, highway operations, aviation, maritime and policy and planning. Mr. Boice evaluates transportation improvements and their impact on the state's socioeconomic and environmental resources. He also assists in the development of the Department's capital program to best address the needs within the financial constraints of the agency. He is recognized and active on the national level in rail and transit issues.

Albert A. Martin was appointed Deputy Commissioner of the Department in March 2007. Mr. Martin oversees the DOT's Bureau of Public Transportation, governing Connecticut rail, bus and other alternative modes of transportation. He has 37 years of government and administrative experience, including six years as Director of the Detroit Department of Transportation. Mr. Martin is a nationally recognized expert on the issues of responsible growth and Transit-Oriented Development.

In July 2008, Jeffrey A. Parker was appointed Deputy Commissioner of the Department and oversees the agency's major projects, such as the New Haven Rail Maintenance Facility and the replacement of the Pearl Harbor Memorial Bridge (the "Q Bridge") in New Haven. Prior to joining the Department, Mr. Parker served as Senior Director for Transportation Operations for the Metropolitan Atlanta Rapid Transit Authority and, before that, as Director of Subway Operations and Rail Vehicle Engineering for the Massachusetts Bay Transportation Authority.

In July 2007, Governor Rell appointed a Commission to study possible reorganizations within the Department. In February 2008, the Commission delivered its report entitled “Report of the Governors Commission on the Reform of the Connecticut Department of Transportation” to the Governor.

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

Bureau of Engineering and Highway Operations

The Bureau of Engineering and Highway Operations has 2,483 employees and is the Department’s largest bureau. Under the supervision of a Bureau Chief and the Chief Engineer, this bureau is responsible for the design of new and improved facilities, the acquisition of rights-of-way, the construction and reconstruction of roads and bridges, the maintenance of State highways and bridges, and all Department research and materials testing.

Bureau of Finance and Administration

The Bureau of Administration has 482 employees. This bureau provides administrative, service, personnel and support functions, which include budget preparation and control, auditing, purchasing, programming and control of the Department’s capital program, external audit, information systems management and equal employment opportunity/affirmative action programs. This bureau provides the administration and oversight of the Infrastructure Program.

Bureau of Policy and Planning

The Bureau of Policy and Planning has 114 employees and is responsible for coordination of transportation policy, strategic planning, monitoring federal and State laws and regulations, maintaining all transportation statistics and estimates, project planning and environmental analysis for all modes of State transportation supervised by the Department, and systems analysis. This bureau has primary input in the determination of the major projects to be accomplished under the Infrastructure Program.

Other Bureaus

The other two bureaus of the Department are the Bureau of Public Transportation, which administers the operations of the State’s bus services, rail commuter services, ridesharing programs, handicapped and elderly services and regulates taxi, livery and other transit activities; and the Bureau of Aviation and Ports, which is responsible for the operation and management of Bradley International Airport, the five other State-owned airports, regulation of the State’s harbor masters and harbor pilots, Connecticut River ferries and the operation of the State Pier in New London.

Implementation of and Funding for the Infrastructure Program

The Infrastructure Program began on July 1, 1984. In the first eighteen (18) years (State fiscal years 1985 through 2002) \$12.9 billion was authorized, consisting of \$4.6 billion in Senior and Second Lien Bonds, \$507 million in State appropriations, \$7.7 billion in federal funds and \$111 million in other resources.

The following is a brief description of the components of the Infrastructure Program for State fiscal years 2003 through 2012. The sources of funding for this period of the program are set forth in Table 9. Actual annual funding amounts for the Infrastructure Program components can be expected to vary from the projected amounts because a major portion of the program is dependent upon the availability of federal funds. The federal figures presented in Table 9 for 2008 through 2012 are projections based upon the federal Safe, Accountable, Flexible, Efficient, Transportation Equity Act – a Legacy for Users (SAFETEA-LU).

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 \$970.3 million of which \$849.8 million is expected to be paid by federal funds and the remainder, or \$120.5 million, is expected to be paid by State funds.

Intrastate

The Intrastate Program provides for improvements to the State's primary and secondary roads. The costs of this program are estimated at \$2.76 billion. A portion of the program is eligible for federal funding, which is currently projected at \$2.3 billion. State funds are expected to pay for \$469.6 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 \$1.3 billion. The State's share of such costs is estimated to be \$297.9 million, with the balance of \$972.7 million to be met from federal funds.

Local Bridges

The State Local Bridge Program will assist municipalities throughout the State in undertaking the rehabilitation, restoration, replacement and reconstruction of local bridges. To finance the local bridge program, the State has legislated a loan program and a grants-in-aid program that would provide an incentive to municipalities to complete repairs to their bridges. The loan program consists of a revolving fund established by the State for the purpose of providing below market rate loans to municipalities for up to fifty percent (50%) of the cost of the project. Loan repayments by municipalities will be returned to the revolving fund. None of the funds in the revolving fund will constitute security for the Bonds or be used to pay Debt Service Requirements on the Bonds or Notes. The grants-in-aid program provides grants to municipalities on the basis of their economic ability to pay. The grants are made on a sliding scale of ten percent (10%) to thirty-three percent (33%) of project costs. Revolving fund resources will finance new local bridge projects as there are no anticipated federal funds available.

Transit

The Transit Capital Program is a fiscally constrained plan which 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. This includes all capital projects necessary to support two commuter railroads, CT Transit operations in eight urban areas and thirteen active transit districts. Projects are programmed to ensure system safety, maintain the transportation infrastructure, and provide system improvements. The bus portion includes replacement of aged buses on all fixed-route systems, construction of new and rehabilitated bus maintenance and storage facilities, renovation and improvement of bus depots, and improvements within downtown areas to better accommodate bus service. The commuter rail portion of the Transit Capital Program is a continuation of the New Haven Line rail modernization program which was started in the early 1970's, and now includes the recently passed New Haven line revitalization program. The program costs reflect the cost sharing requirements between New York and Connecticut which resulted from arbitration rulings. The commuter rail program also includes investments in the Shore Line East passenger service. The total Transit Capital Program is estimated to cost \$1.5 billion of which \$1.1 billion is estimated to be supported by federal funds, and \$370.5 million is estimated to be funded from State bond proceeds.

Aviation

The Aviation Program includes the costs of capital improvements to the major airport facilities in the State excluding Bradley International Airport. Capital projects have been scheduled for the five State-owned airports in Windham, Oxford, Groton, Danielson, and Hartford as well as improvements at municipal airports in New Haven, Meriden, Danbury, and Bridgeport. The Aviation Program is estimated to cost \$65.2 million and will require approximately \$20.0 million in State funds.

Resurfacing

The Resurfacing Program consists of resurfacing and restoring the State highway system. The Department currently anticipates resurfacing approximately 225 two-lane miles of highway per year. Over the period, the cost of the program is estimated to be \$838.3 million, of which \$559.9 million is expected to be paid from bond proceeds, \$10 million from other Department budget appropriations, and \$268.4 million from federal funds.

Department Facilities

This program includes the costs of renovating, repairing and expanding maintenance garages and other administrative facilities of the Department, and the costs of purchasing leased facilities. The total cost of this program is estimated at \$64.0 million, which will be completely borne by the State because no federal funds are available.

Other

The Infrastructure Program also provides funding for STP/Urban Systems, Hazardous Waste, Special Projects and Waterways. The estimated cost of these programs is \$2.7 billion, of which \$2.4 billion is expected to be paid from bond proceeds and \$342.4 million from federal funds.

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

The following table sets forth the actual and projected sources of funding, including legislative authorizations for Bonds, for various components of the Infrastructure Program over the ten-year period 2003-2012 and includes projections of amounts to be appropriated as current expenses of the Special Transportation Fund for such purposes:

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

	Fiscal Year Ending June 30										Total
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Interstate											
Bonds	11.5	11.5	11.5	11.5	11.5	12.0	12.0	13.0	13.0	13.0	120.5
Federal	103.5	103.5	92.7	77.7	51.8	68.6	22.0	110.0	110.0	110.0	<u>849.8</u>
											970.3
Intrastate											
Bonds	31.5	63.0	39.0	22.5	28.1	112.9	42.0	42.5	44.0	44.0	469.6
Federal	126.0	479.4	205.0	101.1	134.9	597.6	130.3	168.0	176.0	176.0	<u>2,294.3</u>
											2,763.9
State Bridges											
Bonds	20.0	20.0	20.0	20.0	20.0	65.2	34.3	32.3	33.0	33.0	297.9
Federal	74.0	79.1	88.7	87.5	80.0	215.0	48.4	100.0	100.0	100.0	<u>972.7</u>
											1,270.6
Local Bridges											
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations ^(a)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.0</u>
											0.0
Transit											
Bonds	34.0	34.0	34.0	34.0	34.0	40.1	40.4	40.0	40.0	40.0	370.5
Appropriations	0.0	0.0	0.0	0.0	0.0	0.15	0.25	0.0	0.0	0.0	0.4
Federal	94.3	134.3	104.0	110.0	89.5	131.8	125.5	113.0	113.0	113.0	<u>1,128.34</u>
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.0</u>
											1,499.3
Aviation ^(b)											
Bonds	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	20.0
Federal	5.1	6.2	7.8	1.0	4.6	3.0	5.3	4.0	4.0	4.0	<u>45.0</u>
Other	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.2</u>
											65.2
Resurfacing											
Bonds	49.0	49.0	49.0	49.0	49.0	54.0	59.0	64.1	68.9	68.9	559.9
Appropriations	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	10.0
Federal	49.0	54.1	0.0	0.0	8.8	36.5	45.0	25.0	25.0	25.0	<u>268.4</u>
											838.3
Dept. Facilities											
Bonds	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	64.0
Safety											
Appropriations	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	12.0
Federal	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	<u>90.0</u>
											102.0
STP/Urban Systems											
Bonds	12.0	8.0	8.0	8.0	8.0	8.3	8.5	8.5	8.5	8.5	86.3
Appropriations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal	48.0	32.0	30.4	32.0	29.9	36.0	38.1	32.0	32.0	32.0	<u>342.4</u>
Other ^(c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.0</u>
											428.7
Other Road and Bridge											
Appropriations	9.8	9.8	9.8	10.0	10.2	10.3	10.4	10.4	10.4	10.4	101.4
Federal	15.1	13.9	15.1	15.1	15.1	15.1	15.1	20.0	20.0	20.0	<u>164.5</u>
											265.9
Hazardous Waste											
Bonds	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	60.0
Special Projects											
Bonds	15.0	45.0	0.0	53.0	1,507.2	334.5	178.0	100.0	0.0	0.0	2,232.7
Waterways											
Bonds	0.3	0.2	0.3	0.2	0.3	1.4	0.3	0.2	0.3	0.2	3.7
Totals											
Bonds	187.7	245.1	176.2	212.6	1,672.5	642.9	389.0	315.0	222.1	222.0	4,285.0
Appropriations	12.0	12.0	12.0	12.2	12.4	12.7	12.8	12.6	12.6	12.6	123.8
Federal	524.0	911.5	552.7	433.3	423.5	1,112.5	438.8	581.0	589.0	589.0	<u>6,155.3</u>
Other	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	<u>0.2</u>
Total	723.7	1,168.7	741.0	658.1	2,108.4	1,768.1	840.6	908.6	823.7	823.6	10,564.4
Issuance and Reserve	23.3	28.6	22.3	26.3	28.3	21.3	21.3	21.3	21.3	21.3	235.3

All line items in this Table captioned "Bonds" refer to legislative bond authorizations not bond issuances. Federal funding after September 30, 2006 is subject to Congressional action. For a summary of the enacted tax, fee and charge adjustments underlying these projections, see Table 2 and Table 3.

- (a) Deposits to the Local Bridge Revolving Fund.
- (b) Excluding Bradley International Airport.
- (c) Local funds.

SOURCE: Department of Transportation

The following table sets forth the amount of special tax obligation bond proceeds used and projected to be required to finance capital program project commitments and the annual amount of special tax obligation bonds issued and estimated to be issued each year for Infrastructure Program expenditures and other expenses through fiscal year 2012.

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

	Fiscal Year Ending June 30											
	1985 - 2002^{(a)(b)(c)}	2003^(a)	2004^(a)	2005^(a)	2006^(a)	2007^(a)	2008^(a)	2009	2010	2011	2012	Total
Program Project Commitments	4,567.3	187.7	245.1	176.2	212.6	1,672.5	418.4	311.0	315.0	222.1	222.0	8,549.9
Issuance and Reserve Authority	541.9	23.3	28.6	22.3	26.3	28.3	21.3	21.3	21.3	21.3	21.3	777.2
Actual and Projected Annual Issuances ^{(d)(e)}	4,781.7	215.0	200.0	200.0	250.0	0.0	250.0	300.0	500.0	500.0	500.0	7,696.7

(a) Actual authorized program commitments and bonds issued.

(b) Does not include \$21.1 million in previously authorized general obligation transportation related bond authority used in fiscal year 1996.

(c) Does not include \$39.9 million in previously authorized general obligation transportation related bond authority.

(d) 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.

(e) After 2012, additional special tax obligation bonds in an amount estimated at \$1,380.4 million 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 are expected to fund Reserve Accounts and issuance costs.

Financial Controls

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

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

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

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

State Funds

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

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

If the project is to be designed by an outside consultant, the selection process is in accordance with statutory requirements, and the cost is negotiated by the Department. Proposed contracts are subject to review by the Office of Policy and Management and the Attorney General. In addition, proposed contracts for projects other than highways are subject to review by the State Properties

Review Board. Except in emergencies, construction contracts above a certain size are awarded as a result of sealed bids. The Department is usually billed monthly by outside contractors and to insure proper progress of the project, Department liaisons make site checks. The Department's office of fiscal services must approve all outside bills and verify billed amounts against internal payment lists to insure that expenditures are within the amount of the contract. The Comptroller, after review and upon a warrant to the Treasurer, then disburses the appropriate funds.

Federal Funds

The Department expects to receive approximately \$10.3 billion in federal funds with respect to the Infrastructure Program projects that have been approved by the State Bond Commission. An additional \$281.1 million in federal funds is expected to be received for projects to be paid from approved State appropriations for the Department.

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

The Department also expects to receive project capital grants for the Infrastructure Program from the FTA and project capital grants for rail freight projects from the Federal Railroad Administration. As with FHWA grants, all capital FTA billing requests also are processed through the Concurrent Audit Billing System, and has also transitioned to 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 regularly monitors the billing system to verify the validity of reimbursement requests. A primary purpose of the billing system audits is to maximize federal cost participation by identifying coding errors or other mistakes that misstate reimbursable costs and by insuring that corrective action is taken.

Only federal transportation related operating assistance grants (currently none) are credited to the Special Transportation Fund. Federal transportation related capital grants are credited to the Infrastructure Improvement Fund.

SUMMARY OF CERTAIN PROVISIONS OF THE 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 of 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 the section below entitled “Tax Exemption.”

(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 indentures 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 indentures 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.

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

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

Funds and Accounts

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

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

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

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.

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 is expected to be less than \$10 million.

Eminent Domain Lawsuits

There are 89 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. One such appeal is noteworthy with respect to potential exposure. Rock Acquisition Limited Partnership v. State of Connecticut, Commissioner of Transportation, DBD-CV-05-4001920-S, arises from the taking of a rock quarry in Brookfield, CT. The property was condemned for \$4.1 million. State appraisals have more recently valued the property at approximately \$2 million. The condemnee contends that it was worth \$70 million at the time of taking, based in large part upon a claim that its business was likely to make substantial money from contractors who will pay to place clean fill at the quarry. The case proceeded to trial in 2008, and a decision is pending in Superior Court. Because the condemnation is part of a federally funded DOT program, the ultimate cost to the State of this taking will be reduced by a significant percentage.

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

Other Lawsuits

With regard to any other pending litigation, the most notable matter involves White Oak Corp., which has brought demands for arbitration against the Department, pursuant to State statute, alleging breaches of contract in connection with both the Tomlinson Bridge construction project in New Haven and a separate construction project in Bridgeport. In December 2005, the American Arbitration Association ruled against White Oak in the Tomlinson Bridge construction project, rejecting their claim for \$90 million and instead awarded the Department damages in the amount of \$1.1 million. The Superior Court confirmed the panel's decision, but White Oak thereafter filed a new demand for arbitration seeking \$110 million for delay damages in connection with the same Tomlinson Bridge project. The State sought an injunction on this second demand in light of the rulings in the first demand for arbitration. The Court denied that injunction and the State appealed that decision. The Connecticut Supreme Court overturned the trial court's decision and directed the trial court to grant the State's claim for a permanent injunction. The Bridgeport project claim for arbitration is ongoing and in that proceeding White Oak claims damages of \$67 million. Hearings have concluded and a decision is pending.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Continuing Disclosure Agreement

The State will enter into a Continuing Disclosure Agreement with respect to the 2009 Series 1 Bonds, substantially in the form attached as Appendix E to this Official Statement (the "Continuing Disclosure Agreement"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12 (the "Rule"), (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the 2009 Series 1 Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information and operating data on or before the date specified in the Continuing Disclosure Agreement. The underwriters' obligation to purchase the 2009 Series 1 Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2009 Series 1 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, 2008. The State has never failed to comply in all material respects with any previous undertaking made by the State pursuant to the Rule relating to the issuance of Bonds.

