

In the opinion of Co-Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the State described herein, interest on the 2003 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Co-Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2003 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Co-Bond Counsel is further of the opinion that interest on the 2003 Bonds is excluded from Connecticut income tax on individuals, trusts and estates and 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. Interest on the 2003 Bonds is included in gross income for purposes of the Connecticut corporation business tax. See "TAX EXEMPTION" herein regarding certain other tax considerations.

\$355,245,000
State of Connecticut
State Revolving Fund General Revenue Bonds,
2003 Series
consisting of

\$118,085,000
State Revolving Fund General
Revenue Bonds
2003 Series A

\$115,785,000
State Revolving Fund Refunding
General Revenue Bonds,
2003 Series B

\$121,375,000
State Revolving Fund Refunding
General Revenue Bonds
(Auction Rate Securities)
2003 Series C

Dated: As shown on the inside cover page

Due: October 1, as shown on the inside cover page

The proceeds of the State Revolving Fund General Revenue Bonds, 2003 Series A (the "2003A Bonds") will be used by the State of Connecticut (the "State") to make loans to Borrowers, as defined herein, in connection with the financing or refinancing of public wastewater treatment projects and public drinking water projects. The proceeds of the State Revolving Fund Refunding General Revenue Bonds, 2003 Series B (the "2003B Bonds") and State Revolving Fund Refunding General Revenue Bonds (Auction Rate Securities) 2003 Series C (the "2003C Bonds") will be used to refund portions of various series of bonds issued by the State under its State Revolving Fund Programs (the "SRF Programs"). The 2003A Bonds, the 2003B Bonds and the 2003C Bonds are referred to herein collectively as the "2003 Bonds." The 2003 Bonds are payable solely from all moneys in the Revolving Fund legally available for application to payments due under the Resolution, as defined below ("Available Moneys"). The 2003 Bonds represent the first three series of bonds issued by the State pursuant to a State Revolving Fund General Revenue Bond Program General Revenue Bond Resolution adopted December 17, 2002, as supplemented (the "Resolution"). Each loan will be evidenced by a Borrower Obligation, as defined herein. See "SECURITY FOR THE BONDS" herein.

The 2003 Bonds are special obligations of the State payable from Available Moneys in the Revolving Fund in accordance with the terms and provisions of the Resolution. With respect to the 2003 Bonds, the Bond Proceeds Fund, the Debt Service Fund and the Support Fund, the investments thereof and the proceeds of such investments, if any, are pledged for the payment thereof in accordance with the terms and provisions of the Resolution. The issuance of the 2003 Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment. The 2003 Bonds shall not constitute a charge, lien, encumbrance or mortgage, legal or equitable, upon any property of the State or of any political subdivision thereof, except as described in the Resolution.

The 2003C Bonds will be issued initially as auction rate securities (the "ARS Bonds"), and the 2003A Bonds and 2003B Bonds will be issued as fixed rate securities (the "Fixed Rate Bonds"). The ARS Bonds will bear interest from their date of delivery to and including the last day of the Initial Periods as shown on the inside front cover of this Official Statement, and thereafter at the ARS Rates determined pursuant to the Auction Procedures. Interest on the ARS Bonds will be payable on the ARS Interest Payment Dates for each subseries of the ARS Bonds as described herein. The interest rates on each subseries of the ARS Bonds may be converted, at the option of the State and, subject to certain conditions and restrictions, to Fixed Rates, in which event such ARS Bonds are subject to mandatory tender as described herein.

Interest on the Fixed Rate Bonds will be payable on April 1 and October 1 of each year, commencing on October 1, 2003. The 2003 Bonds may be owned only in book-entry form through a direct or indirect participant in The Depository Trust Company ("DTC"). Principal of and interest on the 2003 Bonds will be payable by U.S. Bank National Association, as Trustee and Paying Agent, at its corporate trust office in Hartford, Connecticut, or at its office in New York, New York. See "DESCRIPTION OF THE 2003 BONDS--Book-Entry-Only System."

The 2003 Bonds will be subject to redemption prior to maturity as described herein.

See inside front cover page for maturities, amounts, interest rates and yields

The 2003 Bonds are offered subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of the legality of the 2003 Bonds by Nixon Peabody LLP, Hartford, Connecticut, and the Hardwick Law Firm, LLC, Kansas City, Missouri, Co-Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Brown Rudnick Berlack Israels LLP, Hartford, Connecticut, Underwriters' Counsel. It is expected that the 2003 Bonds will be available for delivery in book-entry-only form at DTC in New York, New York on or about July 10, 2003.

Honorable Denise L. Nappier
Treasurer of the State of Connecticut

M.R. Beal & Company
Advest, Inc.
A.G. Edwards & Sons, Inc.
Citigroup
Fidelity Capital Markets
First Albany Corporation

Goldman, Sachs & Co.
Lehman Brothers
Jackson Securities
Loop Capital Markets, LLC
Merrill Lynch & Co.
Morgan Stanley
Quick & Reilly, Inc.

UBS Financial Services Inc.
Ramirez & Co., Inc.
Roosevelt & Cross, Inc.
Wachovia Bank, National
Association
William Blair & Co., LLC

\$355,245,000
State of Connecticut

\$ 118,085,000
State Revolving Fund General Revenue Bonds,
2003 Series A
Dated: July 1, 2003

Maturity Schedule

<u>Maturity</u> <u>October 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>October 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2005	\$ 1,095,000	2.000%	1.050%	2016	\$ 5,890,000	5.000%	3.370%*
2006	6,575,000	2.000	1.220	2017	330,000	3.450	3.490
2007	4,515,000	2.000	1.550	2017	6,030,000	5.000	3.490 *
2008	4,720,000	2.000	1.830	2018	190,000	3.500	3.580
2009	4,650,000	2.050	2.100	2018	6,485,000	5.000	3.580 *
2010	4,745,000	2.375	2.430	2019	6,990,000	5.000	3.670 *
2011	1,890,000	2.550	2.650	2020	200,000	3.900	3.940
2011	2,965,000	5.000	2.650	2020	7,130,000	4.500	3.940 *
2012	420,000	2.700	2.800	2021	220,000	4.000	4.030
2012	4,630,000	5.000	2.800	2021	7,410,000	4.500	4.030 *
2013	910,000	2.850	2.930	2022	7,950,000	4.500	4.110 *
2013	4,385,000	5.000	2.930	2023	910,000	4.150	4.180
2014	1,990,000	3.000	3.080	2023	6,980,000	4.500	4.180 *
2014	3,555,000	5.000	3.080*	2024	870,000	4.200	4.240
2015	315,000	3.200	3.230	2024	4,460,000	4.500	4.240 *
2015	5,465,000	5.000	3.230*	2025	3,045,000	4.200	4.240
2016	170,000	3.300	3.370				

\$115,785,000
State Revolving Fund Refunding General Revenue Bonds,
2003 Series B
Dated: July 1, 2003

Maturity Schedule

<u>Maturity</u> <u>October 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2003	\$ 2,035,000	2.500%	0.900%
2004	4,385,000	2.500	1.010
2005	4,275,000	2.000	1.050
2006	1,340,000	2.000	1.220
2007	6,105,000	2.000	1.550
2008	7,965,000	2.000	1.830
2009	7,975,000	5.000	2.100
2010	6,255,000	2.375	2.430
2011	4,360,000	5.000	2.650
2012	12,865,000	5.000	2.800
2013	17,290,000	5.000	2.930
2014	20,405,000	5.000	3.080
2015	20,530,000	5.000	3.230

\$121,375,000
State Revolving Fund Refunding General Revenue Bonds,
(Auction Rate Securities)
2003 Series C
Dated: Date of Delivery

<u>Subseries</u>	<u>Amount</u>	<u>Last Day of</u> <u>Initial Period</u>	<u>Initial</u> <u>Auction Period</u>	<u>First Auction</u> <u>Date</u>	<u>First ARS Interest</u> <u>Payment Date</u>
2003 Series C-1	\$55,000,000	July 10, 2003	Daily	July 11, 2003	August 1, 2003
2003 Series C-2	66,375,000	August 7, 2003	28-Day	August 7, 2003	August 8, 2003

* Priced to the stated yield to the October 1, 2013 optional redemption date at a redemption price of 100%.

No dealer, broker or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the State of Connecticut or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the 2003 Bonds and there will not be any sale of the 2003 Bonds where it is not allowed by law. The delivery of this Official Statement at any time does not imply that the information herein is current as of any time subsequent to its date.

The Underwriters have provided the following sentence for inclusion in the Official Statement. “The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.”

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2003 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
<p>INTRODUCTION 1</p> <p style="padding-left: 20px;">Purpose of Official Statement 1</p> <p style="padding-left: 20px;">New General Bond Resolution 1</p> <p style="padding-left: 20px;">Program Bonds 2</p> <p style="padding-left: 20px;">SRF Programs 2</p> <p style="padding-left: 20px;">Purpose of 2003 Bonds 2</p> <p style="padding-left: 20px;">Authority for 2003 Bonds 2</p> <p style="padding-left: 20px;">Security for 2003 Bonds 3</p> <p style="padding-left: 20px;">Fixed Rate Bonds and ARS Bonds 3</p> <p style="padding-left: 20px;">Additional Information 4</p> <p>STATE OF CONNECTICUT STATE CLEAN WATER FUND 5</p> <p style="padding-left: 20px;">Federal Statutory Framework 5</p> <p style="padding-left: 20px;">State’s SRF Programs 6</p> <p style="padding-left: 20px;">Program Bonds Authorized and Issued 8</p> <p style="padding-left: 20px;">Prior Bonds Under 1990 Resolution and Subordinate Resolution 8</p> <p style="padding-left: 20px;">Repayment of the Bonds Including 2003 Bonds 9</p> <p>PLAN OF FINANCE 10</p> <p>STATE OF CONNECTICUT OFFICE OF THE TREASURER 13</p> <p>STATE OF CONNECTICUT DEPARTMENT OF ENVIRONMENTAL PROTECTION 14</p> <p>STATE OF CONNECTICUT DEPARTMENT OF PUBLIC HEALTH 15</p> <p>THE LOANS 15</p> <p style="padding-left: 20px;">Loan Application Process 15</p> <p style="padding-left: 20px;">Loan Agreements 16</p> <p style="padding-left: 20px;">Loan Repayments 16</p> <p style="padding-left: 20px;">Security for the Loans 17</p> <p>THE BORROWERS 17</p> <p>SOURCES AND USES OF FUNDS 21</p> <p>ASSETS AND LIABILITIES IN REVOLVING FUND 22</p> <p>SCHEDULE OF DEBT SERVICE ON PROGRAM BONDS AND 2003 BONDS 23</p> <p>SECURITY FOR THE BONDS 23</p> <p style="padding-left: 20px;">Special Obligation 23</p> <p style="padding-left: 20px;">Flow of Funds 24</p> <p style="padding-left: 20px;">Cross-Collateralization 25</p> <p style="padding-left: 20px;">Investment of Funds 25</p> <p style="padding-left: 20px;">Additional Bonds 25</p> <p style="padding-left: 20px;">Bond Anticipation Notes 26</p> <p style="padding-left: 20px;">State General Taxing Power Not Pledged 26</p> <p>AUTHORIZATION FOR THE BONDS 26</p> <p style="padding-left: 20px;">Legal Authority--State Bond Commission 26</p> <p style="padding-left: 20px;">Agreement of the State 27</p>	<p>DESCRIPTION OF THE 2003 BONDS 27</p> <p style="padding-left: 20px;">Fixed Rate Bonds 27</p> <p style="padding-left: 20px;">ARS Bonds 28</p> <p style="padding-left: 20px;">Terms of ARS Bonds 29</p> <p style="padding-left: 20px;">Redemption 35</p> <p style="padding-left: 20px;">Book-Entry-Only System 37</p> <p>ABSENCE OF LITIGATION 41</p> <p>LEGALITY FOR INVESTMENT 41</p> <p>CERTAIN LEGAL MATTERS 42</p> <p>TAX EXEMPTION 42</p> <p style="padding-left: 20px;">Federal Income Taxes 42</p> <p style="padding-left: 20px;">State Taxes 43</p> <p style="padding-left: 20px;">Original Issue Discount 43</p> <p style="padding-left: 20px;">Original Issue Premium 43</p> <p style="padding-left: 20px;">Certain Tax Information 44</p> <p>CONTINUING DISCLOSURE AGREEMENTS 45</p> <p>UNDERWRITING 46</p> <p>RATINGS 46</p> <p>FINANCIAL ADVISORS 47</p> <p>FINANCIAL STATEMENTS 47</p> <p>ADDITIONAL INFORMATION 47</p> <p>APPENDIX A -- Borrower Information Part I: General Information Part II: Specific Borrower Information</p> <p>APPENDIX B -- State Revolving Fund General Revenue Program--State Revolving Fund Financial Statements and Drinking Water Fund</p> <p>APPENDIX C -- Annual Information Statement of the State of Connecticut Dated December 1, 2002, Modified February 28, 2003, and supplemented May 7, 2003</p> <p>APPENDIX D -- Summary of Certain of the Provisions of the General Bond Resolution</p> <p>APPENDIX E -- Summary of Certain Provisions of each Project Loan and Project Grant Agreement</p> <p>APPENDIX F -- Definitions of Certain Terms</p> <p>APPENDIX G -- Form of Continuing Disclosure Agreement of the State and Municipalities</p> <p>APPENDIX H -- Proposed Form of Bond Counsel Opinion</p> <p>APPENDIX I -- ARS Provisions</p>

OFFICIAL STATEMENT

\$355,245,000
State of Connecticut
State Revolving Fund General Revenue Bonds,
2003 Series

\$118,085,000
State Revolving Fund
General Revenue Bonds
2003 Series A

\$115,785,000
State Revolving Fund
Refunding General
Revenue Bonds
2003 Series B

\$121,375,000
State Revolving Fund
Refunding General
Revenue Bonds
(Auction Rate Securities)
2003 Series C

INTRODUCTION

The following introductory information is subject in all respects to more complete information contained elsewhere in this Official Statement. The order and placement of materials in this Official Statement, including the Appendices hereto, are not to be deemed to be a determination of relevance, materiality or relative importance, and this Official Statement, including the cover page and Appendices, should be read in its entirety. The offering of the 2003 Bonds to potential investors is made only by means of the entire Official Statement.

Purpose of Official Statement

This Official Statement is furnished to provide information concerning the \$118,085,000 aggregate principal amount of State Revolving Fund General Revenue Bonds, 2003 Series A (the “**2003A Bonds**”), \$115,785,000 aggregate principal amount of State Revolving Fund Refunding General Revenue Bonds, 2003 Series B (the “**2003B Bonds**”) and \$121,375,000 aggregate principal amount of State Revolving Fund Refunding General Revenue Bonds (Auction Rate Securities) 2003 Series C (the “**2003C Bonds**”) (collectively, the “**2003 Bonds**”), being issued by the State of Connecticut (the “**State**”). The 2003 Bonds, together with any bonds hereafter issued under the General Bond Resolution described below, are collectively referred to herein as the “**Bonds**.”

New General Bond Resolution

The 2003 Bonds represent the first three series of Bonds issued by the State pursuant to its SRF Program General Revenue Bond Resolution adopted by the State Bond Commission on December 17, 2002 (the “**General Bond Resolution**”) as supplemented. Under the General Bond Resolution, the State agrees to apply all moneys in the Revolving Fund legally available for payments due under the General Bond Resolution (“**Available Moneys**”) to the timely payment of the Bonds and any Other Financial Assistance and any Related Program Obligations. (See “**Appendix F -- DEFINITION OF CERTAIN TERMS**” for definitions.) The State has pledged

amounts in the Bond Proceeds Fund, the Support Fund and the Debt Service Fund pursuant to the General Bond Resolution to the payment of the Bonds. (See “SECURITY FOR THE BONDS – Flow of Funds” for definitions of and additional information on funds established under General Bond Resolution.)

Program Bonds

Upon the issuance of the 2003 Bonds, the State will have three types of outstanding revenue bonds (collectively, the “**Program Bonds**”) including: (1) Bonds issued under the new General Bond Resolution; (2) revenue bonds issued under a general bond resolution adopted December 7, 1990 (the “**1990 Resolution**”) which are secured by specific pledged Municipal Obligations, as defined therein, and other pledged funds described therein and (3) subordinated refunding bonds issued under a Subordinate Bond Resolution adopted on February 23, 1996 (the “**Subordinate Resolution**”) which are secured by surplus revenues released from the 1990 Resolution. Bonds issued and outstanding under the 1990 Resolution (the “**1990 Resolution Bonds**”) and bonds issued under the Subordinate Resolution (“**Subordinate Bonds**”) are referred to herein collectively as the “**Prior Bonds.**” See “STATE OF CONNECTICUT CLEAN WATER FUND – Prior Bonds Under 1990 Resolution and Subordinate Resolution” herein.

SRF Programs

The State’s revolving fund programs consist of (1) the wastewater pollution control revolving fund program established by the State under the federal Water Quality Act of 1987 (the “**Wastewater Program**”) and (2) the drinking water revolving fund program established by the State under the 1996 amendments to the federal Safe Drinking Water Act (the “**Drinking Water Program**”) and together with the Wastewater Program, the “**SRF Programs**”). Pursuant to the SRF Programs, certain federal capitalization grants and State matching funds are used to provide loans to qualifying Borrowers and other authorized financial assistance for eligible projects in the State and to provide security for certain obligations issued to fund such Loans or other financial assistance, as described herein. See “THE LOANS” and “SECURITY FOR THE BONDS” herein.

Purpose of 2003 Bonds

The 2003A Bonds are being issued to make loans to Borrowers under the SRF Programs pursuant to the General Bond Resolution and to pay costs of issuance of the 2003A Bonds, and the 2003B Bonds and Series 2003C Bonds are being issued to refund portions of various series of 1990 Resolution Bonds previously issued by the State to make loans under the SRF Programs pursuant to the 1990 Resolution and to pay the respective issuance costs of the 2003B Bonds and 2003C Bonds. See “THE BORROWERS” herein.

Authority for 2003 Bonds

The 2003 Bonds are being issued pursuant to Connecticut General Statutes Sections 22a-475 to 22a-483, inclusive, as amended, the General Bond Resolution adopted by the State Bond Commission on December 17, 2002, and two Supplemental Resolutions, as further supplemented hereafter, adopted by the State Bond Commission on December 17, 2002 (the General Bond

Resolution and the Supplemental Resolutions are sometimes collectively referred to herein as the “**Resolution**”). U.S. Bank National Association has been appointed as trustee and paying agent (together with any successor, the “**Trustee**”) under the Resolution.

Security for 2003 Bonds

The 2003 Bonds are special obligations of the State payable from Available Moneys in the Revolving Fund in accordance with the terms and provisions of the Resolution. The Bond Proceeds Fund, the Debt Service Fund and the Support Fund, the investments thereof and the proceeds of such investments, if any, are pledged for the payment of the 2003 Bonds in accordance with the terms and provisions of the Resolution. Under the Resolution, the Revolving Fund includes the State water pollution control federal revolving loan account within the Clean Water Fund and the State drinking water federal revolving loan account within the Clean Water Fund, each established by the State Act in accordance with the Federal Act, and any similar account related to any expansion of the SRF Programs. The State Act and the Resolution permit the use of assets of both the Wastewater Program and the Drinking Water Program to pay or secure the Bonds. Although amounts attributable to each program will be tracked separately for federal reporting purposes, all Available Moneys will be available for the payment of debt service on all Bonds. See “STATE OF CONNECTICUT CLEAN WATER FUND” herein.

Fixed Rate Bonds and ARS Bonds

The 2003A Bonds and 2003B Bonds will be issued as fixed rate securities (the “**Fixed Rate Bonds**”). The 2003A Bonds and the 2003B Bonds will be issued in minimum denominations of \$5,000 or any integral multiple thereof. The 2003A Bonds and the 2003B Bonds will bear interest from July 1, 2003, payable on April 1 and October 1 of each year commencing on October 1, 2003.

The 2003C Bonds will initially be issued as auction rate securities (the “**ARS Bonds**”) in minimum denominations of \$25,000 and integral multiples thereof in two subseries, consisting of \$55,000,000 2003 Series C-1 and \$66,375,000 2003 Series C-2. Goldman, Sachs & Co., is the representative of the Underwriters (the “**Underwriter**”) for the Fixed Rate Bonds and the sole Underwriter and Broker-Dealer (the “**Broker-Dealer**”) for the ARS Bonds. The ARS Bonds as of closing will be divided into two subseries and will bear interest at an ARS Rate for its respective ARS Period. The ARS Bonds will bear interest from the date of issuance thereof to and including the last day of the Initial Periods set forth on the inside cover page of this Official Statement at interest rates established by Goldman, Sachs & Co., prior to the delivery of the 2003C Bonds, and thereafter at the interest rate (the “**ARS Rate**”) determined pursuant to the Auction Procedures described herein. All or a portion of the ARS Bonds may be converted, at the option of the State and subject to certain conditions and restrictions as set forth in the Resolution to Bonds bearing interest at Fixed Rates as described herein, in which case the ARS Bonds to be converted are subject to mandatory tender on the date fixed for conversion (the “**Conversion Date**”) at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to the Conversion Date. The ARS Bonds are subject to redemption prior to maturity under certain circumstances as described herein.

This Official Statement describes the ARS Bonds only while bearing interest at an ARS Rate. It is currently anticipated that, should there be a conversion of any subseries of ARS

Bonds to Fixed Rates, it is likely that a reoffering document will be prepared in connection with such conversion. Prospective purchasers of the ARS Bonds should carefully review the terms of and conditions related to the ARS Bonds and the Auction Procedures described in “DESCRIPTION OF THE SERIES 2003 BONDS –ARS Bonds,” “DESCRIPTION OF THE SERIES 2003 BONDS -- Terms of ARS Bonds,” and **Appendix I** – “ARS Provisions.”

In connection with the issuance of the 2003C Bonds, the State expects to enter into an interest rate swap agreement or agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. (the “**Counterparty**”) for the purpose of converting its variable rate exposure to a fixed rate (the “**Interest Rate Swap**”). The Interest Rate Swap will have a notional amount equal to the par amount of the 2003C Bonds and an effective date equal to the date of delivery of the 2003C Bonds. Under the terms of the Interest Rate Swap, the State will pay a fixed rate payment to the Counterparty and receive a variable rate payment.

Additional Information

There follows in this Official Statement brief descriptions of the State Revolving Fund General Revenue Bond Program, including the Wastewater Program and the Drinking Water Program, the 2003 Bonds, the Loans and Borrowers whose Loans, including current and anticipated Loan commitments through June 30, 2004, are expected to exceed 10% of the aggregate outstanding principal amount of the Program Bonds, including the 2003 Bonds.

Certain information relating to The Depository Trust Company (“**DTC**”) and the book-entry-only system has been furnished by DTC. All references herein to any document are qualified by the terms of such document in its entirety. Unless otherwise indicated herein, capitalized terms not otherwise defined in this Official Statement will have the meanings in **Appendix F** — “DEFINITION OF CERTAIN TERMS.”

Attached hereto as **Appendix A** is certain limited information about certain Borrowers. Such information was provided by such Borrowers and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the State or the Underwriters. The information contained herein relating to such Borrowers should be read in conjunction with the information contained in **Appendix A**.

Appendix B to this Official Statement contains the SRF Programs’ Financial Statements for the fiscal years ended June 30, 2001, and June 30, 2002. **Appendix C** to this Official Statement describes the State’s current Annual Information Statement, as modified and supplemented, which is included in this Official Statement by cross-reference to filings made by or on behalf of the State with the Municipal Securities Rulemaking Board (“**MSRB**”) and other Nationally Recognized Municipal Securities Information Repositories (“**NRMSIRs**”). **Appendices D** and **E**, respectively, contain descriptions of certain provisions of the Resolution and the Project Loan and Project Grant Agreement between the State and each Borrower. **Appendix F** contains definitions of certain terms. **Appendix G** contains the form of Continuing Disclosure Agreement to be entered into by the State in connection with issuance of the 2003 Bonds and the form of Municipal Continuing Disclosure Agreement to be entered into by the Borrowers identified in **Appendix A** in connection with the issuance of the 2003 Bonds. **Appendix H** contains the proposed form of opinion of Co-Bond

Counsel to be rendered in connection with the issuance and delivery of the 2003 Bonds. **Appendix I** describes procedures related to the ARS Bonds.

STATE OF CONNECTICUT CLEAN WATER FUND

The State Clean Water Fund was created by the State pursuant to the State Act. It is jointly managed by the State Department of Environmental Protection (“**DEP**”), the Office of the Treasurer (the “**Treasurer**”) and the State Department of Public Health (“**DPH**”). The Clean Water Fund is divided into the following six accounts: (1) the water pollution control federal revolving loan account; (2) the water pollution control state account; (3) the Long Island Sound clean-up account; (4) the rivers restoration account; (5) the drinking water federal revolving loan account; and (6) the drinking water state account. The water pollution control federal revolving loan account and the drinking water federal revolving loan account collectively constitute the Revolving Fund, which is established pursuant to the Federal Act to fund the State’s SRF Programs.

In accordance with the State Act, the State makes loans to Borrowers to provide capital for various State and federally mandated water pollution control and drinking water projects. Pursuant to the Resolution, Loans are defined as any loan made by the State to a Borrower pursuant to a Loan Agreement and any other financial support provided by the State to a Borrower including, without limitation, a guaranty, credit support or credit enhancement. The SRF Programs were originally established for wastewater treatment projects. (See “STATE OF CONNECTICUT CLEAN WATER FUND – Wastewater Program” herein). The State amended the State Act in 1996 to create the Drinking Water Program within the State Clean Water Fund Program. (See “STATE OF CONNECTICUT CLEAN WATER FUND – Drinking Water Program” herein).

Federal Statutory Framework

The federal Water Quality Act of 1987, which amended the federal Clean Water Act of 1972 (together with any regulations promulgated thereunder, the “**CWA**”), established state water pollution control revolving fund programs for wastewater treatment projects. The water pollution control revolving funds are used to provide financial assistance to borrowers in connection with the construction, rehabilitation, expansion or improvement of publicly owned systems for the storage, treatment, recycling and reclamation of municipal sewage. Federal appropriations continue to be made annually to states for funding of wastewater treatment projects even though the CWA has expired by its terms and, as of this date, has not yet been reauthorized by Congress.

The federal Safe Drinking Water Act, as amended by the Safe Drinking Water Act Amendments of 1996 (together with any regulations promulgated thereunder, the “**SDWA**”), established a state drinking water revolving fund program for drinking water infrastructure improvements. State drinking water revolving fund loans must serve to protect the public health and to achieve or maintain compliance with the SDWA. The drinking water revolving funds are to be used to provide financial assistance to local privately owned or publicly owned water systems in connection with the planning, design, development, construction, repair, extension, improvement, remodeling, alteration, rehabilitation, reconstruction or acquisition of all or a portion of a public water system.

As a condition for receipt of certain federal financial assistance under both the CWA and the SDWA, each state must establish a revolving fund to accept federal capitalization grants and must provide matching funds equal to 20% of the federal capitalization grants. Federal capitalization grants are paid to the State pursuant to the Federal Transfer Payment System. Cash draws under the Federal Transfer Payment System are initiated when a written payment request is submitted by DEP. Upon approval of such request, an electronic transfer of funds, in the amount requested, is made by the United States Environmental Protection Agency (“EPA”) to a financial institution designated by the State.

The Federal Act places certain legal constraints and provides authorized uses of amounts in the State’s Revolving Fund. Federal regulations limit the uses of program equity to making loans, making loan guarantees, purchasing insurance, refinancing prior debt or payment of administrative expenses associated with qualified projects. Amounts in the State’s Revolving Fund cannot be used to make grants and must be maintained by the Revolving Fund in perpetuity. Available Moneys may be applied to any uses permissible under the Federal Act and the State Act for amounts in the Revolving Fund.

State’s SRF Programs

The State’s participation in the federal programs pursuant to the CWA and the SDWA is implemented through its SRF Programs. The purpose of the State’s SRF Program is to provide a source of low interest loans and other types of financial assistance (other than direct grants) to local entities for the construction, rehabilitation, expansion or improvement of wastewater treatment or drinking water facilities in accordance with the State Act. To make such loans and financial assistance, the State uses proceeds of Program Bonds, State contributions of moneys (the “**State Contributions**”) and federal capitalization grants. With respect to federal capitalization grants the State makes periodic cash draws under the Federal Transfer Payment System based on the amount of costs incurred for eligible projects or activities by either all or a specified group of projects receiving Loans, as determined by the State from time to time. The State has elected to base its cash draws on the costs incurred by a specified group of projects on a dollar-for-dollar basis. See **Appendix D** -- “SUMMARY OF CERTAIN OF THE PROVISIONS OF THE GENERAL BOND RESOLUTION.”

Wastewater Program

The Wastewater Program is funded with (i) federal wastewater capitalization grants awarded by the EPA to the State, (ii) State Contributions and (iii) proceeds of the Program Bonds. Under the CWA, in order to receive federal wastewater capitalization grants, the State must provide matching funds in a ratio of at least 20% of federal wastewater capitalization grants. State Contributions include required State matching funds and other amounts contributed by the State to the Wastewater Program above the amount required by the CWA. The State has deposited amounts in the Wastewater Program which exceed the required amount of State matching funds for federal wastewater capitalization grants awarded to date.

Under the State’s Wastewater Program, all participating municipalities receive a grant of 20% and a loan of 80% of total eligible costs (with the exception of the combined sewer overflow correction projects which are financed with a 50% grant and a 50% loan and nitrogen reduction

portions of projects which are financed with a 30% grant and a 70% loan for construction and a 55% grant for planning) for a total funding of 100% of the eligible water quality project costs. The State currently provides Loans with a 2% interest rate which must be repaid over a period no later than 20 years after the completion date of the project. Up to 4% of the annual federal wastewater capitalization grant is used to fund administrative costs.

Prior to the initial issuance of Program Bonds, the Wastewater Program made loans to Borrowers from federal wastewater capitalization grants and the proceeds of State general obligation bonds. Since 1991, wastewater loans to Borrowers have been primarily funded from the proceeds of the Program Bonds.

Federal wastewater capitalization grants for federal fiscal years 1987 through 2002 in the amount of \$294 million have been awarded by the EPA to the State. During that same time period, in furtherance of the State's Wastewater Program, the State has made State Contributions in the amount of approximately \$660.4 million in the form of taxable State general obligation bonds and direct loans to Borrowers. The federal wastewater capitalization grants and State Contributions have been used to make Loans, to fund reserves and to pay administrative costs. In the future capitalization grants will also be available to fund any authorized purposes under federal and state law.

Drinking Water Program

The Drinking Water Program is funded with (i) federal drinking water capitalization grants awarded by the EPA to the State, (ii) State Contributions and (iii) proceeds of the Program Bonds. Under the SDWA, in order to receive federal drinking water capitalization grants, the State must provide matching funds in a ratio of at least 20% of federal drinking water capitalization grants. State Contributions include required State matching funds and other amounts contributed by the State to the Drinking Water Program above the amount required by the SDWA. The State has deposited amounts in the Drinking Water Program which exceed the required amount of State matching funds for federal drinking water capitalization grants awarded to date.

Under the Drinking Water Program, the State provides Loans at an interest rate equal to 50% of the most recent rate paid on State of Connecticut General Obligation Bonds (the "**Market Rate**"). Under the Drinking Water Program, there is no grant component and 100% of eligible drinking water projects are funded with Loans. Loans must be repaid over a period not to exceed 20 years from the completion date of the project. Up to 31% of the federal drinking water capitalization grant for each fiscal year is used for all federally permitted set-aside activities including payments of administrative costs, Small Systems Technical Assistance, State Program Management, Local Assistance and other State drinking-water-related programs.

Beginning in 2001, federal capitalization grants and State Contributions in the Drinking Water Program have been primarily used to provide interest subsidy to Borrowers and to secure Program Bonds. Such amounts are held by the Trustee and pledged to secure such Program Bonds. Beginning with the issuance of the 2003 Bonds, the State intends to fund future Loans to Borrowers for the Drinking Water Program primarily from the proceeds of Bonds.

Federal drinking water capitalization grants for federal fiscal years 1997 through 2002 in the amount of \$59,600,000 have been awarded by the EPA to the State. The State has made State Contributions in an amount equal to the federal match in the form of taxable State general obligation bonds. The federal drinking water capitalization grants and State Contributions have been used to make Loans, to fund reserves, to make direct loans to private Borrowers, to pay administrative costs and other set-aside activities.