Absence of Litigation

Upon delivery of the 2009 Series 1 Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the 2009 Series 1 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 2009 Series 1 Bonds, or the levy or collection of the Pledged Revenues or other receipts, funds or monies pledged for the security of the 2009 Series 1 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 2009 Series 1 Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of monies to the payment of the 2009 Series 1 Bonds. In addition, such certificate shall state that there is no controversy or litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could materially adversely affect the power of the State to levy, collect and enforce the collection of the Pledged Revenues and other receipts, funds or monies pledged for the security of the 2009 Series 1 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 2009 Series 1 Bonds are subject to the approval of Updike, Kelly & Spellacy, P.C., Hartford, Connecticut, Bond Counsel and Lewis & Munday, A Professional Corporation, Hartford, Connecticut, Co-Bond Counsel. The opinions of Bond Counsel and Co-Bond Counsel will be attached to the Bonds in substantially the form included in this Official Statement as Appendix D. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York and Pullman & Comley, LLC of Hartford, Connecticut. Hawkins Delafield & Wood LLP is bond counsel to the State in connection with other State bond issues (not including special tax obligation bond issues) and Pullman & Comley, LLC is bond counsel to the State in connection with other State bond issues (not including special tax obligation bond issues) and various other matters.

Certificate of State Officials

The purchasers of the 2009 Series 1 Bonds shall receive a certificate, dated the date of delivery of the 2009 Series 1 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 2009 Series 1 Bonds in order that interest on the 2009 Series 1 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 2009 Series 1 Bonds to be includable in gross income for Federal income tax purposes retroactively to the date of their issuance irrespective of the date on which noncompliance occurs. The Tax Regulatory Agreement of the State which will be delivered concurrently with the delivery of the 2009 Series 1 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 2009 Series 1 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 2009 Series 1 Bonds is excludable from gross income of the owners thereof for Federal income tax purposes, and, under existing law, interest on the 2009 Series 1 Bonds is not treated as a preference item in calculating the Federal alternative minimum tax that may be imposed on individuals and corporations. Interest on the 2009 Series 1 Bonds, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the Federal alternative minimum tax imposed on such corporations. In rendering the foregoing opinions, Bond Counsel and Co-Bond Counsel have assumed compliance by the State with the Tax Regulatory Agreement. For other Federal tax information, see “Original Issue Discount,” “Original Issue Premium” and “Certain Additional Tax Information” herein.

Further, in the opinion of Bond Counsel and Co-Bond Counsel, under existing statutes, interest on the 2009 Series 1 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 2009 Series 1 Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the 2009 Series 1 Bonds and the disposition of the 2009 Series 1 Bonds. Notwithstanding any past covenants of the State relating to the exclusion of interest on any previously issued special tax obligation bonds from gross income for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes, Public Act 95-2 specifically requires the inclusion of interest on any State obligation, including the 2009 Series 1 Bonds, in gross income for purposes of the Corporation Business Tax.

Original Issue Discount

With respect to any of the 2009 Series 1 Bonds where the initial public offering price of such 2009 Series 1 Bonds is less than the amount payable on those 2009 Series 1 Bonds at maturity (the “Discount Bonds”), the difference between the initial public offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of any maturity are sold and the amount payable on such Discount Bonds at maturity constitutes original issue discount. Accrued original issue discount is 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. A portion of such increase that accrues to the owners of Discount Bonds in each year, as described above, is, however, included in the calculation for determining a corporation’s alternative minimum tax and may result in collateral Federal income tax consequences for certain owners referenced above in the year of accrual. Consequently, corporate owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or other collateral Federal income tax consequences although the owner may not have received cash in such year. Owners of the Discount Bonds are advised to consult with their tax advisors with respect to the Federal, state and local tax consequences of owning the Discount Bonds.

Original Issue Premium

With respect to any of the 2009 Series 1 Bonds where the initial public offering price of such 2009 Series 1 Bonds is greater than the amount payable on those Bonds at maturity (the “Premium Bonds”), the excess of the price paid by the first owner of a Premium Bond over the principal amount payable at the maturity or the earlier call date, if any, of such Premium Bond constitutes original issue premium. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer’s yield to maturity using the taxpayer’s adjusted basis and a constant semiannual compounding method. The portion of such premium amortizing over the period the Premium Bond is held by the owner does not reduce taxable income for purposes of either the Federal income tax or the Connecticut income tax on individuals, trusts and estates and does not reduce amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax, but it does reduce the owner’s adjusted basis in the Premium Bond for purposes of determining gain or loss on its disposition. Owners of Premium Bonds are advised to consult with their tax advisors with respect to the Federal, state and local tax consequences of owning the Premium Bonds.

Certain Additional Tax Information

The following is a brief discussion of certain Federal income tax matters under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular Beneficial Owners. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2009 Series 1 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the 2009 Series 1 Bonds is not treated as a preference item in calculating alternative minimum taxable income. The Code provides, however, that a portion of the adjusted current earnings of certain corporations not otherwise included in alternative minimum taxable income would be included for purposes of calculating the alternative minimum tax. The adjusted current earnings of a corporation includes the amount of any income accrued that is otherwise exempt from taxes, such as interest on the 2009 Series 1 Bonds.

Ownership of the 2009 Series 1 Bonds may result in collateral Federal income tax consequences to various categories of persons such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, and individuals otherwise eligible for the earned income credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. The foregoing is not intended to be an exhaustive list of potential tax consequences.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2009 Series 1 Bonds will not have an adverse effect on the tax-exempt status or market price of the 2009 Series 1 Bonds.

Bond Counsel and Co-Bond Counsel have not undertaken to advise in the future whether any events after the date of issuance of the 2009 Series 1 Bonds may affect the tax status of interest on the 2009 Series 1 Bonds. No assurance can be given that future legislation, or amendments to the State income tax law, if enacted into law, will not contain provisions which could, directly or indirectly, reduce the benefit of the exclusion of the interest on the 2009 Series 1 Bonds or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates.

Bond Counsel and Co-Bond Counsel express no opinion regarding any State or Federal tax consequences of ownership or disposition of the 2009 Series 1 Bonds not specifically described herein.

RATINGS

Moody’s Investors Service (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”) and Fitch Ratings (“Fitch”) have assigned their municipal bond ratings of “A1” “AA” and “AA-”, respectively, to the 2009 Series 1 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: Moody’s Investors Service, 7 World Trade Center at 250 Greenwich St., New York, New York 10007; Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The above ratings are not recommendations to buy, sell or hold the 2009 Series 1 Bonds. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised

downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2009 Series 1 Bonds.

FINANCIAL ADVISORS

The State has appointed A.C. Advisory, Inc. and Public Resources Advisory Group to serve as co-financial advisors to assist it in the issuance of the 2009 Series 1 Bonds. The State has appointed Lamont Financial Services Corporation to serve as swap advisor to assist in the termination of the Qualified Swaps on the 2003 Series 1 and 2 Bonds.

UNDERWRITING

The Underwriters have agreed to purchase the 2009 Series 1 Bonds at a purchase price of \$448,024,516.66 (representing the principal amount of the 2009 Series 1 Bonds plus original issue premium of \$35,191,791.40 and less the underwriters' discount of \$2,202,274.74). The public offering prices may be changed from time to time by the underwriters and other dealers depositing the 2009 Series 1 Bonds into investment trusts at prices lower than such public offering prices.

MISCELLANEOUS

The State has furnished the information in this Official Statement.

Information with respect to the Infrastructure Program may be obtained from Joseph F. Marie, Commissioner of the Department of Transportation of the State of Connecticut, located at 2800 Berlin Turnpike, Newington, Connecticut 06131-7546, (860) 594-3002. Copies of the Indentures and information with respect to the State may be obtained upon request from the office of the State Treasurer, Honorable Denise L. Nappier, Treasurer, Attn.: Sarah Sanders, 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 2009 Series 1 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 dated June 30, 2007, 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 2009 Series 1 Bonds.

STATE OF CONNECTICUT

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

By: s/Robert L. Genuario
Hon. Robert L. Genuario
Secretary of the
Office of Policy and Management

By: s/Joseph F. Marie
Hon. Joseph F. Marie
Commissioner of the
Department of Transportation

Dated at Hartford, Connecticut
This 22nd day of January, 2009

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 28, 2008, and have not been updated except in limited respects.

GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

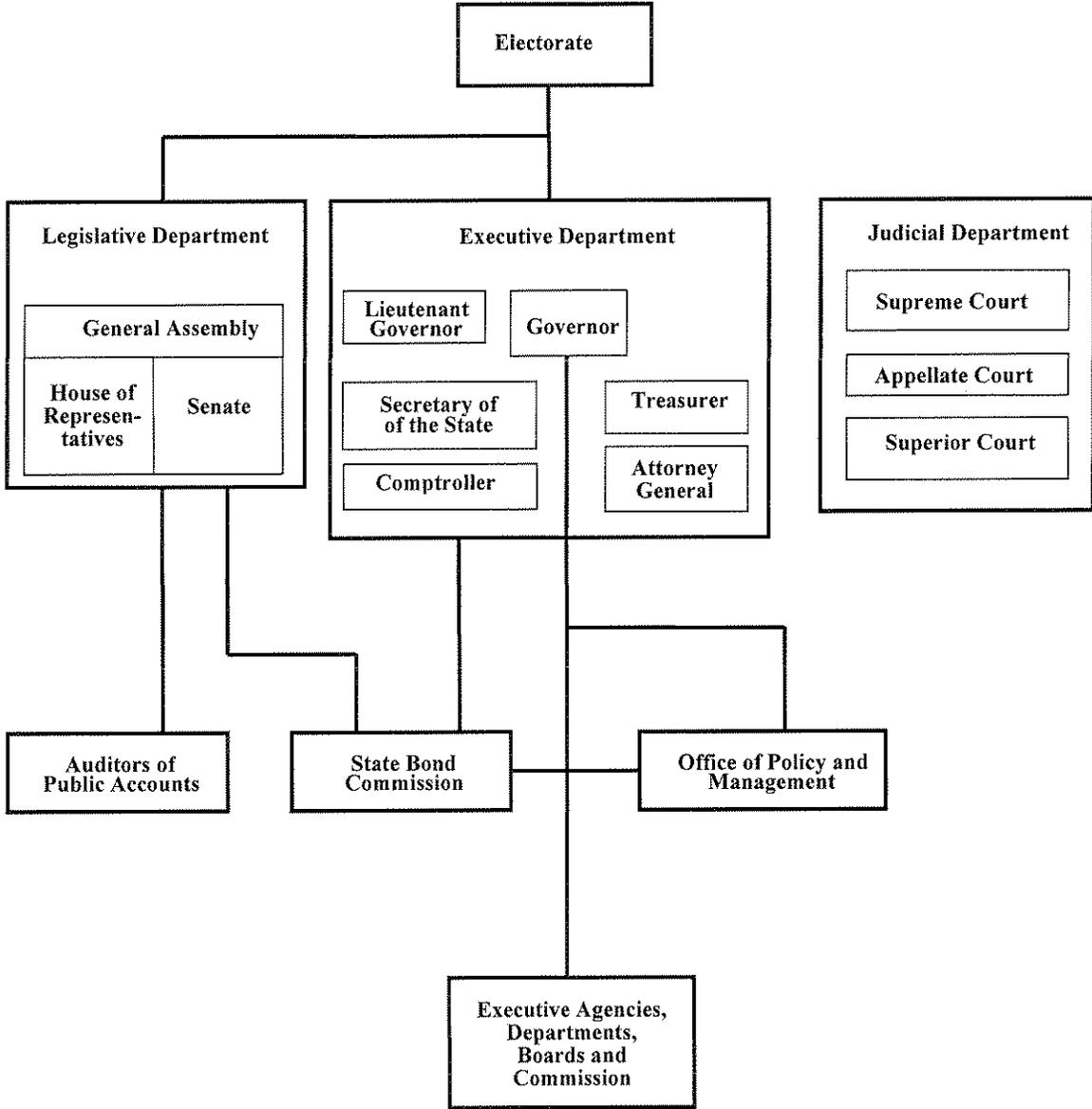
The components and structure of State governmental organization are laid out in the State’s Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General 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 2008, and the new members took office in January 2009.

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 2006 for terms beginning in January 2007. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

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

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

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 172 sitting Superior Court judges, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

On July 1, 1983 the Appellate Court was created and the appellate session of the Superior Court was dissolved. The Appellate Court hears appeals from decisions of the Superior Court except for certain matters which are directly appealable to the Supreme Court. There are ten 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 117 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Legislative.....	550	586	575	613	571
General Government.....	3,376	3,429	3,428	3,610	3,650
Regulation and Protection.....	4,071	4,211	4,279	4,360	4,338
Conservation and Development.....	1,275	1,358	1,267	1,299	1,325
Health and Hospitals.....	7,389	7,593	7,665	8,018	8,130
Transportation.....	2,863	3,150	3,035	3,220	3,318
Human Services.....	1,804	1,827	1,883	2,010	2,095
Education.....	14,540	15,077	15,446	16,055	16,453
Corrections.....	9,537	9,573	9,551	10,275	10,379
Judicial.....	<u>4,185</u>	<u>4,386</u>	<u>4,322</u>	<u>4,745</u>	<u>4,612</u>
Total.....	49,590	51,190	51,451	54,205	54,871

(a) Table shows approximate filled full-time positions as of June 30 in each of the listed years.

(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 June 30, 2008^{(a)(b)}

By Function of Government and Fund Categories

Function Headings	General Fund	Special Transportation Fund	Other Appropriated Funds	Special Funds – Non-Appropriated	Federal Funds	Private Contributions	TOTALS
Legislative	571	0	0	0	0	0	571
General Government	3,075	0	0	323	12	240	3,650
Regulation and Protection	2,282	614	547	667	124	104	4,338
Conservation and Development	593	0	6	384	250	92	1,325
Health and Hospitals	7,794	0	0	11	314	11	8,130
Transportation	0	3,198	0	120	0	0	3,318
Human Services	1,788	0	12	0	259	36	2,095
Education	10,962	0	0	5,290	185	16	16,453
Corrections	10,226	0	0	89	41	23	10,379
Judicial	4,564	0	0	0	5	43	4,612
Total	41,855	3,812	565	6,884	1,190	565	54,871

(a) Table shows approximate filled full-time positions.

(b) Breakdown for 2008 reflects the funding breakdown on Core-CT chart of accounts coding. Some positions which in years prior to 2005 were designated as being paid out of private contributions are now coded as being paid out of special funds – non appropriated in order to properly reflect how they are coded on Core-CT.

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 32 such bargaining units representing State employees.

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. Subject to certain parameters set forth in the General Statutes, if the State and the bargaining unit are unable to reach an agreement, one or both parties may initiate arbitration. The award of the arbitrator shall be final and binding upon the parties unless rejected by the legislature. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

The General Statutes deny State employees the right to strike. Questions concerning employment or bargaining practices prohibited by the sections of the General Statutes governing collective bargaining with regard to State employees may generally be brought before the State Board of Labor Relations.

Information regarding employees participating in collective bargaining units and employees not covered by collective bargaining is shown on the following table:

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

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented^(a)</u>	<u>Contract Status, if any</u>
<i>Covered by Collective Bargaining</i>		
Correction Officers	9.45%	Contract in place through 6/30/2008 ^(b)
Administrative Clerical	8.07%	Contract in place through 6/30/2009
Maintenance and Service	7.49%	Contract in place through 6/30/2008 ^(c)
Health Care Non-Professionals	7.03%	Contract in place through 6/30/2009
Social and Human Services	6.92%	Contract in place through 6/30/2009
Administrative and Residual	5.86%	Contract in place through 6/30/2011
Health Care Professionals	5.74%	Contract in place through 6/30/2009
Engineering, Scientific and Technical	4.74%	Contract in place through 6/30/2009
University Health Professionals (University of Connecticut Health Center)	3.50%	Contract in place through 6/30/2010
University of Connecticut Professional Employee Association	2.97%	Contract in place through 6/30/2011
Connecticut State University Faculty	3.14%	Contract in place through 6/30/2011
University of Connecticut Faculty	2.83%	Contract in place through 6/30/2009
Judicial Employees	2.69%	Contract in place through 6/30/2011
Judicial Professionals	2.39%	Contract in place through 6/30/2009
Congress of Connecticut Community Colleges	2.29%	Contract in place through 8/28/2011
Vocational Technical School Faculty	2.14%	Contract in place through 6/30/2011
State Police	2.05%	Contract in place through 6/30/2010
Protective Services	1.59%	Contract in place through 6/30/2011
Education Professionals (Institutions)	1.48%	Contract in place through 6/30/2009
<u>Other Bargaining Units (13 units)</u>	<u>5.88%</u>	Varies by Unit
Total Covered by Collective Bargaining	88.25%	
<i>Not Covered by Collective Bargaining</i>		
Auditors of Public Accounts	0.20%	Not Applicable
Other Employees	<u>11.55%</u>	Not Applicable
Total Not Covered by Collective Bargaining	11.75%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 54,871 filled full-time positions as of June 30, 2008.

(b) Arbitration award awaiting action in the General Assembly.

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

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 Aging Commission on the Status of Women Commission on Children Latino and Puerto Rican Affairs Commission African-American Affairs Commission Asian Pacific American Affairs Commission</p> <p><u>General Government</u> Governor’s Office Lieutenant Governor’s Office Secretary of the State Elections Enforcement Commission Office of State Ethics Freedom of Information Commission Judicial Selection Commission State Properties Review Board Contracting Standards Board State Treasurer State Comptroller Department of Revenue Services Division of Special Revenue State Insurance and Risk Management Board Gaming Policy Board Office of Policy and Management Department of Veterans’ Affairs Office of Workforce Competitiveness Board of Accountancy Department of Administrative Services Department of Information Technology Department of Public Works Attorney General Office of the Claims Commissioner Division of Criminal Justice Criminal Justice Commission State Marshal Commission</p>	<p><u>Regulation and Protection</u> Department of Public Safety Department of Emergency Management and Homeland Security Police Officer Standards and Training Council Board of Firearms Permit Examiners Department of Motor Vehicles Military Department Commission on Fire Prevention and Control Department of Banking Insurance Department Office of Consumer Counsel Department of Public Utility Control Office of the Health Care Advocate Department of Consumer Protection Department of Labor Office of the Victim Advocate Commission on Human Rights and Opportunities Office of Protection and Advocacy for Persons with Disabilities Office of the Child Advocate Workers’ Compensation Commission</p> <p><u>Conservation and Development</u> Department of Agriculture Department of Environmental Protection Council on Environmental Quality Commission on Culture and Tourism Department of Economic and Community Development Agricultural Experiment Station</p> <p><u>Health and Hospitals</u> Department of Public Health Office of Health Care Access Office of the 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 State Department on Aging Soldiers’, Sailors’, and Marines’ Fund</p> <p><u>Education, Libraries and Museums</u> Department of Education Board of Education and Services for the Blind Commission on the Deaf and Hearing Impaired State Library Department of Higher Education University of Connecticut University of Connecticut Health Center Charter Oak State College Teachers’ Retirement Board Regional Community-Technical Colleges Connecticut State University</p> <p><u>Corrections</u> Department of Correction Department of Children and Families Council to Administer the Children’s Trust Fund</p> <p><u>Judicial</u> Judicial Department Public Defender Services Commission Child Protection Commission</p>
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(a) In addition to the ten listed government function headings, the State also employs a “non-functional” heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.