Administration of SRF Programs

The State has administered and managed the Wastewater and Drinking Water Programs in conjunction with one another and intends to continue to do so. Under the State's Wastewater Program, the DEP is primarily responsible for wastewater projects and the fiscal administration of set-aside projects and accounts. The DPH is responsible for programmatic administration of the Drinking Water Program projects. See "STATE OF CONNECTICUT OFFICE OF THE TREASURER," "STATE OF CONNECTICUT DEPARTMENT OF ENVIRONMENTAL PROTECTION" AND "STATE OF CONNECTICUT DEPARTMENT OF PUBLIC HEALTH" herein.

Program Bonds Authorized and Issued

Upon the issuance of the 2003 Bonds, the State will have three types of Program Bonds outstanding: (1) Bonds issued under the new State Revolving Fund General Revenue Bond Resolution; (2) revenue bonds issued under the 1990 Resolution, which are secured by specific pledged Municipal Obligations, as defined therein, and other pledged funds described therein and (3) subordinated refunding bonds issued under the Subordinate Resolution, secured by surplus revenues released from the 1990 Resolution.

Prior Bonds Under 1990 Resolution and Subordinate Resolution

A portion of assets of the Revolving Fund is pledged to the Prior Bonds. The 1990 Resolution Bonds are secured under the 1990 Resolution by pledged assets, including Loans made to Borrowers from bond proceeds and other funds, a 50% debt service reserve fund and an interest subsidy fund, which was funded with State General Obligation Bonds. Revenues generated under the 1990 Resolution include repayments of pledged Loans, earnings on the debt service reserve fund and principal and interest on assets in the interest subsidy fund. The interest subsidy fund was sized in an amount that when added to loan repayments and expected earnings on invested funds would produce pledged revenues at least equal to debt service on the Prior Bonds. See "STATE OF CONNECTICUT CLEAN WATER FUND – Program Bonds Authorized and Issued" herein. The debt service reserve fund was originally funded with a combination of federal capitalization grants invested in guaranteed investment contracts, and State Contributions in the form of State General Obligation Bonds. As principal of such Prior Bonds is repaid, a pro rata portion of the debt service reserve fund is released. Subordinate Bonds are secured by surplus revenues in excess of the amount required to pay the 1990 Resolution Bonds and by the maturing principal of State General Obligation Bonds deposited in the debt service reserve fund. Surplus revenues in excess of the amount required to pay the Prior Bonds can be released from the 1990 Resolution at the discretion of

the State. Such released surplus revenues and amounts released from the debt service reserve fund will be Available Moneys.

Revenue Bonds

Through Fiscal Year 2003, the State General Assembly has authorized the issuance of \$1,238.4 million of revenue bonds for State Revolving Fund purposes. The State has issued \$872 million of Program Bonds including \$127 million of subordinate refunding bonds which refunded a portion of the 1990 Resolution Bonds. As of May 15, 2003, approximately \$450.6 million of 1990 Resolution Bonds and \$122.5 million of subordinate refunding bonds remain outstanding.

State General Obligation Bonds

Through Fiscal Year 2002, the State General Assembly has authorized the issuance of \$741 million of general obligation bonds for SRF Program purposes. The proceeds of those bonds have been used, or will be used, to make grants and Loans to Borrowers and deposits to the funds held under the 1990 Resolution. The State expects that additional grants and Loans to Borrowers, as well as deposits to the Support Fund, will be funded from State general obligation bonds or other Available Moneys in the SRF Programs.

Repayment of the Bonds including 2003 Bonds

Debt service on the 2003 Bonds will be paid from Available Moneys and amounts on deposit in the Debt Service Fund, the Bond Proceeds Fund and the Support Fund created under the Resolution. See "SECURITY FOR THE BONDS" for a discussion of the application of amounts on deposit in the Debt Service Fund, the Bond Proceeds Fund and the Support Fund, the method by which such Funds are funded and the authorized use of such amounts under the Resolution.

In accordance with the SRF Programs and as required by the State Act, each Loan to a Borrower is made pursuant to a Project Loan and a Project Grant Agreement (as referred to herein, a "**Loan Agreement**") between the Borrower and the State. Under each Loan Agreement, the State agrees to make a loan for eligible project costs incurred by the Borrower, upon the terms and in a maximum amount specified in such Loan Agreement. Each Borrower is obligated pursuant to its Loan Agreement to repay only that amount which it actually draws for the payment of project costs. Each Borrower must deliver a Borrower Obligation which provides for repayment of the principal amount of the Loan, together with interest at the rate of 2% per annum for Wastewater Program Loans or 50% of the Market Rate for Drinking Water Program Loans on the unpaid principal amount of such Loan.

The 2003 Bonds are special obligations of the State payable from Available Moneys in the Revolving Fund in accordance with the terms and provisions of the Resolution. With respect to the 2003 Bonds, the Bond Proceeds Fund, the Debt Service Fund and the Support Fund, the investments thereof and the proceeds of such investments, if any, are pledged for the payment thereof in accordance with the terms and provisions of the Resolution. The issuance of the 2003 Bonds shall not directly or indirectly or contingently obligate the State or any

political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment. The State Act provides that the 2003 Bonds shall not constitute a charge, lien, encumbrance or mortgage, legal or equitable, upon any property of the State or of any political subdivision thereof, except property mortgaged or otherwise encumbered under the provisions of and for the purposes of the State Act. The Resolution does not provide for the mortgaging or encumbrance of any State or Borrower real property as security for the 2003 Bonds. See “SECURITY FOR THE BONDS” for additional information relating to the security for the Bonds.

PLAN OF FINANCE

The 2003 Bonds will be issued to provide additional new money for Loans to Borrowers and to refund a portion of the 1990 Resolution Bonds listed below. A portion of the proceeds of the 2003 Bonds, together with other funds, will be used to establish an escrow fund to redeem all or a portion of the following maturities of the bonds issued under the 1990 Resolution prior to their stated maturities:

Series	Maturity	Coupon	Outstanding Par Amount	Redeemed Principal Amount	Redemption Date
1991	01/01/04	6.750%	\$ 455,000	\$ 455,000	07/24/03
1991	07/01/04	6.750%	435,000	435,000	07/24/03
1991	01/01/05	6.800%	410,000	410,000	07/24/03
1991	07/01/05	6.800%	390,000	390,000	07/24/03
1991	01/01/06	6.875%	365,000	365,000	07/24/03
1991	07/01/06	6.875%	340,000	340,000	07/24/03
1991	01/01/07	7.000%	310,000	310,000	07/24/03
1991	07/01/07	7.000%	285,000	285,000	07/24/03
1991	01/01/08	7.000%	255,000	255,000	07/24/03
1991	07/01/08	7.000%	225,000	225,000	07/24/03
1991	01/01/09	7.000%	190,000	190,000	07/24/03
1991	07/01/09	7.000%	155,000	155,000	07/24/03
1991	01/01/10	7.000%	120,000	120,000	07/24/03
1991	07/01/10	7.000%	85,000	85,000	07/24/03
1991	01/01/11	7.000%	45,000	45,000	07/24/03
1992	08/01/04	5.800%	2,910,000	2,910,000	08/01/03
1992	02/01/05	5.875%	2,935,000	2,935,000	08/01/03
1992	08/01/05	5.875%	265,000	265,000	08/01/03

Series	Maturity	Coupon	Outstanding Par Amount	Redeemed Principal Amount	Redemption Date
1992	02/01/06	6.100%	\$ 250,000	\$ 250,000	08/01/03
1992	08/01/06	6.100%	235,000	235,000	08/01/03
1992	02/01/07	6.125%	220,000	220,000	08/01/03
1992	08/01/07	6.125%	205,000	205,000	08/01/03
1992	02/01/08	6.125%	190,000	190,000	08/01/03
1992	08/01/08	6.125%	170,000	170,000	08/01/03
1992	02/01/09	6.125%	155,000	155,000	08/01/03
1992	08/01/09	6.125%	135,000	135,000	08/01/03
1992	02/01/10	6.125%	115,000	115,000	08/01/03
1992	08/01/10	6.125%	95,000	95,000	08/01/03
1992	02/01/11	6.125%	75,000	75,000	08/01/03
1992	08/01/11	6.125%	50,000	50,000	08/01/03
1992	02/01/12	6.125%	25,000	25,000	08/01/03
1994	06/01/07	5.400%	1,845,000	1,845,000	06/01/04
1994	12/01/07	5.400%	1,880,000	1,880,000	06/01/04
1994	06/01/08	5.500%	1,880,000	1,880,000	06/01/04
1994	12/01/08	5.500%	1,915,000	1,915,000	06/01/04
1994	06/01/09	5.600%	1,920,000	1,920,000	06/01/04
1994	12/01/09	5.600%	1,960,000	1,960,000	06/01/04
1994	06/01/10	5.650%	310,000	310,000	06/01/04
1994	12/01/10	5.650%	290,000	290,000	06/01/04
1994	06/01/11	5.700%	270,000	270,000	06/01/04
1994	12/01/11	5.700%	250,000	250,000	06/01/04
1994	06/01/12	5.750%	230,000	230,000	06/01/04
1994	12/01/12	5.750%	210,000	210,000	06/01/04
1994	06/01/13	5.750%	185,000	185,000	06/01/04
1994	12/01/13	5.750%	165,000	165,000	06/01/04
1994	06/01/14	5.800%	140,000	140,000	06/01/04
1994	12/01/14	5.800%	115,000	115,000	06/01/04
1994	06/01/15	5.800%	90,000	90,000	06/01/04
1994	12/01/15	5.800%	60,000	60,000	06/01/04
1994	06/01/16	5.800%	30,000	30,000	06/01/04
1996	11/01/06	4.600%	1,855,000	1,445,000	05/01/05
1996	05/01/07	4.750%	1,875,000	1,480,000	05/01/05
1996	11/01/07	4.750%	1,895,000	1,510,000	05/01/05
1996	05/01/08	4.800%	1,915,000	1,540,000	05/01/05
1996	11/01/08	4.800%	1,935,000	1,575,000	05/01/05
1996	05/01/09	4.875%	1,950,000	1,600,000	05/01/05
1996	11/01/09	4.875%	1,970,000	1,635,000	05/01/05
1996	05/01/10	5.000%	1,990,000	1,670,000	05/01/05
1996	11/01/10	5.000%	2,010,000	1,700,000	05/01/05
1996	05/01/11	5.200%	2,030,000	1,735,000	05/01/05
1996	11/01/11	5.200%	2,050,000	1,770,000	05/01/05
1996	05/01/12	5.250%	2,070,000	1,805,000	05/01/05
1996	11/01/12	5.250%	2,095,000	1,845,000	05/01/05
1996	05/01/13	5.400%	2,115,000	1,885,000	05/01/05

Series	Maturity	Coupon	Outstanding Par Amount	Redeemed Principal Amount	Redemption Date
1996	11/01/13	5.400%	\$ 2,135,000	\$ 1,920,000	05/01/05
1996	05/01/14	5.400%	2,155,000	1,960,000	05/01/05
1996	11/01/14	5.400%	2,180,000	2,000,000	05/01/05
1996	05/01/15	5.400%	2,200,000	2,040,000	05/01/05
1996	11/01/15	5.400%	2,220,000	2,080,000	05/01/05
1996	05/01/16	5.125%	2,245,000	2,125,000	05/01/05
1996	11/01/16	5.125%	2,265,000	2,170,000	05/01/05
1996	05/01/17	5.125%	2,290,000	2,215,000	05/01/05
1996	11/01/17	5.125%	2,310,000	2,260,000	05/01/05
1996	05/01/18	5.125%	2,335,000	2,305,000	05/01/05
1997	03/01/09	4.850%	5,085,000	4,260,000	03/01/08
1997	03/01/10	4.900%	5,190,000	4,405,000	03/01/08
1997	03/01/11	5.000%	5,295,000	4,560,000	03/01/08
1997	03/01/12	5.100%	5,400,000	4,715,000	03/01/08
1997	03/01/13	5.150%	5,505,000	4,875,000	03/01/08
1997	03/01/14	5.200%	5,615,000	5,045,000	03/01/08
1997	03/01/15	5.250%	5,830,000	5,325,000	03/01/08
1997	03/01/16	5.250%	5,945,000	5,510,000	03/01/08
1997	03/01/17	5.250%	6,060,000	5,700,000	03/01/08
1997	03/01/18	5.250%	6,180,000	5,905,000	03/01/08
1997	03/01/19	5.250%	6,300,000	6,110,000	03/01/08
1997	03/01/20	5.250%	5,825,000	5,730,000	03/01/08
1999	09/01/10	4.300%	5,450,000	5,450,000	09/01/09
1999	09/01/11	5.125%	5,035,000	5,035,000	09/01/09
1999	09/01/12	5.125%	3,740,000	3,740,000	09/01/09
1999	09/01/13	5.125%	4,720,000	4,720,000	09/01/09
1999	09/01/14	5.125%	5,500,000	5,500,000	09/01/09
1999	09/01/15	5.125%	5,085,000	5,085,000	09/01/09
1999	09/01/16	5.125%	5,560,000	5,560,000	09/01/09
1999	09/01/17	4.750%	6,285,000	6,285,000	09/01/09
1999	09/01/18	4.875%	6,410,000	6,410,000	09/01/09
1999	09/01/19	4.875%	6,540,000	6,540,000	09/01/09
1999	09/01/11	4.400%	570,000	570,000	09/01/09
1999	09/01/12	4.500%	1,955,000	1,955,000	09/01/09
1999	09/01/13	4.600%	1,085,000	1,085,000	09/01/09
1999	09/01/14	4.700%	425,000	425,000	09/01/09
1999	09/01/15	4.750%	955,000	955,000	09/01/09
1999	09/01/16	4.800%	605,000	605,000	09/01/09
1999	09/01/20	4.875%	6,670,000	6,670,000	09/01/09
1999	09/01/21	4.875%	6,805,000	6,805,000	09/01/09
1999	09/01/22	4.875%	6,940,000	6,940,000	09/01/09
2001	10/01/12	4.400%	4,910,000	4,910,000	10/01/11
2001	10/01/13	4.500%	1,915,000	1,915,000	10/01/11
2001	10/01/14	4.700%	1,820,000	1,820,000	10/01/11
2001	10/01/15	4.750%	665,000	665,000	10/01/11
2001	10/01/16	4.875%	2,100,000	2,100,000	10/01/11
2001	10/01/17	4.900%	540,000	540,000	10/01/11

Series	Maturity	Coupon	Outstanding Par Amount	Redeemed Principal Amount	Redemption Date
2001	10/01/18	5.000%	\$ 5,580,000	\$ 5,580,000	10/01/11
2001	10/01/19	5.000%	2,690,000	2,690,000	10/01/11
2001	10/01/20	5.050%	830,000	830,000	10/01/11
2001	10/01/21	5.050%	5,950,000	5,950,000	10/01/11
2001	10/01/22	5.100%	6,080,000	6,080,000	10/01/11
2001	10/01/13	5.500%	3,100,000	3,100,000	10/01/11
2001	10/01/14	5.500%	3,300,000	3,300,000	10/01/11
2001	10/01/15	5.500%	4,570,000	4,570,000	10/01/11
2001	10/01/16	5.500%	3,245,000	3,245,000	10/01/11
2001	10/01/17	5.500%	4,920,000	4,920,000	10/01/11
2001	10/01/19	5.500%	3,010,000	3,010,000	10/01/11
2001	10/01/20	5.500%	4,995,000	4,995,000	10/01/11

After the refunding of the bonds listed above, approximately 54.8% of the State's outstanding bonds will be under the General Bond Resolution, approximately 26.4% under the 1990 Resolution and approximately 18.8% under the Subordinate Resolution.

The State will allocate the proceeds of the new money portion of 2003 Bonds to provide additional loans for both SRF Programs with approximately \$90 million allocated to the Wastewater Program and \$35 million allocated to the Drinking Water Program.

Upon issuance of the 2003 Bonds, \$23.4 million will be deposited into the Support Fund from Available Moneys in the Revolving Fund. See "SOURCES AND USES OF FUNDS" herein.

Amounts deposited in the Support Fund in connection with the issuance of the Bonds are expected to be invested in an investment agreement as a permitted investment under the Resolution. See "SECURITY FOR THE BONDS -- Investment of Funds."

**STATE OF CONNECTICUT
OFFICE OF THE TREASURER**

The Treasurer is primarily responsible for receiving and disbursing all moneys belonging to the State, supervising the collection of State taxes 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 normally delegates to the Treasurer the responsibility for determining the terms and conditions and carrying out the issuance of State general obligation and revenue bonds.

The Treasurer and DEP have entered into a Memorandum of Agreement pertaining to the management of the SRF Programs. The Memorandum of Agreement delegates to the Treasurer certain responsibilities with respect to the implementation and management of the SRF Programs. A Financial Administrator has been appointed by the Treasurer to manage and coordinate the various financial components of the SRF Programs on a day-to-day basis. The activities of the

Financial Administrator are coordinated with those of DEP and the Office of Policy and Management (“OPM”) for the Wastewater Program. OPM manages the State’s capital budget and oversees the bond allocation process.

The Drinking Water Program Interagency Memorandum of Understanding details the roles and responsibilities of DPH, DEP, the Treasurer and the Department of Public Utility Control (“DPUC”) with respect to the Drinking Water Program. DPH is responsible for programmatic administration of the drinking water projects and for programmatic and fiscal administration of the set-aside projects and accounts. DEP is in charge of fiscal administration and planning, design and construction projects for the Drinking Water Program. The Treasurer handles the fiscal administration of all Drinking Water Program accounts, oversight of project loans including loan issuance and loan closings under the fiscal provisions of the State's SRF Programs and the administration of Drinking Water Program, which includes the issuance of bonds. The DPUC has programmatic and fiscal input on Drinking Water Program projects for DPUC regulated privately owned public drinking water utilities. The DPUC has no rate-making authority with respect to municipal Borrowers.

The Financial Administrator is responsible for the following tasks: development of all the supporting data for the financing of projects from the SRF Programs, including reviewing any credit related documents submitted by borrowers to obtain a Loan; coordination of the tax documentation necessary to finance the projects; coordination of the investment of bond proceeds of either revenue bonds or general obligation bonds to maximize the yield while meeting the other programmatic requirements of the SRF Programs; and coordination of the preparation of documentation to finance the SRF Programs. The Financial Administrator and DEP prepare the annual report detailing the activities of the SRF Programs to be submitted to the Governor by the Commissioner of DEP and the Treasurer. The Treasurer makes no representation as to the creditworthiness of any particular borrower or its ability to make Loan repayments.

**STATE OF CONNECTICUT
DEPARTMENT OF ENVIRONMENTAL PROTECTION**

DEP was established as a State agency to carry out the environmental policy of the State, including conserving, improving and protecting the State's natural resources and environment and mitigating water, land and air pollution. The State Act gives DEP certain statutory responsibilities with respect to the SRF Program (“**DEP Priority List**”). DEP is also responsible for enforcement of, and compliance with, State and federal laws, rules and regulations pertaining to pollution control in the State generally and supervising research related to restoring and rehabilitating the Long Island Sound.

DEP, as the recipient of the federal capitalization grants on behalf of the State, executes a capitalization grant agreement with the EPA, processes cash draws of the grants and requests the appropriate State matching funds from the State for deposit in the Wastewater Program. DEP prepares and submits an annual report detailing its activities to the EPA.

DEP annually prepares the Priority List of eligible water quality projects identifying wastewater treatment projects that are eligible for assistance from the Wastewater SRF Program. In addition to determining project eligibility, DEP approves disbursement requests for construction costs incurred by borrowers who receive financial assistance from the Wastewater SRF Program. DEP also inspects projects to monitor compliance with approved plans and specifications therefor. DEP establishes compliance schedules for each step of municipal pollution control projects, including planning, design and construction, and reviews all submissions of borrowers that are required to follow an enforcement schedule.

STATE OF CONNECTICUT DEPARTMENT OF PUBLIC HEALTH

The DPH is the state agency that carries out the public health policy of the State, including the use and protection of the State's drinking water resources. The State Act gives DPH certain statutory responsibilities with respect to the Drinking Water SRF Program. DPH is also responsible for enforcement of and compliance with, State and federal laws, rules and regulations pertaining to drinking water and its use in the State.

DPH determines the future needs and sets priorities for funding drinking water projects. Based on approved state and federal appropriations, DPH annually prepares the Priority List identifying drinking water projects that are eligible for assistance from the Drinking Water Program ("DPH Priority List"). DPH is responsible for reporting the details of these and other program activities to the EPA every year.

THE LOANS

Loan Application Process

While there are slight differences between the Wastewater Program and the Drinking Water Program, the Loan application processes are similar. In order to qualify for funding from a SRF Programs, a project must be listed on DEP's Priority List of eligible water quality projects or DPH's Priority List of eligible drinking water projects (collectively, the "**Priority List**"), which sets forth the projects expected or proposed to receive financial assistance under the SRF Programs. As a condition to being placed on the Priority List for a wastewater treatment project, a borrower must have previously received an administrative abatement order from DEP directing the borrower to alleviate existing or potential wastewater disposal problems; for the Drinking Water Program no abatement order is required. Once a project is placed on the Priority List, the potential loan recipient must file an application for financial assistance for such project. The application must pass four levels of approval: (1) evaluation and enforcement, which determines if the proposed project addresses the needs cited by DEP/DPH and complies with regulatory and statutory requirements; (2) project administration, which determines if the project is eligible for funding in accordance with state and federal regulations; (3) environmental review, which involves the preparation of an environmental assessment of the project; and (4) credit review, which analyzes an applicant's ability to repay the Loan. The Office of the Treasurer reviews the financial information submitted with each application. DEP and the Office of the Treasurer determine whether, and on what terms and conditions, financial assistance will be provided, including whether or not the State will issue

revenue bonds for the benefit of the project. If DEP and the Office of the Treasurer determine that the State will not finance all or a portion of the cost of such project from the proceeds of revenue bonds, the State may provide a direct loan to assist an eligible project from available moneys in any of the other accounts in the SRF Programs. Grants to municipalities for qualified wastewater projects are funded solely from the Wastewater Program. The State funds Wastewater Program grants with State general obligation bonds only.

Loan Agreements

Prior to the making of a Loan to a borrower for an eligible project from funds in the State Revolving Fund, the Borrower and the State must enter into a Loan Agreement relating to such Loan and the Borrower must deliver to the State an obligation of such Borrower (a “**Borrower Obligation**”) evidencing such Loan. In each Loan Agreement, the State agrees to make a Loan in an amount up to the maximum amount provided in the Loan Agreement. Funds are disbursed to a Borrower only to pay eligible project costs which actually have been incurred by the Borrower, and the amount of a Loan is equal to the aggregate of such disbursed amounts.

Each Loan Agreement specifies a date as of which the project is required to be completed (the “**Scheduled Completion Date**”). Amortization of each Loan is required to begin no later than one year from the earlier of the Scheduled Completion Date specified in the Loan Agreement or the actual project completion date. The final maturity of each Loan is no later than twenty years from the Scheduled Completion Date. Pursuant to the State Act, each Loan bears an interest rate of 2% per annum for Wastewater Program Loans or 50% of Market Rate for Drinking Water Program Loans.

Loan Repayments

Pursuant to the State Act and the Loan Agreements, principal and interest payments on Loans are payable (i) in equal monthly installments commencing one month after the Scheduled Completion Date, or (ii) in a single annual installment representing the first year's principal not later than one year after the Scheduled Completion Date and thereafter in monthly installments of principal and interest. Borrowers may elect to make level debt service payments or level principal payments. Borrowers may prepay their Loans, with no prepayment penalty, at any time prior to maturity.

Under the Resolution, payments of Available Moneys are deposited into the Debt Service Fund not later than one Business Day prior to any Payment Date in amounts necessary, together with any amounts on deposit therein, sufficient to pay the amounts coming due on such Payment Date consisting of (1) the principal of, redemption premium, if any, and interest on Bonds and (2) any other amounts payable from the Debt Service Fund related to Other Financial Assistance and Related Program Obligations. In connection with this offering, the State makes no representation as to the creditworthiness of any particular Borrower or its ability to make Loan repayments. To date, no Borrower has failed to make any of its Loan repayments to the SRF Programs or been more than 45 days late in its loan repayments.

Security for the Loans

Each Loan is secured by a Borrower Obligation of the Borrower. Borrower Obligations include bonds, notes or other evidences of debt issued by any Borrower, which obligations may be general obligations, revenue obligations and or corporation obligations or such other obligation acceptable to the State and in compliance with the requirements of the State Act and Federal Act. The issuance of the Borrower Obligation must be accompanied by an opinion of counsel to the Borrower to the effect that such obligation constitutes (a) a legal, valid and binding general obligation for which the full faith and credit of the Borrower is pledged, (b) a legal, valid and binding revenue obligation for which a dedicated source of revenue of that Borrower is pledged and/or (c) a legal, valid and binding corporate obligation or such other obligation acceptable to the State and in compliance with the requirements of the State Act and the Federal Act.

THE BORROWERS

Under the Resolution, Borrowers may include (a) any metropolitan district, town, water district, consolidated town and city, consolidated town and borough, city, borough, village, district, fire and sewer district, sewer district or public authority and each municipal organization having authority to levy and collect taxes or make charges for its authorized function, and (b) any private or public corporation or other entity undertaking activities authorized by the State Act and the Federal Act.

The State has made Loans, and has entered into or anticipates entering into Loan Agreements under which it will agree to make Loans, to the Borrowers in the amounts set forth below. Except as provided below, the bond proceeds are disbursed on a first-come, first served basis to those Borrowers that have executed Loan Agreements, as such Borrowers incur Project costs. Borrowers in addition to the ones listed below, subject to State Bond Commission approval, may receive Loans from Program Bond proceeds, provided that they have entered into Loan Agreements with the State and incurred Project costs prior to disbursement of such Bond proceeds. Loan Agreements relating to the Borrowers listed below may be amended to provide that additional municipalities that use portions of any Project may be liable, in lieu of such listed Borrowers, for the repayment of portions of the amount lent thereunder. Borrowers may or may not have credit ratings from one or more nationally recognized rating agencies on their municipal debt.

The following table lists (as of May 15, 2003) (i) Borrowers with outstanding Loans under the SRF Programs and (ii) Borrowers who have undrawn Loan commitments or are expected to receive Loan commitments through June, 30, 2004, to be funded under the SRF Programs. The table includes both Loans pledged under the 1990 Resolution and Subordinate Resolution and those Loans that are not subject to any pledge. Many of the Borrowers listed below have multiple Loans. The table indicates which Borrowers have one or more Loans that are pledged under the 1990 Resolution and which have one or more Loans that are not pledged. Upon closing of the Bonds, approximately \$326.3 million in outstanding principal amount of Loans is pledged to secure the Prior Bonds.

**State of Connecticut State Revolving Fund General Obligation Loans Outstanding at 5/15/2003 and Expected
Additional Commitments to 6/30/2004**

<u>Name</u>	<u>Loans Outstanding As of 5/15/2003¹</u>	<u>Undrawn Loan Commitments²</u>	<u>Expected Additional Loan Commitments Through 6/30/2004³</u>	<u>Total Commitments⁴</u>	<u>Pledged Loans⁵</u>	<u>Other Loans In Revolving Fund⁶</u>
Ansonia			\$ 1,389,649	\$ 1,389,649		X
Aquarion	\$ 375,256			375,256		X
Bethel	5,048,281			5,048,281	X	
Branford	22,072,499			22,072,499		X
Bridgeport	38,436,163	\$ 1,356,963	9,760,316	49,553,442	X	X
Bristol	4,106,286	138,216	2,193,527	6,438,028	X	X
Brookfield	1,231,998			1,231,998	X	
Brooklyn	195,333			195,333		X
Burlington	1,583,726			1,583,726		X
Canaan FD	73,837			73,837		X
Canton	1,252,276			1,252,276		X
Cheshire	7,393,425		1,500,000	8,893,425	X	X
Chester			750,000	750,000		X
Colchester			350,000	350,000		X
Cook Willow	636,693	5,639		642,332		X
Coventry			6,524,000	6,524,000		X
Crystal Lake	300,232	4,141		304,373		X
Danbury	26,497,489			26,497,489	X	X
Darien	800,242			800,242		X
Deep River			1,500,000	1,500,000		X
Derby	1,975,762			1,975,762		X
Durham			1,100,000	1,100,000		X
East Haddam	1,109,390			1,109,390		X
East Hampton	924,062		1,430,250	2,354,312	X	X
East Haven	166,888			166,888		X
East Lyme	9,494,946		995,000	10,489,946		X
East Windsor	7,396,783			7,396,783	X	
Enfield			2,400,000	2,400,000		X
Fairfield	33,015,906			33,015,906		X
Farmington	10,950,428			10,950,428	X	
Glastonbury			2,300,000	2,300,000		X
Greenwich	27,886,057	1,403,338		29,289,395	X	X
Hamden			1,115,000	1,115,000		X
Harrybrook Park Condo	201,063			201,063		X
Hebron	5,955,881			5,955,881	X	
Hillside Water	146,945			146,945		X
Jewett City	59,987		10,637,290	10,697,277		X
Ledyard	2,147,353		1,026,500	3,173,853		X
Litchfield	3,552,722	2,501,975		6,054,698		X
Manchester			1,040,000	1,040,000		X
Metropolitan District	47,849,058	3,366,320	8,225,000	59,440,378	X	X
Meriden	1,656,580		3,675,000	5,331,580	X	X
Middlebury	328,484			328,484	X	
Middlefield	2,914,876			2,914,876		X
Middletown	11,409,193	2,776,635	1,500,000	15,685,828	X	X
Milford	101,081		4,000,000	4,101,081		X
Montville			3,800,000	3,800,000		X
Naugatuck	1,608,589			1,608,589		X
New Britain	30,006,839	8,905,408	3,376,783	42,289,030	X	X
New Canaan	10,282,740			10,282,740		X
New Haven	23,789,454	3,928,910	7,500,000	35,218,364	X	X

Name	Loans Outstanding As of 5/15/2003 ¹	Undrawn Loan Commitments ²	Expected Additional Loan Commitments Through 6/30/2004 ³	Total Commitments ⁴	Pledged Loans ⁵	Other Loans In Revolving Fund ⁶
New London	7,734,303			7,734,303x	X	X
New Milford	3,321,331			3,321,331	X	
Newtown	15,484,526			15,484,526		X
Newtown High School	484,282	31,718		516,000		X
Noank WD			268,250	268,250		X
North Branford	3,757,582			3,757,582	X	
North Haven	8,199,900		850,000	9,049,900	X	X
Norwalk	37,810,953	5,975,918		43,786,871	X	X
Norwalk WD			15,000,000	15,000,000		X
Norwich	6,247,217			6,247,217	X	X
Plainfield	99,780	1,506,372		1,606,152		X
Plainville			1,800,000	1,800,000		X
Plymouth	5,416,852		750,000	6,166,852	X	X
Point O'Woods			1,045,685	1,045,685		X
Portland	5,760,610			5,760,610	X	X
Redding	890,157			890,157		X
Ridgefield	5,929,597			5,929,597	X	X
Seymour	7,602,546			7,602,546	X	X
Sharon	2,400,562	274,212		2,674,774		X
Shelton			10,171,593	10,171,593		X
Simsbury			18,661,998	18,661,998		X
South Windsor	735,150			735,150	X	
Southington WD			18,049,000	18,049,000		X
Sprague	152,326			152,326		X
Stafford	488,337			488,337		X
Stamford	32,132,891	47,285,383		79,418,273		X
Stonington	3,031,897			3,031,897		X
Stratford	2,952,559		43,800,000	46,752,559	X	X
Suffield	1,290,157			1,290,157	X	
Thomaston	8,969,002			8,969,002	X	X
Torrington	7,296,647		450,000	7,746,647	X	X
Twin Hills WD	175,616			175,616		X
Unionville Water			1,800,000	1,800,000		X
Vernon	20,252,371			20,252,371	X	X
Wallingford			2,500,000	2,500,000		X
Waterbury	92,656,612	8,585,166		101,241,778	X	X
Watertown FD	1,049,666	345,648	635,500	2,030,814	X	X
West Haven	19,616,065	1,670,514		21,286,579	X	X
Windsor Locks	1,522,923	192,746		1,715,669		X
Woodbridge	283,043			283,043		X
Woodlake Taxing District			410,000	410,000		X
Woodstock	<u>1,143,659</u>			<u>1,143,659</u>		X
Totals ⁽⁷⁾	\$649,823,924	\$ 90,255,233	\$ 194,280,341	\$ 934,359,488		

(1) Funded from proceeds of federal grants, State general obligation bond proceeds and Bond proceeds.