(b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2008.

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 Management and Homeland Security. The Department of Emergency Management and Homeland Security was established as of January 1, 2005 to provide a coordinated and integrated program for statewide emergency management and homeland security. The mission of the Department is to direct and coordinate all available resources to protect the life and property of the citizens of Connecticut in the event of a disaster or crisis, through a collaborative program of prevention, planning, preparedness, response, recovery and public education. Among the Department's primary functions is the administration and management of federal grant funds related to emergency management and homeland security. The Department oversees the state Emergency Operations Center during emergencies. In addition, the Department's Commissioner directs the preparation of state emergency plans, which are submitted to the Governor for approval. For planning purposes with respect to events requiring mass evacuations and sheltering in the State, the Department has given priority for preparedness to the following potential scenarios: (i) a Category 3 hurricane hitting the State coast and all of New England, (ii) a large scale terrorist attack in New York City, and (iii) a Millstone Power Plant release of contamination. The State has been divided into five regions to coordinate planning, training and response.

Each year, in accordance with its statutory mandate, the Department reviews and approves local emergency operations plans, which are submitted to the Department after having been reviewed and approved by municipal officials. The Department continues to advance emergency planning for the State by bringing multiple partners at the local, state and federal level together. Recent planning initiatives include: evacuation and shelter guides; commodity distribution; donations management; disaster recovery centers and debris management. The Department continues to conduct many exercises around the state to test plans and first responder preparedness. In 2008, approximately 80 exercises were conducted, including a federally-evaluated radiological exercise. The Department continues to support the training of emergency volunteers. The Department continues to be heavily invested in interoperable communications, including the distribution, testing and maintenance of numerous communications assets. The Department also operates a fusion center which collects and disseminates intelligence information to law enforcement and other related groups. The Department, in conjunction with other State and local agencies, has completed significant work to implement and maintain a statewide geospatial information systems (GIS) program. The Department conducts public education campaigns on a regular basis to increase the public's preparedness for emergencies. The Department, in cooperation with local government, has also created five regional emergency planning teams (REPTs). Each REPT includes representatives from each of the municipalities or tribes within the region. The REPTs develop a regional spending plan for the Homeland Security grant funds for each region. Additionally, Intrastate Mutual Aid legislation creates a legal system whereby each municipality in the State can request aid from, or provide aid to, any other State municipality, regardless of whether a written mutual aid agreement exists between the municipalities. The Department also continues to codify its relationships with many key nongovernmental organizations including American Red Cross, Salvation Army, Civil Air Patrol and United Way. The agency continues to work with local towns by providing funding for emergency planning and Emergency Operation Center upgrades. A major initiative begun during 2008 is the deployment of WEB EOC, a software program which allows all communities to communicate important information to the State during an emergency.

Planning for disasters is ongoing. Pursuant to the General Statutes, 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 specifics and evaluates state-wide emergency management and homeland security activities during the preceding calendar year.

STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. 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. Connecticut had a population count of 3,405,565 in April 2000, an increase of 118,449, or 3.6%, from the 3,287,116 figure of 1990. The State's population growth rate, which exceeded the United States' rate of population growth during the period from 1940 to 1970, slowed substantially and trailed the national average markedly during the past three decades. The following table presents the population trends of Connecticut, New England, and the United States since 1940. Connecticut's population increased 3.6% from 1990 to 2000 versus 5.4% in New England and 13.2% for the nation. The mid-2008 population in Connecticut was estimated at 3,501,252, up 0.3% from a year ago, compared to increases of 0.3% and 0.9% for New England and the United States, respectively. From 2000 to 2008, within New England, only Maine and New Hampshire experienced growth higher than Connecticut.

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
1998....	3,365	0.5	13,734	0.7	275,854	1.2
1999....	3,386	0.6	13,838	0.8	279,040	1.2
2000....	3,412	0.7	13,952	0.8	282,172	1.1
2001....	3,428	0.5	14,047	0.7	285,040	1.0
2002....	3,448	0.6	14,127	0.6	287,727	0.9
2003....	3,468	0.6	14,181	0.4	290,211	0.9
2004....	3,475	0.2	14,202	0.1	292,892	0.9
2005....	3,479	0.1	14,208	0.0	295,561	0.9
2006....	3,488	0.3	14,233	0.2	298,363	0.9
2007....	3,490	0.1	14,259	0.2	301,290	1.0
2008....	3,501	0.3	14,304	0.3	304,060	0.9

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1998-2008, 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 Department of Commerce, Bureau of the Census; Information prior to 1999 – Economy.com

The State is highly urbanized with a 2008 population density of 723 persons per square mile, as compared with 86 for the United States as a whole. Of the eight counties in the State, according to the U.S. Bureau of Census for the 2007 estimate, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

Transportation. Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Bradley International Airport, in Windsor Locks, currently offers 106 daily departures to 37 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 and recently secured daily nonstop service to Amsterdam with connections to all of Europe.

Railroad freight service is provided to most major towns and cities in the State, and connections are provided with major eastern railroads as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides it with access to European and South American export markets. The State's harbors at Bridgeport, New Haven, and New London can accommodate deep draft vessels.

The Connecticut Department of Transportation subsidizes and oversees the operations of both rail commuter services and bus services. The New Haven Line and Shore Line East services provide commuter rail services for stations between New London and New York City for approximately 37 million passengers per year. Transit buses operate in 8 urban areas and 13 active transit districts, carrying approximately 37 million passengers per year. In addition, the State supports commuter express bus operations, Americans with Disabilities Act and paratransit services as well as ridesharing programs.

Connecticut recently initiated its largest single transportation initiative since its infrastructure renewal program of 1984. The initiatives of 2005 and 2006 provide funding for significant transit and highway improvements, including rail car replacement, rail infrastructure improvements and traffic flow enhancements.

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 (RTO) for New England. An independent system operator, ISO New England, Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. Since July 2000 most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. The electricity is delivered to the consumer over the wires of the regulated distribution companies (Connecticut Light & Power Company and The United Illuminating Company). Electric suppliers are not subject to rate regulation by the State Department of Public Utility Control (DPUC), but must receive a license issued by the DPUC before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory are not subject to the 1998 restructuring legislation. These consumers continue to purchase and receive their electrical needs from the municipal electric company.

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 liquefied natural gas (LNG) through the interstate pipelines from a terminal located in Boston, Massachusetts which is supplied by LNG tanker ships. Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, Energy East Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas was acquired by Northeast Utilities.

Since 1996 the DPUC 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 in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Two LECs currently offer local telephone services in Connecticut. They are SBC Communications, Inc., which acquired The Southern New England Telephone Company (SNET) in 1997 and AT&T in 2005, and Verizon New York, Inc. Connecticut also has approximately 105 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 4,657 British Thermal Units (BTU) per dollar of Gross State Product in 2005, 43% less than the national average of 8,129 BTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 258.2 million BTU of energy per person in 2005, ranking it 44th among the 50 states and 24% less than the national average of 339.2 million BTU.

In 2008 energy prices, including crude oil, gasoline, electricity and heating oil, stayed above the previous year's levels due to the sharp increase in crude oil prices. Higher energy prices may impact consumer and investment spending and economic growth.

Economic Performance

Personal Income. Connecticut has a high level of personal income. Historically, the State's average per capita income has been among the highest in the nation. The high per capita income is due to the State's concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance, and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. The following table shows total and per capita personal income for Connecticut residents during the period from 1997 to 2007 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>
1997	\$115,134	\$34,375	115.8%	135.7%
1998	123,918	36,822	116.2	137.0
1999	129,807	38,332	115.7	137.2
2000	141,570	41,495	114.9	139.0
2001	147,356	42,983	115.1	140.6
2002	146,998	42,629	114.0	138.2
2003	148,777	42,901	113.0	136.1
2004	159,337	45,848	114.4	138.3
2005	167,078	48,029	115.1	138.5
2006	179,918	51,584	115.7	140.2
2007	192,570	55,180	116.7	142.9

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)
1997	6.4%	6.0%	6.1%	4.7%	4.2%	4.3%
1998	7.6	7.4	7.4	6.4	6.2	6.2
1999	4.8	5.4	5.1	3.3	3.9	3.6
2000	9.1	9.9	8.0	6.7	7.6	5.7
2001	4.1	4.1	3.5	1.6	1.6	1.1
2002	(0.2)	0.7	1.8	(2.0)	(1.0)	0.0
2003	1.2	2.0	3.1	(0.9)	(0.2)	1.0
2004	7.1	5.7	6.1	4.1	2.8	3.2
2005	4.9	4.2	5.6	1.5	0.9	2.2
2006	7.7	7.0	7.1	4.3	3.6	3.7
2007	7.0	6.2	6.0	4.2	3.5	3.2

Note—Constant dollars are adjusted for inflation using the GDP deflator.

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

The following table indicates the sources of personal income by place of residence for Connecticut and the United States in 2007.

TABLE A-9
Sources of Personal Income By Place of Residence
Calendar Year 2007
(In Millions)

	<u>Conn.</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing.....	\$ 92,821	48.20%	\$ 5,608,093	48.21%
Property Income (Div., Rents & Int.).....	38,450	19.97	2,039,293	17.53
Wages in Manufacturing.....	14,032	7.29	745,843	6.41
Transfer Payments less Social Insurance Paid.....	6,563	3.41	748,422	6.43
Other Labor Income.....	22,580	11.73	1,448,322	12.45
Proprietor's Income.....	<u>18,125</u>	<u>9.41</u>	<u>1,041,598</u>	<u>8.95</u>
Personal Income—Total.....	\$192,570	100.00%	\$11,631,571	100.00%

Note—Columns may not add due to rounding.

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

Gross State Product. The State'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 2007, the State produced \$216.3 billion worth of goods and services and \$181.8 billion worth of goods and services in 2000 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 of Dollars)

<u>Year</u>	<u>Connecticut</u>		<u>New England^(a)</u>		<u>United States^(b)</u>	
	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>
1998	145,373	5.6%	497,756	5.8%	8,679,657	5.4%
1999	150,303	3.4	524,123	5.3	9,201,138	6.0
2000	160,436	6.7	565,835	8.0	9,749,103	6.0
2001	165,025	2.9	580,920	2.7	10,058,168	3.2
2002	166,073	0.6	591,733	1.9	10,398,402	3.4
2003	169,885	2.3	612,006	3.4	10,886,172	4.7
2004	182,112	7.2	647,473	5.8	11,607,041	6.6
2005	193,281	6.1	674,562	4.2	12,346,871	6.4
2006	204,964	6.0	712,051	5.6	13,119,938	6.3
2007	216,266	5.5	744,672	4.6	13,743,021	4.7

(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 2000 chained dollars.

TABLE A-11
Gross State Product
(In Millions of 2000 Chained Dollars*)

<u>Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>
1998	150,823	4.1%	511,374	4.9%	9,004,670	4.5%
1999	153,298	1.6	531,902	4.0	9,404,251	4.4
2000	160,436	4.7	565,835	6.4	9,749,103	3.7
2001	161,197	0.5	570,313	0.8	9,836,576	0.9
2002	158,628	(1.6)	568,750	(0.3)	9,981,850	1.5
2003	159,456	0.5	579,651	1.9	10,225,679	2.4
2004	165,828	4.0	597,196	3.0	10,580,223	3.5
2005	171,123	3.2	606,068	1.5	10,899,704	3.0
2006	176,900	3.4	623,136	2.8	11,240,107	3.1
2007	181,809	2.8	636,223	2.1	11,467,503	2.0

* 2000 chained dollar series are calculated as the product of the chain-type quantity index and the 2000 current-dollar value of the corresponding series, divided by 100.

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 2007 Connecticut's production was concentrated in three areas: finance, insurance and real estate (FIRE), services and manufacturing. Production in these three industries accounted for 69.5% of total production in Connecticut compared to 58.7% for the nation and was little changed from 68.9% in 1998. 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 FIRE and services have been rapidly increasing. The share of production from the manufacturing sector decreased from 14.8% in 1998 to 12.7% in 2007 caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which excludes industries in agriculture and construction, but includes industries in information, professional and technical services, health care and education, FIRE, and other services, have increased to 75.3% of the total GSP in 2007 from 73.4% in 1998. The increasing share of service production 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 of Dollars)**

<u>Sector</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Manufacturing	\$ 20,963	\$ 21,405	\$ 20,870	\$ 19,109	\$ 21,628	\$ 22,555	\$ 25,849	\$ 27,373
Construction ^(a)	5,119	5,484	5,613	5,522	6,110	6,804	6,937	6,258
Agriculture ^(b)	358	327	286	302	334	331	333	379
Utilities ^(c)	11,606	11,936	11,699	12,498	14,026	14,840	15,354	16,876
Wholesale Trade	8,726	9,062	9,001	9,271	9,619	10,185	10,888	11,182
Retail Trade	10,367	10,152	10,415	10,678	10,901	11,293	11,376	11,835
Finance ^(d)	47,349	48,123	48,151	49,748	54,165	58,643	61,739	64,621
Services ^(e)	42,246	44,007	44,719	47,175	48,786	51,202	54,295	58,316
Government	<u>13,702</u>	<u>14,528</u>	<u>15,318</u>	<u>15,583</u>	<u>16,542</u>	<u>17,426</u>	<u>18,191</u>	<u>19,424</u>
Total GSP	\$160,436	\$165,024	\$166,072	\$169,886	\$182,111	\$193,279	\$204,962	\$216,264

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 1997 and 2007. Connecticut's nonagricultural employment reached a previous high in the third quarter of 2000 with 1,698,030 persons employed, but began declining with the onset of the recession in the early 2000s. It was not until the fourth quarter of 2003 that the State's economy started to gain momentum, adding tens of thousands of new workers. Total nonagricultural employment registered a recent low of 1,640,130 jobs in the third quarter of 2003, recovered to reach a new high of 1,704,200 jobs in the fourth quarter of 2007, and then drifted down to 1,703,930 jobs by the third quarter of 2008.

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

Calendar Year	Connecticut		New England		United States	
	Employment	Percent Growth	Employment	Percent Growth	Employment	Percent Growth
1997	1,607.7	1.59%	6,574.8	2.19%	122,766.9	2.56%
1998	1,643.4	2.22	6,728.4	2.34	125,922.9	2.57
1999	1,669.1	1.56	6,860.7	1.97	128,991.7	2.44
2000	1,693.2	1.45	7,023.2	2.37	131,793.6	2.17
2001	1,681.1	(0.72)	7,036.3	0.19	131,829.9	0.03
2002	1,664.9	(0.96)	6,927.5	(1.55)	130,340.4	(1.13)
2003	1,644.5	(1.22)	6,850.7	(1.11)	129,996.0	(0.26)
2004	1,649.8	0.32	6,875.1	0.36	131,419.0	1.09
2005	1,662.0	0.74	6,918.2	0.63	133,694.5	1.73
2006	1,680.6	1.12	6,983.7	0.95	136,091.6	1.79
2007	1,697.7	1.02	7,042.9	0.85	137,618.1	1.12

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

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

Composition of Employment. The following table shows the distribution of non-agricultural employment in Connecticut and the United States in 2007. 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, 2007
(In Thousands)

	Connecticut		United States	
	Total	Percent	Total	Percent
Services ^(a)	693.5	40.9%	55,253.4	40.1%
Trade ^(b)	311.6	18.4	26,604.8	19.3
Manufacturing	191.3	11.3	13,882.6	10.1
Government	249.0	14.7	22,200.3	16.1
Finance ^(c)	144.5	8.5	8,309.6	6.0
Information ^(d)	38.5	2.3	3,028.9	2.2
Construction ^(e)	69.2	4.1	8,338.4	6.1
Total ^(f)	1,697.7	100.0%	137,618.0	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 four decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar year 2007, approximately 88.7% 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)**

<u>Year</u>	<u>Manufacturing</u>	<u>Trade^(a)</u>	<u>Services^(b)</u>	<u>Government</u>	<u>Finance^(c)</u>	<u>Information^(d)</u>	<u>Construction^(e)</u>	<u>Total Non-agricultural Employment^(f)</u>
1997	245.38	302.52	602.85	225.75	130.13	44.49	56.53	1,607.66
1998	247.87	308.57	618.53	227.82	136.99	44.28	59.32	1,643.38
1999	240.26	312.13	634.38	235.18	140.84	44.67	61.64	1,669.09
2000	235.74	317.52	643.26	241.91	143.03	46.41	65.34	1,693.22
2001	226.72	312.18	644.08	244.43	142.93	44.69	66.08	1,681.11
2002	211.19	309.23	647.35	249.29	142.63	41.02	64.18	1,664.89
2003	200.03	305.53	648.08	245.97	142.65	39.57	62.67	1,644.50
2004	197.18	307.93	655.84	242.81	140.65	38.97	66.42	1,649.80
2005	195.19	310.55	665.43	243.74	142.30	38.09	66.71	1,662.02
2006	193.47	310.93	680.21	245.88	144.28	37.91	67.90	1,680.59
2007	191.34	311.63	693.53	248.95	144.49	38.51	69.22	1,697.67

(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 twenty first in the nation for its dependency on manufacturing wages in fiscal year 2008. Manufacturing has traditionally been of prime economic importance to Connecticut but has continued to trend down during the last decade. The following table provides a ten-year historical picture of manufacturing employment in Connecticut, the New England region and the United States. This downward movement in 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. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar year 2007 approximately 11.3% of the State's workforce, versus 10.1% for the nation, was employed in the manufacturing sector, down from roughly 50% in the early 1950s.

TABLE A-16

Manufacturing Employment
(In Thousands)

Calendar Year	Connecticut		New England		United States	
	Number	Percent Growth	Number	Percent Growth	Number	Percent Growth
1997	245.4	0.03%	960.0	0.38%	17,418	1.05%
1998	247.9	1.02	965.1	0.53	17,560	0.81
1999	240.3	(3.07)	939.8	(2.62)	17,323	(1.35)
2000	235.7	(1.88)	938.4	(0.15)	17,265	(0.33)
2001	226.7	(3.83)	900.7	(4.02)	16,440	(4.78)
2002	211.2	(6.85)	815.8	(9.42)	15,257	(7.20)
2003	200.0	(5.28)	765.0	(6.23)	14,508	(4.90)
2004	197.2	(1.43)	747.1	(2.34)	14,315	(1.33)
2005	195.2	(1.01)	733.7	(1.78)	14,226	(0.62)
2006	193.5	(0.88)	720.4	(1.81)	14,158	(0.48)
2007	191.3	(1.10)	710.4	(1.38)	13,883	(1.94)

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, computer and electronics, and machinery for the total number employed in 2007.

TABLE A-17

Manufacturing Employment
By Industry
(In Thousands)

Calendar Year	Transportation Equipment	Fabricated Metals	Computer & Electronics	Machinery	Other ^(a)	Total Manufacturing Employment
1997	51.49	51.46	37.18	25.46	79.80	245.38
1998	52.27	52.34	37.64	25.42	80.21	247.87
1999	49.86	50.46	35.33	23.98	80.62	240.26
2000	46.92	49.97	35.42	23.71	79.71	235.74
2001	46.87	46.98	33.75	22.41	76.70	226.72
2002	45.33	43.19	29.40	20.27	73.00	211.19
2003	43.35	40.89	26.51	18.92	70.37	200.03
2004	43.17	41.11	25.81	18.48	68.60	197.18
2005	43.50	41.05	25.44	18.14	67.06	195.19
2006	43.59	41.11	24.86	18.05	65.87	193.47
2007	43.58	40.35	25.30	18.16	63.95	191.34

(a) Includes other industries such as wood products, furniture, glass/stone, primary metals, and instruments in the durable sector, as well as all industries such as chemicals, paper, and plastics in the nondurable sector.

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

During the past ten years, Connecticut's manufacturing employment was at its highest in 1998 at 247,870 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 191,340 in 2007. The total number of manufacturing jobs dropped 56,530, or 22.8%, from its decade high in 1998.

Exports. In Connecticut, the export sector of manufacturing has assumed an important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at \$13.7 billion in 2007, accounting for 5.51% of Gross State Product. From 2003 to 2007, the State's export of goods grew at an average annual rate of 14.2% versus 6.2% 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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Percent of 2007 Total</u>	<u>Average Percent Growth 2003-2007</u>
A. Manufacturing Products							
Transportation Equipment	\$3,298.1	\$3,177.8	\$3,936.7	\$ 5,339.1	\$5,726.5	41.7%	15.8%
Computer & Electronics	789.5	803.6	885.4	1,077.0	1,311.0	9.6	13.8
Machinery, Except Electronics	784.4	1,106.8	1,129.2	1,387.4	1,615.7	11.8	20.6
Fabricated Metal Production	440.5	406.5	408.2	540.1	584.3	4.3	8.3
Chemicals	749.0	608.2	590.4	749.0	1,446.0	10.5	24.5
Misc. Manufacturing	486.4	606.2	562.1	285.8	228.8	1.7	(12.9)
Electrical Equipment	336.1	469.7	433.0	551.3	606.4	4.4	17.3
Plastics & Rubber	137.6	179.6	178.4	203.1	211.8	1.5	12.0
Paper	188.6	165.8	219.8	230.3	147.8	1.1	(2.6)
Primary Metal Mfg.	203.1	275.7	325.9	639.7	480.1	3.5	31.3
Others	<u>723.1</u>	<u>759.3</u>	<u>1,018.2</u>	<u>1,235.5</u>	<u>1,360.6</u>	<u>9.9</u>	<u>17.6</u>
Total	\$8,136.4	\$8,559.2	\$9,687.3	\$12,238.3	\$13,719.0	100.0%	14.2%
% Growth	(2.1%)	5.2%	13.2%	26.3%	12.1%		
B. Gross State Product^(a)	\$169,885	\$182,112	\$193,281	\$204,964	\$216,266		6.2%
Mfg Exports as a % of GSP	4.8%	4.7%	5.0%	6.0%	6.3%		

(a) In millions.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis
Massachusetts Institute for Social and Economic Research, University of Massachusetts (MISER)

Defense Industry. One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. Nonetheless, this sector's significance in the State's economy has declined considerably 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 since federal fiscal year 2001. In federal fiscal year 2007, Connecticut received \$8.6 billion of prime contract awards. These total awards accounted for 2.7% of national total awards and ranked 9th in total defense dollars awarded and 3rd in per capita dollars awarded among the 50 states. In fiscal year 2007, Connecticut had \$2,456 in per capita

defense awards, compared to the national average of \$1,046. 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 3.9% of Gross State Product in fiscal year 2007, up from 2.0% of Gross State Product in fiscal year 1998. Recent increases were primarily due to the procurement of helicopters and submarines.

Connecticut is a leading producer of aircraft engines and parts, submarines, and helicopters. The largest employers in these industries are United Technologies Corporation, including its Pratt and Whitney Aircraft Division with headquarters in East Hartford, and Sikorsky Aircraft Corporation in Stratford, as well as General Dynamics Corporation's Electric Boat Division in Groton.

The following table provides a historical perspective of defense contract awards for the past ten fiscal years. Defense contracts are awarded in their entirety and multi-year awards are credited in the year they are awarded, thus giving rise to some of the fluctuation.

TABLE A-19
Defense Contract Awards

<u>Federal Fiscal Year</u>	<u>Connecticut Total Contract Award (Thousands)</u>	<u>Connecticut Rank Among States Total Awards</u>	<u>Percent Change from Prior Year</u>	
			<u>Connecticut</u>	<u>U.S.</u>
1996-97	\$2,535,981	13th	(3.9)%	(2.6)%
1997-98	3,408,719	9th	34.4	2.7
1998-99	3,169,394	12th	(7.0)	5.0
1999-00	2,177,462	17th	(31.3)	7.3
2000-01	4,269,536	10th	96.1	9.7
2001-02	5,638,582	9th	32.1	17.4
2002-03	8,064,794	5th	43.0	20.5
2003-04	8,959,424	5th	11.1	6.4
2004-05	8,753,063	7th	(2.3)	16.5
2005-06	7,780,793	10th	(11.1)	8.6
2006-07	8,601,359	9th	10.5	22.6

SOURCE: United States Department of Defense

On May 13, 2005 the U.S. Department of Defense announced its preliminary list of bases recommended for closure or realignment, which included for closure the U.S. Naval Submarine Base New London in Groton, Connecticut. On August 24, 2005, the Base Realignment and Closure ("BRAC") Commission recommended to take the U.S. Naval Submarine Base New London off of the list of bases recommended for closure and realignment. The President of the United States and Congress accepted the BRAC Commission's recommendation and the base was not closed in that round of closings.

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 88.7% by 2007. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were more than 110,800 jobs created in this sector, an increase of 7.9%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 2003.

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
1998	1,395.5	2.44%	5,763.4	2.65%	108,363.1	2.86%
1999	1,428.8	2.39	5,920.8	2.73	111,669.1	3.05
2000	1,457.5	2.00	6,084.8	2.77	114,528.5	2.56
2001	1,454.4	(0.21)	6,135.6	0.84	115,389.5	0.75
2002	1,453.7	(0.05)	6,111.7	(0.39)	115,083.7	(0.27)
2003	1,444.5	(0.64)	6,085.7	(0.43)	115,487.6	0.35
2004	1,452.6	0.56	6,128.0	0.70	117,103.7	1.40
2005	1,466.8	0.98	6,184.4	0.92	119,468.1	2.02
2006	1,487.1	1.38	6,263.2	1.27	121,934.1	2.06
2007	1,506.3	1.29	6,332.4	1.10	123,735.5	1.48

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

Services, retail and wholesale trade, state and local government, as well as finance, insurance, and real estate (FIRE), collectively comprise approximately 90% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 1998, 2005, 2006 and 2007 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 1998 and 2007 service industry employment expanded by 75,000 workers, responsible for over 68% of all non-manufacturing jobs, which registered an increase of 110,830 jobs. State and local governments expanded by 23,930 jobs. The increase in this line item over the ten-year period can be attributed to the Federal Government's decision to categorize all workers employed on Indian Reservations as state and local government employees. The State's two tribal casinos employ about 21,500 workers.

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

Industry	Calendar Year <u>1998</u>	Calendar Year <u>2005</u>	Calendar Year <u>2006</u>	Calendar Year <u>2007</u>	Percent Change <u>2006-07</u>	Percent Change <u>1998-07</u>
Construction ^(a)	59.32	66.71	67.90	69.22	1.90%	16.69%
Information ^(b)	44.28	38.09	37.91	38.51	1.56	(13.04)
Trade ^(c)	308.57	310.55	310.93	311.63	0.22	0.99
Finance, Insurance & Real Estate Services ^(d)	136.99	142.30	144.28	144.49	0.14	05.47
Federal Government	618.53	665.43	680.21	693.53	1.92	12.13
State and Local Government	<u>22.37</u>	<u>19.87</u>	<u>19.66</u>	<u>19.58</u>	<u>(0.43)</u>	<u>(12.51)</u>
	<u>205.44</u>	<u>223.88</u>	<u>226.22</u>	<u>229.38</u>	<u>1.38</u>	<u>11.65</u>
Total Non-manufacturing Employment ^(d)	1,395.51	1,466.82	1,487.11	1,560.33	1.28	7.94

(a) Includes natural resources and mining.

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

(c) Includes wholesale & retail trade, transportation, and utilities

(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 two-thirds of the Gross Domestic Product. Approximately half of personal spending is generally done through retail stores. At the State level, retail trade therefore constitutes approximately one third of the State's economic activity, measured as Gross State Product. During the last decade, variations in retail trade closely matched variations in Gross State Product growth, making retail trade an important barometer of economic health.

The following table shows the major group in each North American Industry Classification System (NAICS) code as well as the State's retail trade history for the past four fiscal years. Connecticut retail trade in fiscal year 2008 totaled \$48.8 billion, an increase of 5.2% from fiscal year 2007 with the top two largest increases in non-store retailers and gasoline stations. Nonstore retailers include electronic shopping and mail-order houses that have been performing well in the past decade. Retail sales in furniture and home furnishings stores, building materials and garden supply stores, and motor vehicles and parts dealers declined.

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

NAIC		Fiscal	Percent	Average								
		Year	of	Percent								
		<u>2004</u>	<u>Fiscal</u>	<u>2005</u>	<u>Fiscal</u>	<u>2006</u>	<u>Fiscal</u>	<u>2007</u>	<u>Fiscal</u>	<u>2008</u>	<u>Fiscal</u>	<u>2004-2008</u>
			<u>Year</u>									
			<u>Total</u>									
441	Motor Vehicle and Parts Dealers	\$ 8,685	20.98%	\$ 8,744	20.28%	\$ 8,421	18.91%	\$ 8,602	18.53%	\$ 8,197	16.78%	(1.4)%
442	Furniture and Home Furnishings Stores	2,539	6.13	2,665	6.18	2,784	6.25	2,635	5.68	1,993	4.08	(5.1)
443	Electronics and Appliance Stores	1,281	3.09	1,510	3.50	1,646	3.70	1,627	3.50	1,686	3.45	7.3
444	Building Material and Garden Supply Stores	3,168	7.65	3,436	7.97	3,532	7.93	3,465	7.46	3,243	6.64	0.7
445	Food and Beverage Stores ^(b)	5,664	13.68	5,701	13.22	5,945	13.35	6,472	13.94	9,433	19.31	14.9
446	Health and Personal Care Stores	3,515	8.49	3,459	8.02	3,555	7.98	4,219	9.09	3,905	7.99	3.1
447	Gasoline Stations	2,182	5.27	2,666	6.18	3,050	6.85	3,073	6.62	3,403	6.97	12.0
448	Clothing and Clothing Accessories Stores	2,618	6.32	2,679	6.21	2,712	6.09	2,838	6.11	2,947	6.03	3.0
451	Sporting Goods, Hobby, Book and Music Stores	1,087	2.63	1,080	2.50	1,091	2.45	1,155	2.49	1,195	2.45	2.4
452	General Merchandise Stores	4,471	10.80	4,844	11.23	5,059	11.36	5,135	11.06	5,193	10.63	3.9
453	Miscellaneous Store Retailers	3,681	8.89	3,505	8.13	3,792	8.52	3,998	8.61	4,037	8.26	2.5
454	Nonstore Retailers	<u>2,513</u>	<u>6.07</u>	<u>2,836</u>	<u>6.58</u>	<u>2,933</u>	<u>6.59</u>	<u>3,209</u>	<u>6.91</u>	<u>3,616</u>	<u>7.40</u>	<u>9.6</u>
	Total^(a)	\$41,405	100.00%	\$43,126	100.00%	\$44,521	100.00%	\$46,428	100.00%	\$48,848	100.00%	4.2%
	Durables (NAIC 441, 442, 443, 444)	\$15,673	37.85%	\$16,355	37.92%	\$16,383	36.80%	\$16,329	35.17%	\$15,119	30.95%	
	Non Durables (all other NAIC)	\$25,732	62.15%	\$26,771	62.08%	\$28,138	63.20%	\$30,099	64.83%	\$33,729	69.05%	

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

(b) Please note that due to a discrepancy in reporting methodology, the 2008 figure for Food and Beverage Stores is inconsistent with past reporting practices. The Office of Policy and Management estimates that the 2008 figure should indicate a modest increase rather than the 45.8% reported above.

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 its low of 2.3% in 2000, compared to New England's average of 2.8% and the national average of 4.0%. After climbing to its recent high of 5.5% in 2003, Connecticut's unemployment rate declined to 4.4% for 2006. This current recession brings the unemployment rate up to 5.1% for the first six

months of 2008, compared to the New England average of 4.8% and the national average of 5.1% for the same period.

The following table compares the unemployment rate averages of Connecticut, New England, and the United States between 1996 and the first half of 2008.

TABLE A-23
Unemployment Rate^(a)

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
1997	4.8	4.3	4.9
1998	3.2	3.5	4.5
1999	2.7	3.2	4.2
2000	2.3	2.8	4.0
2001	3.1	3.6	4.7
2002	4.4	4.8	5.8
2003	5.5	5.4	6.0
2004	4.9	4.9	5.5
2005	4.9	4.7	5.1
2006	4.4	4.5	4.6
2007	4.6	4.4	4.6
2008 ^(b)	5.1	4.8	5.1

(a) The unemployment rate in November 2008 for Connecticut and the United States is 6.6% and 6.7% respectively.

(b) Reflects average for the first six months.

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

FINANCIAL PROCEDURES

The Budgetary Process

Balanced Budget Requirement. In November 1992 electors approved an amendment to the State Constitution providing that the amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year. This amendment also provides a framework for a cap on budget expenditures. The General Assembly is precluded from authorizing an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation, unless the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. The constitutional limitation on general budget expenditures does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There is no statutory or constitutional prohibition against bonding for general budget expenditures.

The Supreme Court has ruled that the provisions of the constitutional budget cap require the passage of additional legislation by a three-fifths majority in each house of the General Assembly, which has not yet occurred. In the interim, the General Assembly has been following a provision of the General Statutes, which contains the same budget cap as the constitutional amendment. In addition to the exclusion of debt service from the budget cap, this statute also excludes statutory grants to distressed municipalities, expenditures to implement federal mandates and court orders in the first fiscal year in which such expenditures are authorized, and payments from surplus for certain debt retirement and additional state employee pension contributions.

Biennium Budget. The State's fiscal year begins on July 1 and ends June 30. The General Statutes require that the budgetary process be on a biennium basis. The Governor is required to transmit a budget document 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 which sets forth estimated revenues and expenditures for the three fiscal years after the biennium to which the budget document relates. In each even-numbered year, the Governor must prepare a report on the status of the budget enacted in the previous year with any recommendations for adjustments and revisions, and a report, with revisions, if any, which sets forth estimated revenues and expenditures for the three fiscal years after the biennium in progress.

Budget Document. By statute the budget document consists of four parts. Part I is the Governor's budget message, and contains 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. If a budget deficit or surplus is projected, the Governor will recommend the manner in which the deficit will be met or surplus used. The Governor's recommended appropriations from the General Fund and all special and agency funds comprise Part II of the budget document. Appropriations are set forth for meeting the cost of each major function and program. An accounting of federal funds and recommendations for the capital program are also included. Part III of the budget document consists of drafts of appropriations and revenue bills to carry out the Governor's budget recommendations. In Part IV of the budget, the Governor makes recommendations concerning the State's economy and analyzes the impact on the economy of the proposed spending and revenue programs.