(2) Consists of undrawn amounts under executed Loan Agreements to be funded from State general obligation bond proceeds, the Bonds and, subject to legislative authorization, additional Bond proceeds.

(3) Consists of anticipated Loans for which no Loan Agreement has yet been executed, to be funded from State general obligation bond proceeds, the 2003A Bonds and, subject to legislative and State Bond Commission authorization, additional Bond proceeds. Certain of the anticipated Loans also will require State Bond Commission authorization.

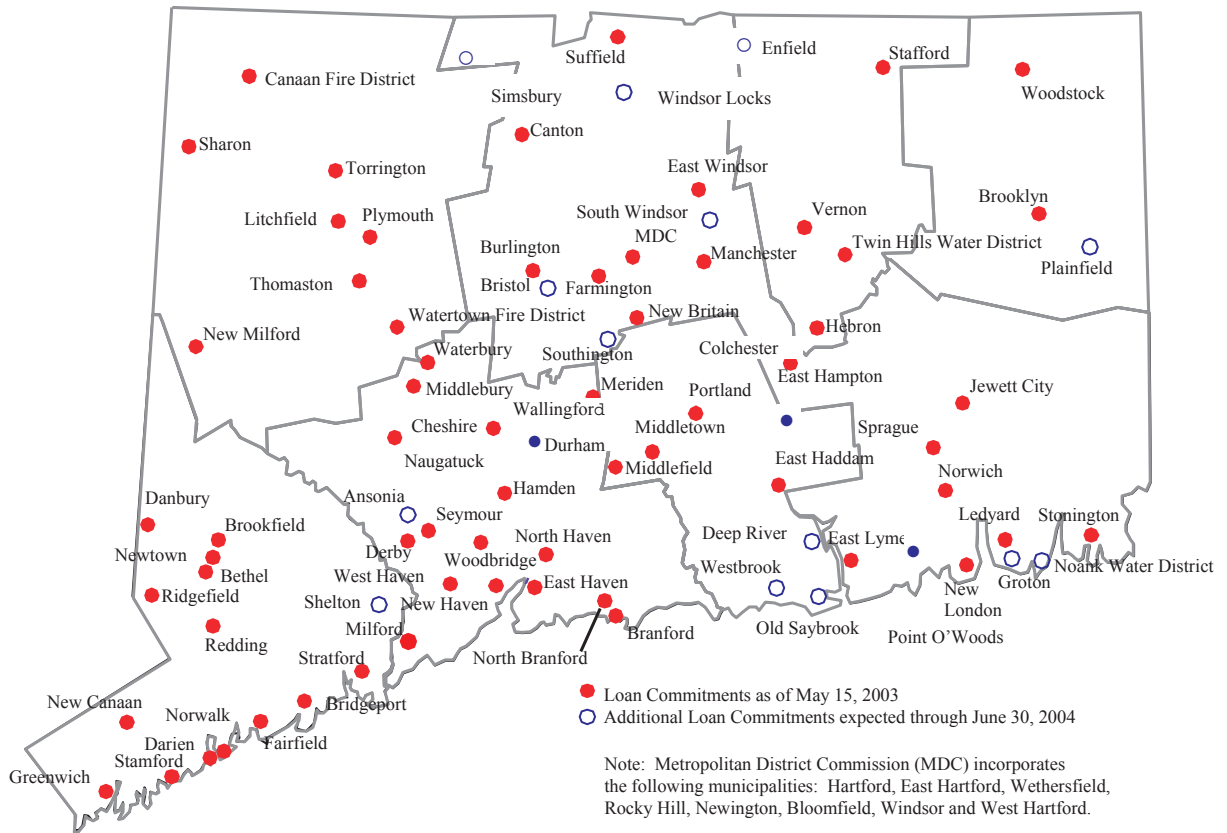
(4) Total Commitments is the sum of Loans Outstanding as of May 15, 2003, Undrawn Loan Commitments and Expected Additional Loan Commitments through June 30, 2004. Total Commitments does not reflect projected amortization through June 30, 2004 of Loans Outstanding.

(5) The table does not indicate the percentage of the total amount of Loans which are pledged or not pledged under the 1990 Resolution and the relative proportions may vary significantly. The State may make changes to the allocation of assets consistent with the requirements of the 1990 Resolution and prudent management practices of the SRF Program.

(6) Includes expected Loan commitments through June 30, 2004.

(7) Totals may not add due to rounding.

The following map of the State indicates the location of the Borrowers that are participating in the SRF Programs:



Set forth in Appendix A is certain information regarding the Borrowers whose Loans, including current and anticipated Loan commitments through June 30, 2004, are expected to exceed 10% of the aggregate outstanding principal amount of the Program Bonds, including the 2003 Bonds. Appendix A of this Official Statement should be read in light of the fact that Loan amounts may change, other Borrowers may be substituted, and additional Borrowers may be added in the future. Further, an identified Borrower may fall below the 10% threshold and thereafter may be released from its obligations under its Continuing Disclosure Agreement. See “CONTINUING DISCLOSURE AGREEMENTS” and Appendix G. The specific amounts loaned to the Borrowers will generally depend upon the actual progress of construction of such Borrowers' projects.

SOURCES AND USES OF FUNDS

It is anticipated that the proceeds of the 2003 Bonds and SRF Programs Available Moneys will be used as follows:

2003A Bonds

Sources

Principal Amount of 2003A Bonds	\$118,085,000.00
Accrued Interest	119,760.22
Net Original Issue Premium	8,093,014.75
Revolving Fund Available Moneys ⁽¹⁾	<u>23,415,489.67</u>
Total Sources	\$ 149,713,264.64

Uses

Available for Loans ⁽²⁾	\$125,000,000.00
Underwriters' Discount and Costs of Issuance	1,178,014.75
Deposit to Support Fund	23,415,489.67
Accrued Interest	<u>119,760.22</u>
Total Uses	\$149,713,264.64

2003B and 2003C Bonds

Sources

Principal Amount of 2003B and 2003C Bonds	\$237,160,000.00
Accrued Interest	121,850.16
Net Original Issue Premium	15,226,196.10
Revolving Fund Available Moneys ⁽¹⁾	<u>60,885,370.18</u>
Total Sources	\$313,393,416.44

Uses

Deposit to Escrow Fund	\$310,884,231.00
Underwriters' Discount and Costs of Issuance	2,387,335.28
Accrued Interest	<u>121,850.16</u>
Total Uses	\$ 313,393,416.44

- (1) Available Moneys represent amounts in the Revolving Fund to be contributed at closing to the Support Fund, including amounts previously drawn from federal capitalization grants.
- (2) Includes Wastewater Program loans of \$37,541,542.63 funded with excess moneys available under the Resolution and Drinking Water Program loans of \$10,146,407.60 funded with drinking water federal capitalization grants and State Contributions to date.

ASSETS AND LIABILITIES IN REVOLVING FUND

As of the date hereof, it is anticipated that upon delivery of the 2003 Bonds the Revolving Fund assets will be approximately as set forth in the table below, including Loans and other assets pledged to secure the Senior and Subordinate Bonds. The State may make changes to the allocation of assets consistent with the requirements of the 1990 Resolution and prudent management practices of the SRF Program.

(In Millions)

<u>Assets</u>	<u>Assets Pledged to Prior Bonds¹</u>	<u>Unencumbered Assets</u>
Loans	\$ 326.3	\$ 399.0
Long-Term Investments ²	81.0	158.1
State Contributions ³	14.2	70.9
Capitalization Grants	0	18.8
Short-Term Investments	<u>72.0</u>	<u>39.2</u>
Total Assets	\$ 493.5	\$ 686.0
Liabilities		
1990 Resolution Bonds	\$171.0	0
Subordinate Bonds	122.2	0
2003 Bonds	<u>0</u>	<u>\$ 355.2</u>
Total Liabilities	\$ 293.2	\$ 355.2

¹ Assets Pledged to Prior Bonds will not become unencumbered assets until released from 1990 Resolution and Subordinate Resolution.

² The State currently invests a significant portion of the funds and accounts created under the 1990 Resolution in investment agreements with financial institutions. The 1990 Resolution requires that such investment agreements be with, or be guaranteed by, institutions with ratings at least equal to the rating on the 1990 Resolution Bonds given by Standard & Poor's and Moody's Investors Service or any rating service recognized by the State banking commissioner. Certain moneys held in the Debt Service Reserve Fund under the 1990 Resolution are invested pursuant to investments agreements, collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities thereof whose market value is at least 100% of the funds invested with AIG Matched Fund Corp., guaranteed by American International Group, Inc.; AIG Financial Products (Jersey) Limited, guaranteed by American International Group, Inc.; CDC Funding Corp., guaranteed by Caisse Des Dépôts et Consignation; Société Générale (New York Branch), payment obligations guaranteed by Financial Security Assurance, Inc., and Trinity Plus Funding. Upon the issuance of the 2003 Bonds, certain of these long-term investments will be released from the pledge of the 1990 Resolution and will become unencumbered assets.

³ State Contributions consist of State General Obligation Bonds. See "STATE OF CONNECTICUT CLEAN WATER FUND – Prior Bonds Under 1990 Resolution and Subordinate Resolution --State General Obligation Bonds" herein.

SCHEDULE OF DEBT SERVICE ON PROGRAM BONDS AND 2003 BONDS

The following table sets forth debt service on the Prior Bonds and the 2003 Bonds:

Fiscal Year Ending June 30	1990 and Subordinate	General Bond Resolution		
	Resolution Debt Service	Principal	Interest⁽¹⁾	Total Debt Service
2004	\$ 48,002,975	\$ 2,035,000	\$ 10,727,578	12,762,578
2005	47,461,929	4,385,000	13,470,706	17,855,706
2006	41,399,526	5,370,000	13,362,194	18,732,194
2007	35,885,514	7,915,000	13,229,344	21,144,344
2008	38,663,631	10,620,000	13,054,711	23,674,711
2009	33,497,044	12,685,000	12,810,944	25,495,944
2010	32,851,492	12,625,000	12,437,056	25,062,056
2011	26,581,440	11,000,000	12,059,394	23,059,394
2012	20,622,638	9,215,000	11,732,264	20,947,264
2013	14,833,509	17,915,000	11,071,279	28,986,279
2014	12,716,920	22,585,000	9,951,318	32,536,318
2015	5,391,329	25,950,000	8,706,338	34,656,338
2016	5,349,530	26,310,000	7,432,788	33,742,788
2017	1,989,503	28,110,000	6,166,640	34,276,640
2018	387,219	22,385,000	5,305,993	27,690,993
2019	204,963	29,350,000	4,355,811	33,705,811
2020	99,988	25,265,000	3,412,591	28,677,591
2021		25,180,000	2,517,239	27,697,239
2022		19,855,000	1,748,482	21,603,482
2023		20,225,000	1,021,910	21,246,910
2024		7,890,000	541,063	8,431,063
2025		5,330,000	246,510	5,576,510
2026		3,045,000	63,945	3,108,945

- (1) Assumes interest at a rate of 3.1789% until October 1, 2013 and a rate of 3.0299% thereafter on the 2003C Bonds, based on the Interest Rate Swap.

SECURITY FOR THE BONDS

Special Obligation

Debt Service on the 2003 Bonds is expected to be paid from Available Moneys, including pledged amounts in the Support Fund, the Bond Proceeds Fund and the Debt Service Fund. Pursuant to the Resolution, the Available Moneys, all funds and accounts established in connection with the issuance of the Bonds (including the Bond Proceeds Fund, the Debt Service Fund and the Support Fund, but excluding the Rebate Fund), the investments thereof and the proceeds of such investments, if any, are pledged for the payment of the principal of, Redemption Price of, interest on, and Sinking Fund Installments for, the Bonds in accordance with the terms and provisions of the Resolution. Although amounts attributable to each program will be tracked separately for the federal reporting purposes, all Available Moneys from both programs will be used to pay principal of and interest on

all Bonds of the State's SRF Program. The Resolution does not restrict the use of Available Moneys for other programs and purposes authorized by federal and state law. See "STATE OF CONNECTICUT CLEAN WATER FUND – Federal Statutory Framework."

Each Borrower Obligation is (a) a legal, valid and binding general obligation for which the full faith and credit of the Borrower is pledged, (b) a legal, valid and binding revenue obligation for which a dedicated source of revenue of that Borrower is pledged and/or (c) a legal, valid and binding corporate obligation or such other obligation acceptable to the State and in compliance with the requirements of the State Act and the Federal Act. Each Borrower Obligation will provide for repayment of the principal amount of the Loan it evidences, together with interest on the unpaid principal amount of such Loan.

The pledge of the Resolution is valid and binding on the State and all other moneys and securities in the funds and accounts established by the Resolution and pledged thereunder are subject to the lien of such pledge without any physical delivery thereof or further act, and such lien is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice thereof.

Flow of Funds

The following funds are created under the Resolution: the Revolving Fund, the Bond Proceeds Fund, the Debt Service Fund, the Support Fund and the Rebate Fund. Moneys will be held in, and transfers will be made to, the separate accounts of such funds in accordance with the Resolution.

Revolving Fund. The Revolving Fund from which the Bonds are to be repaid consists of amounts in the water pollution control federal revolving loan account and drinking water federal revolving loan account. See "STATE OF CONNECTICUT CLEAN WATER FUND – State's SRF Programs." The State will maintain the Revolving Fund in accordance with the Federal Act. Not later than one Business Day prior to any Payment Date, the State shall transfer to the Debt Service Fund any amounts necessary, together with any amounts on deposit therein, sufficient to pay principal of, redemption premium, if any, and interest on Bonds coming due on such Payment Date and any amounts payable from the Debt Service Fund related to Other Financial Assistance and Related Program Obligations. See "**Appendix D—SUMMARY OF CERTAIN OF THE PROVISIONS OF THE GENERAL BOND RESOLUTION.**"

Bond Proceeds Fund. The proceeds of the 2003A Bonds will be deposited into the Bond Proceeds Fund as specified and determined by the Supplemental Resolution. Moneys in the Bond Proceeds Fund will be expended only for the purposes of the Wastewater Program or the Drinking Water Program, including the financing of Loans to Borrowers, and to the extent that other moneys are not available, for payments of principal of and interest on the Bonds when due and to redeem Bonds at the direction of the State.

Debt Service Fund. Amounts deposited in the Debt Service Fund may include accrued interest and capitalized interest, if any, and amounts transferred from the Revolving Fund, the Support Fund and the Bond Proceeds Fund. Amounts on deposit in the Debt Service Fund will be

used for the payment of debt service on the Bonds when due and amounts due on Other Financial Assistance and Related Program Obligations.

Support Fund. The Support Fund, and accounts therein, shall be funded in the amounts and in the manner set forth in a Supplemental Resolution. Moneys in the Support Fund shall be transferred to the Debt Service Fund to pay the interest, principal and Sinking Fund Installments and Redemption Price due on Bonds, in accordance with the schedule set forth in the applicable Supplemental Resolution.

Cross-Collateralization

Both the Drinking Water Program and the Wastewater Program make Loans from the proceeds of the Bonds. Loan repayments from both SRF Programs are deposited to the State Revolving Fund General Revenue Bond Program and available to pay all Bonds whether the Loans were made under the Drinking Water Program or the Wastewater Program. The cross-collateralization of the SRF Programs has been structured in accordance with the EPA regulations, interpretations and guidance (collectively, the “**Federal Environmental Law**”) and the Resolution, as amended and supplemented. See the definition of Federal Act in “**Appendix D—SUMMARY OF CERTAIN OF THE PROVISIONS OF THE GENERAL BOND RESOLUTION.**”

Investment of Funds

The State may invest moneys under the Resolution in any Investment Obligations. Concurrently with the issuance and delivery of the 2003 Bonds, the State will enter into investment agreements for the investment of the net proceeds of the 2003 Bonds and amounts to be deposited in the Support Fund in connection with issuance of the 2003 Bonds.

Such agreements are subject to early termination upon certain events. In addition, such agreements may be subject to certain other risks, including the bankruptcy or insolvency of the party with which such funds have been invested under such agreements or which has guaranteed such agreements.

Additional Bonds

Under the Resolution, the State expressly reserves the right to adopt one or more other general bond resolutions and reserves the right to issue notes and any other obligations so long as the same are not a prior charge or lien on Available Moneys. The Resolution provides that additional bonds may include a pledge of Borrower Obligations that are pledged to one or more Series of Bonds pursuant to a Supplemental Resolution. No additional bonds will be issued under the 1990 Resolution or the Subordinate Resolution.

Bond Anticipation Notes

Whenever the State authorizes the issuance of a Series of Bonds, the Treasurer is authorized to issue notes (and renewals thereof) in anticipation of such Series. The principal of and interest on such notes and renewal thereof will be payable solely from the proceeds of such notes or renewals thereof or from the proceeds of the sale of the Series of Bonds in anticipation of which such notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge will have a priority over any other pledge of such proceeds created by the Resolution. Unless otherwise provided in a Supplemental Resolution, Notes will not be secured by the Support Fund or any fund or account established under the Resolution.

State General Taxing Power Not Pledged

The 2003 Bonds are special obligations of the State payable from Available Moneys in the Revolving Fund in accordance with the terms and provisions of the Resolution. With respect to the 2003 Bonds, the Bond Proceeds Fund, the Debt Service Fund and the Support Fund, the investments thereof and the proceeds of such investments, if any, are pledged for the payment thereof in accordance with the terms and provisions of the Resolution. The issuance of the 2003 Bonds under the State Act and the Resolution shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor, or to make any additional appropriation for their payment. The 2003 Bonds shall not constitute a charge, lien, encumbrance or mortgage, legal or equitable, upon any property of the State or of any political subdivision thereof, and other receipts, funds or moneys pledged therefor. The 2003 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.

AUTHORIZATION FOR THE BONDS

Legal Authority -- State Bond Commission

The State will issue the 2003 Bonds pursuant to the State Act and the Resolution. Under the terms of the State Act, the State Bond Commission (established pursuant to Section 3-20 of the General Statutes of Connecticut, as amended) is empowered to authorize revenue bonds in accordance with the permitted uses of the SRF Programs including the Wastewater Program and the Drinking Water Program, subject to the legislative authorizations of additional Bonds, and to authorize the execution of the Resolution as a contract of the State with the holders of the Bonds.

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 and the Co-chairpersons and the Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding of the General Assembly. The Secretary of the Office of Policy and Management serves as secretary to the State Bond Commission.

Agreement of the State

In consideration of the purchase and acceptance of the Bonds by purchasers or subsequent holders of the Bonds, the provisions of the Resolution will constitute a contract among the State, the Trustee and the holders from time to time of all Bonds issued under the Resolution, including the 2003 Bonds. The provisions, covenants and agreements of the Resolution set forth to be performed on behalf of the State will be for the equal benefit, protection and security of the Holders of any and all of the Bonds issued under the Resolution, including the 2003 Bonds, all of which, regardless of the time or times of their issue or maturity, will be of equal rank without preference, priority or distinction of any of the Bonds over any other therefor except as expressly provided in the Resolution.

DESCRIPTION OF THE 2003 BONDS

Fixed Rate Bonds

Interest and Principal Payment Dates, Places and Payees. The Fixed Rate Bonds will be dated July 1, 2003, and will bear interest therefrom, payable on April 1 and October 1 of each year, commencing October 1, 2003, and will mature on October 1 in the years and in the principal amounts set forth on the inside cover page hereof. The principal of, premium, if any, and interest on the Fixed Rate Bonds will be payable at the corporate trust office of the Trustee in Hartford, Connecticut, or at the office of the Paying Agent in New York, New York, or at the office designated for such payment by the Trustee or any successor Trustee. Interest on the Fixed Rate Bonds will be payable to the person appearing on the registration books of the Trustee as the registered owner thereof on the Record Date by check or draft mailed on the interest payment date to the registered owner or, following appropriate notice to the Trustee, by wire transfer on the interest payment date to any owner of at least \$1,000,000 in aggregate principal amount of the Fixed Rate Bonds. As long as the Fixed Rate Bonds are registered in book-entry-only form, principal and interest will be payable solely to Cede & Co., as nominee of DTC, as the sole registered owner of the Fixed Rate Bonds. The Resolution establishes the fifteenth day preceding each interest payment date as the Record Date for such interest payment date.

Registration, Transfer and Exchange. The Fixed Rate Bonds are issuable as fully registered bonds in any denomination constituting an integral multiple of \$5,000 not exceeding the aggregate principal amount of the Fixed Rate Bonds. The Fixed Rate Bonds may be transferred or exchanged, upon presentation or surrender, as the case may be, at the corporate trust office of the Trustee in Hartford, Connecticut, or at the office of the Paying Agent in New York, New York as provided in the Resolution. Any Fixed Rate Bonds, upon surrender thereof at the corporate trust office or at the paying agency office of the Trustee, with a written instrument of transfer satisfactory to the Trustee, duly executed in writing, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Fixed Rate Bonds of the same series, maturity and initial rate of any other authorized denominations. For every exchange or transfer of the Fixed Rate Bonds, the State may make a charge sufficient to reimburse it for any tax, fee or other government charge required to be paid with respect to such exchange or transfer.

ARS Bonds

The 2003C Bonds will be issued pursuant to the Resolution. Each subseries of 2003C Bonds will be issued initially as bonds that bear interest at an ARS Rate but may be converted at the option of the State, subject to certain restrictions, to bonds that bear interest at Fixed Interest Rates. The 2003C Bonds will be dated the date of delivery, and will bear interest from their date of delivery for the applicable Initial Periods set forth on the inside front cover of this Official Statement at the rates established by Goldman, Sachs & Co., as one of the Broker-Dealers, prior to their delivery and thereafter at the applicable ARS Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the Initial Periods, the 2003C Bonds will initially bear interest for Auction Periods set forth on the inside front cover of the Official Statement but can be converted to a daily, seven-day, 28-day, 35-day, three-month, six-month or a Special Auction Period. The Special Auction Period is any period of not less than seven days nor more than 1,092 days which is not another Auction Period. Upon conversion from an ARS Rate Period to a Fixed Rate Period, the applicable 2003C Bonds will be subject to mandatory tender on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Interest on the 2003C Bonds in a daily, seven-day, 28-day, 35-day, three-month or a Special Auction Period of 180 days or less will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest on the 2003C Bonds in a six-month Auction Period or a Special Auction Period of more than 180 days will be computed on the basis of a 360-day year of twelve 30-day months. See “**Appendix I – ARS PROVISIONS.**”

The 2003C Bonds will be issued as fully registered bonds without coupons and in denominations of \$25,000 or any integral multiple thereof. The 2003C Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC’s Book-Entry Only System. Purchases of beneficial interest in the 2003C Bonds will be made into book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the 2003C Bonds, the 2003C Bonds will be exchangeable for other fully registered certificated 2003C Bonds of the same subseries in any authorized denominations, maturity and interest rate. See “DESCRIPTION OF THE 2003 BONDS -- Book-Only Entry System” herein. The Trustee may impose a charge sufficient to reimburse the State or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of an ARS Bond. The cost, if any, of preparing each new ARS Bond issued upon such exchange or transfer, and any other expenses of the State or the Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

Interest on the 2003C Bonds will be payable by check mailed to the registered owners thereof. However, interest on the 2003C Bonds will be paid to any owner of \$1,000,000 or more in aggregate principal amount of the 2003C Bonds by wire transfer to a wire transfer address within the continental United States upon the written request of such owner received by the Trustee not less than five days prior to the Record Date. As long as the 2003C Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See “DESCRIPTION OF 2003 BONDS -- Book-Entry Only System” herein.

Terms of ARS Bonds

“**ARS Rate**” means with respect to each subseries of the 2003C Bonds, while such 2003C Bonds bear interest at a ARS Rate, the rate of interest to be borne by such 2003C Bonds during each Auction Period which (other than for the Initial Period) will equal the Auction Rate for each Auction Period; provided, however, that, if the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period will be the same as the preceding Auction Period and the ARS Rate for the new Auction Period will be the same as the ARS Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period will be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the ARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended, and, in the event an Auction Period is extended as set forth in clause (ii) an Auction will be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended; provided, further, that if the Auction Procedures are suspended due to the failure to pay principal of, premium or interest on, any ARS Bond, the ARS Rate for the next succeeding Auction Period will be the Default Rate; provided, further, that in no event will the ARS Rate exceed the Maximum Interest Rate; and; provided, further, in the event of a failed conversion from a ARS Rate to a Fixed Interest Rate or the conversion from one Auction Period to another Auction Period, the affected 2003C Bonds will continue as 2003C Bonds with a seven-day Auction Period and bear interest at the Maximum ARS Rate for the next Auction Period.

“**Maximum Interest Rate**” means the lesser of 15% or the maximum interest rate permitted by applicable law.

“**ARS Interest Payment Date**” means the applicable initial ARS Interest Payment Date set forth on the inside front cover page of this Official Statement and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, or (ii) 92 or more days, (A) in the case of 2003C Bonds with Auctions generally conducted on Fridays, each thirteenth Monday after the first day of such Special Auction Period or the next Business Day if such Monday is not a Business Day and on the Business Day immediately following such Special Auction Period, (B) in the case of a Series of 2003C Bonds with Auctions generally conducted on Mondays, each thirteenth Tuesday after the first day of such Special Auction Period or the next Business Day if such Tuesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (C) in the case of 2003C Bonds with Auctions generally conducted on Tuesdays, each thirteenth Wednesday after the first day of such Special Auction Period or the next Business Day if such Wednesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (D) in the case of 2003C Bonds with Auctions generally conducted on

Wednesdays, each thirteenth Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period, (E) in the case of 2003C Bonds with Auctions generally conducted on Thursdays, each thirteenth Friday after the first day of such Special Auction Period or the next Business Day if such Friday is not a Business Day and on the Business Day immediately following such Special Interest Period.

“Auction Date” means with respect to each subseries of 2003C Bonds, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the 2003C Bonds, (i) if such 2003C Bonds are in a daily Auction Period, each Business Day, (ii) if such 2003C Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the 2003C Bonds are in any other Auction Period, the Business Day next preceding each ARS Interest Payment Date for the 2003C Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the 2003C Bonds in an Auction Period other than the daily Auction Period or Special Auction Period is the earlier of (a) the Business Day next preceding the ARS Interest Payment Date next preceding the conversion date for such 2003C Bonds and (b) the Business Day next preceding the ARS Interest Payment Date next preceding the final maturity date for such 2003C Bonds; and provided, further, that if the 2003C Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the conversion date for such 2003C Bonds and (y) the Business Day next preceding the final maturity date for such Series Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

“Auction Period” means with respect to the 2003C Bonds:

- (a) a Special Auction Period;
- (b) with respect to any 2003C Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;
- (c) with respect to any 2003C Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a

Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to any 2003C Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to any 2003C Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on

Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to any 2003C Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(g) with respect to any 2003C Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding April 30 or October 31;

provided, however, that

(a) if there is a conversion of any 2003C Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the ARS Interest Payment Date for the prior Auction Period) and will end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the ARS Interest Payment Date for the prior Auction Period) and will end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of any 2003C Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of any 2003C Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the ARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of any 2003C Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the ARS Interest Payment Date for the prior Auction Period) and will end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of any 2003C Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Auction Agent. The Trustee will enter into the Auction Agreement initially with Wilmington Trust Company, pursuant to which, the Auction Agent, as Agent for the Trustee, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures.

Auction Date. The first Auction Date for each subseries of 2003C Bonds is set forth on the inside cover of this Official Statement. The Auctions to determine the interest rate with respect to the 2003C Bonds for the succeeding Auction Periods are to be initially held on the Auction Dates set forth on the inside cover of this Official Statement, and thereafter the Auction Dates will be set as described in the Auction Procedures subsection in **Appendix I** – “ARS PROVISIONS.”

Order to Existing Owners and Potential Owners. The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in **Appendix I** – “ARS PROVISIONS,” as are the particulars with regard to the determination of the Auction Rate and the allocation of the 2003C Bonds bearing interest at ARS Rates (collectively, the “**Auction Procedures**”).

Amendment to Auction Procedures. The provisions of the Resolution concerning the Auction Procedures including without limitation the definitions of All-Hold Rate, Maximum ARS Rate, Maximum Interest Rate, Default Rate, ARS Index, ARS Interest Payment Date and ARS Rate, may be amended by obtaining the consent of the owners of all Outstanding 2003C Bonds bearing interest at the ARS Rate. All owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Auction Agent mailed notice to such owners the ARS Rate determined for such date is the Winning Bid Rate.

Conversion of 2003C Bonds to Fixed Rate Period. At the option of the State, any 2003C Bonds may be converted to bear interest at a Fixed Interest Rate. On the conversion date applicable to the 2003C Bonds to be converted, the 2003C Bonds to be converted are subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the 2003C Bonds so tendered is payable solely from the proceeds of the remarketing of such 2003C Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable 2003C Bonds on a mandatory tender date, the 2003C Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum ARS Rate. It is currently anticipated that, should any of the 2003C Bonds be converted to bear interest at a Fixed Interest Rate, a remarketing memorandum or remarketing circular will be distributed describing the 2003C Bonds to be converted during such Rate Period.

Conversion from One Auction Period to Another. On the conversion date for a subseries of the 2003C Bonds selected for conversion from one Auction Period to another, any 2003C Bonds of such subseries which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the 2003C Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum ARS Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction

Procedures; however, the 2003C Bonds to be converted will not be subject to mandatory tender on such conversion date.

Special Considerations Relating to the 2003C Bonds Bearing Interest at ARS Rates. The Resolution and the Auction Agreement provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice or 30 days notice, if it has not been paid, to the State and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five Business Days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the 2003C Bonds will be determined as set forth in the definition of “ARS Rate” above.

The Broker-Dealer Agreement will provide that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreement, Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

During a ARS Rate Period a beneficial owner of a 2003C Bond may sell, transfer or dispose of a Series 2003C Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see “**Appendix I- ARS PROVISIONS**”) or through a Broker-Dealer. The ability to sell a 2003C Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Series 2003C Bonds at a rate equal to or less than the Maximum ARS Rate. Goldman, Sachs & Co. has advised the State that it intends to make a market in the 2003C Bonds between Auctions; however, Goldman, Sachs & Co. is not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents.

Redemption

Optional Redemption for the 2003A Bonds. The 2003A Bonds maturing on or after October 1, 2014. will be subject to redemption in whole at any time or in part on any interest payment date, at the option of the State, from any moneys available therefor on and after October 1, 2013, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the redemption date.

The 2003B Bonds shall not be subject to optional redemption prior to their stated maturities.

Optional Redemption for the ARS Bonds. On or prior to the Fixed Rate Conversion Date, during a ARS Rate Period, the 2003C Bonds may be redeemed in whole or in part on the ARS

Interest Payment Date immediately following an Auction Period, at the principal amount of the 2003C Bonds to be redeemed without premium; provided, however, in the event of a partial redemption of the 2003C Bonds bearing interest at a ARS Rate, the aggregate principal amount not so redeemed shall be an integral multiple of \$25,000 and the aggregate principal amount of the series of 2003C Bonds to be redeemed which will remain outstanding is at least \$10,000,000 unless otherwise consented to by the Broker-Dealer.

Mandatory Redemption of ARS Bonds. Each subseries of 2003C Bonds will be subject to mandatory sinking fund redemption and shall be redeemed by sinking fund installments on October 1 in each of the years and in the amounts set forth below at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, as follows (provided, however, that while any 2003C Bonds to be redeemed bear interest at an ARS Rate in any Auction Period other than a daily Auction Period, if such October 1 is not an ARS Interest Payment Date, the redemption shall occur on the ARS Interest Payment Date immediately preceding such October 1:

2003C-1 Bonds

<u>Year</u>	<u>Amount</u>
2016	\$9,950,000
2017	7,250,000
2018	10,250,000
2019	8,250,000
2020	8,100,000
2021	5,600,000
2022	5,600,000

2003C-2 Bonds

<u>Year</u>	<u>Amount</u>
2016	\$12,100,000
2017	8,775,000
2018	12,425,000
2019	10,025,000
2020	9,750,000
2021	6,625,000
2022	6,675,000

Holders of 2003C Bonds in a Special Auction Period should note that their 2003C Bonds may be redeemed prior to the end of the Special Auction Period pursuant to the above sinking fund redemption schedule.

Selection of Bonds to be Redeemed. If less than all of the 2003 Bonds of a particular maturity are redeemed, the 2003 Bonds of such maturity to be redeemed will be selected by lot by the Trustee. The Fixed Rate Bonds (or portions thereof) may be redeemed only in a principal amount equal to \$5,000 or any integral multiple thereof, with each \$5,000 of principal amount to be

redeemed considered as one Bond. The ARS Bonds (or portions thereof) may be redeemed only in a principal amount equal to \$25,000 or any integral multiple thereof, with each \$25,000 of principal amount to be redeemed considered as one Bond.

If the 2003 Bonds are being held by DTC under the book-entry-only system and less than all of such 2003 Bonds within a maturity are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant (as hereinafter defined) in such maturity to be called for redemption, and each Direct Participant is to then select by lot the ownership interest in such maturity to be redeemed.

Notice to Bondholders. Notice of redemption of 2003 Bonds will be mailed, not less than 30 days (15 days in the case of ARS Bonds) nor more than 60 days (30 days in the case of ARS Bonds) prior to the date of redemption, to the registered owners of the 2003 Bonds, or portions thereof, so called, but the failure to mail such notice with respect to any particular 2003 Bonds will not affect the validity of such call for redemption of any 2003 Bonds with respect to which no such failure has occurred. All 2003 Bonds called for redemption will cease to bear interest on the specified redemption date, provided that funds sufficient for the redemption of such 2003 Bonds in accordance with the Resolution are on deposit with the Trustee. If such moneys are not available on the redemption date, the 2003 Bonds or portions thereof will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption. On presentation and surrender of the 2003 Bonds called for redemption at the place or places of payment, such 2003 Bonds will be paid and redeemed.

If, at the time of mailing of the notice of any optional redemption, there has not been deposited with the Trustee moneys sufficient to redeem all the 2003 Bonds called for redemption, the notice may state that it is conditional on the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date. Such notice will be of no effect and the Redemption Price for such optional redemption will not be due and payable unless such moneys are so deposited.

Book-Entry-Only System

The Bonds are available in book-entry only form and beneficial ownership interests therein for the Fixed Rate Bonds may be purchased in the principal amount of \$5,000 or any integral multiple thereof and for the ARS Bonds in the principal amount of \$25,000 or any integral multiple thereof. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds.

The following information concerning The Depository Trust Company (“DTC”), New York, New York and DTC’s book-entry system has been obtained from sources the State believes to be reliable. However, the State takes no responsibility as to the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity of the Bonds 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, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MSBCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "**Beneficial Owner**") is in turn to be recorded on the Direct Participants' 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 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 interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 communication 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.

NEITHER THE STATE NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds and redemption proceeds 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 Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct 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 Direct Participant and not of DTC, the Trustee or the State, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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 Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 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, Bonds are required to be printed and delivered.

The State may determine to discontinue the system of book-entry transfers through DTC (or a successor securities depository). In such event, the Bonds are to be printed and delivered.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2003 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2003 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on each payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payment date. 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 Trustee, the Paying Agent or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursements 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.

In the event that (a) DTC determines to discontinue providing its service with respect to the 2003 Bonds by giving reasonable notice to the State and discharging its responsibilities with respect thereto under applicable law and the State fails to appoint a successor securities depository for the 2003 Bonds, or (b) the State determines to discontinue the system of the book-entry transfer through DTC (or a successor securities depository), bond certificates are required to be delivered as described in the 2003 Bonds. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the 2003 Bonds.

THE STATE, THE TRUSTEE AND THE PAYING AGENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF OR INTEREST ON THE 2003 BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE RESOLUTION; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF

THE 2003 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

The State, the Trustee and the Paying Agent cannot and do not give any assurances that DTC will distribute payments on the 2003 Bonds made to DTC or its nominee as the registered owner or any redemption or other notices, to the Participants, or that the Participants or others will distribute such payments or notices to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

ABSENCE OF LITIGATION

Upon delivery of the 2003 Bonds, the State will furnish a certificate of the Attorney General of the State, dated the date of delivery of the 2003 Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2003 Bonds, or in any way contesting or affecting the validity or enforceability of the 2003 Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the 2003 Bonds. In addition, such certificate will state that, except as disclosed by cross-reference to **Appendix C** to this Official Statement, there is no controversy or litigation of any nature now pending or threatened by or against the State which, in the opinion of the Attorney General, will 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 State or the SRF Programs or the power of the State to collect and enforce the collection of the revenues, receipts, funds or moneys pledged for payment of the 2003 Bonds.

Each Borrower's Town Attorney, City Attorney, General Counsel, Bond Counsel or other attorney, as applicable, has provided or will provide a certificate to the effect that there is no controversy or litigation of any nature, pending or threatened against the Borrower contesting or affecting the validity or enforceability of the Borrower Obligations or the use of proceeds of the Borrower Obligations. In addition, such certificate will state that there is no controversy or litigation of any nature now pending or threatened by or against the Borrower which could have a material adverse impact on the financial condition of the Borrower or adversely affect the power of the Borrower to levy, collect and enforce the collection of taxes or other revenues for the payment of its Borrower Obligations which has not been disclosed to the State.

LEGALITY FOR INVESTMENT

Under the provisions of the State Act, the 2003 Bonds are securities in which 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 may properly and legally invest funds, including capital in their control or belonging to them. Pursuant to the State Act, the 2003 Bonds are made securities which 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, State bond

anticipation notes, State grant anticipation notes or other obligations of the State is now or may hereafter be authorized by law.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the 2003 Bonds and with regard to the status of the interest thereon, are subject to the legal opinion of Nixon Peabody LLP, Hartford, Connecticut, and the Hardwick Law Firm LLC, Kansas City, Missouri, Co-Bond Counsel. Signed copies of the opinion, dated and speaking only as of the date of original delivery of the 2003 Bonds, will be delivered to the Underwriters at the time of such original delivery and the form of the opinion is set forth as Appendix H to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Brown Rudnick Berlack Israels LLP, Hartford, Connecticut, as Underwriters' Counsel.

Bond Counsel for each Borrower has rendered or will render to the State an opinion to the effect that (subject to certain exceptions for bankruptcy, insolvency and laws affecting creditors' rights and remedies), upon the disbursement of proceeds of a Loan, such Borrower's Obligation is a valid and legally binding obligation of such Borrower for which such Borrower has validly pledged its full faith and credit and/or for which certain special revenues are validly pledged and creates a valid lien upon such revenues, and that (subject to the aforesaid exceptions) such Borrower's Loan Agreement is a valid and binding obligation of the Borrower, enforceable against it in accordance with its terms.

TAX EXEMPTION

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the “**Code**”), imposes certain requirements that must be met subsequent to the issuance and delivery of the 2003 Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2003 Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2003 Bonds. Pursuant to the Resolution and the Tax Compliance Certificate, the State has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the 2003 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the State has made certain representations and certifications in the Resolution and the Tax Compliance Certificate.

In the opinion of Co-Bond Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the State described above, interest on the 2003 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. Co-Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2003 Bonds is, however,

included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Co-Bond Counsel are also of the opinion that interest on the 2003 Bonds is excluded from Connecticut income tax on individuals, trusts and estates and 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. Interest on the 2003 Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Original Issue Discount

Co-Bond Counsel are further of the opinion that the difference between the principal amount of the 2003A Bonds maturing October 1, 2009, October 1, 2010 and October 1, 2025, and a portion of the 2003A Bonds maturing October 1, 2011 through October 1, 2018, October 1, 2020, October 1, 2021, October 1, 2023 and October 1, 2024 and the 2003B Bonds maturing October 1, 2010 (collectively the “**Discount Bonds**”) and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Fixed Rate Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each 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. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

The 2003A Bonds maturing on October 1, 2005 through October 1, 2008, October 1, 2019 and October 1, 2022 and a portion of the 2003A Bonds maturing on October 1, 2011 through October 1, 2018 and October 1, 2020, October 1, 2021, October 1, 2023 and October 1, 2024 and the 2003B Bonds maturing on October 1, 2003 through October 1, 2009 and October 1, 2011 through October 1, 2015 (collectively, the “**Premium Bonds**”) are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond

premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Fixed Rate Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Certain Federal Tax Information

General. The following is a discussion of certain additional tax matters under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular investors. 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 2003 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Social Security and Railroad Retirement Payments. The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits received are to be included in taxable income.

Branch Profits Tax. The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

Borrowed Funds. The Code provides that interest paid (or deemed paid) on borrowed funds used during a tax year to purchase or carry tax-exempt obligations is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies. The Code contains provisions relating to property and casualty insurance companies whereunder the amount of certain loss deductions otherwise allowed is reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

Financial Institutions. The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct the portion of their interest expense allocable to tax-exempt obligations acquired after August 7, 1986, other than certain "qualified" obligations. The 2003 Bonds are not "qualified" obligations for this purpose.

S Corporations. The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Interest on tax-exempt obligations must be included in passive investment income for purposes of this tax.

Earned Income Credit. For any taxable year beginning after December 31, 1995, the Code denies the earned income credit to persons otherwise eligible for it if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds \$2,200, subject to the adjustment for inflation for taxable years beginning after December 31, 1996. Interest on the 2003 Bonds will constitute disqualified income for this purpose.

Changes in Federal Tax Law and Post Issuance Events. From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for Federal income tax purposes of the interest on the 2003 Bonds, and thus on the economic value of the 2003 Bonds. This could result from reductions in Federal income tax rates, changes in the structure of the Federal income tax rates, changes in the structure of the Federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the 2003 Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the 2003 Bonds may be proposed or enacted.

Co-Bond Counsel have not undertaken to advise in the future whether any events after the date of issuance and delivery of the 2003 Bonds may affect the tax status of interest on the 2003 Bonds. Co-Bond Counsel express no opinion as to any Federal, State or local tax law consequences with respect to the 2003 Bonds, or the interest thereon, if any action is taken with respect to the 2003 Bonds or the proceeds thereof upon the advice or approval of other counsel.

CONTINUING DISCLOSURE AGREEMENTS

Sections 3-20 and 3-20e of the Connecticut General Statutes, as amended, give the State and political subdivisions of the State the specific authority to enter into continuing disclosure agreements in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12 (the “**Rule**”). The State will enter into a Continuing Disclosure Agreement with respect to the 2003 Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form included in **Appendix G** to this Official Statement (the “**State Continuing Disclosure Agreement**”), pursuant to which the State will agree to provide or cause to be provided, in accordance with the requirements of the Rule (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the 2003 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 State Continuing Disclosure Agreement.

The Borrowers identified in **Appendix A** also will enter into separate Borrower Continuing Disclosure Agreements with respect to the 2003 Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form included in **Appendix G** to this Official Statement (the “**Borrower Continuing Disclosure Agreements**”), pursuant to which each of such Borrowers will agree to provide or cause to be provided, in accordance with the requirements of the Rule, (i) certain annual financial information and operating data and (ii) timely notice of a failure by such Borrower to provide the required annual financial information on or before the date specified in the Borrower Continuing Disclosure Agreement. Each Borrower's obligation will terminate at such time as the

State determines that the Borrower ceases to be an obligated person meeting the Objective Criteria set forth in its Borrower Continuing Disclosure Agreement. See **Appendix G**.

The State and certain Borrowers have previously undertaken in Continuing Disclosure Agreements entered into for the benefit of holders of certain of the Bonds to provide certain annual financial information and (with respect to the State only) event notices pursuant to the Rule. Neither the State nor any such Borrowers have defaulted in their obligations to provide the annual financial information pursuant to the Continuing Disclosure Agreements executed in connection with the sale of certain of the Bonds.

The Underwriters' obligation to purchase the 2003 Bonds will be conditioned upon their receiving, at or prior to the delivery of the 2003 Bonds, executed copies of the State Continuing Disclosure Agreement and each Municipal Continuing Disclosure Agreement.

UNDERWRITING

The aggregate initial offering price of the 2003 Bonds to the public is \$378,564,210.85, plus accrued interest and Goldman Sachs & Co., as representatives of the Underwriters for the Fixed Rate Bonds and sole Underwriter for the ARS Bonds, has agreed, subject to certain conditions precedent to closing, to purchase the 2003A Bonds from the State at an aggregate purchase price of \$125,440,581.74 (consisting of \$118,085,000 par amount, plus net premium of \$8,093,014.75 less the Underwriters fee of \$737,433.01) plus accrued interest on the 2003A Bonds and to purchase the 2003B Bonds from the State at an aggregate purchase price of \$130,319,978.93 (consisting of \$115,785,000 par amount, plus net premium of \$15,226,196.10 less the Underwriters' fees of \$691,217.17) plus accrued interest on the 2003B Bonds and to purchase the 2003C Bonds from the State at an aggregate purchase price of \$120,573,375.18 (consisting of \$121,375,000 par amount less the Underwriter's fee of \$801,624.82) on the 2003C Bonds. The Underwriters will be obligated to purchase all of the 2003 Bonds, if any 2003 Bonds are purchased. The 2003 Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the 2003 Bonds into investment trusts) at prices lower than such initial public offering prices, and such initial public offering prices may be changed, from time to time, by the Underwriters.

RATINGS

Moody's Investors Service, Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., and Fitch, Inc. have assigned their municipal bond ratings of Aaa, AAA, and AAA, respectively, to the 2003 Bonds. Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agency if in the judgment of such rating agency circumstances so warrant. A revision or withdrawal of any such rating may affect the market price of the Bonds, including the 2003 Bonds.

FINANCIAL ADVISORS

Lamont Financial Services Corporation and P. G. Corbin & Company, Inc., have served as the Financial Advisors to the State with respect to the sale of the 2003 Bonds. The Financial Advisors have assisted in various matters relating to the planning, structuring and issuance of the 2003 Bonds. The Financial Advisors have also assisted the State in certain matters relating to the State Revolving Fund General Revenue Bond Program.

FINANCIAL STATEMENTS

Included in Appendix B are the audited financial statements of the State's State Revolving Fund and the Drinking Water Fund as of June 30, 2002 and the report thereon dated August 23, 2002 of Seward and Monde, independent public accountants. Such audited financial statements have been included herein in reliance upon the reports of such firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

The references herein to and summaries of federal, State and local laws, including but not limited to the Code, and laws of the State, the State Act, the Clean Water Act, and documents, agreements and court decisions, including but not limited to the Resolution, the Loan Agreements and the Borrower Obligations, are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions. Copies of the Resolution, the Loan Agreements and the Borrower Obligations are available for inspection during normal business hours at the Office of the Treasurer.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Neither this Official Statement nor any statement that may have been made orally or in writing shall be construed as a contract or as a part of a contract with the original purchasers or any holders of the 2003 Bonds.

STATE OF CONNECTICUT

By: /s/ Denise L. Nappier
Hon. Denise L. Nappier
State Treasurer

Dated at Hartford, Connecticut
this 18th day of June, 2003

APPENDIX A

BORROWER INFORMATION

PART I – GENERAL INFORMATION

The following information is a brief summary of certain State law provisions governing the operation of Municipalities. The term “Municipality” includes a town, city, borough, consolidated town and city, consolidated town and borough (collectively “Towns”), and a metropolitan district, fire and sewer district, sewer district, or village district, as well as any other municipal organization having authority to levy and collect taxes or make charges for its authorized function (collectively “Districts”). Municipalities are Borrowers under the General Bond Resolution.

Forms of Municipal Government

The legislative powers of Towns may be vested in: (a) a town meeting; (b) a representative town meeting; (c) a board of selectmen, town or common council, board of directors, board of alderman or board of burgesses; or (d) a combination of (a) or (b) and one of the bodies listed in (c). The chief executive officer of a Town may be elected by the citizens of the Town or appointed by the legislative body.

The legislative powers of a District generally rest with the electors of the District. The officers of a District may be elected or appointed in accordance with State statutory provisions and the requirements of the District’s charter.

Towns and Districts may adopt home rule charters. A charter may not be inconsistent with the State Constitution or general statutes or exceed the authority otherwise granted by the State Constitution or general statutes.

Municipal Powers

Towns generally have broad powers to conduct the business of the Town. Towns may contract, sue and be sued, assess, levy and collect taxes, take real or personal property, regulate nuisances, ensure public health and safety and take actions to protect the environment. Towns are also authorized to provide services including police, fire, entertainment, ambulance, street lighting, water, garbage disposal and low-income housing. Towns are authorized to build and regulate public facilities such as airports, parks, cemeteries and hospitals. Sewers, drainage and sewer disposal systems may be acquired, constructed and operated by Towns.

Districts may be established for a variety of specific purposes including, without limitation, the construction and maintenance of drains and sewers.

Sewage Systems

Municipalities may designate a water pollution control authority (“WPCA”). The WPCA may be the municipality’s legislative body (other than a town meeting) or an existing or newly created board or commission. The WPCA may prepare and periodically update a water pollution control plan for the Municipality. Such plan shall designate: (i) areas served by any municipal sewage system; (ii) areas where municipal sewage facilities are planned and the schedule of design and construction anticipated or proposed; (iii) areas where sewers are to be avoided; (iv) areas served by any community sewage system not owned by a Municipality; and (v) areas to be served by any proposed community sewage system not owned by a Municipality. The WPCA must file copies of its water pollution control plan with the State Commissioner of Environmental Protection. WPCAs, once authorized, may acquire, construct and operate sewage systems, take and hold real property to be used for sewage systems and establish rules and regulations for supervision and management of sewage systems. WPCAs may levy benefit assessments upon the land and buildings within a municipality that are especially benefited by a sewage system, so long as the assessment does not exceed the special benefit enjoyed by property. WPCAs may also establish and from time to time revise fair and reasonable charges for connection with and use of a sewage system. All benefit assessments and charges are determined after a public hearing.

Water Systems

Municipalities may acquire, construct and operate, a municipal water supply system where: (1) there is no existing waterworks system; (2) the owner or owners of a private waterworks system are willing to sell or transfer all or part of such system to the municipality; or (3) a public regional waterworks system within said municipality is willing to sell or transfer all or part of the system to the municipality. Any municipality may appropriate funds to extend or cause to have extended water mains: (1) into areas to be used for industrial or commercial purposes or partly for industrial or commercial purposes and partly for residential purposes; or (2) into residential areas or into areas zoned for residential use. The municipality may pay the cost of such extension and may require each owner of property which abuts any such main to reimburse the municipality such owner's proportionate share of the cost of such extension at such time and by such rule as the municipality by ordinance determines.

Revenues

Revenues of Towns are principally derived from real and personal property taxes, State and federal aid and Town fees and charges. Revenues of Districts are principally derived from real property taxes, user fees and service charges.

See "Assessment and Collection of Real and Personal Property Taxes" for discussion on tax assessment and collection provisions. Also, see Part II of this Appendix A for a description of the amount of certain revenues each Municipality described therein has received in the past.

State Aid

The State may provide a grant to each Town for its unrestricted use. The grants are based on a variety of factors such as population and income levels.

The State is not obligated to maintain or continue State aid, which is subject to appropriations being made by the Connecticut General Assembly. General Assembly appropriations are subject to a recent amendment to the State Constitution precluding the General Assembly from authorizing an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage 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 of the State House of Representatives and the State Senate vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. The limitation on general budget expenditures does not include expenditures for the payment of State bonds, notes or other evidences of indebtedness.

Federal Aid

Some Municipalities receive financial assistance from the federal government. The federal government is not obligated to maintain or continue federal aid, which is subject to appropriations being made by the United States Congress.

Assessment and Collection of Real and Personal Property Taxes

The State Constitution contains no special provisions addressing assessment and collection of taxes by Municipalities. State statutes contain specific provisions for this activity, leaving the local taxing authorities to assess and collect taxes.

Municipalities are empowered by State statute to levy and collect taxes. Each Municipality has its own tax collector, who collects taxes for the taxing body in accordance with the State statutes. Generally, a District within a Town will use the Town's assessment roll and apply its tax rates to the assessment roll to arrive at its tax assessments.

Assessment lists are prepared by the Municipality's assessor as of October 1 of each year, using lists of taxable property submitted by taxpayers and information from other sources. The lists are amended to add property omitted from the lists and to increase or decrease the valuation of property. Any taxpayer aggrieved by the actions of the assessor can appeal to the Municipality's board of tax review and to the superior court of the Municipality's judicial district. All property is assessed at a uniform rate of 70% of its fair market value as of October 1. Prior to October 1, 1996, real property was revalued at least once every ten years. Legislation, effective with October 1, 1997 grand lists, specifies two dates through the year 2006 that Municipalities must revalue all real estate, and requires revaluations every fourth year after the second specified date. A revaluation by physical inspection must be made at any time up to October 1, 2009, and thereafter no later than twelve years from the preceding inspection. Special statutory procedures are available to relieve taxpayers of significant tax increases caused by revaluation. When the assessment list is complete, the tax is levied upon the list to determine the amount of tax due and payable to the tax collector. The tax is due and payable on the first day of the Municipality's fiscal year unless the Municipality has determined that installment payments will be allowed.

Tax on real property becomes a lien on the property from October 1 in the year previous to that in which the tax, or the first installment thereof, became due, and continues until one year after the tax, or first installment, became due. The lien may be continued by the tax collector by filing the requisite certificate with the town clerk. Tax on personal property, other than motor vehicles, becomes a lien on the taxpayers' goods situated in the State on the date of perfection, or upon goods thereafter acquired by the taxpayer. The lien is effective for fifteen years, unless discharged.

Debt Incurrence Procedures

Constitutional and Statutory Requirements

The State Constitution empowers the General Assembly to enact legislation relative to a Municipality's borrowing power. State statutes provide procedures for incurring debt by municipalities. Municipalities may adopt debt incurrence procedures pursuant to home rule ordinance, charter or special act.

Purpose of Authorization and Pledge

Generally, a Municipality which had made appropriations for any purpose authorized by law, or which has incurred debts exceeding ten thousand dollars (\$10,000), may issue tax-exempt or taxable bonds, notes or other obligations under such terms and conditions, subject to the provisions of the State statutes, as the Municipality shall determine. The full faith and credit of the Municipality may be pledged to the payment of and interest on the obligations. In any case in which the amount of a judgment, a compromised or settled claim against it, award or sum payable by it pursuant to a determination by a court, or an officer, body or agency acting in an administrative or quasi-judicial capacity, exceeds five percent (5%) of the total annual tax receipts of a Municipality or two hundred fifty thousand dollars, whichever is less, such municipality may issue bonds, notes or other obligations for the purpose of funding such judgment, claim, or award or sum other than an award or sum arising out of an employment contract or in connection with construction projects. Towns may issue obligations for the purpose of raising money for a dire emergency as such emergency is certified. Towns may also make appropriations to military organizations, hospitals, health care facilities, public health nursing organizations, nonprofit museums and libraries, organizations providing drug abuse and dependency programs and any other private organization performing a public function.

A Municipality that has authorized the acquisition or construction of all or any part of a sewage system and has made an appropriation or has incurred debt therefor, may issue bonds, notes or other obligations. Such bonds, notes or other obligations shall be secured as to principal and interest by: (a) the full faith and credit of the Municipality; (b) a pledge of revenues from sewage systems use charges; or (c) a pledge of revenues to be derived from sewage system connection or use charges or a pledge of benefit assessments or both. The Municipality thereafter must appropriate in each year an amount of money sufficient to pay the principal and interest due that year and shall levy taxes or charges (as appropriate) in an amount sufficient to meet the appropriation.

A Municipality may pay for the acquisitions, construction, extension, enlargement and maintenance of any waterworks system by the issuance of general obligation bonds or by the issuance of revenue bonds.

Debt Limit

No Municipality (and no Municipality coterminous with or within such Municipality) shall incur indebtedness in any of the following categories which will cause the aggregate indebtedness in that category to exceed, excluding sinking fund contributions, the multiple stated for each category times the aggregate annual receipts of such Municipality from taxation for the most recent fiscal year next preceding the date of issue:

(i)	all debt other than urban renewal projects, water pollution control projects and school projects.....	2 ¼
(ii)	debt for urban renewal projects.....	3 ¼
(iii)	water pollution control projects*.....	3 ¾
(iv)	school building projects.....	4 ½
(v)	debt for funding of an unfunded past benefit obligation.....	3
(vi)	total debt, including (i), (ii), (iii), (iv) and (v) above.....	7

* Debt for water pollution control projects issued in order to meet the requirements of an abatement order of the commissioner of environmental protection is excluded from this computation provided the Municipality files a certificate signed by its chief fiscal officer with the commissioner demonstrating to the satisfaction of the commissioner that the Municipality has a plan for levying a system of charges, assessments or other revenues which are sufficient, together with other available funds of the municipality, to repay such obligations as the same become due and payable.

Certain Legal Matters

Prior to receipt by any Municipality of any Loan, an approving opinion with respect to the Municipal Obligation which evidences the Loan and an enforceability opinion with respect to the Loan Agreement will be rendered by nationally recognized bond counsel for the Municipality.

APPENDIX A

PART II – SPECIFIC BORROWER INFORMATION

Set forth in this Part II of Appendix A is certain information regarding the Borrowers whose Loans, including current and/or anticipated Loan commitments through June 30, 2004, are expected to exceed 10% of the aggregate outstanding principal amount of the Program Bonds, including the 2003 Bonds (but excluding the Bonds refunded by the subordinate refunding bonds).

Except where expressly stated herein, the information which appears in this Official Statement relating to each Borrower is current as of the date of this Official Statement and was furnished by each Borrower for inclusion within this Official Statement. No representation or warranties are made that the information regarding each Borrower has not changed since the date of this Official Statement.

CONTENTS

Stamford	A-6
Waterbury	A-15

STAMFORD

I. GENERAL DESCRIPTION OF MUNICIPALITY

Stamford, first settled in 1641, is Connecticut's fourth largest city by population. It was named the Town of Stamford in 1642 and was admitted to Connecticut in October 1662. In 1893 the City of Stamford, comprising the central portion of the Town of Stamford, was incorporated. Thereafter, the City of Stamford became a composite part of the Town of Stamford, resulting in two separate governments. On April 15, 1949 the Town and City were consolidated and named the City of Stamford. Stamford covers an area of 39.9 square miles located on Long Island Sound between Greenwich to the west and New Canaan and Darien to the east.

The City is about one hour from New York City by rail or highway transportation. It is on the mainline of Metro North Commuter Railroad, Amtrak and Conrail, which provide daily passenger and freight service. It is served by interstate, intrastate, and local bus lines. The Connecticut Turnpike, I-95; the Boston Post Road, U.S. Route 1; and the Merritt Parkway, State Route 15, traverse the City.

Stamford is a center for major international corporate headquarters and the major retail trade center of Fairfield County, yet it maintains its suburban character and residential areas. Through sound urban planning, the City has strengthened its retail core, increased its housing and cultural facilities and attracted major office development. It is also an important residential suburb in one of the highest per capita income areas of the United States. The 2000 U.S. Census reports Stamford's per capita income for 2000 was \$43,806 with a 2000 population of 117,083. According to the 2000 U.S. Census, the Stamford Metropolitan Area ranked third in the nation with a median family income of \$69,337.

Notwithstanding the City's position as a major corporate and retail trade center, the City continues to move aggressively to enhance the opportunities for neighborhood revitalization and economic development. It has expended its technical capabilities to organize and manage comprehensive development strategies; it continues to work with the business community and the Stamford Partnership to address economic problem-solving that only such a public/private partnership pooling of resources can realistically address. It has also created citizen advisory groups in key target neighborhoods thus building a bridge of dialogue essential to progress.

II. DESCRIPTION OF GOVERNMENT

The City of Stamford operates under a Charter adopted in 1949 and most recently revised in November 1995. The 1995 revisions involved the reorganization and consolidation of departments and commissions within the City.

The chief executive officer of the City is the Mayor, currently elected for a four-year term of office. The legislative function is performed by a forty-member Board of Representatives whose members are elected, two from each of twenty districts, for four-year terms. The Board of Representatives adopts ordinances and resolutions and must approve all expenditures of funds. A six-member Board of Finance, elected to staggered four-year terms with provisions for representation of two major political parties, establishes fiscal policy and must approve all expenditures of funds.

The Director of Administration is appointed by the Mayor and confirmed by the Board of Representatives. Under the direction of the Mayor, the Director of Administration has supervision over the Department of Finance, Office of Policy and Management, Purchasing, Assessment and Taxation, Community Development, Economic Development, Intergovernmental Grants, and Technology Management Services. The Director of Administration is the Chief Fiscal Officer of the City and performs accounting of all funds showing all financial transactions for all commissions, boards, departments, offices, agencies, authorities and other entities of the City except the Board of Education.

The Director of Administration has the powers and duties conferred on town treasurers, to issue and market all Bonds and to invest funds of the City. The Director of Administration is also responsible for the preparation of the operating and capital budgets of the City. In addition, in accordance with Section 8-20-3 of the City Charter, the Director of Administration submits his opinion to the Mayor and Board of Finance in December of each year setting forth the amount and nature of capital expenditures that the City may incur safely for each of the six succeeding years.

III. BUDGET PROCEDURE

The City of Stamford conforms to the following budgetary sequences and time schedules:

Department estimates due for six-year capital program	December 10
Report of the Director of Administration to Board of Finance recommending the amount and nature of capital expenditures for the ensuing year	December 15
Certificate of Board of Finance to Planning Board of amount and nature of capital expenditures for subsequent year	January 15
Public hearing by Planning Board	February 10
Capital Budget from Planning Board to Mayor	March 1
Board of Education submits its budget to the Board of Finance	March 8
Mayor's Operating and Capital Budget to Board of Finance	March 8
Joint Public Hearing before Board of Finance and Board of Representatives	April 8
Budget to Board of Representatives from Board of Finance	April 20
Budget adopted by Board of Representatives	May 15
Board of Finance establishes the mill rate	May 25

IV. EMPLOYEES¹

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
General Government ²	1,241	1,342 ²	1,358	1,342	1,283	1,275	1,298
Board of Education	<u>2,141</u>	<u>2,143</u>	<u>2,005</u>	<u>1,835</u>	<u>1,748</u>	<u>1,763</u>	<u>1,771</u>
Total	3,382	3,485	3,363	3,177	3,031	3,038	3,069

¹ As of July 1 each fiscal year.

² General government includes employees assigned to the Smith House Nursing Home (112) the Water Pollution Control Authority (41); the E. Gaynor Brennan Golf Course (7); and the Risk Management Fund (3).

V. USE OF PROCEEDS

The proceeds of the Clean Water Fund loans will be used to upgrade the plant and pump stations at the sewage treatment plant.

VI. SELECTED FINANCIAL AND DEMOGRAPHIC INFORMATION

Population Trends and Densities

<u>Year</u>	<u>Population</u> ¹	<u>Percent Change</u>	<u>Density</u> ²
1960	92,713	–	2,324
1970	108,798	17.3	2,727
1980	102,453	(5.8)	2,568
1990	108,056	5.5	2,708
2000	117,083	8.4	2,934

Sources: ¹ U.S. Department of Commerce, Bureau of Census, Census of Population 1960–2000.

² Population per square mile: 39.9 square miles.

Comparative Income Measures

	<u>City of Stamford</u>	<u>State of Connecticut</u>
Per capita income, 1999	\$34,987	\$28,766
Median family income, 1999	\$69,337	\$65,521
Median household income, 1999	\$60,556	\$53,935

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

Annual Unemployment Rate

<u>Reporting Period</u> <u>Average</u>	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>		
				<u>City of Stamford</u>	<u>Labor Market</u>	<u>State of Connecticut</u>
January 2003	64,325	61,639	2,686	4.2	3.4	5.3
2002	65,837	63,380	2,457	3.7	3.2	4.3
2001	65,817	64,025	1,792	2.7	2.4	3.3
2000	67,479	66,318	1,161	1.7	1.4	2.3
1999	66,131	64,472	1,659	2.5	2.1	3.2
1998	65,538	63,791	1,747	2.7	2.2	3.4
1997	65,803	63,196	2,607	4.0	3.2	5.1
1996	65,143	62,172	2,971	4.6	3.7	5.7
1995	62,391	59,444	2,947	4.7	3.8	5.5
1994	62,119	59,205	2,914	4.7	3.7	5.6

Source: State of Connecticut, Labor Department, Office of Research.