Preparation of the Budget. Formulation of the budget 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. In odd-numbered years, each agency submits its recommended adjustments or revisions of such estimates. A detailed statement showing revenue and estimated revenue for the current fiscal year and estimated revenue for the next fiscal year, and in the

even-numbered year, for the next biennium, must also be submitted by such agency heads to 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.

Adoption of the Budget. The budget document, as finally developed by the Governor with the assistance of OPM, is published and transmitted to the General Assembly in February of each odd-numbered year. A report summarizing recommended adjustments or revisions is submitted by the Governor to the General Assembly in even-numbered years. The Governor or a representative then appears before the appropriate committee of the General Assembly to explain and address questions concerning the budget document or reports. Prior to June 30 of each odd-numbered year, the General Assembly generally enacts one bill making all appropriations for the next two fiscal years and setting forth revenue estimates for those years. Subsequent appropriations or revenue bills are occasionally passed.

Line Item Veto. Under the State Constitution, the Governor has the power to veto any line of any itemized appropriations bill while at the same time approving the remainder of the bill. A statement identifying the items so disapproved and explaining the reasons therefor must be transmitted with the bill to the Secretary of the State and, when in session, the General Assembly. The General Assembly may separately reconsider and repass such disapproved appropriation items by a two-thirds vote of each house.

Fiscal Accountability Report. Beginning November 2005, by November fifteenth annually, the Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis 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) an estimate of State revenues, expenditures and ending balance for each fund, for the current biennium and the next ensuing three fiscal years, and the assumptions on which such estimates are based; (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 the Office of Policy and Management and the Director of the legislative Office of Fiscal Analysis to consider the submitted reports.

In accordance with Section 2-36b of the Connecticut General Statutes, in advance of biennial budget preparations the Office of Policy and Management and the Legislative Office of Fiscal Analysis submitted reports to the General Assembly on November 12, 2008 and November 14, 2008, respectively, regarding projections of revenues and expenditures for a five year period. The reports projected General Fund deficits for fiscal years ending June 30 of 2010, 2011 and 2012 of up to approximately seventeen percent of the General Fund expenditures for each such fiscal year. Those projections are preliminary and are based in part on budget requests from various state departments and agencies prior to preparation of the Governor's biennial budget for the 2010-2011 biennium. The State has a balanced budget requirement and an expenditures cap as discussed at **Page A-26** under the heading **The Budgetary Process – Balanced Budget Requirement**.

Financial Controls

Expenditures. The financial control procedures utilized by the State in the expenditure of State funds are described below and may be generally summarized as follows: initially, the legislature appropriates funds for a

particular purpose; such funds must then be allotted for such purpose by the Governor; and thereafter such funds are encumbered by the Comptroller upon the request of the responsible State agency. Once this appropriation, allotment and encumbrance procedure (which may be modified as described below) has been completed, State funds are paid by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. Certain receivables from the federal government or other sources do not require allotment by the Governor.

Governor's Role. Before an appropriation for a budgeted agency becomes available for expenditure the agency must submit to the Governor through the Secretary of OPM, not less than 20 days before the beginning of the fiscal year for which the appropriation is made, a requisition for the allotment of funds needed for each quarter of the fiscal year. Appropriations for capital outlays may be allotted in any manner the Governor deems advisable. The Governor may reduce the budget allotment request by not more than three percent of the total appropriation from any fund or not more than five percent of any appropriation under certain circumstances. Such allotments are subject to further modification by the Governor throughout the course of the fiscal year if conditions warrant. The Governor is not authorized to reduce allotment requisitions or allotments in force concerning aid to municipalities.

Comptroller's Role. The Comptroller is responsible for keeping an account in connection with each appropriation. No warrant, draft or order may be issued by the Comptroller in excess of the available balance of the applicable account unless the General Assembly has passed a deficiency bill for the purpose or unless such appropriation has been increased by the Governor in the limited circumstances of emergency expenditures or allotment modifications as authorized by statute. The Comptroller is required to issue cumulative monthly financial reports concerning the State General Fund.

Treasurer's Role. Each warrant, draft or order upon the Treasurer must specify the particular appropriation against which it is drawn, and no money may be paid by the Treasurer absent such specification. The Treasurer is required to honor all warrants, drafts and orders properly drawn by the Comptroller. The Treasurer also has primary responsibility for the investment of State funds and the issuance of debt of the State.

By statute, the Treasurer may not pay compensation, expenses or fees or otherwise enter into contractual arrangements with any firm providing legal services, investment banking services, investment advisory services, underwriting services, financial advisory services or brokerage firm services if such firm, through its political committee or certain managerial level officers or employees, makes or solicits contributions to any committee established by a candidate for nomination or election to the Office of Treasurer of the State. The statute also prohibits the making or solicitation of contributions by such firms.

Use of Appropriations. No appropriation or part thereof may be used for any purpose other than for the purpose for which it was made, except with respect to certain transfers and revisions of appropriations permitted to be made by the Governor with the concurrence of the Finance Advisory Committee, composed of members of the executive and legislative departments. Civil sanctions may be imposed pursuant to statute upon persons who willfully expend or authorize the expenditure of State funds for any purpose in excess of the amount specifically appropriated for such purpose.

Unexpended Appropriations. All unexpended balances of appropriations for each fiscal year lapse on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except for certain continuing appropriations. Such continuing appropriations include those continued for a one-month period in the case of programs which were not renewed the succeeding year, those continued for the entire succeeding year in the case of highway and other capital construction projects, and limited amounts for certain special programs.

Unappropriated Surplus. The State Constitution provides that any resulting unappropriated surplus shall be used to fund a budget reserve fund, to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. The General Statutes provide that the Treasurer shall

transfer any unappropriated surplus in the General Fund to a budget reserve fund, unless otherwise directed by law. When the amount in the budget reserve fund in any fiscal year equals 10 % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2008, \$1,381.7 million was deposited into the budget reserve fund, including a \$302.2 million deposit following fiscal year 2003-04, a \$363.9 million deposit following fiscal year 2004-05, a \$446.5 million deposit following fiscal year 2005-06 and a \$269.2 million deposit following fiscal year 2006-07, bringing the balance in the budget reserve fund to approximately 8.1% of General Fund expenditures as of the 2008-09 fiscal year. In the past, moneys in the budget reserve fund were applied to partially offset a general fund deficit and surplus moneys in excess of amounts transferred to the budget reserve fund have been held or applied to provide for the retirement of outstanding indebtedness or for debt avoidance.

Revenues. The Treasurer superintends the collection and receipt of all taxes and revenues belonging to the State, and is authorized to deposit the same in any qualified public depository as defined by statute. Each State department, institution, board, commission or other State agency and any official or employee thereof that receives any money for revenue of the State must, within 24 hours of its receipt or within seven days of receipt for amounts less than \$500, account for and pay the same to the Treasurer or, with the approval of the Treasurer and the Comptroller, deposit the same in an account in a qualified public depository in the name of the State or in the name of the public official as such official. The Treasurer is authorized to make exceptions to the limitations on amounts and timing of payments or deposits of receipts provided the Treasurer files a written statement of such exception with the Comptroller and the State's Auditors of Public Accounts. Any public official who deposits funds or moneys in an account in the name of the State or in such official's name must submit a list of all such accounts as of the preceding June 30 to the Treasurer and the Comptroller not later than September 1 of each year.

Accounting Procedures

Financial statements of the State are prepared annually on a modified cash basis of accounting for all civil list funds. The Comptroller prepares the statements for submission to the Governor by September 1 of each year, unless extended by State law. The State's Auditors of Public Accounts must audit the books and accounts of the Treasurer and the Comptroller at least annually and have discretion to audit them at more frequent intervals.

At the present time the State is not required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP") and does not prepare GAAP statements on an interim basis. However, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by the Governmental Accounting Standards Board. These reports include audited annual financial statements prepared in accordance with GAAP. A 1993 statute authorized OPM to implement the use of GAAP with respect to the preparation of the annual budget effective with the fiscal year commencing July 1, 1995, and provided for the amortization of the GAAP-based deficit commencing with the fiscal year beginning July 1, 2006. Subsequent legislation has extended the implementation date to July 1, 2009 and the amortization date to July 1, 2010.

As specifically permitted by statute, the only present modifications from the cash basis in recording revenues under the modified cash method are: (1) the accrual of sales and use taxes to be received for the calendar quarter ending at the close of such fiscal year as estimated by the Secretary of OPM; (2) the accrual of cigarette tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (3) the accrual of alcoholic beverage tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (4) the accrual of motor fuels tax revenue and motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (5) the accrual of utility company tax revenue and tax revenue on gross earnings from the sale of petroleum products which is received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (6) the accrual of corporation business

tax revenue received by the Department of Revenue Services no later than five business days after the fifteenth day of August immediately following the end of such fiscal year; (7) the accrual of income tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (8) the accrual of nursing home provider tax received by the Commissioner of Revenue Services no later than five business days from the last day of July immediately following the end of such fiscal year; (9) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; (10) the accrual of real estate conveyance tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; and (11) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal government or other parties.

Expenditures are recorded on a cash basis in the fiscal year in which they are made. Such expenditures are so recorded by the Comptroller when the Comptroller draws and serves a warrant on the Treasurer. Those instances in which warrants are drawn at the close of a fiscal year can, because of required processing time, result in disbursements made after the beginning of the following fiscal year. Certain appropriations which have not lapsed are reflected in the balance sheet through a reserve for continuing appropriations.

The modified cash basis of accounting used for statutory financial reporting and the modified accrual basis used for GAAP financial reporting are different and, as a result, often produce varying financial results, primarily because of differences in the recognition of revenues and expenditures. For example, for statutory reporting purposes, the State's bi-weekly payroll expenditures are recognized in the fiscal year in which employees are paid, while for GAAP purposes they are recognized in the fiscal year in which the services are performed, resulting in GAAP accrual of expenditures for work performed through June 30 but not paid until the following fiscal year. Similarly, the modified accrual basis used for GAAP financial reporting recognizes additional federal and other grant moneys as revenues which are not so recognized in the modified cash basis of accounting.

The Treasurer is required to submit to the Governor and the Investment Advisory Council, by December 31 of each year, audited financial statements of the State's combined investment funds, and financial statements of the Short Term Investment Fund, the Second Injury Fund, and the Tax Exempt Proceeds Fund for the prior fiscal year.

In July 2003 the State implemented the first phase of a new, fully integrated, Internet based, financial management and human resources system called Core-CT. The system was rolled out in phases by applications over a period of time between July 2003 and July 2007. The new system provides a single point of entry for all State financial, human resources and payroll data. The implementation of Core-CT is the product of several years of work to improve the State's financial reporting and management information systems. From an information technology perspective, Core-CT has allowed the State to standardize and modernize its computer technology bringing uniformity to the computers, programming languages, and data base packages utilized by State government. Core-CT utilizes PeopleSoft ERP software. On-going maintenance and scheduled upgrades to the system are expected to continue.

Core-CT was implemented coincident with an unanticipated and significant downsizing of the State's workforce between 2002 and 2003, resulting in significantly reduced staffing levels in State agency business and financial offices. This left the State with the task of implementing the most ambitious upgrade to its financial systems in history with a smaller and less experienced workforce. In addition, as with the implementation of any large-scale information technology system, Core-CT experienced some initial difficulties. Software anomalies were detected, certain application processing was slow, and some users did not fully understand the new coding conventions and accounting entries required for system processing. These problems were aggravated by technical complications relating to an interface to Core-CT from a new revenue management system implemented in January 2004 at the Department of Revenue Services. While this system is not part of Core-CT, it must interface effectively with Core-CT applications.

Most of the initial Core-CT implementation problems outlined above have been resolved. A State team consisting of employees from the Office of the State Comptroller, OPM, the Office of Information and Technology and the Department of Administrative Services has been working on an ongoing basis with State agencies, consultants and PeopleSoft representatives to resolve system performance issues that remain outstanding.

The implementation problems with the CORE-CT financial management software system caused a delay in the preparation of financial statements and reports for fiscal years 2004-05 and 2005-06. There was a delay of the State's submission to the U.S. Department of Health & Human Services of its Single Audit for the fiscal year ending June 30, 2006 pursuant to OMB Circular No. A-133. The State received an extension until May 31, 2007, and the State submitted the Single Audit before that date. The State does not expect there to be any such delay this year.

Investment and Cash Management

Treasurer's Role. The Treasurer has the investment responsibility for all funds of the State and functions as the trustee of all State pension, retirement and trust funds. The Treasurer is authorized to invest or reinvest funds under the control of the Treasurer in United States government or agency obligations, shares or interests in an investment company or trust registered under the Investment Company Act of 1940, whose portfolio is limited to obligations of the United States, its agencies or instrumentalities, or repurchase agreements fully collateralized by such obligations, United States postal service obligations, certificates of deposit, commercial paper, savings accounts and bank acceptances. The Treasurer may also invest funds, excluding civil list funds, in the sale or acquisition of securities or obligations which the Treasurer is authorized to sell or acquire for purposes of any combined investment fund, subject to repurchase agreements with any securities dealer or bank included in the list of primary dealers prepared by the Federal Reserve Bank of New York. The Treasurer is also authorized to invest all or any part of any sinking fund in bonds in which savings banks may legally invest, provided such bonds mature prior to maturity of the bonds of the State which are outstanding. The Treasurer is required to report by December 31 annually to the Governor and the Investment Advisory Council as to the activities of the Office of the Treasurer for the preceding fiscal year.

Cash Management. Cash management and the investment by the Treasurer of all State monies is based on the concept of a common cash pool. It is the practice of the State to treat all civil list funds (including monies in the General Fund, various bond funds, and the Special Transportation Fund) as common cash. All banks holding major account balances for the State Treasury report these balances daily, enabling the Treasurer to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested.

Short Term Investment Fund. The Short Term Investment Fund ("STIF") is a combined investment pool of high quality, short term money market instruments which is the primary investment vehicle for the temporarily surplus cash of all funds of which the Treasurer is custodian and/or trustee, except certain bond funds, State pension funds and selected trust funds. All agencies, instrumentalities and political subdivisions of the State are permitted to invest in STIF. The State is responsible to these governmental entities to manage their deposits and accumulated earnings in a prudent manner. Individual participants in STIF can add or withdraw monies on a daily basis with interest earned from date of deposit to date of withdrawal. The primary investment objectives of STIF are the preservation of principal and the provision of liquidity to meet participants' daily cash flow needs, while seeking to earn competitive yields. STIF is managed in accordance with the investment guidelines established by the Treasurer. These investment guidelines prohibit investment in derivative securities other than floating rate securities which vary in the same direction as individual short term money market indices, and limit the ability to enter into reverse repurchase agreements to amounts not to exceed five percent (5%) of the STIF's net assets at the time of execution. Shares of the Short Term Investment Fund are rated "AAAm" by Standard & Poor's.

Medium Term Investment Fund. A 1997 statute created the Medium-Term Investment Fund. The Treasurer may purchase participation units of the fund for all trusts and other funds for which the Treasurer has investment responsibility. The Treasurer may sell participation units in the Medium-Term Investment Fund to all agencies, authorities, instrumentalities and political subdivisions of the State. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers' acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. The Medium-Term Investment Fund was implemented in September 2006.

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 CGS 3-24k. In addition, investments are made in individual securities pursuant to CGS 3-31a. Allowable investments under CGS 3-31a include United States government and agency obligations, 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 CGS 3-31a, which specify credit and diversification standards, and limit individual security maturities to three years and the total amount invested to \$500 million.

Investment of Bond Proceeds. Proceeds of bonds are accounted for in various general obligation bond funds. All invested assets of the bond funds are invested in STIF or TEPF. Bond proceeds are expended in accordance with the authorization and allotment procedure of the State Bond Commission and the Governor, respectively. Assets of the bond funds may from time to time be released temporarily to the common cash pool in accordance with the State's overall cash flow needs. Under the State's accounting system, release of the assets of the bond funds to the common cash pool is reflected in the accounts of the bond funds as an uninvested cash balance. That accounting balance can be reduced only when an approved payment for an expenditure is charged to the bond funds. In no case does the release of bond fund assets to the common cash pool alter the timing or the extent of expenditures for the purposes for which the bonds were issued.

Tax Exempt Proceeds Fund. Under the terms of the General Statutes the Treasurer has facilitated the establishment of the Tax Exempt Proceeds Fund, Inc. ("TEPF"), a diversified, open-end management investment company, registered under the Investment Company Act of 1940, whose investment objectives are to provide its investors with high current interest income exempt from federal income taxes, preservation of capital and maintenance of liquidity. TEPF will only invest in securities that qualify as an investment in "tax-exempt bonds" as defined in Section 150(a)(6) of the Internal Revenue Code of 1986, as amended (the "Code") and amplified in Treasury Department Regulations. Therefore, shareholders of TEPF that are tax-exempt bond issuers are expected to be exempt from the arbitrage rebate provisions of the Code. TEPF seeks to achieve its objectives by investing primarily in a liquid money market portfolio of short-term, high quality, tax-exempt, fixed rate and variable rate obligations issued by states, municipal governments and by public authorities, and in participation interests therein issued by banks, insurance companies or other financial institutions that meet this federal income tax definition. The TEPF seeks to maintain a constant net asset value of \$1.00 per share. TEPF's investment policies were developed for the particular federal income tax needs of entities that are issuers of tax-exempt state and local bonds, such as states and municipalities and their authorities, agencies, instrumentalities and subdivisions. All recipients of any grant or loan monies of the State funded from Connecticut tax-exempt bond proceeds must invest such monies in TEPF, unless the Treasurer waives this requirement upon a determination that a waiver will not adversely affect the tax-exempt status of State bonds, notes or other evidences of indebtedness. The State may, from time to time, deposit bond proceeds of the State in TEPF. Reich & Tang Asset Management, LLC acts as investment manager of TEPF and a Board of Directors is responsible for TEPF's overall management and supervision.