Building Permits

<u>Fiscal Year Ended 6/30</u>	<u>Residential</u>	<u>Commercial/ Industrial</u>	<u>Apartments/ Condominiums</u>	<u>Total</u>
2002	\$66,706,336	\$195,330,791	\$16,057,715	\$278,094,842
2001	45,405,860	156,978,838	45,614,700	247,996,398
2000	45,087,299	171,945,326	69,203,887	286,236,512
1999	41,062,696	115,280,275	42,893,700	199,236,671
1998	51,375,256	92,721,886	5,708,361	149,805,503
1997	32,554,217	202,105,799	13,708,600	248,368,616
1996	50,219,499	157,298,746	5,770,000	213,288,245
1995	60,462,008	64,019,438	6,149,081	130,630,527
1994	15,908,982	25,638,198	1,304,000	42,851,180
1993	42,356,120	28,100,148	—	70,456,268

Property Taxes

TAXABLE GRAND LIST (\$ in thousands)

<u>Grand List 10/1</u>	<u>Commercial and Residential</u>			<u>Personal Property Percent</u>	<u>Motor Vehicle Percent</u>	<u>Gross Taxable Grand List</u>	<u>Less Exemptions</u>	<u>Net Taxable Grand List</u>	<u>Percent Change</u>
	<u>Real Property Percent</u>	<u>Real Property Percent</u>	<u>Other Percent</u>						
2002	55.99%	30.15%	0.03%	6.87%	6.96%	\$11,044,012	\$108,623	\$10,935,389	0.7
2001	56.30	29.85	0.03	6.87	6.95	10,963,758	105,617	10,858,141	0.4
2000	55.76	30.76	0.03	6.54	6.92	10,862,422	42,037	10,820,385	1.5
1999 ¹	56.11	31.21	0.03	6.26	6.40	10,724,885	62,169	10,662,716	21.1
1998	55.73	27.36	0.03	10.05	6.83	8,854,334	50,736	8,803,598	1.9
1997	56.15	28.65	0.03	8.73	6.44	8,693,370	54,102	8,639,268	1.0
1996	56.58	29.39	0.03	7.74	6.26	8,579,608	28,307	8,551,301	1.5
1995	57.22	29.51	0.04	7.25	5.98	8,447,173	23,909	8,423,264	—

¹ Revaluation.

TAX COLLECTIONS

<u>Fiscal Year Ended 6/30</u>	<u>Net Taxable Grand List (000s)</u>	<u>Adjusted Annual Levy</u>	<u>Percent of Annual Levy Collected at End of Fiscal Year</u>	<u>Percent of Annual Levy Uncollected at End of Fiscal Year</u>	<u>Percent of Annual Levy Uncollected as of 1/31/03</u>
2003	\$10,831,038	\$282,412,137	N/A	N/A	2.7 ¹
2002	10,797,834	262,957,476	98.3	1.7	0.7
2001	10,662,716	255,724,838	97.4	2.6	0.4
2000	8,804,639	246,349,872	97.1	2.9	0.6
1999	8,651,402	237,368,900	97.5	2.5	0.6
1998	8,551,301	232,266,554	97.1	2.9	0.5
1997	8,423,264	237,799,962	97.2	2.8	0.1
1996	8,375,711	229,606,190	97.2	2.8	0.1
1995	8,355,432	222,495,000	96.5	3.5	0.1

¹ Currently being collected.

TAX DISTRICTS

The City of Stamford is divided into four taxing districts, based upon municipal services furnished. As the City's sewer program is extended to new areas, municipal garbage collection service is provided and the tax district classification is changed accordingly.

- District A: Basic services (schools, police, etc.) plus sanitary sewers, garbage collection and paid fire protection.
- District B: Basic services plus paid fire protection.
- District C: Basic services plus volunteer fire protection.
- District C/S: Basic services plus volunteer fire protection, sanitary sewers and garbage collection.

The core of the City is represented by Districts A and B which include the highest density of residential, commercial, and industrial development. District B is a very small portion of this core area to which sanitary sewers have not been extended.

Districts C and C/S are predominantly zoned for single-family residential use. District C/S is that portion of District C that has been provided with sanitary sewers and garbage collection.

In September 1999 the City of Stamford, pursuant to State law and local ordinance, adopted a uniform, State-recommended depreciation schedule for business and personal property. As a result of this new depreciation schedule, which allows businesses to depreciate electronic data processing equipment much faster than had been previously permitted, Stamford businesses enjoyed a reduction in their assessments and corresponding taxes for electronic personal property, most notably computer equipment. In order to partially mitigate the impact of this reduction in personal property taxes, the City established a Personal Property Tax District. For fiscal year 2002–03 the Personal Property Tax District mill rate was set at 27.44 mills. Over time as the City's mill rate on real property increases, it is expected that the mill differential for personal property will be phased out.

TAX RATES BY DISTRICT (Mills)

<u>Tax List</u>	<u>Fiscal Year</u>	<u>District A</u>	<u>District B</u>	<u>District C</u>	<u>District C/S</u>	<u>Uniform Auto Rate</u>	<u>Personal Property</u>
October 1, 2001	2002–03	26.16	26.03	24.59	25.11	30.25	27.44
October 1, 2000	2001–02	24.57	24.44	23.11	23.61	27.09	27.44
October 1, 1999	2000–01	23.87	23.74	22.50	22.96	26.47	28.64
October 1, 1998	1999–00	28.64	27.84	26.00	26.79	30.90	–
October 1, 1997	1998–99	28.50	27.80	25.90	26.70	30.80	–
October 1, 1996	1997–98	28.10	27.30	25.60	26.40	30.30	–
October 1, 1995 ¹	1996–97	29.10	27.70	25.80	27.30	31.20	–
October 1, 1994	1995–96	31.80	30.20	27.90	29.40	30.30	–
October 1, 1993	1994–95	34.70	33.20	31.10	32.50	33.40	–
October 1, 1992	1993–94	38.80	37.10	35.10	36.80	37.60	–
October 1, 1991	1992–93	37.70	36.10	34.20	35.90	36.60	–

¹ The final year of a three-year phase-in of revaluation.

MAJOR TAXPAYERS

<u>Name</u>	<u>Business</u>	<u>Taxable Valuation As of 10/1/02</u>	<u>Percent of Net Taxable Grand List</u>
Swiss Bank Corp./UBS AG Stamford	Banking/finance	\$168,479,900	1.54%
EOP-Stamford Atlantic Forum, LLC	Office buildings	88,202,451	0.81
Pitney Bowes	Office equipment	84,868,703	0.78
Connecticut Light & Power	Utility	78,864,160	0.72
General Electric Capital Corporation	Consumer finance	74,105,030	0.68
Rich-Taubman Associates	Office buildings/retail	72,365,306	0.66
Reckson Operating Partnership	Office buildings	62,446,850	0.57
Avalon Bay Communities	Office buildings	61,610,847	0.56
SLT Realty LTD Partnership	Hotels	59,504,111	0.54
First Stamford Place Company	Office building	58,499,385	0.54
Proctor & Gamble Hair Care, LLC	Beauty Products	49,655,896	0.45
Harbor Vista Associates LTD	Office buildings	47,212,060	0.43
Stamford Associates	Office buildings	47,182,100	0.43
Harbor Park Associates	Office buildings	46,868,571	0.43
Soundview Farms LLC	Office building	45,992,449	0.42
High Ridge Park Associates	Office building	43,039,820	0.39
Hyperion Software	Software	41,752,930	0.38
Four Hundred Atlantic Title, LLC	Office building	41,007,530	0.38
UB Stamford LP	Office/retail	39,829,885	0.37
Reckson/Stamford Towers, LLC	Office buildings	<u>39,548,410</u>	<u>0.36</u>
Total		\$1,251,036,394	11.44

Net Taxable Grand List for 10/1/02: \$10,935,389,107.

MAJOR EMPLOYERS

There are over 350 corporate and manufacturing industries located in Stamford. Stamford's major employers include the following:

<u>Name</u>	<u>Nature of Business</u>
City of Stamford	Government and Education
Pitney Bowes, Inc.	Office Equipment (HQ and Mfg.)
UBS Warburg	Investment Banking (HQ)
Gartner Group	Information Technology Advisory Services
GE Commercial Finance (formerly General Electric Capital Corporation)	Finance (HQ)
GE Equipment Management (formerly General Electric Capital Corporation)	(HQ)
GE Consumer Finance (formerly General Electric Capital Corporation)	Finance (HQ)
GE insurance (formerly General Electric Capital Corporation)	Insurance
Stamford Town Center	Retail Stores
Stamford Health Systems	Medical Care
Clairol, Inc.	Cosmetics (HQ and Mfg.)
General Cologne Re Corporation	Insurance (HQ)
U.S. Postal Service	Local and Regional Mail Service
Purdue Pharma	Pharmaceuticals
Xerox Corporation	Office Equipment

<u>Name</u>	<u>Nature of Business</u>
Hyperion Solutions	Computer Software
Moore Corporation	Printed Forms
Macy's	Retailing
Omega Engineering	Temperature Control Devices (HQ and Mfg.)
Price WaterhouseCoopers	Public Accounting/Consulting
Thomson Corporation	Publishing
SNET	Telephone and Communications
Shamrock Maintenance Inc.	Building Cleaning Services
United Distillers & Vinters	Beverages (HQ)
First Union National Bank	Banking
International Paper	Forest Products (HQ)
Arthur Anderson & Co.	Public Accounting/Consulting
Citizen Utilities	Utility
CYTEC	Chemicals (Research Laboratories)
Circom/ACMI	Medical Instruments (HQ and Mfg.)
Citibank Global Asset Management	Finance
Graph Network	Cable Television
General Signal	Transportation
Cadbury Beverages Ltd.	Beverages (HQ)
META Group	Consumer Services
ITDS	Computer Software
NacRe Insurance	Insurance
Swiss Re Life & Health America	Insurance
Sempra Energy Trading	Trading
Fleet National Bank	Finance
The Stamford Hospital	Medical Services
Virgin Atlantic Airways	Travel Airlines
TIG Reinsurance	Insurance
Mead Westvaco Corp.	Pulp Mills
Tosco	Petroleum Refining
Crane	Industrial
Crompton & Knowles	Chemicals
Silgan Holdings	Metal Products
AC Nielsen	Computer and Data Services
Titan Sports WWF	Professional Wrestling
Asbury Automotive Group Inc.	New and Used Car Dealers
Chartwell Re Corp.	Reinsurance
Chirex Inc.	Contract Research and Development for Pharmaceutical Company
Gantos	Women's Apparel and Accessories
Star Gas Partners	Liquefied Petroleum Gas Dealers
Hexcel Corp.	Carbon Fiber Industrial Products Manufacturer
Independence Holding Co.	Life and Health Insurer
International Telecomm Data	Billing Management Information Systems and Support Services
Lone Star Industry	Manufacturing and Distribution of Cement

HQ — Headquarters/Offices
Mfg — Manufacturing Facilities

Source: City of Stamford Department of Economic Development and the Stamford Chamber of Commerce.

Summary of General Fund Operations (GAAP Basis)

GENERAL FUND REVENUES AND EXPENDITURES

The General Fund revenues, expenditures, and changes in fund balance for the fiscal years ended June 30, 1998 through 2002 have been derived from audited financial statements. The adopted budget for 2002–03 is provided by the City. The City’s independent accountants have not examined, reviewed or compiled any of the estimates presented below or expressed any conclusion or provided any other form of assurance with respect to such estimates, and accordingly, assume no responsibility for them. The financial information presented herein is the responsibility of the City of Stamford’s management.

	Budget 2002–03	2001–02	2000–01	1999–00	1998–99	1997–98
Revenues						
General property taxes	\$278,607,033	\$267,269,486	\$259,289,493	\$248,889,558	\$233,707,597	\$234,697,942
Intergovernmental	20,796,315	21,513,708	22,389,477	17,717,212	17,043,533	17,615,684
Charges for services	19,568,619	16,873,458	16,291,738	14,144,064	13,239,490	14,175,736
Interest and dividends	2,800,000	2,770,656	7,086,912	6,134,960	6,260,748	6,619,977
Other	<u>3,551,409</u>	<u>8,191,964</u>	<u>8,285,929</u>	<u>8,650,498</u>	<u>7,216,013</u>	<u>6,816,486</u>
Total revenues	325,323,376	316,619,272	313,343,549	295,536,292	277,467,381	279,925,825
Expenditures						
Government services	3,313,797	2,981,139	3,209,220	3,095,619	2,224,727	2,354,557
Administration	7,074,406	6,963,983	5,301,579	5,028,617	4,658,776	4,229,583
Legal affairs	2,848,770	5,804,364	19,848,872	20,761,082	21,563,371	25,430,090
Public health, safety and welfare	71,623,830	70,881,339	59,678,227	56,544,338	55,965,866	51,668,787
Community services	8,836,228	9,056,752	8,219,870	7,848,040	7,541,843	8,686,002
Operations	36,190,601	44,841,226	35,475,317	35,732,948	34,395,845	30,051,782
Board of Education	166,675,000	160,363,110	153,158,511	144,307,683	135,228,725	129,182,583
Capital outlay	—	—	—	—	—	440,266
Debt service	<u>28,760,744</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17,731,276</u>
Total expenditures	325,323,376	300,891,913	284,891,596	273,318,327	261,579,153	269,774,926
Excess (deficiency) of revenues over expenditures	—	15,727,359	28,451,953	22,217,965	15,888,228	10,150,899
Other financing sources (uses):		43,850,000	—	—	—	—
Bond issue proceeds		(45,180,000)	—	—	—	—
Transfer to escrow		—	—	—	—	440,266
Capital lease proceeds		3,737,931	712,625	752,214	2,048,768	588,615
Operating transfers in		(29,234,607)	(27,967,328)	(23,211,608)	(21,215,395)	(1,007,288)
Operating transfers out ...		<u>1,330,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Interest		—	—	—	—	—
Total other financing sources (uses)		(25,496,676)	(27,254,703)	(22,459,394)	(19,166,627)	21,593
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures and other financing uses		(9,769,317)	1,197,250	(241,429)	(3,278,399)	10,172,492
Fund balance, July 1		14,971,617	13,774,367	18,204,541	21,482,940	11,310,448
Residual equity transfer		<u>—</u>	<u>—</u>	<u>(4,188,745)</u>	<u>—</u>	<u>—</u>
Fund balance, June 30		\$ 5,202,300	\$14,971,617	\$13,774,367	\$18,204,541	\$21,482,940

CURRENT DEBT STATEMENT

Pro Forma
As of March 1, 2003

Bonded debt:		
General purpose	\$126,340,507	
Schools	132,920,316	
Sewers	19,669,177	
Urban Renewal	—	
Total bonded debt	<u>278,930,000</u>	
State of Connecticut Clean Water Fund PLOs	<u>5,297,158</u>	
Total long-term debt	284,227,158	
Short-term debt:		
State of Connecticut Clean Water Fund IFO	<u>74,121,115</u>	
Total overall debt	358,348,273	
Less:		
School construction grants receivable	13,124,334	
Sewer assessments receivable	<u>2,884,431</u>	
Total overall net debt	\$342,339,508	

CURRENT DEBT RATIOS

Pro Forma
As of March 1, 2003

Population, 2000	117,083
Per capita income, 1999	\$34,987
Net taxable grand list, 10/1/01	\$10,858,141,105
Estimated full value @ 70%	\$15,511,630,150
Equalized net grand list (2000)	\$21,595,486,805

	Bonded Debt	Overall Debt	Overall Net Debt
	<u>\$278,930,000</u>	<u>\$358,348,273</u>	<u>\$342,339,508</u>
Per capita	\$2,370.58	\$3,347.82	\$3,211.09
To net taxable grand list	2.56%	3.61%	3.46%
To estimated full value	1.79%	2.53%	2.42%
To net equalized grand list	1.29%	1.82%	1.74%
Ratio of debt per capita to per capita income	6.78%	9.57%	9.18%

VII. LITIGATION

In the ordinary course of its operations, the City of Stamford, its officers and employees have become or are defendants in lawsuits and other proceedings arising out of alleged torts and other violations of law. In the opinion of the City's Director of Legal Affairs, there are no claims or litigation pending or to his knowledge threatened, which would individually or in the aggregate result in final judgments against the City which would have a material adverse effect on the finances of the City.

WATERBURY

Description of the Municipality

Waterbury was founded in 1674, incorporated as a village in 1686 and as a city in 1853. Located in the west-central portion of the State, the City is 21 miles north of New Haven, 29 miles southwest of Hartford, and 24 miles east of Danbury. The City operates under a Mayor–Board of Aldermen form of government with officials elected at regular biennial elections.

Waterbury is conveniently located at the crossroads of two major expressways, Interstate 84 and Connecticut Route 8. To the east, I-84 provides direct access to Hartford and joins the Massachusetts Turnpike for travel to Boston and northern New England. Heading west, I-84 passes through Danbury and crosses the states of New York and Pennsylvania, with connections to the New York Thruway and Interstate 80. Route 8 south meets the Connecticut Turnpike (I-95) in Bridgeport, making all of southern Connecticut and Fairfield County easily accessible. To the north, Route 8 ultimately leads to the Massachusetts Turnpike.

Rail passenger and freight service in the area are operated by Metro North and Conrail, respectively. Daily passenger round trips are made between Waterbury and New York City, and freight service via New Haven makes shipments possible to any point in the country.

Waterbury serves as a center of higher education for the area, being the home of Teikyo Post University, Naugatuck Valley Community-Technical College, and a branch of the University of Connecticut. Graduate school needs are met by the Waterbury extensions of the University of New Haven and the University of Bridgeport. Public City school facilities include four high schools, seven middle schools and 19 elementary schools. There are eleven private or parochial elementary schools, four private or parochial high schools and one vocational-technical high school.

Waterbury provides its residents with a variety of housing options in all price ranges. Single-family dwellings from modest to luxurious, multi-family homes, apartments and condominiums meet the needs of workers and residents. Waterbury provides special housing for senior citizens and for low- and middle-income families and assisted living facilities.

Public parks and recreation facilities offering tennis, swimming pools, ball fields, ice skating, and recreational programs are located throughout the City. In addition, the City offers bathing, boating, and fishing facilities at Lakewood Park within the City and at Lake Quassapaug and Hitchcock Lake just outside the City limits. Also, two 18-hole City-owned golf courses and an acclaimed 18-hole private course are located in Waterbury, while several 9-hole golf courses are situated immediately adjacent to the City. Mattatuck State Forest with its many trails and campsites is only four miles from the center of the City. Black Rock State Park, with swimming and picnic facilities available, is a short drive away.

The Waterbury Symphony Orchestra, Seven Angels Theater, Waterbury Ballet, and the Mattatuck Historical Museum are just a few of the many cultural institutions serving Waterbury area residents.

The Silas Bronson Library, the public library of the City of Waterbury, was established in 1869 by an endowment from Silas Bronson. The library is now jointly supported by the Silas Bronson entitlement and public funds. There are over 170,000 volumes in the main library available to the public, while a branch library operates in the Bunker Hill section.

The City's second magnet school, the Rotella Regional Arts Magnet School, opened in October 2000. The Rotella School, like the Maloney Magnet School that opened in 1996, is fully funded by the State of Connecticut and requires that at least 20% of Rotella students be from nearby school districts. The State has approved a third magnet school in conjunction with its Downtown Revitalization Project Construction is currently under way. These magnet schools address a statewide mandate for greater social and ethnic diversity. Waterbury's schools are considered "racially balanced" by the State of Connecticut Department of Education.

Description of Government

The City is governed by a Mayor who serves for a two-year term and a Board of Aldermen made up of 15 members elected for two-year terms. Also elected are the City Clerk, Town Clerk, Sheriff, Tax Collector, and the ten-member Board of Education. Other officials are appointed by the Mayor.

A multi-year effort to revise the City's charter (the "Charter") is under way. With a successful referendum vote in November 2002, the first phase of charter revision has been approved and adopted. Among other things, the first phase involves many reforms to organizational and administrative matters, which as a result, were shifted to ordinance-level law. The second phase of charter revision is currently being drafted by the City's Charter Revision Commission and is expected to focus on the related components.

Certain of the provisions of the recently revised Charter are as follows:

Civil Service and Personnel Ordinance. The Mayor has appointed a task force for the purpose of reviewing the civil service provisions contained in Chapter 12 of the Charter and proposing a replacement ordinance, if any. The task force must consult with the Director of Personnel and the Civil Service Commission and shall report a proposed ordinance to the Mayor and Board of Aldermen within six months from the date of the adoption of the Charter at referendum. The task force is also empowered to consider ordinance provisions to further effectuate the powers of the Personnel Director and the Department of Personnel, as permitted under the Charter.

Pensions. The Mayor has instructed the Corporation Counsel (in consultation with the Retirement Board) to prepare an ordinance pertaining to pensions and retirement system. The Corporation Counsel has reported Part 1 of this proposed ordinance to the Mayor and Board of Aldermen and the ordinance was adopted by the Board of Aldermen on April 7, 2003. Part 1 of the ordinance details the administration, powers and duties of the Retirement Board with respect to the City's pension and retirement system. Part 2 of this ordinance will delete obsolete charter provisions relating to the City's pension and retirement system and may address additional matters concerning the City's pension and retirement system.

Ethics and Conflicts of Interest Ordinance. The Corporation Counsel, upon instruction by the Mayor, in consultation with the members of the Board of Ethics, is preparing an ordinance to replace the current Charter provisions. The ordinance shall include provisions governing and regulating ethics and conflicts of interest and allowing for the investigation of unethical conduct, corrupting influence or illegal activities by any municipal official, officer or employee, as authorized by the General Statutes.

The Corporation Counsel shall report said proposed ordinance to the Mayor and Board of Aldermen within six (6) months from the effective date of the Charter. Until the effective date of a replacement Ordinance, the conflict of interest provisions contained in the prior Charter shall remain in full force and effect.

Adoption of an Ordinance pertaining to the execution of Contracts and Budget Transfers. The Charter requires ordinances relating to contracts (and procedures relating thereto) and the disposition process for property, including the improvements thereon. The Corporation Counsel has the responsibility to approve all written contracts of the City.

This ordinance includes a requirement that all requests to the Purchasing Director for the acquisition of services or commodities be accompanied by written verification of the Budget Director that unexpended and unencumbered appropriated funds are available for the requested purpose. A request for any proposed contract with a term exceeding one (1) year must be accompanied by evidence of approval by the Board of Aldermen authorizing such a term and authorizing the commencement of the procurement process. Contracts obtained outside the competitive bidding process requiring an expenditure in excess of \$50,000 in any fiscal year require the approval of the Board of Aldermen with certain exemptions. Incurrence of any liability or expense by contract or otherwise in excess of appropriations authorized by the Board of Aldermen are prohibited. The Mayor's power to transfer unencumbered appropriations from one classification of expenditure to another within the same agency is limited to \$1,000 per occurrence and \$5,000 in the aggregate. Such a transfer may be made only upon certification of funds by the Budget Director. Any transfer in excess of such amounts requires approval of the Board of Aldermen.

The Centralized Purchasing System. Under the Charter a centralized procurement system was enacted covering the purchase of all supplies, services, materials, equipment and other commodities required. Upon recommendation of the Director of Purchases (following review of the Mayor) the Board of Aldermen shall establish by ordinance the rules and regulations governing the operation of said central purchasing system in a manner consistent with the General Statutes, the Charter, ordinance and standards established by organizations such as the National Institute of Governmental Purchasing and the National Association of State Purchasing Officials as well as the Model Procurement Code and Ordinances prepared by the American Bar Association.

Finance and Audit Review Commission. The Charter established the Finance and Audit Review Commission ("FARC") effective on January 1, 2003. Moreover, the functions of the Board of Finance ended on December 31, 2002. The FARC has the authority to examine into all matters relating to the financial and budgetary efficiency, efficacy, and condition of the City. Notwithstanding the executive powers of the Mayor, the Department of Audit is under the direct supervision of the FARC. The FARC is authorized to audit or cause to be audited and examine the books and accounts of all of the departments and officials of the City, including the Department of Education. The FARC is to review the contents of the annual audit and make recommendations to the Mayor regarding the manner and means of improving the administrative processes pertaining to the operations of the City. The FARC is responsible for the general supervision of the Department of Audit and shall give due consideration to requests from the Mayor or the Board of Aldermen in establishing and modifying the work plan of the FARC or its staff. Each officer and employee of any department, institution, board, commission or agency of the City is obligated to assist the FARC and the Department of Audit in carrying out its powers and duties.

Annual Department Budget Estimates. The Mayor is to establish a date by which budget estimates are submitted to the Mayor and Director of Finance on forms and in accordance with established procedures. The process needs to be set forth in an ordinance. The Mayor then submits a general, special revenue and capital budget to the Board of Aldermen on or before April 1, which is subjected to at least two required public hearings and final action not later than midnight of the second business day following the first Wednesday after the first Monday in June.

Budget Responsibilities of the Board of Education. Pursuant to the Charter, the Board of Education has new responsibilities regarding submission and processing of the budget.

Public Finance Ordinance. In accordance with the Charter, the Board of Aldermen by ordinance, shall adopt procedures for structure, timing and method or manner of the issuance and sale of Bonds and Notes. Said ordinance may set forth the respective roles and responsibilities of the Mayor and other city officials with respect to debt planning, issuance and management; including, but not limited to their authority to retain consultants for specialized services.

The City Treasurer and Collector of Taxes. These positions are eliminated effective December 31, 2003.

Part C Boards and Commissions. The historical organizational structure of the City's Boards and Commissions remain in full force and effect until the effective date of a replacement ordinance pertinent thereto.

Among the terms are the following: (i) number of Board and Commission members (and, alternates, in the case of the Planning and Zoning Commission and the Zoning Board of Appeals), except as otherwise provided by the General Statutes, which number shall always be odd; (ii) terms of office, which may be staggered and shall not exceed four years; (iii) provision for the appointment of a Chair; (iv) standards for the keeping of records; (v) Aldermanic and minority party representation; (vi) public participation (including, but not limited to, public speaking); and (vii) frequency of meetings of all Boards and Commissions.

The following Boards are mandated by Charter and needed to be constituted by Ordinance:

- Board of Commissioners of Public Health
- Board of Park Commissioners
- City Plan Commission
- Board of Police Commissioners
- Board of Fire Commissioners
- The Zoning Commission
- Board of Assessment Appeals
- Board of Commissioners of Public Works
- The Retirement Board

The following departments exist under the new Charter:

- The Legal Department and the Corporation Counsel
- The Department of Finance and the Director of Finance (Chief Financial Officer)
- Department of Budget Control
- Department of Information Services
- Department of Purchases
- Personnel Department
- Office of the City Assessor
- Police Department
- Fire Department
- Department of Health
- Department of Inspection

The Charter specifically authorizes the establishment of departments and agencies of the City that deal with key functions such as health, human services, recreation and other community services and the infrastructural, capital and economic development needs of the City. There may be departments responsible for the preservation and promotion of public works, traffic control and engineering, waste management, engineering, parking garages, buildings, including but not limited to school buildings and additions thereto and other city property.

Removal of Appointed Board and Commission Members by the Mayor. The Charter requires the establishment, by ordinance, of procedures for the removal of appointed Board and Commission members. The ordinance may also expand upon the grounds for removal which include: (a) misconduct in the performance of duties; (b) persistent absence; (c) unexcused absences from three or more consecutive regular meetings; (d) conviction of a felony; or, (e) conviction of a misdemeanor which would undermine the public confidence in the member's ability to perform the duties of office.

Civil Service Commission. The Mayor has the power to appoint members for a term of five years on January 1, 2003, subject to the restrictions in the Charter.

Board of Ethics. The Board of Ethics, in tandem with the creation of an ethics ordinance, must adopt and promulgate reasonable regulations for the administration of the Code and ordinances as set forth in the Charter.

Terms of Office. The following terms of office will apply to the following offices, pursuant to the Charter:

Election	Offices	Term Starts	Term Ends
2003	Mayor Town Clerk City Clerk City Sheriff Aldermen	1 January 2004	30 November 2005
2003	Board of Education (Group A)	1 January 2004	30 November 2007
2005	Board of Education (Group B)	1 January 2006	30 November 2009
2005	Mayor Town Clerk City Clerk City Sheriff Aldermen	1 December 2005	30 November 2007
2007	Board of Education (Group A)	1 December 2007	30 November 2011
2009	Board of Education (Group B)	1 December 2009	30 November 2013

Further Changes. The Waterbury Charter Revision Commission continues to meet to review additional issues which have been raised, and which may be raised by the public and the Commissioners to further refine the City's Charter.

Waterbury Financial Planning and Assistance Board. Special Act No. 01-1 of the General Assembly of the State of Connecticut (January Session), as amended (the "Act"), established the Waterbury Financial Planning and Assistance Board (the "Assistance Board"). The Assistance Board was established by the Act to review the financial affairs of the City, to assist the City in achieving access to public credit markets, and to assist the City in funding its accumulated deficit and restoring its financial stability. The Assistance Board exercises broad authority over the City's financial affairs (see "The Waterbury Financial Planning and Assistance Board" herein for additional information).

PRINCIPAL MUNICIPAL OFFICIALS

<u>Office</u>	<u>Name</u>	<u>Manner of Selection/Term</u>	<u>Years of Service/ Dates of Appointment</u>
Mayor	Michael J. Jarjura	Elected – 2 years	16 months
President, Board of Aldermen	Paul Vance, Jr.	Elected – 2 years	16 months
President, Board of Education	Mary White	Elected – 2 years	16 months
Superintendent of Schools	Dr. David L. Snead	Appointed	August 2000
Director of Finance	Richard A. Russo	Appointed	October 2000
Director of Budget	Ofelia Matos	Appointed	April 2001 ¹
Corporation Counsel	Theresa Caldarone	Appointed	October 2000

¹ Served as Interim Director of Budget as a loaned State employee until being officially appointed to the position in December 2002.

Summary of Municipal Services

MUNICIPAL EMPLOYEES

	<u>2002-03</u>	<u>2001-02</u>	<u>2000-01</u>	<u>1999-00</u>	<u>1998-99</u>	<u>1997-98</u>
General Government	1,333	1,347	1,324	1,389	1,395	1,385
Board of Education	2,132	2,173	2,096	2,004	1,954	1,891
Federally Funded ¹	<u>335</u>	<u>233</u>	<u>233</u>	<u>308</u>	<u>313</u>	<u>274</u>
Total	3,800	3,753	3,653	3,701	3,662	3,550

¹Federally Funded programs include W.I.C. Program, LEAD Program, JTPA, and several education programs including Community School, Language Development Program, Adult Basic Education and others.

Enterprise Funds

The following City services are funded from the City’s Enterprise Funds and are fully self-supporting.

Water: Waterbury has the largest city-owned water system in the State. It encompasses 7,000 acres of City-owned watershed and has sufficient capacity to service 200,000 people. The system consists of two inactive and five active reservoirs with a total capacity of 7.54 billion gallons of water. The water treatment plant was completed in 1987 at a cost of approximately \$35.0 million. Average consumption for fiscal year 2002 was 15.1 million gallons per day; total capacity of the system is 38.0 million gallons per day. The system serves customers located in Waterbury and neighboring communities and is a self-supporting enterprise fund of the City.

Water Pollution Control: The City has approximately 300 miles of sanitary sewers. The City’s newly upgraded 27.05 MGD advanced Sewage Treatment Facility was put into operation in April of 2000 in accordance with a Consent Order between the City and State of Connecticut Department of Environmental Protection. The planning, design and construction phases of this upgrade were funded through the State of Connecticut Clean Water Fund program. Though the City is ultimately responsible to the State for repayment of the total cost of each phase of the upgrade, the City recently entered into agreements with the municipal users of the Sewage Treatment Facility (Watertown, Wolcott, Cheshire and Prospect), whereby the municipal users are obligated to pay their allocable share of the costs for each phase of the upgrade. In 2001, as part of an ongoing Federal investigation, the U.S. Department of Justice subpoenaed City documents and interviewed City employees about this reconstruction of the City’s sewage treatment plant. (See “LEGAL INFORMATION – Pending Federal Investigation” herein.)

**WATER POLLUTION CONTROL FACILITY (“WPCF”) UPGRADE
PROJECT COST AND FUNDING INFORMATION
As of March 2003**

	<u>Planning</u>	<u>Design</u>	<u>Construction</u>
Total Cost	\$4,007,585	\$8,411,392	\$109,735,692
City Share	\$ –	\$ 458,519	\$ 460,349
CWF Grant	\$ –	\$1,505,257	\$ 28,712,061
CWF Loan	\$4,007,585	\$6,447,616	\$ 80,563,282
Percent Liability			
Waterbury	88.93% ¹	87.09% ¹	86.45% ¹
Watertown	8.11%	9.56%	10.04%
Wolcott	2.89%	3.27%	3.43%
Cheshire	0.07%	0.08%	0.08%

¹ In July of 2002, the City and the Town of Prospect entered into an Intermunicipal Sewer Agreement, whereby Prospect paid to the City its share of the planning, design and construction of the WPCF upgrade project, in the following amounts:

Planning	\$764
Design:	1,475
Construction:	19,604
Total:	\$21,843

The balance of the WPCF upgrade project consists of WPCF enhancements, the relocation of the City's Central Vehicle Maintenance and Refuse Facilities, and mitigation, including plantings and dam removal. The estimated \$6,322,202 cost of this project is being funded through the State of Connecticut Clean Water Fund Program via a combination of a 2 percent loan totaling an estimated \$4,120,091 and a grant totaling \$2,202,111.

In December of 2001, the City's Main Carrier Relief Sewer Project (the "MCRS Project") was completed. It included the construction of a 54-inch main carrier relief sewer as well as new sanitary and storm sewers in the general vicinity of the main carrier relief sewer. The project eliminated ten combined sewer overflows from entering the Naugatuck and Mad Rivers by means of the relief sewer, which conveys these flows to the City's sewage treatment facility for treatment.

This MCRS Project was funded through the State of Connecticut Clean Water Fund Program. The original budget for this was \$22,922,994 (a \$12,366,829 loan at a 2% interest rate and a \$10,556,165 grant). The actual costs for this MCRS Project were \$21,268,904 (an \$11,547,353 loan and a \$9,721,551 grant), for a savings of \$1,654,090.

The City is preparing to commence certain Phase III collection system work, consisting of the Harper's Ferry Pump Station relocation, the Sewer System Rehabilitation Cured-in-Place Pipe Lining contract, the Inflow Reduction Program, and the procurement of certain collection system equipment. The estimated \$16,550,000 cost of Phase III is expected to be funded through (1) the State of Connecticut Clean Water Fund Program via a combination of a 2 percent loan estimated at \$6,457,578 and a \$1,343,070 grant, and (2) a \$8,749,352 grant from the State of Connecticut Department of Transportation.

Any portion of the projects remaining unfunded may be funded through the City's Bureau of Waste Disposal or through the issuance of general obligation bonds.

Pursuant to the State Clean Water Fund Program, the City has adopted a sewer user charge to pay the costs of operating its collection and treatment system, including operation, capital improvements, and debt service on outstanding sewer bonds.

General Fund

The following City services are funded from the City's General Fund:

Fire: The Waterbury Fire Department is a professional fire department providing a wide range of emergency services including fire suppression, hazardous materials mitigation, technical rescue and emergency medical dispatch. The Department also provides non-emergency services including public fire education, Connecticut Fire Code and Licensing building inspections and plan review. The Department consists of 300 sworn members and six civilian members. Emergency services are provided by ten engine companies (with one also functioning as a rescue/hazmat company), three truck companies, and three chief officers operating from ten fire stations.

Police: The Waterbury Police Department is a professional department which operates with a complement of 324 sworn officers and 50 civilian employees. Located at 255 East Main Street, Police Headquarters is a 34,200-square-foot facility housing administrative, uniformed and investigative services. Specialized units include K-9, Emergency Response Team, Bicycle Patrol, Polygraph Services, Traffic Engineering, Victim Services, and a full-service Forensic Laboratory capable of ballistics analysis/comparison and DNA analysis. The department utilizes a fleet of approximately 100 vehicles, 50 of which are marked police cruisers. Off-site facilities include Animal Control, Traffic Division, Parking Division and three neighborhood precinct offices.

Health: Waterbury's full-time health department has 115 employees and oversees school health, food service establishments, housing code enforcement, communicable disease control and public health nursing. In addition to multiple community programs (WIC, AIDS Program, Seatbelt Safety, Childhood Immunizations, Childhood Lead Poisoning Prevention, Health Education, Substance Abuse Prevention for Women), it also responds to hazardous materials incidents with the Fire Department.

Solid Waste: The City closed its landfill in September 1999 pursuant to a closure order negotiated with the State of Connecticut Department of Environmental Protection. In 1993, the City signed a contract (the "Service Contract") with the Connecticut Resources Recovery Authority ("CRRA") to provide solid waste disposal services to the

City at the CRRA's Mid Connecticut Plant (the "System"). The contract is a 20-year "put-or-pay" contract, with a minimum commitment of 24,000 tons per year, including a per-ton-tipping fee of \$51 for the current fiscal year.

All municipalities, including the City, pledge their full faith and credit for the payment of all Service Payments and any delayed-payment charges and costs and expenses of CRRA and its representatives in collecting overdue Service Payments. Each municipality agrees that its obligation to make any such Service Payments and other such payments, in the amounts and at the times specified in the Service Contract, whether to CRRA or the trustee, shall be absolute and unconditional and shall not be subject to any setoff, counterclaim, recoupment, defense (other than payment itself) or other right which the municipality may have against CRRA, the trustee or any other person for any reason whatsoever, shall not be affected by any defect in the title, compliance with the plans and specifications, condition, design, fitness for use of, or damage to or loss or destruction of, the System or any part thereof and, so long as CRRA shall accept solid waste delivered by the municipality pursuant to the Service Contract, shall not be affected by an interruption or cessation on the possession, use or operation of the System or any part thereof by CRRA or the operator of the System for any reason whatsoever.

To the extent that a municipality does not make provisions or appropriations to provide for and authorize the payment by such municipality to CRRA of the payments required to be made by it under the Service Contract, the remaining municipalities including the City must levy and collect such general or special taxes or cost sharing or other assessments as may be necessary to make such payments in full when due thereunder.

Enron Power Marketing, Inc. ("Enron") is the entity which is obligated to pay CRRA a monthly "capacity charge" for the purchase of steam and an additional charge for electrical output from the facility, both of which charges support the Mid-Connecticut System. The capacity charge is significantly above market prices. Enron filed for bankruptcy in 2001 and has not made capacity payments to CRRA since December 3, 2001. It is unlikely that Enron will make any further required payments to CRRA. Additionally, Covanta MidConn, Inc., operator of the steam and electricity components of the Mid-Connecticut facility, filed for bankruptcy in April 2002. Thus far the bankruptcy has not affected Covanta's operation of the facility. CRRA voted to raise tipping fees to \$57.00 per ton for fiscal year 2003 and to \$63.75 per ton for fiscal year 2004.

Sewage Sludge: The City has entered into an agreement (the "Agreement") with NETCO-Waterbury Limited Partnership ("NETCO"), a Delaware Limited Partnership, for the disposal of the City's sewage sludge. The Agreement provides for NETCO to design, build and operate a sewage sludge incinerator facility manufactured by Dorr-Oliver, Incorporated with a 50-dry-ton-per-day capacity, as well as related facilities (the "Project"). The Project was operational in January 1997. Under the Agreement, NETCO, is required to process sewage sludge for the City and in return is guaranteed to receive not less than \$1.6 million per year from the City as payment of a fixed disposal fee for the successful processing of the sludge (the "Minimum Fee"). However, the City must obtain annual appropriation in order to make any payments required in the Operating Agreement. The obligation of the City to make payments under the Operating Agreement is subject solely to NETCO's performance of its obligations under the Operating Agreement. Connecticut General Statutes generally authorize municipalities to pledge their full faith and credit to payments such as those required under the Operating Agreement. Payment of the Minimum Fee by the City is not secured by the full faith and credit pledge of the City. The City must appropriate in each fiscal year sufficient funds to make the payments required by the Operating Agreement. Such annual appropriation is subject to the approval of the City pursuant to its Charter, including legislative approval by the Board of Aldermen. Failure of the City to appropriate the Disposal Fee does not release it from contractual liability to NETCO for failure to make payments required under the Operating Agreement. The liability of the City to NETCO in the event it fails to make required payments would be determined by a court of law. This fee is based upon the disposal of 5,720 dry tons per year, or approximately 15 dry tons per day. The Facility has been operational 353 days per year.

For each dry ton processed by NETCO in excess of 25 dry tons per day on average, NETCO pays the City an \$80-per-dry-ton royalty from the estimated \$249-per-dry-ton fee charged to process outside sludge. The Facility is fully operational and has been processing approximately 50 dry tons of outside sludge in excess of NETCO's obligations to the City, resulting in \$50,000 to \$80,000 per month in additional royalties. The incinerator manufacturer's performance guarantee is for the incinerator to process up to 50 dry tons per day of municipal sewage sludge. The City must dispose of the ash and dried end-product generated by the Facility in the City's South End Disposal Area for the life of the Operating Agreement without charge.

Recreation: The City has over 1,000 acres dedicated to recreation including 22 parks and 15 parklets. There are six recreation centers, two municipal-owned 18-hole golf courses, 24 playgrounds, three outdoor swimming pools,

one lake facility, 16 spray pools, a municipal stadium, 42 tennis courts, and 27 softball fields that are at the disposal of the public. Over the past nine years, the City received State grants totaling more than \$5.5 million for park improvements.

Educational System: The City's school system serves grades pre-kindergarten through twelve and is governed by the local Board of Education. Waterbury has a 10-member Board of Education elected to four-year staggered terms. The primary function of the Board is to establish policy. Some of the areas for which such policies are set include curriculum, budget requests submission, ensuring funds for education as appropriated by the City are properly expended, implementation of both State and Federal laws, and planning for facilities needed by the system, including construction and renovation.

The City has 19 elementary schools, including two magnet schools, seven middle schools, and four high schools. Maloney Magnet School was completed in 1996, and Rotella Magnet School opened in October 2000. A third magnet school is slated to open for grades 6-8 beginning September 2004. The magnet schools address a statewide mandate for greater social and ethnic diversity. Non-public schools include eleven elementary schools, four high schools and a vocational-technical high school.

The Waterbury Board of Education requires "School Performance Reports" from all principals to promote accountability for school performance, particularly related to tested student achievement. Waterbury's Assistant Superintendent for Instruction has developed plans aimed at improving the curriculum, improving staff training and teaching practices, developing a system of academic accountability, and reconsidering the traditional school calendar. Waterbury has also signed a contract with the Connecticut Academy of Math and Science ("CAMS"), a non-profit corporation based in New Britain, Connecticut, to help improve student performance in these areas. CAMS is federally funded and provides similar services for a number of Connecticut municipalities. In the new third generation CMT administered in 2000, the City has either sustained or increased its scores. School officials attribute such gains to the school system's increased focus on areas determined to need improvement, revised curriculum, the Connecticut Mastery Test preparatory Saturday school for third-graders, a remedial summer school and after-school programs that were implemented in 2000.

The CMT is also given in grade eight. Despite interventions, the eighth-graders do not show an increase in the same way as other grades. Additional professional development, new text purchases and curriculum realignment have been implemented with the goal of improving the Connecticut Mastery Test scores over time.

The District also provided additional support and training to Special Education and Bilingual teachers in preparation for the State required assessment of those students.

SCHOOL ENROLLMENT¹

<u>School Year</u>	<u>Historical</u>				<u>Total Enrollment</u>
	<u>Elementary (K-5)</u>	<u>Middle (6-8)</u>	<u>Senior High (9-12)</u>	<u>Special Education</u>	
1993-1994	7,317	3,038	3,065	231	13,651
1994-1995	7,556	3,013	2,986	314	13,869
1995-1996	7,663	2,941	2,747	621	13,972
1996-1997	7,780	3,151	2,887	347	14,165
1997-1998	7,832	3,304	2,908	461	14,505
1998-1999	8,272	3,538	3,097	N/A	14,907
1999-2000	8,464	3,675	3,183	N/A	15,322
2000-2001	8,550	3,859	3,340	N/A	15,749
2001-2002	8,705	3,980	3,554	N/A	16,239
2002-2003	9,432	3,900	3,677	N/A	17,009

<u>School Year</u>	<u>Projected</u>				<u>Total Enrollment</u>
	<u>Elementary (K-5)</u>	<u>Middle (6-8)</u>	<u>Senior High (9-12)</u>	<u>Special Education</u>	
2003-2004	9,105	4,403	3,790	N/A	17,298
2004-2005	9,290	4,583	3,940	N/A	17,813
2005-2006	9,475	4,763	4,090	N/A	18,328
2006-2007	9,660	4,943	4,240	N/A	18,843

Source: Waterbury Board of Education

¹ School populations reported as of the end of each school year. Projections represent estimates of the Waterbury Board of Education as of April 2002.

CITY EMPLOYEE BARGAINING ORGANIZATIONS

<u>Employees</u>	<u>Bargaining Organization</u>	<u>Number of Employees</u>	<u>Current Contract Expiration Date</u>
<i>General Government</i>			
Inspectors, Secretaries, Clerks	City of Waterbury Employee Association	617	6/30/05
Public Works, School Maintenance	AFSCME, AFL-CIO Local 353	436 ¹	6/30/05
Police	Waterbury Police Union Local 1237	324	6/30/00 ²
Fire	Waterbury Fire Fighters Local 1339	294	6/30/05
Nurses	CT Health Care Association	39	6/30/05
Management	Waterbury Municipal Administrators Association	42	6/30/05
Office of Community Development	AFSCME, AFL-CIO, Local 1303-128	11	6/30/06
<i>Board of Education</i>			
Teachers	Waterbury Teachers Assoc.	1,345	6/30/04
School Administrators	School Admin. of Waterbury	65	6/30/06 ³
Cafeteria Aides, Library Pages, Office Aides	Cafeteria Union, CSEA, Inc. /SEIU,AFL-CIO, Local 760	141	6/30/01 ³
School Crossing Guards	SEIU AFL-CIO	45	6/30/02 ⁴
Employees of Federal Grant Programs (2 units)	Local 531 Service Employee International Union/AFL-CIO	72	6/30/05

¹ Includes all school custodians.

² The City and the Police Union are currently involved in compliance proceedings at the State Board of Labor Relations with respect to the alleged 2000-05 agreement. (See discussion below.)

³ Agreement has reopener concerning wages for the 2004-05 and 2005-06 contract years.

⁴ In negotiation.

The City and the police union were parties to a collective bargaining agreement covering the period from July 1, 1995 through June 30, 2000. On April 3, 2000, the City and the union commenced negotiations for a successor agreement. The parties reached a tentative agreement and entered into a letter of understanding with respect to the parties' conditional tentative agreement. On September 21, 2000, the City's Board of Finance reviewed and discussed the tentative agreement, and on September 25, 2000, the Board of Aldermen voted in favor of the tentative agreement. On October 4, 2000, however, the Mayor vetoed the tentative agreement out of concern for the City's tenuous financial position and City's Pension Fund. The Board of Aldermen refused to override the Mayor's veto of the tentative agreement.

The union filed a complaint with the Connecticut Labor Relations Board (the "Labor Board") alleging that the City failed to recognize or implement the tentative agreement. The Labor Board issued a decision in favor of the union on January 24, 2001, finding that the tentative agreement was valid and binding. The City filed an administrative appeal of the Labor Board's decision on March 1, 2001 to the Superior Court, which subsequently dismissed the City's appeal. The City decided not to appeal the Superior Court decision.

Instead, the City requested that the Labor Board initiate compliance proceedings on the issue of the City's financial incapacity to implement the terms of the agreement, specifically with reference to the pension changes and retroactive wages. The pension changes could result in an increase of approximately \$8.5 million in the City's unfunded pension liability (see "Pension Programs" herein). The impact of retroactive wages could also be significant. The Labor Board has permitted the Assistance Board to intervene as a party respondent in this matter. The Assistance Board plans to argue that it is impossible or impracticable to implement certain provisions of the agreement, including, but not limited to, pension plan changes; wage increases; health insurance benefits without premium cost share, financial controls, or managed prescription drug benefits; and other financial provisions to be presented to the Labor Board. The Labor Board has concluded hearings on this matter. Parties will submit briefs in April 2003.

Connecticut General Statutes Sections 7-473c and 10-153f provide procedures for mandatory binding arbitration whenever collective bargaining negotiations between municipalities and representatives of the employees have reached an impasse. After the parties have submitted evidence, last best offers on all issues in dispute, and briefs, the arbitration panel must accept the last best offer of either party on each disputed issue. In reaching its determination, the arbitration panel must give priority to the public interest and the financial capability of the municipal employer, including consideration of other demands on the financial capability of the municipal employer. In the light of the employer's financial capability, the panel shall consider prior negotiations between the parties, the interests and welfare of the employee group, changes in the cost of living, existing employment conditions, and the wages, salaries, fringe benefits, and other conditions of employment prevailing in the labor market, including developments in private sector wages and benefits. The legislative body of an affected municipality may reject the arbitration panel's decision within thirty days of its issuance by a two-thirds majority vote. The State and the employee organization must be advised in writing of the reasons for rejection within ten days thereof. The State will then appoint a review panel of either one or three arbitrators to review the decisions on each of the rejected issues. Within twenty-five days of the appointment of the review panel, the review panel shall review the record and render a final and binding award on the disputed issues. The review panel is limited to accepting the last best offer of either of the parties on each disputed issue taking into consideration the factors mentioned above.

Notwithstanding the foregoing, Special Act 01-1 provides that the Assistance Board may approve or reject all collective bargaining agreements for a new term and other modifications, amendments or reopeners to an agreement, to be entered into by the City or any of its agencies or administrative units, including the Board of Education; and with respect to labor contracts in or subject to binding arbitration, serve as the binding arbitration panel. The Assistance Board is not limited to considering only those issues raised by the parties in arbitration. Also, the Assistance Board is not limited to accepting either of the parties last best offers when making a determination on disputed issues in a binding interest arbitration case.

ECONOMIC AND DEMOGRAPHIC INFORMATION

POPULATION AND DENSITY

<u>Year</u>	<u>City of Waterbury</u>			<u>New Haven County</u>		<u>State of Connecticut</u>	
	<u>Population</u>	<u>% Change</u>	<u>Density¹</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2000	107,271	(1.6)	3,803.9	824,008	2.5	3,405,565	3.6
1990	108,961	5.5	3,863.9	804,219	5.6	3,287,116	5.8
1980	103,266	(4.4)	3,661.9	761,337	2.2	3,107,576	2.5
1970	108,033	0.8	3,831.0	744,948	12.8	3,032,217	19.6
1960	107,130	2.5	3,798.9	660,315	21.0	2,535,235	26.3
1950	104,477	–	3,704.9	545,784	–	2,007,280	–

Source: U.S. Department of Commerce, Bureau of the Census, Census of Population and Housing, 1950–2000.

¹ Density based on 28.2 square miles.

AGE DISTRIBUTION OF THE POPULATION

<u>Age¹</u>	<u>City of Waterbury</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5 years	8,176	7.6	223,344	6.5
5 to 9 years	8,415	7.8	244,144	7.2
10 to 14 years	7,681	7.2	241,587	7.1
15 to 19 years	6,829	6.4	216,627	6.4
20 to 24 years	6,919	6.5	187,571	5.5
25 to 34 years	15,844	14.8	451,640	13.2
35 to 44 years	16,183	15.1	581,049	17.1
45 to 54 years	12,592	11.7	480,807	14.1
55 to 59 years	4,747	4.4	176,961	5.2
60 to 64 years	3,840	3.6	131,652	3.9
65 to 74 years	7,223	6.7	231,565	6.8
75 to 84 years	6,408	6.0	174,345	5.1
85 years and over	<u>2,414</u>	<u>2.2</u>	<u>64,273</u>	<u>1.9</u>
Total	107,271	100.0	3,405,565	100.0
2000 median age (years) ¹	34.9	–	37.4	–
1990 median age (years) ²	33.1	–	34.4	–

¹ Source U.S. Department of Commerce, Bureau of Census, 2000 Census.

² Source U.S. Department of Commerce, Bureau of Census, 1990 Census.

INCOME DISTRIBUTION

	<u>City of Waterbury</u>		<u>State of Connecticut</u>	
	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
\$0 – 9,999	2,160	8.0	33,423	3.8
10,000 – 14,999	1,528	5.7	23,593	2.7
15,000 – 24,999	3,876	14.3	63,262	7.1
25,000 – 34,999	3,455	12.8	75,413	8.5
35,000 – 49,999	4,645	17.2	120,134	13.6
50,000 – 74,999	5,853	21.7	198,924	22.5
75,000 – 99,999	2,951	10.9	141,981	16.0
100,000 – 149,999	1,969	7.3	132,177	14.9
150,000 – 199,999	349	1.3	42,472	4.8
200,000 and over	<u>219</u>	<u>0.8</u>	<u>54,368</u>	<u>6.1</u>
Total	27,005	100.0	885,747	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

COMPARATIVE INCOME MEASURES

	<u>City of Waterbury</u>	<u>State of Connecticut</u>
Per capita income, 1999	\$17,701	\$28,766
Median family income, 1999	\$42,300	\$65,521
Median household income, 1999	\$34,285	\$53,935

Source: U.S. Department of Commerce, Bureau of Census.

EDUCATIONAL ATTAINMENT

Years of School Completed - Age 25 and Over

	<u>City of Waterbury</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 9th grade	8,205	11.8	132,917	5.8
9th to 12th grade, no diploma	11,536	16.5	234,739	10.2
High school graduate	23,961	34.3	653,300	28.5
Some college, no degree	11,821	16.9	402,741	17.5
Associate's degree	4,590	6.6	150,926	6.6
Bachelor's degree	6,042	8.7	416,751	18.2
Graduate or professional degree	3,636	5.2	304,243	13.2
Total	69,791	100.0	2,295,617	100.0
Total high school graduate or higher	-	93.8	-	84.0
Total bachelor's degree or higher	-	59.5	-	31.4

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

EMPLOYMENT DATA

	Percent Unemployed				
	<u>City of Waterbury</u>		<u>City of</u>	<u>Waterbury</u>	<u>State of</u>
	<u>Employed</u>	<u>Unemployed</u>	<u>Waterbury</u>	<u>Labor</u>	<u>Connecticut</u>
			<u>Market Area</u>	<u>Connecticut</u>	
February 2003	48,186	4,738	9.0	7.5	5.5
Annual average 2002	48,917	4,076	7.7	6.0	4.3
Annual average 2001	48,303	3,095	6.0	4.6	3.3
Annual average 2000	50,159	1,908	3.7	2.8	2.3
Annual average 1999	49,553	2,507	4.8	3.8	3.2
Annual average 1999	49,553	2,507	4.8	3.8	3.2
Annual average 1998	50,550	2,724	5.1	4.0	3.4
Annual average 1997	50,756	3,885	7.1	5.8	5.1
Annual average 1996	48,619	4,374	8.3	6.5	5.7
Annual average 1995	48,282	3,996	7.6	6.3	5.5
Annual average 1994	48,216	4,286	8.2	6.8	5.6
Annual average 1993	51,013	4,785	8.6	7.5	6.2
Annual average 1992	51,106	6,419	11.2	9.5	7.5

Source: State of Connecticut, Labor Department, Office of Research.

MAJOR EMPLOYERS

As of March, 2003

<u>Employer</u>	<u>Nature of Business</u>	<u>Full-Time Equivalent Employees</u>
City of Waterbury	Government	3,800
State of Connecticut	Government	1,225
Waterbury Hospital	Medical facilities & research	1,541
St. Mary's Hospital	Medical facilities	1,279
Southern New England Telephone	Communications	400
Naugatuck Valley Community-Technical College	Technical education	384
United States Postal Service	Federal government	270
MacDermid, Inc.	Specialty chemicals	217
Webster Bank	Financial institution	256
Waterbury Republican American	Newspaper publishers	252
VNA Health Care, Inc.	Health care	199

Source: Survey by Webster Bank.

HOUSING UNIT VACANCY RATES

<u>Housing Units</u>	<u>City of Waterbury</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Occupied housing units	42,622	91.0	1,301,670	93.9
Vacant housing units	<u>4,205</u>	<u>9.0</u>	<u>84,305</u>	<u>6.1</u>
Total units	46,827	100.0	1,385,975	100.0
Homeowner vacancy rate	—	2.2	—	1.1
Rental vacancy rate	—	7.6	—	5.6

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

OWNER-OCCUPIED HOUSING UNITS

	<u>City of Waterbury</u>	<u>State of Connecticut</u>
Total owner-occupied units	20,291	869,729
Persons per unit	2.58	2.67
Median value	\$101,300	\$166,900

	<u>City of Waterbury</u>		<u>State of Connecticut</u>	
Specified Owner-occupied Units	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than \$50,000	501	3.3	5,996	0.8
\$ 50,000 to \$ 99,999	7,000	45.4	85,221	11.7
\$100,000 to \$149,999	6,492	42.1	212,010	29.1
\$150,000 to \$199,999	1,142	7.4	156,397	21.5
\$200,000 to \$299,999	230	1.5	137,499	18.9
\$300,000 to \$499,999	31	0.2	79,047	10.9
\$500,000 or more	<u>16</u>	<u>0.1</u>	<u>52,074</u>	<u>7.1</u>
Total	15,412	100.0	728,244	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

NUMBER AND SIZE OF HOUSEHOLDS

<u>Household Characteristics</u>	<u>City of Waterbury</u>		<u>State of Connecticut</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Persons in households	105,057	—	3,297,626	—
Persons per household (average)	2.46	—	2.53	—
Persons per family (average)	3.11	—	3.08	—
Family households	26,911	63.1	881,170	67.7
Non-family households	<u>15,711</u>	<u>36.9</u>	<u>420,500</u>	<u>32.3</u>
All households	42,622	100.0	1,301,670	100.0
Family households by type				
Married couple	16,534	61.5	676,467	76.8
Female householders, no spouse	8,137	30.2	157,411	17.8
Other	<u>2,240</u>	<u>8.3</u>	<u>47,292</u>	<u>5.4</u>
Total family households	26,911	100.0	881,170	100.0
Non-family households by type				
Householders living alone	13,398	85.3	344,224	81.9
Other	<u>2,313</u>	<u>14.7</u>	<u>76,276</u>	<u>18.1</u>
Total non-family households	15,711	100.0	420,500	100.0

Source: U.S. Department of Commerce, Bureau of Census, 2000 Census.

BREAKDOWN OF LAND USE

<u>Land Use Category</u>	<u>Total Area</u>	
	<u>Acres</u>	<u>Percent</u>
Residential	7,580	40.9
Commercial/Industrial	2,775	14.9
Farm	43	0.2
Other (Open space & recreational community facilities, undeveloped, resource extraction, water)	<u>8,155</u>	<u>44.0</u>
Total	18,553	100.0

Source: Council of Governments, Central Naugatuck Valley Planning Region, 1990 Land Use Survey.

Plan of Development

The first phase in updating City’s Plan of Development (the “Plan”), a draft community assessment report compiled by a private firm, became available to the public in December 1999 for review and comment. The community assessment gives a profile of existing conditions in the City and provides data for decisions on land use, land-use policy, economic development and preservation. Waterbury Partnership 2000, Inc., a public/private partnership responsible for economic development planning and programs in Waterbury, completed the master chapter on Economic Development in 2001 for the Plan of Development update. The City is working with State resources to arrange funding to complete the update of the Plan of Development that will commence this year. The Plan was last updated in 1971 when the City was an industrial-based community. The City is collaborating with the Chamber of Commerce and Waterbury Partnership 2000 to increase efforts to promote growth in the City’s tax base.

NUMBER AND VALUE OF BUILDING PERMITS

<u>Fiscal Year</u>	<u>Residential</u>		<u>Industrial/ Commercial</u>		<u>Other</u>		<u>Total</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
2002-03 ¹	414	\$4,655,121	71	\$7,577,245	88	\$2,436,756	573	\$14,669,122
2001-02	838	14,791,268	162	68,967,089	153	8,818,799	1,153	92,577,156
2000-01	486	7,815,960	154	25,617,000	74	2,316,550	714	35,749,510
1999-00	752	8,954,361	164	23,932,074	110	394,050	1,026	33,280,485
1998-99	704	8,816,883	203	25,331,472	2,281	19,655,964	3,188	53,804,319
1997-98	649	6,261,253	328	23,714,070	2,930	77,326,619	3,907	107,301,942
1996-97	618	8,733,867	181	48,725,747	2,141	33,457,364	2,940	90,916,978
1995-96	782	10,100,274	331	9,501,860	2,100	13,674,114	3,213	33,276,248
1994-95	892	11,380,959	386	26,615,494	2,379	13,324,456	3,657	51,120,909
1993-94	851	10,540,902	360	10,151,942	2,380	19,011,375	3,591	39,704,219

Source: City of Waterbury Building Inspector's Office.

¹ Through January 2003

RETAIL SALES, BY TYPE OF BUSINESS, AND ALL OTHER OUTLETS

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Retail stores:					
Hardware	\$26,972,620	\$17,410,253	\$16,460,634	\$15,515,406	\$13,509,761
General merchandise	8,490,529	7,185,307	6,824,635	6,823,295	7,952,276
Food products	170,192,505	119,404,626	122,910,533	97,361,413	86,279,685
Automotive products	175,253,817	161,915,750	163,392,895	155,620,402	166,923,477
Apparel & accessories	40,976,125	43,511,217	41,074,637	37,358,034	39,349,449
Home furnishings & appliances	9,913,407	26,669,317	29,727,815	26,895,037	28,309,554
Eating & drinking places	105,548,373	100,521,188	100,024,084	97,709,742	91,257,672
Miscellaneous shopping places					
Goods	<u>312,249,026</u>	<u>401,192,385</u>	<u>408,663,114</u>	<u>383,434,096</u>	<u>390,948,713</u>
Subtotal	849,596,402	877,810,043	889,078,347	820,717,425	824,530,587
All other outlets	<u>564,269,569</u>	<u>528,593,451</u>	<u>495,392,962</u>	<u>498,153,580</u>	<u>539,407,047</u>
Total all outlets	\$1,413,865,971	\$1,406,403,494	\$1,384,471,309	\$1,318,871,005	\$1,363,937,634

Percent change over					
Prior year	0.5%	1.6%	5.0%	(3.3)%	1.7%

Source: State of Connecticut, Department of Revenue Services.

REVENUE AND TAX POLICY

Property Tax Assessment

The maintenance of an equitable tax base and the location and appraisal of all real and personal property within the City for inclusion onto the grand list is the responsibility of the Assessor's Office. The grand list represents the total assessed values for all taxable real and personal property and motor vehicles located within the City on October 1. Each year a Board of Assessment determines whether adjustments to the Assessor's list on assessments under appeal are warranted. Assessments for real property are computed at 70% of the estimated market value at the time of the last

general revaluation while assessments for motor vehicles and personal property are computed at 70% of their annual values.

In accordance with Connecticut General Statutes, the City conducted a general revaluation of real property effective as of October 1, 2001. This was the first revaluation that the City has conducted since October 1, 1977. Public Act 97-254 amended Connecticut General Statutes Section 12062 and changed the revaluation cycle for Connecticut municipalities to include a revaluation every four years and a physical inspection of all real properties once every twelve years, with the first such inspection no later than 2009. Through a series of acts of the Connecticut General Assembly, including Public Act 95-283, 96-171 and 96-218, Waterbury and several other Connecticut municipalities were given the right to defer revaluation until the October 1, 1998 grand list (effective for fiscal year 2000). Per Public Act 97-254, the City was required to revalue its real estate portion of the grand list for the October 1998 grand list and every four years thereafter.

As required by law, the City completed another revaluation effective for the October 1, 2003, grand list. This revaluation was statistical in nature, not requiring physical inspection. On February 28, 2003, the City Assessor certified the 2002 Grand List totaling approximately \$3.383 billion. This represents a 3.01% increase over last year's grand list of approximately \$3.285 billion. The grand list represents the total assessed values for all taxable real and personal property and motor vehicles located within the City on October 1. Taxpayers had until March 20, 2003 to file an application for a hearing with the Board of Assessment Appeals. Last year at this time, approximately 4,000 appeals had been filed; this year approximately 1,700 appeals have been filed. The Board of Assessment Appeals must complete its work by June 30, 2003.

Under Connecticut General Statute 12-111, in the event that any person appeals an assessment of industrial, commercial utility or apartment property assessed at greater than \$500,000, the BAA may vote to decline to hear such appeal, in which case appeal may be brought directly to the Superior Court. The BAA has until June 30, 2003, to hear the appeals which have been filed as a result of the recent revaluation. In the event that any person claims to be aggrieved by the result of an appeal to the BAA, such person may, within two months of the date of mailing of the notice of any action by the BAA, make a further appeal to the Superior Court. Any appeal heard by the Superior Court will be heard de novo, that is, the Superior Court will not be bound by any findings of the BAA. Pending the outcome of any appeal, an aggrieved taxpayer must pay 90% of his taxes based on an assessed value of \$500,000 or more, or 75% of his taxes based on an assessed value of less than \$500,000. If a taxpayer's appeal to the Superior Court is successful, the taxpayer may be granted a refund, together with interest and any costs awarded by the court or, at his option, may receive a tax credit for any overpayment.

When a new structure, or modification to an existing structure, is undertaken, the Assessor's Office received a copy of the permit issued by the Building Official. A physical appraisal is then completed and the structure is classified and priced from a schedule developed at the time of the last general revaluation. Property depreciation and obsolescence factors are also considered when arriving at an equitable value.

All personal property (furniture, fixtures, equipment and machinery) is revalued annually. An Assessor's check and audit is completed periodically.

Motor vehicle lists are furnished to the City by the State of Connecticut and appraisals of motor vehicles are accomplished in accordance with an automobile price schedule recommended by the State Office of Policy and Management in cooperation with the Connecticut Association of Assessing Officials. Connecticut General Statutes Section 12071B provides that motor vehicles that are registered with the Commissioner of Motor Vehicles after the October 1st assessment date but before the next July 1st, are subject to a property tax as if the motor vehicle has been included on the October grand list. The tax is not due until January 1st, a year and three months after the grand list date.