Investment Advisory Council. All 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. The Governor may direct the Treasurer to change any investments when in the judgment of the Council such action is in the best interest of the State. At the close of each fiscal year a report is submitted to the Governor on the value of all security investments of the State.

Investment of Pension Funds. Seven investment funds serve as the investment medium for the various pension, retirement and trust funds of which the Treasurer is the trustee. They are the 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 Bond 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 seven 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.

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BUDGET APPROPRIATIONS OF THE STATE SPECIAL TRANSPORTATION FUND FOR
FISCAL YEARS 2007-2008 AND 2008-2009

APPROPRIATIONS	2007-2008	2008-2009
I. DEPARTMENT OF TRANSPORTATION		
A. Personal Services	148,549,494	151,867,442
B. Other Expenses	47,940,156	47,038,056
C. Equipment	2,748,345	2,238,870
D. Minor Capital Projects	350,000	350,000
E. Highway and Bridge Renewal Equipment	8,000,000	8,000,000
F. Highway Planning and Research	3,086,641	3,192,843
G. Hospital Transit for Dialysis	100,000	100,000
H. Rail Operations	100,042,527	116,378,770
I. Bus Operations	110,139,826	116,865,218
J. Highway and Bridge Renewal	12,537,504	12,576,141
K. Tweed New Haven Airport	600,000	600,000
L. ADA Para-Transit Program	20,542,934	22,223,606
M. Non-ADA Dial-A-Ride	576,361	576,361
N. Southeast Tourism Transit System	3,000,000	3,000,000
O. Non-Bondable Bus Capital Projects	150,000	250,000
P. Southeast CT Intermodal Transportation Center	750,000	
Q. Payments to Local Governments - Town Aid	22,000,000	22,000,000
AGENCY TOTAL TRANSPORTATION FUND	481,113,788	507,257,307
II. MOTOR VEHICLE DEPARTMENT		
A. Personal Services	43,441,065	44,376,964
B. Other Expenses	16,181,316	16,178,125
C. Equipment	830,767	966,136
D. Insurance Enforcement	659,785	659,785
E. CVISN	283,000	283,000
AGENCY TOTAL	61,395,933	62,464,010
III. STATE INSURANCE AND RISK MANAGEMENT BOARD		
Other Expenses	2,375,200	2,517,540
AGENCY TOTAL	2,375,200	2,517,540
IV. NON-FUNCTIONAL		
DEBT SERVICE - STATE TREASURER		
Debt Service - State Treasurer	436,194,065	449,526,814
RESERVE FOR SALARY ADJUSTMENT		
Reserve for Salary Adjustment	2,114,695	7,799,645
DEPARTMENT OF ADMINISTRATIVE SERVICES		
Worker's Compensation Claims	5,408,151	5,345,089
APPROPRIATIONS ADMINISTERED BY THE COMPTROLLER		
Unemployment Compensation	230,000	242,000
STATE EMPLOYEES RETIREMENT CONTRIBUTIONS		
Other Expenses	67,058,000	71,426,000
INSURANCE - GROUP LIFE		
Other Expenses	277,794	282,794
EMPLOYERS SOCIAL SECURITY TAX		
Other Expenses	17,795,000	19,960,600
STATE EMPLOYEES HEALTH SERVICE COST		
Other Expenses	35,872,600	38,404,600
TOTAL NON-FUNCTIONAL	564,950,305	592,987,542
TOTAL - Special Transportation Fund	1,109,835,226	1,165,226,399
Less: Estimated Lapse	(11,000,000)	(11,000,000)
NET - SPECIAL TRANSPORTATION FUND	1,098,835,226	1,154,226,399

SOURCES: Public Act 07-1
Department of Transportation

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**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2008**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
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JUNE 30, 2008**

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

INDEPENDENT AUDITORS' REPORT

To the Honorable M. Jodi Rell
Governor of the State of Connecticut

We have audited the accompanying financial statements of each major fund of the Special Transportation Fund (the "Fund") of the State of Connecticut (the "State") as of and for the year ended June 30, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, 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, 2008, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Special Transportation Fund of the State of Connecticut as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Carlin, Chavant & Ryan, LLP

Glastonbury, Connecticut
October 28, 2008

FINANCIAL STATEMENTS

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(Amounts Expressed in Thousands)**

	Special Revenue Fund	Debt Service Fund	Restricted Grants Fund	Total
ASSETS				
Cash and cash equivalents	\$ 176,006	\$ -	\$ 53,553	\$ 229,559
Restricted investments held by Trustee	-	683,636	-	683,636
Receivables:				
Taxes	40,264	-	-	40,264
Accounts, net of allowance for doubtful accounts of \$985 and \$3 for the Special Revenue Fund and Restricted Grants Fund, respectively	10,504	-	1,321	11,825
Interest	241	2,222	-	2,463
Restricted federal grants	-	-	108,503	108,503
Restricted non-federal grants	-	-	6,229	6,229
Due from other funds of the State	2,222	-	-	2,222
Inventories	20,938	-	-	20,938
Total assets	\$ 250,175	\$ 685,858	\$ 169,606	\$ 1,105,639
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 35,810	\$ -	\$ 83,035	\$ 118,845
Deferred revenue	4,341	-	3,845	8,186
Due to other funds of the State	-	2,222	685	2,907
Total liabilities	40,151	2,222	87,565	129,938
FUND BALANCES				
Reserved for:				
Inventories	20,938	-	-	20,938
Continuing appropriations	38,693	-	-	38,693
Restricted grants	-	-	82,041	82,041
Debt service	-	683,636	-	683,636
Unreserved	150,393	-	-	150,393
Total fund balances	210,024	683,636	82,041	975,701
Total liabilities and fund balances	\$ 250,175	\$ 685,858	\$ 169,606	\$ 1,105,639

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, 2008
(Amounts Expressed in Thousands)**

	Special Revenue Fund	Debt Service Fund	Restricted Grants Fund	Total
REVENUES				
Motor fuel taxes	\$ 615,727	\$ -	\$ -	\$ 615,727
Sales taxes	64,863	-	-	64,863
License, permit and fee revenues	307,816	-	-	307,816
Investment income	11,485	34,670	-	46,155
Intergovernmental grants	-	-	467,215	467,215
Fines and rents	30,082	-	-	30,082
Sales and other services	30,841	-	-	30,841
Miscellaneous	8,201	-	7,030	15,231
Total revenues	<u>1,069,015</u>	<u>34,670</u>	<u>474,245</u>	<u>1,577,930</u>
EXPENDITURES				
Current:				
General government	2,334	-	238	2,572
Regulation and protection	88,895	-	1,096	89,991
Transportation	599,045	-	563,288	1,162,333
Debt service:				
Principal retirement	604	275,789	-	276,393
Interest and fiscal charges	3,581	144,051	355	147,987
Total expenditures	<u>694,459</u>	<u>419,840</u>	<u>564,977</u>	<u>1,679,276</u>
Excess (deficiency) of revenues over expenditures	374,556	(385,170)	(90,732)	(101,346)
OTHER FINANCING SOURCES (USES)				
Transfers from other State funds	41,941	417,172	47,765	506,878
Transfers to other State funds	<u>(447,472)</u>	<u>(25,260)</u>	<u>-</u>	<u>(472,732)</u>
Total other financing sources (uses)	<u>(405,531)</u>	<u>391,912</u>	<u>47,765</u>	<u>34,146</u>
Net changes in fund balances	(30,975)	6,742	(42,967)	(67,200)
FUND BALANCE, beginning of year	237,939	676,894	125,008	1,039,841
CHANGE IN RESERVE FOR INVENTORIES	<u>3,060</u>	<u>-</u>	<u>-</u>	<u>3,060</u>
FUND BALANCE, end of year	<u>\$ 210,024</u>	<u>\$ 683,636</u>	<u>\$ 82,041</u>	<u>\$ 975,701</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, 2008
(Amounts Expressed in Thousands)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Budgeted:				
Taxes, net of refunds	\$ 707,000	\$ 683,100	\$ 680,787	\$ (2,313)
License, permit, and fee revenues	400,600	380,000	379,286	(714)
Other	47,000	36,500	36,555	55
Refunds of payments	(2,900)	(2,600)	(2,719)	(119)
Operating transfers out	(9,500)	(9,500)	(9,500)	-
Transfers out - Transportation Strategy Board	(15,300)	(20,800)	(20,800)	-
Total revenues	1,126,900	1,066,700	1,063,609	(3,091)
EXPENDITURES				
Budgeted:				
General government	2,375	2,375	2,362	(13)
Regulation and protection	78,908	79,211	61,743	(17,468)
Transportation	489,662	510,905	492,749	(18,156)
Non-functional	579,552	574,687	540,082	(34,605)
Total expenditures	1,150,497	1,167,178	1,096,936	(70,242)
Appropriations lapsed	11,000	31,500	-	(31,500)
Excess of revenues over expenditures	(12,597)	(68,978)	(33,327)	35,651
OTHER FINANCING SOURCES (USES)				
Prior year appropriations carried forward	40,662	40,662	40,662	-
Appropriations continued to fiscal year 2008-2009	-	-	(38,694)	(38,694)
Miscellaneous adjustments	-	16,683	16,682	(1)
Total other financing sources (uses)	40,662	57,345	18,650	(38,695)
Net change in fund balance	\$ 28,065	\$ (11,633)	(14,677)	\$ (3,044)
BUDGETARY FUND BALANCE, beginning of year			233,608	
CHANGE IN RESERVE FOR CONTINUING APPROPRIATIONS			(1,968)	
BUDGETARY FUND BALANCE, end of year:			\$ 216,963	

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Special Transportation Fund of the State of Connecticut (the "Fund") have been prepared in conformity with 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. Public Act 04-182 provided for an appropriation related to the transfer of incremental revenues from the Special Revenue Fund to the Restricted Grants Fund for Transportation Strategy Board (TSB) projects. These funds are to be used for TSB projects and related transportation initiatives. Incremental revenues are defined as revenues attributable to the increase in taxes or fees. Actual transfers from the Special Revenue Fund to the Restricted Grants Fund for TSB projects totaled \$20.8 million for the year ended June 30, 2008.

The Fund is included in the basic financial statements of the State of Connecticut as a major governmental fund. 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, 2008, 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 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, 2008**

NOTE 1 - 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 motor vehicle taxes, and other receipts collected for the payment of debt service requirements of special tax obligation bonds and transportation related general obligation bonds issued by the State for transportation infrastructure purposes, for the payment of certain expenditures of the State Department of Motor Vehicles, and for the payment of budgeted appropriations made by the 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 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 60 days of the end of the current period. Significant revenue sources that are considered to be susceptible to accrual include motor fuel taxes and sales taxes. Revenue recognition policies are as follows:

- Motor Fuel Taxes and Sales Taxes - Motor fuel taxes and sales taxes are recognized as revenue in the period when the underlying exchange has occurred and when the resources are available. Resources received in advance are reported as deferred revenue.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2008**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING *(Continued)*

- Intergovernmental Grants and Similar Items - Intergovernmental grants and similar items are recognized as revenue in the period when all applicable eligibility requirements imposed by funding sources have been met and when the resources are available. Resources received in advance are reported as deferred revenue.
- Investment Income - Investment income from restricted 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, 2008, cash equivalents total \$94,798, 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 fair value of the Fund's position in the pool is the same as the value of the pool shares.

INVESTMENTS

In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Fund presents all investments at fair value. The fair value of investments traded on public markets is determined using quoted market prices.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

Inventories are reported at cost using the first-in first-out (FIFO) method. Inventories consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

DEFERRED REVENUE

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

COMPENSATED ABSENCES

Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his or her accrued sick leave up to a maximum payment equivalent to sixty days.

INTEREST RATE SWAP AGREEMENTS

The Fund entered into interest rate swap agreements to modify interest rates on the 1990 Series 1, 2003 Series 1 and 2003 Series 2 variable rate bonds (*see Note 6*). Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements in connection with these interest rate swap agreements.

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 (Continued)
JUNE 30, 2008**

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.

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.

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 the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Continuing appropriations are reported as reservations of fund balance in the fund financial statements.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 2 - BUDGETARY INFORMATION AND LEGAL COMPLIANCE (Continued)

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.

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

	<u>Special Revenue Fund</u>
Net change in fund balance - budgetary basis	\$ (14,677)
Increase in receivables	1,388
Increase in accounts payable	(13,185)
Increase in salaries and wages payable and other liabilities	(2,533)
Decrease in continuing appropriations	<u>(1,968)</u>
Net change in fund balance - GAAP basis	<u>\$ (30,975)</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 3 - RESTRICTION OF FUND REVENUES

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

Included in intergovernmental revenues are certain restricted grants. These grants represent amounts received from federal and local governments and other sources specifically to fund their share of certain program costs incurred. These revenues totaled \$467.2 million for the year ended June 30, 2008 and are not available for debt service.

NOTE 4 - 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 \$134,761 as of June 30, 2008. Because the Fund's cash deposits are commingled with those of other funds of the State, the categorization of the Fund's cash deposits in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* is not readily determinable as of June 30, 2008.

Investments in the State Treasurer's Short-Term Investment Fund totaling \$94,798 are included in cash and cash equivalents in the accompanying balance sheet. For purposes of disclosure under GASB No. 40, such amounts are considered investments and are included in the disclosure in Note 5.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 5 - INVESTMENTS (amounts expressed in thousands)

As of June 30, 2008, 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	\$ 649,974	\$ 649,974	\$ -	\$ -
Guaranteed investment contract	118,491	-	118,491	-
Federal Home Loan Bank Securities	9,969	-	-	9,969
	<u>\$ 778,434</u>	<u>\$ 649,974</u>	<u>\$ 118,491</u>	<u>\$ 9,969</u>

Because the State Treasurer's Short-Term Investment Fund had a weighted average maturity of 22 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, 2008 is as follows:

Bond service account	\$ 264,988
Debt service reserve account	418,648
	<u>683,636</u>
Cash and cash equivalents	94,798
	<u>\$ 778,434</u>

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

Interest Rate Risk

The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates beyond that which is delineated in Article VI of the Indenture of Trust dated September 15, 1984.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 5 - INVESTMENTS (amounts expressed in thousands) (Continued)

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 Aaa and AAA by Moody's Investors Service and Standard & Poor's, respectively at June 30, 2008.

Concentrations of Credit Risk

The Fund places no limit on the amount of investment in any one issuer. More than 5 percent of the Fund's investments are in a guaranteed investment contract with Trinity Plus Funding Company, LLC in the amount of \$118,491 as of June 30, 2008. This investment represents 15% of the Fund's total investments.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

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, 2008 is as follows:

Issue	Interest Rates	Dated Date	Maturing Through Fiscal Year	Amount of Original Issue	Principal Balance at June 30, 2008
1990A Bonds	6.10% - 7.75%	May 15, 1990	2010	\$ 250,000,000	\$ 43,985,000
1990 1 Bonds	1.450%**	December 1, 1990	2011	250,000,000	62,500,000
1991B Bonds	5.00% - 6.50%	September 15, 2001	2012	266,000,000	77,655,000
1992B Bonds	3.00% - 6.15%	September 1, 1992	2013	275,000,000	100,590,000
1993A Bonds*	2.65% - 5.40%	March 1, 1993	2011	560,750,000	62,240,000
1996C Bonds*	4.00% - 6.00%	October 1, 1996	2009	79,795,000	46,410,000
1998A Bonds*	4.25% - 5.50%	April 1, 1998	2014	197,500,000	196,695,000
1998B Bonds	4.00% - 5.50%	September 15, 1998	2018	225,000,000	73,700,000
1999A Bonds	4.10% - 5.50%	November 15, 1999	2019	144,160,000	27,020,000
2000A Bonds	4.35% - 5.625%	July 15, 2000	2020	125,000,000	52,485,000
2000 1 Bonds	5.00% - 9.00%**	September 15, 2000	2020	100,000,000	100,000,000
2001A Bonds	2.00% - 5.375%	September 15, 2001	2021	175,000,000	39,205,000
2001B Bonds*	3.25% - 5.375%	September 15, 2001	2015	533,335,000	321,095,000
2002A Bonds	3.00% - 5.375%	May 1, 2002	2022	112,000,000	59,620,000
2002B Bonds	2.50% - 5.250%	November 1, 2002	2022	215,000,000	133,250,000
2003 1 Bonds*	5.00% - 9.00%**	January 23, 2003	2022	220,385,000	212,105,000
2003 2 Bonds*	5.00% - 9.00%**	January 23, 2003	2022	201,595,000	194,180,000
2003A Bonds*	2.00%-5.00%	July 1, 2003	2010	338,610,000	58,290,000
2003B Bonds	2.00%-5.00%	November 15, 2003	2024	200,000,000	171,965,000
2004A Bonds	2.25%-5.00%	November 15, 2004	2024	200,000,000	181,225,000
2004B Bonds*	3.00%-5.00%	November 15, 2004	2019	89,725,000	89,725,000
2005A Bonds	4.00%-5.00%	December 15, 2005	2026	250,000,000	235,405,000
2007A Bonds	3.50%-5.00%	October 1, 2007	2027	250,000,000	250,000,000
				<u>\$ 2,789,345,000</u>	

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

** Represents the variable interest rate in effect as of June 30, 2008. These variable rate bonds bear interest at a weekly variable rate determined by the Fund's remarketing agent on Tuesday of each week, and become effective on the following Wednesday.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

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

Revenues are credited to the Fund and funds are transferred to the Fund's debt service reserve 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 fiscal year.

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

The 1990 Series 1 Bonds (variable rate issue) are subject to partial redemption at any interest payment date at the redemption price unless the interest rate thereof has been converted to a fixed interest rate. These bonds may be redeemed at the option of the State, by payment of principal and accrued interest thereon, with no premium. Bonds that are converted to a fixed interest rate are subject to redemption at any interest payment date, subject to the requirement that on the day of conversion the remaining term of the last maturity be at least five years. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

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

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

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

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

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

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

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

The 2000 Series 1 Bonds (variable rate issue) are subject to optional redemption prior to maturity at the election of the State, in whole on any business day or in part on the first business day of any calendar month; at a redemption price equal to 100 percent of the principal amount of the 2000 Series 1 Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium. As discussed in Note 14, the bonds were redeemed on October 1, 2008.