Property Tax Levy and Collection

Property taxes are levied on all taxable assessed property on the grand list of October 1 prior to the beginning of the fiscal year. Real property taxes and motor vehicle taxes are payable in two installments on July 1 and January 1. Motor vehicle supplemental bills are payable on January 1. A modest estimate for outstanding interest and lien fees anticipated to be collected during the fiscal year is normally included as a revenue item in the budget. Payments not received within one month after the due date become delinquent, with interest charged at the rate of one and one-half percent per month from the due date on the tax. In accordance with State law, the oldest outstanding tax is credited first.

Outstanding real estate tax accounts are liened each year prior to June 30 with legal demands and alias tax warrants used in the collection of personal property and motor vehicle tax bills. Delinquent motor vehicle and personal property accounts are transferred to a suspense account after three years at which time they cease to be carried as receivables. Real estate accounts are transferred to suspense 15 years after the due date in accordance with State statutes.

Property tax revenues are recognized when they become available. Available means due or past due and receivable within the current period or expected to be collected, but within 60 days, to be used to pay liabilities of the current period. Property taxes receivable not expected to be collected during the available period are reflected as deferred revenue

Section 12-165 of the Connecticut General Statutes, as amended, requires each municipality to write off, on an annual basis, the property taxes, which are deemed to be uncollectable.

TAX COLLECTIONS

Grand List as of October 1	Fiscal Year Ended June 30	Net Taxable Grand List¹	Mill Rate	Adjusted Annual Levy²	% of Annual Levy Collected at End of Fiscal Year	% of Annual Levy Uncollected at End of Fiscal Year	Percent of Annual Levy Uncollected as of 2/28/03
2001 ²	2003	\$3,267,706	54.86	178,296	-----IN PROCESS-----		10.49
2000	2002	1,680,961	97.78	163,504	91.25	8.75	6.21
1999	2001	1,648,896	74.64	135,396	92.23	7.77	4.29
1998	2000	1,612,793	74.64	122,113	93.68	6.32	2.98
1997	1999	1,563,168	74.64	120,041	93.04	6.96	2.74
1996	1998	1,606,800	74.64	115,599	95.83	4.17	2.39
1995	1997	1,567,435	74.64	113,787	93.20	6.80	2.00
1994	1996	1,552,589	74.64	104,603	96.11	3.89	1.61

¹ Figures in thousands and Grand List as adjusted by the Board of Assessment.

² Revaluation year.

PRINCIPAL TAXPAYERS

<u>Taxpayer</u>	<u>Nature of Business</u>	<u>Assessment</u>	<u>Percent of Net Taxable Grand List of 10/1/01</u>
General Growth Properties ¹	Retail	\$82,636,400	2.53
Connecticut Light & Power	Utility	34,267,570	1.05
Yankee Gas Company	Utility	21,040,460	0.64
Starwood Ceruzzi	Retail	20,778,370	0.64
Olin Corporation	Leasing	15,556,900	0.48
K-Five Associates Limited	Retail	15,052,030	0.46
Clydel Mfg. Company	Manufacturing	13,963,410	0.43
Webster Bank	Bank	12,866,390	0.39
MacDermid Incorporated	Chemicals	12,083,830	0.37
Truelove & Maclean, Inc.	Manufacturing	<u>11,284,870</u>	<u>0.35</u>
Total		\$239,530,230	7.33

¹ Brass Mill Center Regional Mall.

COMPARATIVE ASSESSED VALUATIONS OF TAXABLE PROPERTY
(\$ In Thousands)

<u>Grand List 10/1</u>	<u>Commercial And Residential</u>					<u>Gross Taxable Grand List</u>	<u>State Grants and Exemptions</u>	<u>Net Taxable Grand List</u>	<u>Percent Increase/ (Decrease)</u>
	<u>Real Property</u>	<u>Industrial Real Property</u>	<u>Other Land</u>	<u>Personal Property</u>	<u>Motor Vehicle</u>				
2001 ¹ ..	50.9%	27.7%	2.5%	9.8%	9.1%	\$3,379,503	\$111,796	\$3,267,706	94.4%
2000 ...	40.9%	22.5%	1.4%	18.7%	16.5%	1,785,423	104,462	1,680,961	1.9%
1999 ...	41.3%	23.3%	1.4%	17.6%	16.4%	1,753,366	103,368	1,649,998	2.3%
1998 ...	42.7%	23.2%	1.3%	17.2%	15.6%	1,718,956	106,163	1,612,793	2.6%
1997 ...	38.0%	29.1%	1.4%	15.9%	15.6%	1,679,010	106,862	1,572,148	2.3%
1996 ...	39.1%	27.5%	1.7%	14.9%	16.8%	1,630,447	93,072	1,537,375	1.7%
1995 ...	40.1%	27.9%	1.5%	14.1%	16.4%	1,588,088	76,525	1,511,563	0.7%
1994 ...	40.4%	29.2%	1.5%	13.8%	15.1%	1,575,367	74,598	1,500,769	-

¹ Reflects 2001 revaluation. See "Property Tax Assessment" herein for additional information.

INTERGOVERNMENTAL REVENUES AS A PERCENT OF GENERAL FUND REVENUES

<u>Fiscal Year Ended June 30</u>	<u>Intergovernmental Revenues (in 000s)</u>	<u>General Fund Revenues (in 000s)</u>	<u>Percent</u>
2002	\$123,263	\$297,201	41.47
2001	108,227	247,107	43.80
2000	102,061	229,093	44.55
1999	99,076	232,712	42.57
1998	91,043	218,966	41.58
1997	90,963	243,334	37.38
1996	88,803	206,466	43.01
1995	85,771	212,616	40.34
1994	83,823	205,858	40.72
1993	80,190	198,330	40.43

Pension Programs

Pursuant to Section 11 of Special Act 01-01, the following represents the Waterbury Financial Planning and Assistance Board (the "Assistance Board") pension report and action plan concerning the unfunded pension liability of the City of Waterbury pension system. The report was unanimously approved by the Assistance Board at its meeting on February 20, 2003.

The Assistance Board assigned the development of the report and recommendations to the Pension Subcommittee, which began its work in January 2002. The report is the result of over a year's work by the membership of that committee and staff of the Assistance Board. By way of background, over the past twenty years, the unfunded liabilities have increased from just over \$50 million in 1981 to approximately \$432 million in 2003. At present, the City of Waterbury is essentially operating on a pay-as-you-go approach to financing pension benefits, with assets of \$19.7 million, far below its accrued liability, estimated at \$432 million, for a funding ratio of only 4.36%.

During the beginning phase of its work, the Pension Subcommittee acknowledged the absence of any current plausible short-term solution to fully fund the City's pension benefit obligation, following several decades of severely under-funding of the City's annual pension fund contribution.

Therefore, the Assistance Board established as one of its goals a funding ratio of 70% within twenty years, the current average funding level of public pension funds across the country. To achieve this goal, the Assistance Board underscores that there is no substitute for the long-term financial discipline required by the City to put its pension fund on a sound fiscal footing.

The report contains a series of recommendations aimed at limiting the future growth of the unfunded liability for active and new employees, and continuing on a pay-as-you-go basis to finance pension benefits for the closed group of current retirees, for which the City's liability will naturally decline over time. The primary recommendation of the Assistance Board calls for an actuarially determined minimum funding level over the next five years, which would begin the process of paying down the active unfunded liability, by exceeding the contribution amount necessary to meet pension payroll.

The report also recommends that this funding requirement be mandated by the adoption of a City ordinance. In the sixth year, and thereafter, the City would appropriate contributions based on annual actuarial valuations that would then take into full account the actual experience of the City's retirement system, including investment gains and losses.

Overall, the recommended contribution schedule would phase-in an actuarially sound approach to financing pension benefits and enable the City to better plan for its financial obligations over the next five years. However, it is not viewed as a wholesale remedy to the City's unfunded pension liability. For example, there is concern about the 8.5% investment return assumption, which plays an important role in determining the City's funding level, and the likelihood of achieving such performance in the near term based on market assumptions. Should the Waterbury pension plan suffer significant investment losses, the five-year minimum funding requirement would shield the City against the need to increase its contribution to compensate for such loss, but the actuarially recommended contributions in the ensuing fiscal years could increase dramatically.

Mindful of the potential for the City to experience future budgetary pressure in meeting the actuarially recommended contribution, the Assistance Board has also made other recommendations that could help to further reduce unfunded liability, provide additional investment income and/or otherwise achieve administrative cost reductions. The recommendations include: periodic costs and benefits analysis of the use of Pension Obligation Bonds to eliminate a portion of the unfunded liability, continued investigation of other types of transactions involving City-owned property that could generate an infusion of cash for the pension fund, study of the merits of pursuing alternative pension plans including the Connecticut Municipal Employees Retirement System ("CMERS") and 401(a) Plans, and consideration of the merits of pooling the City's pension fund assets with the State for investment purposes.

At the present time, the Assistance Board's recommendation calls for the City to continue to administer its pension plan in recognition of the steps that have been recently taken to achieve significant benefit changes, as well as strengthening the management of its pension fund investment program.

It should be noted that some opinions have been expressed regarding the merits of the City's continued role as a plan sponsor. However, the Pension Subcommittee's primary focus was to analyze the City's unfunded liability, which for the most part would survive any transfer of sponsorship, barring any successful negotiations with the State under

CMERS to subsidize the City's funding requirement. Nevertheless, as part of its recommendations, the Assistance Board supports the City in undertaking an in-depth analysis of alternative retirement vehicles for its active and/or new hires.

It is the opinion of the membership of the Waterbury Financial Planning and Assistance Board that these recommendations, and the supporting data and explanations outlined in the report, will assist the City of Waterbury in adopting a measured, disciplined and prudent approach to address the unfunded pension liability.

DEBT SUMMARY

As of May 14, 2003, the City has \$247,254,030 in long-term general obligation debt outstanding. All general obligation debt of the City is subject to the Tax Revenue Intercept except that the \$90,086,740 State of Connecticut Clean Water Make loans, which are fully supported by user fees, are subject to the Tax Revenue Intercept only in the event of default.

ANNUAL COVERAGE HISTORY OF TAX REVENUE INTERCEPT BONDS (In Thousands)

<u>Fiscal Year</u>	<u>Intercept Debt Service</u>	<u>Actual Current Property Taxes Collected</u>	<u>Coverage Ratio of Intercept Debt Service</u>	<u>Date Annual Debt Service Requirement Satisfied</u>
1998	\$ 6,496	\$110,783	17.05x	07/10/97
1999	6,494	111,686	17.20x	07/10/98
2000	7,901	114,401	14.48x	07/13/99
2001	9,215	124,883 ¹	13.55x	07/19/00
2002	13,126	152,670	11.63x	08/07/01 ²

¹ Includes Special Tax levied January 2001.

² Budget was adopted June 29, 2001, which caused a delay in the generation of tax bills.

SHORT-TERM DEBT As of May 14, 2003

<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount of Notes Outstanding</u>	<u>Maturity Date</u>	<u>Legal Renewable Limit</u>
Wastewater treatment facility ¹	\$46,981,517	\$4,120,091	N/A	N/A
Collection system ²	16,550,000	6,457,578	10/31/03	N/A
Total		\$10,577,669		

¹ The City has issued an Interim Funding Obligation to the State of Connecticut which is drawn down by the City as the project is constructed. The Interim Funding Obligation is expected to be replaced by permanent financing under the State of Connecticut Clean Water Fund ("CWF") Program at a 2% rate of interest. The authorized amount includes \$28,686,000 in CWF grants.

² The City has issued an Interim Funding Obligation to the State of Connecticut which is drawn down by the City as the project is constructed. The Interim Funding Obligation is expected to be replaced by permanent financing under the State of Connecticut CWF Program at a 2% rate of interest. The authorized amount includes \$1,343,070 in CWF grants. In addition, the City expects to receive some additional grant funding from the State of Connecticut Department of Transportation.

LONG-TERM DEBT
As of May 14, 2003

	<u>Date of Issue</u>	<u>Interest Rate Percent</u>	<u>Original Principal Amount</u>	<u>Final Maturity</u>	<u>Outstanding Principal Amount as of 5/14/03</u>
General Purpose					
<i>Bureau of Water:</i>					
Water filtration plant	03/01/87	5.70%	\$18,000,000	03/01/05	\$ 2,000,000
<i>General Improvement Bonds:</i>					
Grandview Avenue Bridge	03/22/96	6.00	653,647	03/22/06	196,094
G.O. Tax Revenue Intercept bonds	02/15/97	4.375-5.50	26,305,000	08/15/06	12,140,000
Washington Street Bridge	07/01/98	6.00	462,392	04/01/08	231,196
Parks Department improvements	11/15/98	4.25-5.25	505,000	02/15/18	505,000
Brass Mill Infrastructure improvements	11/15/98	4.25-5.25	8,095,000	02/15/17	7,938,000
Telecom system	11/15/98	4.25-4.75	2,450,000	02/15/08	2,086,000
Public works infrastructure	11/15/98	4.25-5.25	3,665,000	02/15/17	3,506,000
Dump closure	11/15/98	4.25-5.25	1,518,000	02/15/18	1,446,000
Silas Bronson & Bunker Hill Libraries	11/15/98	4.25-4.75	199,000	02/15/09	199,000
Brass Trails project	11/15/98	4.25-5.25	257,000	02/15/16	257,000
Telecom system	02/01/00	6.00-6.50	2,500,000	02/01/10	2,055,000
Public works infrastructure	02/01/00	6.00-6.50	4,400,000	02/01/19	4,208,000
Silas Bronson & Bunker Hill Library	02/01/00	6.00-6.50	305,000	02/01/20	215,000
Special Capital Reserve Fund Bonds, Series A, tax-exempt.....	04/01/02	4.00-5.375	82,075,000	04/01/22	82,075,000
Special Capital Reserve Fund Bonds, Series B, taxable	04/01/02	5.43	15,390,000	04/01/09	15,390,000
Tax Revenue Intercept Refunding Bonds	05/01/03	2.5-5.0	8,401,899	02/01/08	8,401,899
Total general improvement bonds					<u>140,849,189</u>
Total general purpose bonds					142,849,189
Urban Renewal					
Tax Revenue Intercept Refunding Bonds	05/01/03	2.5-5.0	540,132	02/01/08	540,132
School Bonds					
Bd. of Ed. capital projects	11/15/98	4.25-5.25	3,795,000	02/15/18	3,360,000
Bd. of Ed. capital projects	02/01/00	6.00-6.50	3,795,000	02/01/18	3,795,000
Tax Revenue Intercept Refunding Bonds	05/01/03	2.5-5.0	3,949,412	02/01/08	<u>3,949,412</u>
Total school bonds					11,104,412
Sewers					
WWTP State loan	08/31/95	2.00	4,007,585	08/31/14	2,270,965
WWTP State loan	07/31/97	2.00	6,447,616	07/31/16	4,510,229
Platts Mill Pump Station	11/15/98	4.25-5.25	1,326,000	02/15/18	1,173,000
Platts Mill Pump Station	02/01/00	6.00-6.50	1,300,000	02/01/20	1,222,000
WWTP State loan	12/31/00	2.00	80,563,282	06/30/20	72,335,561
WWTP State loan	10/30/02	2.00	11,547,353	04/30/22	10,969,985
Tax Revenue Intercept Refunding Bonds	05/01/03	2.5-5.0	433,293	02/01/08	<u>438,557</u>
Total sewer bonds					92,920,297
Total long-term debt					\$247,414,030

ANNUAL BONDED DEBT MATURITY SCHEDULE
As of March 1, 2003

<u>Fiscal Year</u> <u>Ending June</u> <u>30</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>	<u>Total</u> <u>Payments</u>	<u>Cumulative Principal</u> <u>Retired (%)</u>
2003 ¹	\$ 763,040	\$ 302,595	\$ 1,065,635	0.31
2004	17,176,380	9,501,055	26,677,435	7.25
2005	18,002,315	8,949,884	26,952,199	14.53
2006.....	17,409,883	8,234,891	25,644,774	21.56
2007.....	17,773,753	7,514,680	25,288,433	28.75
2008.....	14,824,688	6,853,298	21,677,986	34.74
2009.....	11,936,118	6,262,131	18,198,249	39.56
2010.....	12,110,557	5,806,782	17,917,339	44.46
2011.....	12,296,801	5,347,935	17,644,736	49.43
2012.....	12,494,888	4,871,824	17,366,712	54.48
2013.....	12,694,852	4,419,584	17,114,436	59.61
2014.....	12,901,734	3,917,447	16,819,181	64.82
2015.....	12,953,589	3,409,811	16,363,400	70.06
2016.....	13,151,024	2,891,803	16,042,827	75.38
2017.....	13,025,461	2,374,876	15,400,337	80.64
2018.....	13,230,258	1,856,472	15,086,730	85.99
2019.....	11,509,275	1,344,563	12,853,838	90.64
2020.....	11,670,293	921,104	12,591,397	95.36
2021.....	5,795,663	537,211	6,332,874	97.70
2022	5,693,458	267,670	<u>5,961,128</u>	100.00
Total	\$247,414,030	\$85,585,616	\$332,999,646	

¹ Excludes principal and interest payments made from July 1, 2002 through May 14, 2003.

Overlapping/Underlying Debt

The City of Waterbury does not have any overlapping or underlying debt.

FIVE-YEAR DEBT STATEMENT SUMMARY
(\$ in thousands)

	<u>2001-02</u>	<u>2000-01</u>	<u>1999-00</u>	<u>1998-99</u>	<u>1997-98</u>
Short-term debt.....	\$ 22,944	\$ 16,487	\$ 97,050 ¹	\$ 84,683 ¹	\$ 84,683 ¹
Long-term debt ²	<u>247,441</u>	<u>161,108</u>	<u>98,793</u>	<u>96,731</u>	<u>71,077</u>
Total.....	\$270,385	\$177,595	\$195,843	\$181,414	\$155,760

¹ Includes wastewater treatment plant and main carrier construction phase Interim Funding Obligations.

² Does not include capital leases.

OUTSTANDING BOND AUTHORIZATIONS

As of May 14, 2003

<u>Project</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Bonds Issued</u>	<u>Paydowns</u>	<u>BANs Outstanding</u>	<u>Authorized But Unissued</u>
Special Capital Reserve						
Fund bonds	04/25/01	\$100,000,000	\$97,465,000	\$ -	\$ -	\$ 2,535,000
Board of Education						
capital projects	07/21/98	22,090,836	7,590,000	-	-	14,500,836 ¹
Park Department	08/31/98	506,056	505,000	-	-	1,056
Brass Mill infrastructure						
improvements	07/21/98	8,096,892	8,095,000	-	-	1,892
Telecom system	07/21/98	4,961,561	4,950,000	-	-	11,561
Public Works						
infrastructure	08/31/98	8,104,938	8,065,000	-	-	39,938
Platts Mill Pump						
Station	08/31/98	2,857,805	2,626,000	-	-	231,805
Dump closure	07/21/98	1,518,167	1,518,000	-	-	167
Silas Bronson & Bunker						
Hill Libraries	08/31/98	506,056	504,000	-	-	2,056
Year 2000 upgrade	08/31/98	1,315,745	1,315,000	-	-	745
Brass Trails project	08/31/98	1,276,084	257,000	-	-	1,019,084
Road improvements	03/24/88	7,330,000	5,500,000	-	-	1,830,000
School purchase and						
improvements	10/24/88	4,300,000	4,000,000	-	-	300,000
Sanitary sewers	04/24/89	2,000,000	250,000	500,000	-	1,250,000
Bridge Program ²	01/26/98	3,000,000	961,952	1,500,000	-	538,048
Various public						
improvements	04/10/89	6,441,000	5,465,000	975,000	-	1,000
Public Works	03/05/90	6,800,000	3,000,000	1,700,000	-	2,100,000
Wastewater Treatment						
Plant ³	11/25/94	138,000,000	91,018,483	-	4,120,091	42,861,426
Main carrier ³	11/22/98	28,100,000	11,547,353	-	-	16,552,647
Collection system ³	04/24/00	<u>16,550,000</u>	<u>-</u>	<u>-</u>	<u>6,457,578</u>	<u>10,092,422</u>
Total		\$363,755,140	\$254,632,788	\$4,675,000	\$10,577,669	\$93,869,683

¹ Under new State procedures concerning funding of school construction projects, municipalities may request progress payments from the State during the projects' construction. The City expects to receive approximately 66% of project costs, or \$14,500,000, from the State in the form of progress payments, thus reducing the need for borrowing by that amount.

² Local Bridge Program Loan and Grant.

³ The City has signed Interim Funding Agreements with the State of Connecticut for the construction of wastewater treatment facilities and repairs to its main carrier which will be permanently financed through the State of Connecticut Clean Water Fund Program at a 2% rate of interest.

CURRENT DEBT STATEMENT

As of May 14, 2003

General Purpose Bonds	\$142,849,189
School Bonds.....	11,104,412
Urban Renewal Bonds.....	540,132
Sewer Bonds.....	92,920,297
State of Connecticut Interim Funding Obligations	<u>10,577,669</u>
Total Direct Debt ^{1, 2}	257,831,699
Less:	
School construction grants ³	418,083
Self-supporting water bonds	2,000,000
Self-supporting sewer debt	<u>103,497,966</u>
Total grants/self-supporting debt	105,916,049
Net Debt	\$152,075,650

¹ The City has entered into a 20-year agreement for design, construction and operation of sludge treatment facilities. The agreement with NETCO ("NETCO") calls for a base annual fee of \$1,601,600 with additional payments of \$280/ton for amounts over the specified contract tonnage (5,720 tons). At the end of the contract the City will purchase the facility from NETCO for \$1. The total contract value is \$32,032,000; 64% (\$20.382 million) is attributable to operation of the plant; 36% (\$11.65 million) is attributable to the facility's acquisition. At June 30, 2002, the net present value of minimum lease payments under this agreement was \$7,175,000.

² The City of Waterbury enters into capital lease arrangements for certain routine equipment acquisitions. As of June 30, 2002, the City's general long-term debt account group contained a balance of \$3,436,000 representing the present value of payments for such purchases.

³ The State of Connecticut has approved a school construction grant in support of certain bonds. The final grant calculation for both principal and interest is made upon completion of the projects with appropriate adjustments made for ineligible costs.

CURRENT DEBT RATIOS

As of May 14, 2003

Population (2000) ¹	107,271
Net taxable grand list, 10/1/01	\$3,267,706,362
Estimated full value at 70%	\$4,668,151,946
Equalized net taxable grand list (2000) ²	\$4,759,379,739
Income per capita money (1999) ¹	\$17,701

	Direct Debt	Net Debt
	<u>\$257,831,699</u>	<u>\$151,920,914</u>
Per capita	\$2,405.05	\$1,417.68
Ratio to net taxable grand list	7.90%	4.65%
Ratio to estimated full value	5.53%	3.26%
Ratio to equalized net taxable grand list	5.42%	3.20%
Per capita debt to per capita income	13.59%	8.01%

¹ Source: U.S. Department of Commerce, Bureau of the Census, Census of Population and Housing, 2000.

² Source: State of Connecticut, Office of Policy and Management.

RATIO OF ANNUAL DEBT SERVICE TO GENERAL FUND EXPENDITURES AND TRANSFERS
(In Thousands)

<u>Fiscal Year</u> <u>Ended 6/30</u>	<u>Annual</u> <u>Debt Service</u>	<u>General Fund</u> <u>Expenditures</u> <u>and Transfers</u>	<u>Percent</u>
2002	\$10,921	\$ 239,745	4.56
2001	10,441	309,693	3.37
2000	14,934	253,399	5.89
1999	7,864	232,712	3.70
1998	7,996	227,056	3.52
1997	6,001	213,879	2.81

STATEMENT OF STATUTORY DEBT LIMITATION AND DEBT MARGIN

As of May 14, 2003
(\$ In Thousands)

Debt Limitation Base

Total tax collections (including interest and lien fees) For the fiscal year ended June 30, 2002	\$158,334
Reimbursement for revenue loss on Elderly Tax Relief	<u>46</u>
Debt limitation base	\$158,380

COMPUTATION OF DEBT LIMITATION AND DEBT MARGIN

	<u>General</u> <u>Purpose</u>	<u>Schools</u>	<u>Sewers</u>	<u>Urban</u> <u>Renewal</u>	<u>Pension</u> <u>Deficit</u> <u>Funding</u>
Multiple of base					
2¼ times base	\$356,355	\$ -	\$ -	\$ -	\$ -
4½ times base	-	712,710	-	-	-
3¾ times base	-	-	593,925	-	-
3¼ times base	-	-	-	514,735	-
3 times base	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>475,140</u>
Total debt limitation	356,355	712,710	593,925	514,735	475,140
Indebtedness					
Bonds payable	140,849	11,104	92,921	540	-
Bonds authorized but unissued	8,081	14,801	70,988	-	-
State of Connecticut Interim Funding Obligations	-	-	10,578	-	-
Less school construction grants	<u>-</u>	<u>418</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total indebtedness	148,930	25,487	174,487	540	-
Debt limitation by class in excess of outstanding and Authorized Debt	\$207,425	\$687,223	\$419,438	\$514,195	\$475,140

In accordance with Connecticut General Statutes, municipalities may not incur indebtedness through the issuance of bonds which will cause aggregate indebtedness to be exceeded by class as outlined above and in no case shall total indebtedness exceed seven times the base, or in the City's case, \$1.108 billion

The statutes also provide for exclusion from the debt limit calculation debt issued in anticipation of taxes; for the supply of water, gas and electricity; for the construction of subways for cables, wire or pipes; and for the construction of underground conduits for cables, wires or pipes; and for two or more of such purposes. There are additional exclusions for indebtedness issued in anticipation of the receipt of proceeds from assessments levied upon property benefited by any public improvement, for indebtedness issued in anticipation of receipt of proceeds from State or Federal grants evidenced by a written commitment or by contract only to the extent such indebtedness can be paid from such proceeds and for debt to be paid from a funded sinking fund.

Other Long-Term Commitments

The City has entered into an agreement with NETCO-Waterbury Limited Partnership, a Delaware Limited Partnership, for the disposal of the City's sewage sludge. The agreement provides for NETCO-Waterbury Limited Partnership to design, build and operate a sewage sludge incinerator facility manufactured by Dorr-Oliver, Incorporated with a 50-dry-ton-per-day capacity, as well as related facilities. The capital lease costs associated with the design and construction of that facility are reflected as a liability in the Sewer Fund. See "Summary of Municipal Services, Solid Waste" herein for additional information.

From time to time, the City enters into capital lease contracts for various equipment and rolling stock. The present value of future minimum capital lease payments as of June 30, 2002 listed in the City's General Long-Term Debt Account Group totaled \$3,436,000.

FINANCIAL ADMINISTRATION

Current Financial Situation

In response to the financial crisis in December 2000, the General Assembly of the State of Connecticut passed Special Act 01-1, as amended, which created the Waterbury Financial Planning and Assistance Board, established on March 9, 2001, and dissolved the Budget Advisory Council (the "BAC"). The Assistance Board has greater authority and control over the City's finances than its predecessor, the BAC, previously had. Since then, the Assistance Board and its staff have worked collaboratively with the City staff to institutionalize a number of systems and controls to monitor the City's financial condition.

In May 2001, shortly after the enactment of the Act, the Assistance Board approved the issuance of a \$45.0 million interim deficit borrowing by the City. This borrowing addressed the City's critical cash flow needs pending the completion of the fiscal year 2000-01 audit and the other steps necessary for the City and the Assistance Board to issue the permanent deficit financing. The interim deficit borrowing was issued with the understanding that the \$45.0 million would be retired through the permanent deficit borrowing.

Following the close of the year, the City's audit for fiscal year 2000-01 determined that the City of Waterbury had an accumulated deficit, as of June 30, 2001, of \$73.4 million. This amount did not include the need to borrow the prior year's principal and interest payment, the remaining deficits in certain self-insurance funds, technology needs, and the operations of the Assistance Board. As a result of the Assistance Board's findings following the enactment of Special Act 01-1, a successful attempt was made to have the State Legislature raise the \$75.0 million maximum related to the State's Special Capital Reserve Fund ("SCRF")-backed permanent deficit borrowing up to \$100.0 million. On April 4, 2002, the City sold \$97.465 million general obligation SCRF bonds in order to fully fund the deficits.

General Fund Operations, Fiscal Year 2001-02: The City is emerging from a severe deficit fiscal condition. In the fiscal year 2001-02, the City of Waterbury can point to several highly significant results that were achieved in partnership with the Assistance Board. These include:

- A balanced budget for the first time in at least ten years.
- Successful steps taken to achieve an appropriate level of General Fund undesignated fund balance.
- Major steps to achieve a properly funded Pension Trust Fund.
- Substantial cost-saving changes to collective bargaining contracts.
- Vastly improved budgetary administration controls and reporting.

- Development and adoption of a three-year Capital Improvement Program.
- Real property revaluation for the first time in 22 years.
- Initiatives for Government reorganization and efficiency which include:
 - Department of Finance reorganization
 - Re-establishment of a budget office
 - New positions for Information Services
 - Consolidation of the Public Works activities into a comprehensive department
 - Establishment of actuarially based, pre-funded internal service funds for self-insured programs.

Governmental Accounting Standards Board No. 34

Fiscal Year 2001–02 represents the first year that the City of Waterbury’s financial reporting is in accordance with Statement No. 34 of the Governmental Accounting Standards Board (“GASB”). Certain prior year activity is not available to provide comparative information. Future Management Discussion and Analysis letters will be presented on a comparative basis. Refer to “Management Discussion and Analysis” for a broader discussion of Statement No. 34 compliance in the City’s audited financial statements, as attached hereto in Appendix A.

GASB 34 Financial highlights:

- The City’s net assets increased as a result of this year’s operations. Net assets of business-type activities increased by \$8.8 million, or nearly 7.6 percent. Net assets of governmental activities increased by \$32.7 million, or nearly 22.7 percent.
- During the year, the City had expenses that were \$32.7 million less than the \$367.9 million generated in tax and other revenues for governmental programs.
- In the City’s business-type activities, revenues decreased to \$4.9 million (or 12 percent) while expenses increased by 5.5 percent.
- Total cost of all of the City’s programs was \$356 million with no new programs added this year.
- The General Fund reported a fund balance this year of \$14 million.
- The resources available for appropriation were \$6.1 million more than budgeted for the General Fund. Expenditures were kept within spending limits.

Audit

Pursuant to the Municipal Auditing Act (Chapter 111 of the Connecticut General Statutes), the City is obligated to undergo an annual examination by an independent certified public accountant. The audit must be conducted under the guidelines issued by the State of Connecticut, Office of Policy and Management, and a copy of said audit report must be filed with the Office of Policy and Management. The City of Waterbury is in compliance with said provisions.

The City issued the FY 2002 Comprehensive Annual Financial Report (“CAFR”) on February 27, 2003 including the Auditors’ opinion; the Federal and State Single Audit Reports and the Report on Compliance and Internal Control over Financial Reporting (Management Report) were issued on February 11, 2003. The Federal and State Single Audit Reports noted that there were significantly fewer questioned costs than the previous year. There were three questioned costs characterized by the auditors as “material.” These three questioned costs will require major changes in the City’s Information Technology infrastructure. Steps to implement such changes are under way. The Independent Auditors’ opinion contained in the CAFR is unqualified.

Accounting and Budgetary Basis

The City’s accounting system is organized on a fund basis and uses funds and account groups to report on its financial position and results of operations. The City’s accounting records are maintained on a modified accrual basis, with major revenues recorded when earned and expenditures recorded when incurred. The City’s accounting policies conform to generally accepted accounting principles as applied to governmental units, including full compliance with GASB 34. The independent auditors issued an unqualified opinion for the fiscal year ended June 30, 2002.

The procedures for adoption of the annual budget are as follows:

On or before the first day of April of each year, the Mayor shall submit to the Board of Aldermen the following:

1. An annual or current expense budget, which shall be a complete financial plan for the ensuing fiscal year, consisting of the budget proper and the budget message; and
2. A capital budget.