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

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

The 2002 Series B Bonds maturing on or after December 1, 2013 will be subject to redemption, at the election of the State, on or after December 1, 2012 at any time, in whole or in part and by lot within a maturity, in such amounts as the 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, 2012 and thereafter.

The 2003 Series 1 and 2 Bonds (variable rate issue) are subject to optional redemption prior to maturity at the election of the State, in whole on any business day or in part on the first business day of any calendar month; at a redemption price equal to 100 percent of the principal amount of the 2003 Series 1 and 2 Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium.

The 2003 Series A Bonds are not subject to redemption prior to maturity.

The 2003 Series B Bonds maturing on or after January 1, 2015 will be subject to redemption, at the election of the State, on or after January 1, 2014 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, 2014 and thereafter.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

The 2004 Series A Bonds maturing on or after July 1, 2016 will be subject to redemption, at the election of the State, on or after July 1, 2015 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, 2015 and thereafter.

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

The 2005 Series A Bonds maturing on or after July 1, 2017 will be subject to redemption, at the election of the State, on or after July 1, 2016 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on July 1, 2016 and thereafter.

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 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>
2009	\$ 282,255	\$ 128,062	\$ 410,317
2010	276,860	113,677	390,537
2011	247,070	99,432	346,502
2012	229,020	87,139	316,159
2013	261,555	74,713	336,268
2014-2018	808,000	240,991	1,048,991
2019-2023	499,095	101,587	600,682
2024-2027	185,490	17,102	202,592
	<u>\$ 2,789,345</u>	<u>\$ 862,703</u>	<u>\$ 3,652,048</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

DEBT REFUNDINGS (amounts expressed in thousands)

During the year ended June 30, 2008, the State did not issue any additional refunding bonds.

For prior year refundings, 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. As of June 30, 2008, \$341,410 of outstanding special tax obligation revenue bonds, including prior year's refundings, are considered defeased.

BONDS AUTHORIZED BUT NOT ISSUED

As of June 30, 2008, the State Bond Commission has authorized but not issued \$1,439.1 million of special tax obligation bonds. These bonds would be payable from the revenues of the Fund if issued.

DEMAND BONDS

Included in special tax obligation bonds are variable rate demand bonds as follows:

Issue	Dated Date	Amount of Original Issue	Principal Balance at June 30, 2008
1990 Series 1 Bonds	December 1, 1990	\$ 250,000,000	\$ 62,500,000
2000 Series 1 Bonds	September 15, 2000	100,000,000	100,000,000
2003 Series 1 Bonds	January 23, 2003	220,385,000	212,105,000
2003 Series 2 Bonds	January 23, 2003	201,595,000	194,180,000

In connection with the issuance of these bonds, the Fund executed various agreements including remarketing agreements with broker/dealer firms as well as standby bond purchase agreements with banks. The terms of each of these agreements are summarized below.

Initially the bonds bear interest at a weekly variable rate as determined by the remarketing agent which will be the lowest rate of interest which, in the reasonable judgment of the remarketing agent, would enable it to sell such bonds at a price equal to the principal amount thereof plus accrued interest thereon, under prevailing market conditions as of the date of determination. From time to time, at the option of the Fund, bonds may be converted to other variable rates to be in effect for different periods of time or to fixed rates. The Fund also has the option to convert to a different variable rate period at the end of the particular period. The remarketing agent determines the weekly or other applicable variable rate during the respective period and the fixed rate upon conversion to a fixed rate.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

DEMAND BONDS (Continued)

Bonds bearing interest at the weekly variable rate are subject to purchase at the option of the holder at a purchase price equal to principal and accrued interest, if any, on a minimum of seven days' notice and delivery to the Fund's fiscal agent. In addition, bonds are subject to mandatory purchase, in certain cases with the right to retain, upon (1) conversion to certain variable rates, (2) the end of certain rate periods, (3) termination or expiration of the applicable standby bond purchase agreement and (4) in certain of the bond issues, a new provider of a liquidity facility. The Fund's remarketing agent is responsible for using its best efforts to remarket the bonds properly tendered for purchase.

The Fund is required to pay the remarketing agent, in quarterly installments, an annual fee equal to 5 basis points of the bonds outstanding on January 1, or the weighted average of the principal outstanding of each three month period during the term of the agreement which terminates upon final payment or conversion of the bonds. In addition to the annual fee, the Fund is liable for all expenses in connection with delivering the remarketed bonds as well as any reasonable fees and expenses incurred by the remarketing agent during the period in which the bonds are converted to an interest rate calculation other than the weekly rate. Remarketing fees paid by the Fund to the remarketing agents totaled \$290,344 for the year ended June 30, 2008.

The Fund entered into a municipal bond insurance policy for each demand bond issue to provide credit enhancement to the particular issue. The policies are valid until final payment. The standby bond purchase agreement for each demand bond issue provides liquidity for the particular issue. Should the remarketing agent be unable to resell the bonds and the Fund or the trustee is then unable to pay the bondholders, then standby bond purchase agreements provide payment to the bondholders equal to the face amount of principal and interest on the bonds that is unpaid by the Fund or trustee.

In connection with the 1990 Series 1 Bonds, the Fund entered into a standby bond purchase agreement with a bank which requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 59 days at an annual interest rate not to exceed 12 percent for bonds bearing interest at the weekly rate. Under this initial agreement, which expired in April, 2005, the Fund was required to pay the bank in quarterly installments a facility fee in the amount of 13 basis points of the initial commitment. The initial commitment under the agreement was set at \$145.7 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. Under the current agreement which was renewed in April, 2005, the Fund is required to pay the bank in quarterly installments a facility fee in the amount of 14 basis points of the commitment amount which was \$116.1 million at the time of renewal. If bond ratings were to be downgraded, then the fees are subject to an increase of 2 basis points for each letter downgrade made by the rating agency. If the bonds are downgraded below investment grade, withdrawn or suspended, or if there is a bond insurer event of default, then the fees are subject to an increase of 100 basis points. The agreement expires in 2010. Fees paid by the Fund in connection with the standby bond purchase agreement totaled \$100,389 for the year ended June 30, 2008.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (*Continued*)

DEMAND BONDS (*Continued*)

In connection with the 2000 Series 1 Bonds, the Fund entered into a standby bond purchase agreement with a bank which requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 35 days at an annual interest rate not to exceed 9 percent for bonds bearing interest at the weekly rate. Under this agreement, the Fund is required to pay the bank in quarterly installments a facility fee in the amount of 11.5 basis points of the initial commitment. The initial commitment under the agreement was set at \$100.9 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement expires in 2017 and may be extended at the option of the Fund for a period not to exceed 7 years from the date of extension. Fees paid by the Fund in connection with the standby bond purchase agreement totaled \$122,605 for the year ended June 30, 2008. As of June 30, 2008, \$86,140,000 of bonds tendered and not remarketed plus accrued interest of \$538,963, was purchased in accordance with this agreement, the balance of which was subject to an interest rate at the bank's prime rate (5.00% at June 30, 2008) per the terms of the agreement.

In connection with the 2003 Series 1 Bonds, the Fund entered into a standby bond purchase agreement with a bank which requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 35 days at an annual interest rate not to exceed 9 percent for bonds bearing interest at the weekly rate. Under this agreement, the Fund is required to pay the bank in quarterly installments a facility fee in the amount of 18.5 basis points of the initial commitment. The initial commitment under the agreement was set at \$222.3 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. The agreement was amended in July, 2005 reducing the facility fee to 14 basis points. If bond ratings were to be downgraded, then the fees are subject to an increase of 25 basis points for each letter downgrade made by the rating agency. If the bonds are downgraded below investment grade, withdrawn or suspended, or if there is a bond insurer event of default, then the fees are subject to an increase of 100 basis points. The agreement expires in 2015 and may be extended at the option of the Fund for a period not to exceed 5 years from the date of extension. Fees paid by the Fund in connection with the standby bond purchase agreement totaled \$308,083 for the year ended June 30, 2008. As of June 30, 2008, \$141,400,000 of bonds tendered and not remarketed plus accrued interest of \$381,872, was purchased in accordance with this agreement, the balance of which was subject to an interest rate at the bank's prime rate (5.00% at June 30, 2008) per the terms of the agreement.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (*Continued*)

DEMAND BONDS (*Continued*)

In connection with the 2003 Series 2 Bonds, the Fund entered into a standby bond purchase agreement with two banks which requires each bank to purchase its respective proportion of bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus accrued interest up to 35 days at an annual interest rate not to exceed 9 percent for bonds bearing interest at the weekly rate. Under this agreement, the Fund is required to pay the banks in quarterly installments a facility fee in the amount of 11.5 basis points of the initial commitment. The initial commitment under the agreement was set at \$203.3 million but is subject to adjustment from time to time in accordance with the provisions of the agreement. If bond ratings were to be downgraded, then the fees are subject to an increase of 5 basis points for each letter downgrade made by the rating agency. If the bonds are downgraded below investment grade, withdrawn or suspended, or if there is a bond insurer event of default, then the fees are subject to an increase of 100 basis points. The agreement expires in 2018 and may be extended at the option of the Fund for a period not to exceed 5 years from the date of extension. Fees paid by the Fund in connection with the standby bond purchase agreement totaled \$387,597 for the year ended June 30, 2008. As of June 30, 2008, \$70,655,000 of bonds tendered and not remarketed plus accrued interest of \$175,359 was purchased in accordance with this agreement, the balance of which was subject to an interest rate at the bank's prime rate (5.00% at June 30, 2008) per the terms of the agreement.

INTEREST RATE SWAP AGREEMENTS

Objective of the Swaps

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the Fund has entered into five separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Fund would have paid to issue fixed-rate debt. Two of the swaps were executed in December 1990, and the other three were executed in January 2003.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

INTEREST RATE SWAP AGREEMENTS (Continued)

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2008, are as follows:

Terms of the Swap Agreements

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received
1990 Series 1A	\$ 37,500,000	December 19, 1990	5.746%	65% of LIBOR ⁽¹⁾
1990 Series 1B	25,000,000	December 19, 1990	5.709%	65% of LIBOR ⁽¹⁾
2003 Series 1A	115,795,000	January 23, 2003	3.293%	55% of LIBOR ⁽¹⁾ plus 50bp
2003 Series 1B	96,310,000	January 23, 2003	3.288%	55% of LIBOR ⁽¹⁾ plus 50bp
2003 Series 2	194,180,000	January 23, 2003	3.284%	55% of LIBOR ⁽¹⁾ plus 50bp
Total	<u>\$ 468,785,000</u>			

(1) London Interbank Offered Rate

Associated Bond Issue	Fair Values	Swap Termination Date	Counterparty Credit Rating
1990 Series 1A	\$ (1,845,561)	December 1, 2010	Aa3/AA-/AA-
1990 Series 1B	(1,245,853)	December 1, 2010	Aa2/A+/A+
2003 Series 1A	(2,857,686)	February 1, 2022	Aaa/AA+/AA
2003 Series 1B	(2,247,654)	February 1, 2022	Aa1/AA/AA-
2003 Series 2	(4,765,372)	February 1, 2022	Aa1/AA-/AA-
	<u>\$ (12,962,126)</u>		

(1) London Interbank Offered Rate

The notional amount of the swaps match the principal amounts of the associated debt. The Fund's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions to the associated bond issue's outstanding balance.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS *(Continued)*

INTEREST RATE SWAP AGREEMENTS *(Continued)*

Fair Values and Credit Risk

The valuation of the five swaps changes with movements in interest rate levels; generally, as interest rates move lower, the fair value of the swaps become lower. As of June 30, 2008, all 5 swaps had negative fair values. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

As of June 30, 2008, the Fund had no exposure to credit risk on any of the five swaps, since all had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Fund would be exposed to credit risk in the amount of the swap's fair value.

The swap agreements contain varying collateral agreements with the counterparties. All three of the swap agreements executed in 2003 require collateralization of the fair value of the swap in cash or government securities should the counterparty's credit rating fall below Aa3 as issued by Moody's Investors Service or AA- as issued by Standard & Poor's Ratings or Fitch Ratings. One of the swaps executed in 1990 requires collateral of cash or securities if the counterparty credit rating falls below A1/A+. The other 1990 swap agreement does not have any provisions for posting of collateral. No collateral was required to be posted for any of the swaps as of June 30, 2008. The State is not required to post collateral for any of the swaps.

Because the Fund has not entered into more than one derivative transaction with any one counterparty, master netting agreements have not been needed.

All of the five swaps are executed with different counterparties. The largest, approximately 41% of the notional amount of swaps outstanding, is held with one counterparty, rated Aa1/AA-/AA-. The smallest, approximately 5% of the notional amount of swaps outstanding, is held with the lowest rated counterparty, rated Aa2/A+/A+. All other swaps are held with separate counterparties who are rated Aa3/AA-/AA- or better.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (*Continued*)

INTEREST RATE SWAP AGREEMENTS (*Continued*)

Basis Risk

The Fund's variable-rate bond coupon payments are based on actual weekly remarketing rates which roughly track the SIFMA index rate. For those swaps for which the Fund receives a variable-rate payment other than SIFMA, the Fund is exposed to basis risk should the relationship between LIBOR and SIFMA converge. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of June 30, 2008, the SIFMA rate was 1.55%, whereas 55 percent of 1 month LIBOR plus 50bp was 1.85% and 65 percent of 1 month LIBOR was 1.60%. The Fund recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal 2008, the Fund budgeted \$1,500,000 in basis risk for all five swap agreements.

Termination Risk

The Fund or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swap agreements is terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of termination the swap has a negative fair value, the Fund would be liable to the counterparty for a payment approximately equal to the swap's fair value. Under the 2003 swap agreements, the Fund has up to 270 days to fund any required termination payment. Under the 1990 swap agreements, the Fund may fund any required termination payment over a five-year period.

Rollover Risk

Because all of the swap agreements terminate when the associated debt is fully paid, the Fund is only exposed to rollover risk if an early termination occurs. Upon an early termination, the Fund will not realize the synthetic rate offered by the swaps on the underlying debt issues.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 6 - SPECIAL TAX OBLIGATION BONDS (Continued)

INTEREST RATE SWAP AGREEMENTS (Continued)

Swap Payments and Associated Debt (amounts expressed in thousands)

As rates vary, variable-rate bond interest payments and net swap payments will vary. Using rates as of June 30, 2008, debt service requirements of the Fund's outstanding variable-rate debt and net swap payments are as follows:

Year ending June 30:	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2009	\$ 22,985	\$ 37,176	\$ 7,912	\$ 68,073
2010	24,410	36,564	7,025	67,999
2011	25,940	35,921	6,080	67,941
2012	9,125	35,248	5,612	49,985
2013	37,640	33,358	5,311	76,309
2014 - 2018	286,465	91,722	14,603	392,790
2019 - 2023	62,220	7,467	1,189	70,876
	<u>\$ 468,785</u>	<u>\$ 277,456</u>	<u>\$ 47,732</u>	<u>\$ 793,973</u>

NOTE 7 - TRANSPORTATION RELATED GENERAL OBLIGATION BONDS

Public Act 84-254 of the General Assembly of the State of Connecticut requires the principal and interest payments of the transportation related general obligation bonds outstanding to be paid from the revenues of the Fund. However, the transportation related general obligation bonds remain the liability of the State. These bonds mature in various amounts through fiscal year 2009 and bear interest at rates from 4.80% to 7.53%.

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

Year ending June 30:	Principal	Interest	Total
2009	\$ 723	\$ 652	\$ 1,375
	<u>\$ 723</u>	<u>\$ 652</u>	<u>\$ 1,375</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

**NOTE 7 - TRANSPORTATION RELATED GENERAL OBLIGATION BONDS
(Continued)**

The above table does not include amounts for debt service that the State will charge the Fund for various non-transportation related general obligation refunding bonds and cash 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>
2009	\$ 122	\$ 518	\$ 640
2010	546	500	1,046
2011	568	476	1,044
2012	761	441	1,202
2013	5,945	279	6,224
2014-2018	2,775	339	3,114
	<u>\$ 10,717</u>	<u>\$ 2,553</u>	<u>\$ 13,270</u>

NOTE 8 - 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, 2008 is as follows (amounts expressed in thousands):

<u>Description</u>	<u>Balance, July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2008</u>
Special tax obligation bonds	\$ 2,815,134	\$ 250,000	\$ 275,789	\$ 2,789,345
General obligation bonds	1,327	-	604	723
General obligation refunding bonds	10,877	-	160	10,717
Compensated absences	49,025	-	1,784	47,241
Arbitrage liability	7,482	7,321	1,266	13,537
	<u>\$ 2,883,845</u>	<u>\$ 257,321</u>	<u>\$ 279,603</u>	<u>\$ 2,861,563</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following as of June 30, 2008 (amounts expressed in thousands):

	Special Revenue Fund	Restricted Grants Fund	Total
Accounts payable	\$ 22,934	\$ 61,805	\$ 84,739
Salaries and wages payable	12,377	2,973	15,350
Contracts payable - retainage	499	18,257	18,756
	<u>\$ 35,810</u>	<u>\$ 83,035</u>	<u>\$ 118,845</u>

NOTE 10 - INTERFUND BALANCES

INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables as of June 30, 2008 is as follows (amounts expressed in thousands):

Receivable Fund	Payable Fund	Amount
Special Revenue Fund	Debt Service Fund	<u>\$ 2,222</u>
Other funds of the State	Restricted Grants Fund	<u>\$ 685</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, 2008 is as follows (amounts expressed in thousands):

Transfer In	Transfer Out	Amount
Special Revenue Fund	Debt Service Fund	\$ 25,260
	Other funds of the State	16,681
		<u>\$ 41,941</u>
Debt Service Fund	Special Revenue Fund	<u>\$ 417,172</u>
Restricted Grants Fund	Special Revenue Fund	\$ 20,800
	Other funds of the State	26,965
		<u>\$ 47,765</u>
Other funds of the State	Special Revenue Fund	<u>\$ 9,500</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2008**

NOTE 10 - INTERFUND BALANCES (*Continued*)

INTERFUND TRANSFERS (*Continued*)

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 11 - COMMITMENTS AND CONTINGENCIES

LITIGATION

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

With regard to litigation, the most notable cases are as described below. The first case is Rock Acquisition, Ltd. Partnership v. State of Connecticut, Department of Transportation ("DOT") which is an eminent domain matter related to DOT Project No. 1-113-3, for Improvements to Route 7 in Brookfield, Connecticut. The plaintiff is seeking \$70 million for the taking by eminent domain of a 107 acre quarry for which the DOT has deposited into Court \$4.24 million in assessed damages. The trial has concluded and no decision is expected until early 2009. The second case is White Oak Corporation v. State of Connecticut, Department of Transportation in which the plaintiff is seeking approximately \$50 million in damages for wrongful termination in connection with an I-95 bridge project in Bridgeport, Connecticut. The plaintiff filed a demand for arbitration and hearings on the merits have concluded. A decision is not expected until early 2009. The outcome of this case is unknown at this time and it is deemed that regardless of the outcome, a lengthy appeals process is expected to follow. It is the opinion of the Attorney General that these cases and other pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially and adversely affect the operations of the Fund.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

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. At the end of the respective sublease lease terms, the State has the option to purchase the statutory trusts' interest in the rolling stock for an aggregate fixed price.

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 rents	\$366,405,000
Less: payments to debt payment undertakers and custodians	334,590,492
Less: transaction closing costs	<u>2,457,457</u>
Net proceeds received	<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 will primarily be used to pay the end of lease term purchase options. Payments made by the State to the debt payment undertakers are irrevocable once made and will not be subject to avoidance or recapture by the State or any creditor of the State. Further, the State has no right, title, or interest in or to the amounts paid to the debt payment undertakers upon the payment thereof and, accordingly, the amounts so paid cease to be assets of the State, but are assets solely of the debt payment undertakers. In addition, per the terms of Debt Payment Undertaking Agreement Guarantees, the debt payment undertaker guarantors have unconditionally guaranteed the full and prompt payment of any and all obligations of the debt payment undertakers. The assets held by the debt payment undertakers and the custodians, as well as any related lease obligation liability, are not reflected as assets or liabilities in the financial statements of the State. Although it is remote that the State will be required to make any additional payments under the subleases, the State is and shall remain liable for all of its obligations under the subleases. The aggregate remaining commitment under the subleases totaled approximately \$309 million at June 30, 2008.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2008**

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

LEASE-LEASEBACK COMMITMENT (Continued)

The State is obligated to insure and maintain the rolling stock. In addition, if an equity investor suffers a loss of tax deductions or incurs additional taxable income as a result of certain circumstances, as defined in the Agreement, then the State must indemnify the equity investor for the additional tax incurred, including interest and penalties thereon. The State has the right to terminate the subleases early under certain circumstances and upon payment of a termination value to the equity investors. If the State chooses early termination, then the termination value would be paid from funds available from the debt payment undertakers and the custodians, and if such amounts are insufficient, then the State would be required to pay the difference.

Although the Fund has no liability related to these subleases, payments may be made by the Fund if so directed by the State. No payments were made by the Fund under these subleases for the year ended June 30, 2008.

ARBITRAGE REBATE REQUIREMENTS (amounts expressed in thousands)

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. Rebate payments of \$425 were made during the year ended June 30, 2008. The total estimated liability for arbitrage rebate totaled \$13,537 as of June 30, 2008 (*see Note 8*).

CONTRACTUAL COMMITMENTS

The State entered into a contractual agreement with H.N.S. Management Company, Inc. ("HNS") to manage and operate bus transportation for the State. The State shall pay all expenditures of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees, as agreed upon. Upon termination of the agreement, the State shall assume all of the existing obligations of HNS, including all pension liabilities described above. Although the Fund has no liability related to these costs, payments may be made by the Fund if so directed by the State.

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

As of June 30, 2008, the aggregate contractual commitments totaled approximately \$1,051.2 million. Funding of these expenditures is expected to be received from federal and other grants and other revenues to be received by the Fund.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2008**

NOTE 11 - COMMITMENTS AND CONTINGENCIES (*Continued*)

PENSIONS

Certain employees of the Fund participate in the State Employees' Retirement System ("SERS") which is administered by the State Employees' Retirement Commission. The Fund has no liability for these pension costs other than the annual contribution, pursuant to Public Act 83-30 of the June 1983 Special Session of the General Assembly of the State of Connecticut as amended to date. In addition, the actuarial study was performed on the 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 \$67.1 million for the year ended June 30, 2008.

NOTE 12 - 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

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 \$663,382 for the year ended June 30, 2008.

RISK MANAGEMENT

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

NOTE 13 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 addresses the recognition, measurement and disclosure of derivative instruments entered into by state and local governments. GASB Statement No. 53 is effective for financial statements for periods beginning after June 15, 2009. The Fund is currently evaluating the effects this statement will have on its financial statements.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2008**

NOTE 14 - SUBSEQUENT EVENT

On September 18, 2008 the State issued \$97,690,000 of second lien special tax obligation refunding bonds with interest rates ranging from 3.00% to 4.125% with a final maturity in fiscal year 2022 to refund \$100,000,000 of second lien special tax obligation revenue 2000 Series 1 bonds.

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Form of Opinion of

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

and

LEWIS & MUNDAY, A PROFESSIONAL CORPORATION
Co-Bond Counsel

[Date of Closing]

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

Dear Madam Treasurer:

We have examined (i) the Constitution and laws of the State of Connecticut, including Public Act No. 84-254 of the February 1984 Session of the General Assembly, as amended (the “Act”), (ii) an Indenture of Trust, by and between the State of Connecticut (the “State”) and The Connecticut National Bank (successor trustee is now U.S. Bank National Association), as Trustee, dated as of December 1, 1990, as amended by the Second Lien Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 by and between the State and Shawmut Bank Connecticut, National Association (successor trustee is now U.S. Bank National Association), as Trustee, as supplemented by the Fifth Supplemental Indenture by and between the State and U.S. Bank National Association, as Trustee, dated as of the date of delivery of the 2009 Series 1 Bonds (the “Second Lien Indenture”) and (iii) a record of proceedings relative to the issuance of \$415,035,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2009 Series 1 (the “2009 Series 1 Bonds”) of the State. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Second Lien Indenture.

The 2009 Series 1 Bonds mature on February 1 in each of the years and in the principal amounts and bear interest payable semiannually on February 1 and August 1 in each year, commencing August 1, 2009, until maturity at the respective rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate Per Annum</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate Per Annum</u>
2010	\$ 2,605,000	3.00%	2016	\$ 7,075,000	4.00%
2011	2,790,000	3.00	2016	60,020,000	5.00
2012	3,340,000	3.00	2017	3,335,000	3.25
2013	9,825,000	2.00	2017	10,270,000	4.25
2013	14,165,000	5.00	2017	48,420,000	5.00
2014	9,605,000	2.50	2018	6,800,000	4.25
2014	11,050,000	4.00	2018	31,905,000	5.00
2014	33,510,000	5.00	2019	3,005,000	4.50
2015	5,965,000	2.75	2019	45,865,000	5.00
2015	10,980,000	4.00	2020	36,950,000	3.90
2015	22,515,000	5.00	2021	27,320,000	4.25
2016	4,160,000	3.00	2022	3,560,000	4.25

The 2009 Series 1 Bonds are issuable as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. Principal of the 2009 Series 1 Bonds will be payable at the principal corporate office of U.S. Bank National Association, Trustee. Interest on the 2009 Series 1 Bonds is payable to the registered owner as of the close of business on the fifteenth day of January and July in each year beginning in July, 2009 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 Second Lien Indenture.

The 2009 Series 1 Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the Second Lien Indenture.

The Second Lien Indenture authorizes the issuance of second lien bonds (the "Second Lien Bonds"), including the 2009 Series 1 Bonds, from time to time without limitation as to amount, except as provided in the Second Lien Indenture or as may be limited by law and provided that statutory authorization for the issuance of such Second Lien Bonds is enacted by the State. Additional Second Lien Bonds, when and if authorized by the State Bond Commission to be issued and sold, shall with the 2009 Series 1 Bonds, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Second Lien Indenture.

The 2009 Series 1 Bonds, including the principal of, premium, if any, and interest thereon are payable from the Pledged Revenues (as defined in the Act and the Second Lien Indenture) and other receipts, funds or moneys pledged therefor and credited to the Special Transportation Fund of the State pursuant to the Act and the Second Lien Indenture. The 2009 Series 1 Bonds are junior in right of payment from such sources to

principal, premium, if any, and interest on the State's Special Tax Obligation Bonds, Transportation Infrastructure Purposes (the "Senior Bonds"), issued pursuant to the Indenture of Trust, dated as of September 15, 1984, between the State and The Connecticut National Bank, as Trustee, as amended and supplemented (the "Senior Indenture") and any other obligations of the State constituting "Debt Service Obligations" under the Act and the Senior Indenture ("Other Senior Obligations").

From such examination we are of the opinion that:

1. The Act is valid, and the State has the legal right and power to authorize, and has duly authorized, executed and delivered the Second Lien Indenture, and the Second Lien Indenture is a legal, valid and binding obligation of the State enforceable in accordance with its terms.
2. The 2009 Series 1 Bonds have been duly authorized and issued under the Constitution and laws of the State of Connecticut, particularly the Act, and under proceedings duly had and taken in conformity therewith.
3. The 2009 Series 1 Bonds are valid and binding special obligations of the State of Connecticut payable from a second lien on the Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Second Lien Indenture and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Second Lien Indenture with all present and future holders of Second Lien Bonds or Notes issued under the Second Lien Indenture, the provider of any Credit Facility and the provider of any Qualified Swap without privilege or priority except as provided in the Second Lien Indenture.
4. The Second Lien Bonds, including the 2009 Series 1 Bonds, are secured in the manner and to the extent set forth in the Act and the Second Lien Indenture. Pursuant to the Act, the Second Lien Indenture creates a valid second call upon Pledged Revenues and lien upon any and all amounts held to the credit of the Special Transportation Fund from time to time, to the extent set forth in the Second Lien Indenture, including moneys and securities held by the Trustee in the Debt Service Account and Reserve Account established thereunder, which the Second Lien Indenture purports to create, subject only to the provisions of the Second Lien Indenture permitting the application thereunder for or to the purposes and on the terms and conditions set forth in the Second Lien Indenture. Such second call and lien are valid and binding against all parties having claims of any kind in tort, contract or otherwise against the State (including holders of general obligation debt of the State). All amounts necessary for the punctual payment of the Debt Service Requirements (as defined in the Act and the Second Lien Indenture) with respect to the 2009 Series 1 Bonds are validly deemed to be appropriated by the Act from the Pledged

Revenues and other receipts, funds or moneys pledged therefor, and the State Treasurer is required by the Act to pay such Debt Service Requirements with respect to the 2009 Series 1 Bonds as the same shall accrue, but only from such sources. Such payment by the Treasurer does not require further legislative approval.

5. The State is not obligated to pay the principal of, premium, if any, and interest on the 2009 Series 1 Bonds except from Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Second Lien Indenture, and neither the full faith and credit of the State or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, and interest on the 2009 Series 1 Bonds.
6. Pursuant to the Act, the Second Lien Indenture validly incorporates the valid and enforceable covenants of the State to impose, charge, raise, levy, collect and apply the Pledged Revenues and other receipts, funds or moneys pledged for the payment of Debt Service Requirements in such amounts as may be necessary to pay such requirements in each year and not to limit or alter the duties imposed on the Treasurer or other officers of the State by the Act and the Second Lien Indenture with respect to the application of such Pledged Revenues and other such pledged receipts, funds or moneys.
7. Pursuant to the Act, the covenant of the State contained in the Second Lien Indenture to provide Pledged Revenues in an amount at least equal to two times the aggregate Principal and Interest Requirements on Senior Bonds, Principal and Interest Requirements on Second Lien Bonds and Interest Requirements on Notes issued under the Second Lien Indenture in each Fiscal Year is valid and enforceable. Such covenant is subject to the right of the State to exercise its power, through a change in law, to limit, modify, rescind, repeal or otherwise alter the character or amount of such Pledged Revenues or to substitute like or different sources of taxes, fees, charges or other receipts as Pledged Revenues if, for the ensuing Fiscal Year as evidenced by the proposed or adopted budget of the State with respect to the Special Transportation Fund, the projected revenues meet or exceed the estimated expenses of the Special Transportation Fund including accumulated deficits, if any, Debt Service Requirements, and any Pledged Revenue coverage requirement.
8. Under existing law, (i) interest on the 2009 Series 1 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 (ii) such interest will not be treated as a preference item for purposes of calculating the Federal alternative minimum tax for individuals or corporations; such interest is, however, includable in the adjusted current earnings of certain corporations for purposes of

computing the Federal alternative minimum tax imposed on such corporations. We express no opinion regarding other Federal income tax consequences caused by ownership of, or receipt of interest on, the 2009 Series 1 Bonds.

9. Under existing law, interest on the 2009 Series 1 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.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2009 Series 1 Bonds in order that interest on the 2009 Series 1 Bonds be excludable from 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 2009 Series 1 Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Regulatory Agreement, and (ii) compliance by the State with 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 2009 Series 1 Bonds may be limited by insolvency, moratorium and other laws affecting creditors' rights generally heretofore or hereafter enacted and by law applicable to relief in equity and by the reserved police powers of the State; no opinion is expressed as to the availability of a right in equity to specific performance of any covenant requiring legislative action with respect to taxes not presently enacted when an adequate remedy at law for damages is available or another such limitation exists and is applied.

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 2009 Series 1 Bonds to be executed by the State substantially in the following form, to provide, or cause to be provided, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the 2009 Series 1 Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for the 2009 Series 1 Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the ____ day of January, 2009 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of \$415,035,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2009 Series 1, dated January 29, 2009 (the "Bonds"), and U.S. Bank National Association, as Trustee for the Bonds (the "Trustee") under the Indenture (as hereinafter defined), for the benefit of the beneficial owners from time to time of the Bonds.

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms shall have the following meanings:

"Final Official Statement" means the official statement of the State dated January 22, 2009 prepared in connection with the Bonds.

"Indenture" means the Indenture of Trust entered into by the State and the Trustee, dated as of December 1, 1990, as supplemented and amended to date as the same may be further supplemented and amended from time to time.

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

"NRMSIR" means any nationally recognized municipal securities information repository recognized by the SEC from time to time. As of the date of this Agreement the NRMSIRs are:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
<http://www.bloomberg.com/markets/rates/municontacts.html>
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.MuniFILINGS.com>
Email: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
<http://www.interactivedata-prd.com>
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street - 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
<http://www.disclosuredirectory.standardandpoors.com/>
Email: nrmsir_repository@sandp.com

"Rule" means rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto.

"SID" means any state information depository established or designated by the State of Connecticut and recognized by the SEC from time to time. As of the date of this Agreement, no SID has been established or designated by the State of Connecticut.

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2008 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 months after the close of the fiscal year for which such information is being provided. The State's fiscal year currently ends on June 30.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents previously provided to each NRMSIR, any SID, or the SEC. If the document to be

cross-referenced is a final official statement, it must be available from the MSRB. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the State.

(d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from time to time, provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

The State agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (g) modifications to rights of holders of the Bonds;
- (h) Bond calls;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds; and
- (k) rating changes.

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

Section 4. Notice of Failure to Provide Annual Financial Information.

The State agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of any failure by the State to provide annual financial information as set forth in Section 2(a) hereof on or before the date set forth in Section 2(b) hereof.

Section 5. Use of Agents.

Annual financial information and operating data and notices to be provided pursuant to this Agreement may be provided by the State or by any agents which may be employed by the State for such purpose from time to time.

Section 6. Termination.

The obligations of the State under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Bonds, or (ii) such time as the State ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

Section 7. Enforcement.

The State acknowledges that its undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the State shall fail to perform its duties hereunder, the State shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the State's Assistant Treasurer for Debt Management, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Assistant Treasurer for Debt Management is 55 Elm Street, 6th Floor, Hartford, Connecticut 06106.

In the event the State does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The State expressly acknowledges and the beneficial owners are hereby deemed to expressly agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds, including, without limitation, an Event of Default under the Indenture, or a breach of any duty or obligation of the Trustee under the Indenture.

Section 8. Miscellaneous.

(a) The State and the Trustee shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided however, nothing in this Agreement shall be construed as prohibiting the State from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the State elects to provide any such additional information, data or notices, the State shall have no obligation under this Agreement to update or continue to provide further additional information, data or notices of the type so provided.

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

(c) Notwithstanding any other provision of this Agreement, the State may amend this Agreement, and any provision of this Agreement may be waived, if (i) such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the State, (ii) the Agreement as so amended or waived would have complied with the requirements of the Rule as of the date of the Agreement, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, and (iii) such amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds or an approving vote by the holders of not less than 60% of the aggregate principal amount of the Bonds then outstanding pursuant to the terms of the Indenture. A copy of any such amendment or waiver will be filed in a timely manner with (i) each NRMSIR or the MSRB and (ii) any SID. The annual financial information provided on the first date following adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

(e) Any filing under this Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

STATE OF CONNECTICUT

By: _____
Denise L. Nappier
Treasurer

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Officer

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