A complete revision of the City's Charter was adopted by the voters in the November 2002 election. This revised Charter included significant changes to the budget process which required the budget to disclose certain information as listed below:

1. A general executive summary of all of its contents;
2. An estimate of all revenue cash receipts anticipated from sources other than the tax levy of the ensuing fiscal year;
3. An estimate of the General Fund cash surplus at the end of the current fiscal year or of the deficit to be made up by appropriation;
4. The estimated expenditures necessary for the operation of the several departments, offices and agencies of the City;
5. Debt service requirements for the ensuing fiscal year;
6. An estimate of the sum required to be raised by the tax levy for the ensuing fiscal year, assuming a rate of current levy year collections not greater than the average rate of collection in the year of levy for the last three completed fiscal years. The Mayor may deviate from said assumed collection average. In the event the Mayor submits a budget containing such a deviation in the rate of collection in excess of (i) the three-year average or (ii) a rate of collection of 93 percent, whichever is lesser, said budget submission shall be accompanied by a certification by the Finance, Audit and Review Commission asserting that the assumption is a reasonable estimate upon which the Board of Aldermen may rely;
7. A balanced relationship between the total estimated expenditures and total anticipated revenue cash receipts, taking into account the estimated General Fund cash surplus or deficit at the end of the current fiscal year; and
8. The anticipated income and expense as well as profit and loss for the ensuing fiscal year for each utility of other enterprise fund operated by the City.

The Mayor forwarded the budget to the Board of Aldermen on March 6, 2003; the Mayor's Proposed Budget endeavors to include all of the additional information included in the Charter requirements adopted three months ago.

The Board of Aldermen, before the end of April, considers and acts upon and may amend the estimates of the Mayor's Proposed Budget and make appropriations upon the basis of such estimates as may be necessary and proper to meet such expenses and shall levy a tax necessary to meet such expenses. The Board of Aldermen will conduct two public hearings. After their deliberations, they will adopt a budget which will be forwarded to the Waterbury Financial Planning and Assistance Board.

Pursuant to the Act, the Assistance Board must approve the City's budget. The Act provides that the Assistance Board shall disapprove the proposed budget if, in the judgment of the Assistance Board, the budget fails to contain projections of revenues and expenditures that are based on reasonable and appropriate assumptions and methods of estimation or fails to provide that operations of the City will be conducted within cash resources available according to the Assistance Board's revenue estimates. If the Assistance Board disapproves the annual budget, the Assistance Board shall develop and approve an interim budget which will remain in effect until such time as a modified budget is adopted by the City and approved by the Assistance Board.

GENERAL FUND REVENUES AND EXPENDITURES
(In Thousands)

	<u>Actual</u> <u>2001-02</u>	<u>Actual</u> <u>2000-01</u>	<u>Actual</u> <u>1999-00</u>	<u>Actual</u> <u>1998-99</u>
Revenues				
Property taxes and assessment principal	\$158,384	\$129,139	\$117,852	\$125,506
Intergovernmental revenue	123,263	108,227	102,061	99,076
Interest, rent services and miscellaneous income	4,400	3,231	6,198	4,727
Reimbursement and transfers from other funds	8,648	5,179	2,466	2,718
Licenses and permits	<u>2,506</u>	<u>1,331</u>	<u>516</u>	<u>685</u>
Total revenues	297,201	247,107	229,093	232,712
Expenditures				
General Government	7,578	7,761	7,564	6,853
Debt service	11,112	10,441	14,934	7,864
General financial	85,708	73,985	57,752	57,912
Public works	12,199	13,788	12,437	12,695
Public safety	42,175	43,939	42,822	44,138
Public health	2,599	2,763	2,903	2,806
Public assistance	120	113	94	74
Education	113,340	109,396	103,023	99,914
Library	1,535	1,649	1,890	1,808
Park and recreation	4,171	4,151	4,605	4,568
Other	<u>775</u>	<u>5,481</u>	<u>-</u>	<u>-</u>
Total expenditures	281,312	273,467	248,024	238,632
Results of operations	15,889	(26,360)	(18,931)	(5,920)
Transfers and borrowing proceeds	71,610	(28,062)	3,716	3,942
Fund balance (deficit) beginning as previously reported	(73,449)	(17,786)	480	309
Prior period adjustments	<u>-</u>	<u>(1,241)</u>	<u>(3,051)</u>	<u>2,149</u>
Fund balance (deficit) ending	\$14,050	\$ (73,449)	\$ (17,786)	\$ 480
% Fund balance (deficit) of expenditures	5.0%	(26.9)%	(7.2)%	0.2%

RISK MANAGEMENT

The City's recently revised Charter sets forth the risk management policy of the City and mandates that the City optimize the application of its financial resources and level the financial fluctuations inherent in risk management through various means. On April 7, 2003, the Board of Aldermen approved an ordinance implementing these Charter revisions.

The City is self-insured in most areas of risk. These include general liability, collision for City vehicle, worker's compensation, heart and hypertension, unemployment and employee health claims. The City's Legal Counsel defends the City in any lawsuits that arise from the normal course of operations.

The City has an Anthem Blue Cross/Blue Shield minimum premium medical plan for which payments are based upon actual claims (versus premium payments). In this case, Anthem Blue Cross/Blue Shield acts as a claims processor and a transfer of risk does not occur.

As a result of the collective bargaining agreements between the Assistance Board and the fire, blue collar and teachers unions, the City has implemented changes in the health insurance plans offered to its employees. These agreements, resulting in an annual savings of approximately \$4 million, eliminate the City's use of traditional indemnity plans and provide employees with a choice of three managed care plans and a three-tier managed prescription program. Employees are now required to pay a percentage of the premiums. An additional \$2 million in savings is anticipated annually from the City and the Assistance Board's efforts to move over 1,200 retirees enrolled in 18 various self-insured health plans into three different preferred provider organization plans, or point of service or point of enrollment plans.

The City has hired Segal Company, a benefit consultant, to assist the City in negotiating rate renewals and to develop a strategy with regard to health and life insurance issues.

All funds of the City participate in the program and make payments to the Self-Insurance Internal Service Fund to pay claims, claim reserves and administrative costs of the program. During the fiscal year ended June 30, 2002, \$40.0 million in health care benefits and administrative costs were paid. Incurred but not reported health claims of \$4.7 million have been accrued as a liability based upon information supplied by the City's Health Care Administrator. Actuarial estimated liability for claims incurred but not reported is not available.

An actuarial study estimates the present value of general liability outstanding losses, including cash reserved for known claims and incurred but not reported claims, at \$11.3 million as of June 30, 2002.

The present value of future costs to current eligible recipients subject to Heart and Hypertension benefits is estimated at \$8.9 million as of June 30, 2002. The actuarial estimate does not include potential losses for 400 current employees who may become eligible.

Changes in the reserve amount for fiscal year 2001-02 were as follows (in thousands):

Beginning of year	\$ 31,438
Fiscal year claims incurred and changes in prior years' estimates	50,069
Fiscal year claims payments	<u>(49,928)</u>
End of year	\$31,579

INVESTMENT POLICY FOR OPERATING FUNDS AND PENSION FUNDS

In accordance with Connecticut General Statutes and the City Charter, the City's Director of Finance designates the qualified public depositories which may be used for public deposits and investments. Eligible investments for Connecticut municipalities are governed by the Connecticut General Statutes, Section 7-400. The Director of Finance invests the City's operating and working capital funds accordingly. A comprehensive investment policy was adopted by the Board of Aldermen in 2002. The policy governs all investments of the City's governmental funds and proprietary funds. The policy is consistent with State statutes.

The pension funds for City employees are invested by various investment professionals chosen by the City's Retirement Board. These professionals make investment decisions based on an investment policy and asset allocation plan adopted by the Retirement Board.

In addition, the City monitors the risk-based capital ratios and collateral requirements of the qualified public depositories, as defined by the Connecticut General Statutes, Section 36-382, for which it places deposits or makes investments.

The City has historically invested operating funds in bank certificates of deposit, repurchase agreements, the State of Connecticut's Short-Term Investment Fund ("STIF"), and the F.G.I.C. U.S. Treasury Money Market Fund. F.G.I.C. investments consist of U.S. Treasuries, obligations of government agencies, and repurchase agreements collateralized by U.S. Treasuries and agency obligations. STIF, an investment pool, was authorized in 1978 (P.A. 78-236) for investment by the State Treasurer of various State funds. Section 3-27a of the Connecticut General Statutes spells out the various governmental entities eligible to participate in STIF. Section 3-27d details eligible investments that may be acquired with funds on deposit with STIF. Section 3-27f authorizes all agencies, instrumentalities, and political subdivisions of the State of Connecticut to invest in STIF.

Teachers in the City's school system hired after 1977 participate in the Connecticut Teachers' Retirement System. The investment of teachers' funds is managed by the State.

LEGAL INFORMATION

The City, its officers and employees are defendants in numerous lawsuits. The ultimate disposition and fiscal consequences of these lawsuits are not presently determinable. The City's Corporation Counsel has reviewed the status of pending lawsuits, and has received the advice of independent counsel with respect to the status of certain pending lawsuits. She is of the opinion that such pending litigation could not be finally determined so as to result individually or in the aggregate in a final judgment against the City in an amount equal to or greater than \$4,700,000, except that in the cases described below. The fiscal impact of collective adverse decisions might be significant, but are not determinable at this time.

CHASE BRASS SUPERFUND SITE. By telephone call on April 29, 2003, Region I ("Region I") of the United States Environmental Protection Agency ("US EPA") notified the City of Waterbury that Region I is sending a letter to the City and each of the other two identified potentially responsible parties ("PRPs") to let them know that Region I is completing its removal action at the City-owned Chase Brass Superfund Site (the "Site") and that the estimated cost of the removal is \$4.4 million.

It is the City's understanding that the other two PRPs are successors in interest to the obligations of Chase Brass & Copper Company, the former owner and operator of the Site at the time releases of hazardous substances occurred.

Under CERCLA an owner of a Site may be held jointly and severally liable with other PRPs for all of the costs of removal incurred by the US EPA. In traditional Superfund practice PRPs negotiate a sharing arrangement by which the PRPs settle the claims of the US EPA on an equitable basis. A host of equitable factors are used, including the relative culpability of the PRPs and their involvement with the generation and disposal of the hazardous substances involved. The basis upon which the PRPs will reach settlement is not known, however, the City expects that the other PRPs will be allocated a significant share of the liability. The City believes that the other PRPs have assets or are affiliates of corporations that have assets.

UNITED STATES V. CITY OF WATERBURY. On September 6, 2002, the United States Environmental Protection Agency ("EPA") filed a Clean Water Act/Clean Air Act civil enforcement action against the City of Waterbury. The action was brought in the Federal District Court for the District of Connecticut for the purpose of addressing unauthorized discharges from the City's sanitary sewer collection system ("Collection System") and the City's procedures with regard to the collection and disposal of freon-containing appliances. The State of Connecticut Department of Environmental Protection intervened in the case as a plaintiff. The parties negotiated a consent decree to serve as the basis to settle the action. On November 21, 2002, the Federal District Court for the District of Connecticut entered judgment in accordance with the consent decree. Pursuant to the consent decree, the City paid a civil penalty of \$350,000 to settle claims related to violations of the Clean Water Act and Clean Air Act through the date of lodging of the consent decree. Under the consent decree, the City has also committed to certain actions concerning the Collection System including: (1) improving the Collection System infrastructure; (2) dedicating ten full-time persons to clean and maintain the Collection System; (3) purchasing and/or leasing additional Collection System cleaning equipment; (4) cleaning and maintaining the Collection System; (5) addressing Collection System manhole accessibility issues; (6) establishing a procedure for the collection and disposal of freon-containing appliances; and (7) submitting reports and plans. A portion of the costs of the foregoing work will be included in the City's budget as part of its routine operation and maintenance expenses for the Collection System.

TOWN OF WASHINGTON ET AL. V. CITY OF WATERBURY. The City has the statutory right to divert water from the Shepaug River to serve the residents and other customers of the City's water system. A number of groups have contested the nature and scope of the City's Shepaug River diversion in the above-referenced case. The City's opponents include the Town of Washington, the Town of Roxbury, the Shepaug River Association and the Steep Rock Association. This matter was tried in the Waterbury Superior Court before Judge Beverly Hodgson during December 1999 and January 2000. Judge Hodgson found that the City's conduct in running its water system resulted in some measure of impairment to the Shepaug River. Judge Hodgson ordered primarily equitable, non-monetary relief in the form of additional water releases to the Shepaug River below the dam. Enabling the ordered water releases would have required some modifications to the dam and to the operations of the City's water system. Following the Judge's ruling, the City's

opponents filed an application for attorneys' fees in the amount of between \$2.7 million and \$3.6 million. The City vigorously opposed this application. The City appealed the trial court's decision, as did the City's opponents. Consideration of the attorney's fees claims was deferred pending the outcome of the appeals.

On July 2, 2002, the Connecticut Supreme Court rendered a decision on the appeals, remanding the case for further proceedings subject to standards that are much more favorable to the City than were imposed by the trial court. The Supreme Court's decision decreases the likelihood of a successful attorneys' fees claim by the City's opponents.

At this time it is not possible to predict with reasonable certainty the likely outcome of this case or the amount or range of any loss to the City should the outcome be unfavorable. Potential outcomes range from no impact to the City, to liability for water system modifications associated with increased water releases to the Shepaug River (with a corresponding impact to the City's water supply capability), and an increase in the attorneys' fees claims of the City's opponents related to further proceedings.

TAX APPEALS. As a result of the City's first revaluation in over 20 years, approximately 350 tax appeals were filed in superior court challenging assessments on the Grand List of 2001. Approximately 120 of these appeals have been resolved as a result of informal settlement conferences. These settlements have reduced the Grand List for 2001 by about 45 million taxable dollars. The settlements include nearly all appeals on the major commercial properties in Waterbury, so that the impact of any settlement awards made with respect to the remaining appeals for 2001 is expected to be much smaller. Nearly all of the settlements incorporate the 2002 Grand List and therefore, the impact of litigation on the Grand List of 2002 and on all grand lists until the City's next revaluation (anticipated to be 2006) is predictable and relatively constant. Approximately 20 to 30 appeals remain pending from Grand Lists prior to 2001, but their impact on revenue is not anticipated to be dramatic. To date, approximately 1,700 appeals from the Grand List of 2002 have been filed with the Board of Assessment Appeals. These appeals are primarily from values on residential property and the impact of their resolution on the Grand List is not anticipated to be significant.

PENDING FEDERAL INVESTIGATION. In 2001, the U.S. Department of Justice seized City documents pursuant to a search warrant as part of a Federal investigation of certain City affairs. It has been reported that Federal agents have obtained recorded and interviewed city employees about the reconstruction of the City's sewage treatment plant, demolition of blighted buildings and its towing contracts. The investigation is continuing and may result in charges being brought against current or past City officials. The investigation could also involve issues not previously reported in the media. Although no assurances can be made regarding the outcome of the investigation, the City does not expect that the results of the investigation will adversely affect the City's ability to pay the loans from the CWF Program.

JEFFREY POOLE ET AL. V. CITY OF WATERBURY ET AL. On March 14, 2002, a group of retired firefighters brought a suit against the City and the Waterbury Financial Planning and Assistance Board in Superior Court, seeking injunctive relief and money damages relating to the City's plan to convert retiree health coverage, effective April 1, 2002, from the indemnity plans in which they were enrolled to a managed care plan. During an injunction hearing before the trial court, the parties stipulated that the City had completed the conversion on April 1, 2002, and that the court could convert the preliminary injunction proceeding to a trial on the merits. On August 15, 2002, the trial court issued a prohibitory injunction ordering the City to refrain from converting the plaintiffs' health plans to the managed care plans. On October 2, 2002, the trial court issued a corrected decision, ordering the City to reinstate the plaintiffs to the health care plans in which they were enrolled prior to the involuntary conversion on April 1, 2002. The City and the Waterbury Financial Planning and Assistance Board obtained permission to appeal to the Connecticut Supreme Court, which stayed the injunction pending the appeal. This appeal is currently pending before the Supreme Court. The plaintiffs also requested \$350,000 in attorneys' fees. This request was denied by the trial court. The plaintiffs are appealing this denial of attorneys' fees. The City believes it has strong defenses to this appeal of the attorneys' fees issue.

U.S. V. GIORDANO AND RELATED ACTIONS. Phillip Giordano, the City's former mayor, was convicted in March, 2003 on charges of violating the civil rights of two minors by coercing them to engage in sexual acts with him, among other charges. The City expects that this conviction will not materially adversely affect its finances. The guardian for the minors in question has brought a civil action against the City alleging responsibility on the part of the City for the former mayor's actions. The City believes that these allegations lack factual and legal merit and is vigorously defending this action. The City expects this action will not materially adversely affect its finances. In addition, the former mayor is awaiting trial in state court on criminal sex charges in connection with such matters. The City does not expect such state court action to materially adversely affect its finances.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

State Revolving Fund General Revenue Program

State Revolving Fund Financial Statements and Drinking Water Fund

[THIS PAGE INTENTIONALLY LEFT BLANK]

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL FEDERAL REVOLVING
LOAN ACCOUNT (STATE REVOLVING FUND)**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

[THIS PAGE INTENTIONALLY LEFT BLANK]

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473

INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

Mr. Arthur J. Rocque, Commissioner,
Department of Environmental Protection,
State of Connecticut

We have audited the balance sheet of the State of Connecticut Clean Water Fund – Water Pollution Control Authority Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the year ended June 30, 2002, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the SRF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of State of Connecticut Clean Water Fund – Water Pollution Control Authority Federal Revolving Loan Account - SRF as of June 30, 2001, were audited by other auditors whose report dated September 6, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Clean Water Fund – Water Pollution Control Authority Federal Revolving Loan Account - SRF as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the SRF adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This resulted in a change in the format and content of the financial statements.

Seward and Monde

North Haven, Connecticut
August 23, 2002

**STATE OF CONNECTICUT
OFFICE OF THE TREASURER
STATE OF CONNECTICUT
CLEAN WATER FUND
FISCAL YEAR ENDED JUNE 30, 2002**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Connecticut Clean Water Fund in the Office of the Treasurer provides this *Management's Discussion and Analysis* of the Clean Water Fund. This is a narrative overview and analysis of the activities of the State of Connecticut Clean Water Fund for the fiscal year ended June 30, 2002. We encourage readers to read it in conjunction with the Fund's financial statements that follow.

The Clean Water Fund has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 during the fiscal year ended June 30, 2002.

FINANCIAL HIGHLIGHTS

Changes in Net Assets - The Fund net assets under management in the Clean Water Fund at the close of the fiscal year were \$464,138,816 (including assets of \$1,045,620,970 and liabilities of \$581,482,154) compared to \$439,312,524 (including assets of \$1,051,670,525 and liabilities of \$612,358,001) in fiscal year 2001. The Fund net assets increased by \$24,826,292 or 6% reflecting a somewhat higher number of loans outstanding and the repayment of bonds outstanding which resulted in the investment of monies released from the Debt Service Reserve Fund. The statements also show \$402,281,343 in restricted fund net assets, which is \$26,097,346 or 7% above the 2001 balance.

Operating Income - The Fund's operating income remained relatively constant increasing by approximately \$156,000 to \$10,909,917.

Statement of Cash Flows - The Statement of Cash Flows shows a positive change in cash for the year of \$4,503,477.

Debt Outstanding - The Fund's total debt decreased during the fiscal year by \$31.04 million to \$564.3 million, which represents a decrease of 5% due to the repayments of outstanding senior and subordinate refunding debt. During the year, the State did not issue bonds for the Fund.

Capitalization Grants - There were no new Federal wastewater capitalization grants awarded in fiscal year 2002. During the year, drawdowns were \$12,656,036 or about half of the drawdowns of \$22,836,641 in fiscal year 2001. All but \$4,715,243 of the \$277,755,714 in cumulative federal wastewater capitalization grant awards have been drawn.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Clean Water Fund financial statements are reported by the Office of the Treasurer in conjunction with the Department of Environmental Protection (DEP). The Treasurer is accountable for the detailed financial information of the Fund.

The Clean Water Fund is an AAA/Aaa/AAA rated (Standard & Poor's/Moody's Investors Service/FITCH) enterprise fund. It is included in the activities of the State of Connecticut's Fund Financial Statements. In the State of Connecticut, a fund is a fiscal and accounting entity with a self-balancing set of accounts that the State of Connecticut uses to keep track of specific sources of funding and spending for a particular purpose. The Fund Financial Statements report additional and detailed information about the activities of the Fund (rather than the State as a whole which can be found in the State's Government-wide Financial Statements). The primary focus of these statements is to ensure and demonstrate compliance with finance related laws and regulations and are presented by the State of Connecticut in three categories, Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Proprietary Funds focus on the determination of the change in fund net assets, financial position, and cash flows for governmental activities that operate similar to a commercial enterprise. Proprietary funds use the accrual basis of accounting. The statements consist of enterprise funds, one of which is the State of Connecticut Clean Water Fund, and internal service funds.

The Balance Sheets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows provide information about the activities of the Fund as a whole and present a longer-term view of the Fund's finances.

The Balance Sheets include all the assets and liabilities of the Fund using the accrual basis of accounting. This has not changed since the preparation of the first financial statements for the fund in 1990 and there have been no significant changes in our processes, procedures, and recognition of revenue and expenses and valuation of assets because of our compliance with GASB 34.

In the Statements of Revenues, Expenses and Changes in Fund Net Assets we divide the activity of the Fund into two categories: 1. Operating Activities, including the Waste Water Loan Program; and 2. Nonoperating Activities, including Investment of the Funds and the Revenue Bond Program. For the Wastewater Loan Program activities, these statements tell how the loans were financed in the short term as well as what remains for future spending. For the investment of the Funds, these statements tell how interest income is generated and describe the long term structure of our investments. For the Revenue Bond Program activities, these

statements tell how the bonds were paid in the short term as well as what remains to be repaid in the future. Fund financial statements also provide information about activities of the Fund as a recipient of federal capitalization grants. Where necessary, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund.

Operating Activities

The Wastewater Loan Program

Loan Status Project funding consists of construction loans or interim funding obligations (IFOs) which accrue interest during construction and the long term permanent financing obligations (PLOs) which are signed after the projects are completed. The PLOs have 20 year repayment terms and can be prepaid at any time. There are state grants available to participants in this program.

Construction loans in progress totaled \$85,217,739 representing a decrease of \$25,504,826 from 2001, primarily due to cyclical fluctuations in project starts as more projects were completed during the year. Completed projects totaled \$502,019,904, \$40,112,648 higher than in 2001. There are no delinquent loans in the Wastewater Loan Program. Further detail about the loans can be found in the notes to the financial statements.

Non-Operating Activities

Investment of Funds

The federal capitalization grants and State matching funds are used to provide leveraged financing for eligible projects in the State and to provide reserves as a source of payment for the senior debt obligations issued to fund Loans under the SRF Programs. Federal capitalization grants used to meet the Debt Service Reserve Fund Requirement are held by the Trustee in the form of either (a) cash or (b) permitted investments. State Contributions used to meet the Debt Service Reserve Fund Requirement or Interest Subsidy Requirements are held by the Trustee in the form of (a) cash or (b) permitted investments that include State general obligation bonds.

The State currently invests a significant portion of the funds and accounts created under the General Bond Resolution in investment agreements with financial institutions. The investment agreements are with, or guaranteed by, institutions with ratings at least equal to the rating on the Bonds given by Standard & Poor's and Moody's Investors Service. Certain monies currently held in the Debt Service Reserve Fund are invested pursuant to investment agreements, collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities thereof whose market value is at least 100% of the funds invested. Such agreements are subject to early termination upon certain events. In addition, such agreements may be subject to certain other risks, including the bankruptcy or insolvency of the party with which such funds have been invested under such agreements or which has guaranteed such agreements.

The Bond Program

Long-term debt obligations of the Fund consist of special obligations of the State which are payable from the revenues or monies pledged to the Fund as provided in the State Act. Revenue dedicated bond payments are made from Pledged Receipts. Further detail about about outstanding bonds can be found in the notes to the financial statements.

SUMMARIZED FINANCIAL STATEMENTS

	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>
Operating Revenues	\$ 11,609,497	\$ 11,354,145	\$ 255,352
Federal Capitalization Grants	12,656,036	22,836,641	(10,180,605)
Interest on Investments	24,204,527	23,027,536	1,176,991
Operating Expenses	699,580	599,989	99,591
Interest Expense	29,917,226	28,600,264	1,316,962
Change in Fund Net Assets	24,826,292	26,081,711	(1,255,419)

ECONOMIC CONDITIONS AND OUTLOOK

Fiscal year 2002 began with economic indicators reflecting an overall leveling or temporary cooling in the national and state economy. America now finds itself in the midst of an economic recession exacerbated by the tragedies of September 11th. The September attacks and subsequent related events have inflicted economic pain, beyond the human tragedy, that contrasts sharply with the preceding decade of growth and prosperity. Connecticut has not been immune to these events. The impact of the recession is being widely observed.

The major impact of the economic outlook is the possible slowdown in the initiation and planning of clean water projects as municipalities may evaluate other choices for the uses of their resources. The Fund will continue to monitor planning activities and will assist municipalities in determining the most effective and cost efficient ways to meet their water quality needs. In addition, DEP and the Treasurer's Office continue to work with municipalities to plan compliance with federal water quality laws.

REQUIRED SUPPLEMENTARY INFORMATION

The Clean Water Fund does not separately report required supplementary information that contains budgetary comparison schedules, or schedules presenting infrastructure assets, and required supplementary pension fund information. This information is recorded by the State of Connecticut and as such, compliance with GASB Statement 34 is not applicable.

Following the financial statements, the Notes to the Financial Statements provide additional supplementary information that further explains and supports the information in the financial statements. The Notes provide additional information that is essential to a full understanding of the data provided in the Clean Water Fund's financial statements.

CONTACTING THE CLEAN WATER FUND FINANCIAL ADMINISTRATOR IN THE OFFICE OF THE TREASURER

This financial report is designed to provide a general overview of the Clean Water Fund's finances. Questions about this report or requests for additional information should be addressed to:

Clean Water Fund Financial Administrator
Connecticut State Treasury
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3134
www.state.ct.us/ott

Questions about the Clean Water Fund and water quality in Connecticut should be addressed to:

Bureau of Water Management
Connecticut Department of Environmental Protection
64 Elm Street
Hartford, CT 06106
Telephone (860) 424-3704
www.state.ct.us/dep

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
BALANCE SHEETS
June 30, 2002 and 2001**

	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,522,627	\$ 1,019,150
Interest receivable - investments	6,030,265	4,242,472
Interest receivable - loans	2,235,199	3,815,820
Due from other funds	515,001	-
Grants receivable	72,390	209,253
Loans receivable	118,649,990	140,042,835
Total current assets	133,025,472	149,329,530
Noncurrent assets:		
Loans receivable	468,587,653	432,586,986
Deferred losses on early retirement of bonds	6,651,143	7,614,295
Restricted assets:		
Loan fund	4,996,237	57,084,182
Debt service reserve fund	281,176,309	295,962,309
Debt service fund	151,184,156	109,093,223
Total restricted assets	437,356,702	462,139,714
Total noncurrent assets	912,595,498	902,340,995
Total assets	\$ 1,045,620,970	\$ 1,051,670,525
LIABILITIES		
Current liabilities:		
Interest payable on revenue bonds	\$ 9,051,487	\$ 9,197,131
Due to other funds	24,775	-
Revenue bonds payable	25,445,000	29,535,000
Refunding bonds payable	1,605,000	1,505,000
Arbitrage liability	1,650,436	893,367
Total current liabilities	37,776,698	41,130,498
Noncurrent liabilities:		
Premiums on revenue bonds	6,445,203	6,917,250
Revenue bonds payable	414,745,253	440,190,253
Refunding bonds payable	122,515,000	124,120,000
Total noncurrent liabilities	543,705,456	571,227,503
Total liabilities	581,482,154	612,358,001
FUND NET ASSETS		
Unrestricted	61,857,473	63,128,527
Restricted for loans	402,281,343	376,183,997
Total fund net assets	464,138,816	439,312,524
Total liabilities and fund net assets	\$ 1,045,620,970	\$ 1,051,670,525

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
June 30, 2002 and 2001**

	2002	2001
OPERATING REVENUES		
Interest on loans pledged as security for revenue and refunding bonds	\$ 11,609,497	\$ 11,354,145
OPERATING EXPENSES		
Salaries	478,093	420,823
Employee benefits	201,672	164,730
Other	19,815	14,436
Total operating expenses	699,580	599,989
Operating income	10,909,917	10,754,156
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	24,204,527	23,027,536
Amortization of bond premium	472,048	421,855
Interest expense	(29,917,226)	(28,600,264)
Arbitrage	(757,069)	(720,233)
Total nonoperating revenues (expenses)	(5,997,720)	(5,871,106)
Income before federal capitalization grants and transfers	4,912,197	4,883,050
FEDERAL CAPITALIZATION GRANTS		
Project funds	11,956,641	22,237,483
Administrative set-asides	699,395	599,158
Total federal capitalization grants	12,656,036	22,836,641
OPERATING TRANSFERS	7,258,059	(1,637,980)
Change in fund net assets	24,826,292	26,081,711
FUND NET ASSETS, beginning	439,312,524	413,230,813
FUND NET ASSETS, ending	\$ 464,138,816	\$ 439,312,524

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
STATEMENTS OF CASH FLOWS
June 30, 2002 and 2001**

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans pledged as security for revenue bonds	\$ 12,809,708	\$ 13,665,087
Loan originations	(49,184,117)	(55,719,752)
Principal paid on loans receivable	34,956,705	28,249,028
Payments to employees	(679,765)	(585,553)
Other payments	(19,815)	(14,436)
Net cash used by operating activities	(2,117,284)	(14,405,626)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal capitalization grants	12,792,899	22,746,921
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from revenue bonds payable	-	71,557,918
Repayment of revenue bonds payable	(29,535,000)	(24,430,000)
Repayment of refunding bonds payable	(1,505,000)	(485,000)
Interest payments on bonds	(29,099,718)	(27,668,179)
Operating transfers	6,743,059	(1,637,980)
Payments on arbitrage liability	-	(2,121,518)
Net cash provided (used) by noncapital financing activities	(53,396,659)	15,215,241
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	22,441,509	23,298,364
(Increase) decrease in restricted assets	24,783,012	(49,491,829)
Net cash provided (used) by investing activities	47,224,521	(26,193,465)
Net increase (decrease) in cash and cash equivalents	4,503,477	(2,636,929)
CASH AND CASH EQUIVALENTS, beginning	1,019,150	3,656,079
CASH AND CASH EQUIVALENTS, ending	\$ 5,522,627	\$ 1,019,150
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating income	\$ 10,909,917	\$ 10,754,156
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in assets and liabilities:		
Decrease in interest receivable - loans	1,580,621	2,310,942
Increase in loans receivable	(14,607,822)	(27,470,724)
Net cash used by operating activities	(\$ 2,117,284)	(\$ 14,405,626)

See notes to financial statements.

STATE of CONNECTICUT CLEAN WATER FUND - WATER POLLUTION CONTROL
AUTHORITY FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
NOTES to FINANCIAL STATEMENTS
June 30, 2002 and 2001

1 - NATURE OF ORGANIZATION

The State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut), established pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, provides financial assistance to the municipalities of Connecticut for the planning, design and construction of water quality projects. The SRF is funded through revenue bonds and federal grants as established under Title VI of the Water Quality Act of 1987, which requires the State of Connecticut (State) to match federal funds to the extent of 20% of federal funds received.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the SRF conform to U.S. generally accepted accounting principles as applicable to government enterprises. The following is a summary of the SRF's significant accounting policies:

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting and the flow of economic resources as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund. Under GASB Statement No. 20, *Accounting and Reporting for Proprietary funds and other Governmental Entities that Use Proprietary Fund Accounting*, the SRF has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating Revenues and Expenses

The SRF's principal operation consists of making low interest loans to municipalities in Connecticut. Operating revenue consists of interest earned on those loans. Operating

expenses consist of personnel and other expenses incurred in the initial approval, disbursement and ongoing servicing of those loans through maturity.

Revenue Recognition

Federal capitalization grants are reported as nonoperating revenue and are recognized as federal funds are loaned to municipalities and as the SRF expenditures for administration are made.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the SRF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, the SRF's policy is to exclude restricted assets from cash equivalents for purposes of the statements of cash flows due to the limitations imposed on their use by the Clean Water Fund Revenue Bond Program General Bond Resolution, as amended and supplemented and a Series Resolution, adopted by the State Bond Commission on December 15, 2000 (collectively, the "Resolution"). The SRF had cash equivalents of \$2,354,840 and \$220 as of June 30, 2002 and 2001, respectively, which consisted of amounts invested in the State Treasurer's Short Term Investment Fund (STIF), an investment pool. The pool is managed by the State Treasurer's Office, and the fair market value of the SRF's position in the pool is the same as the value of the pool shares. Cash equivalents included in restricted assets are presented in Note 6.

Investments

The SRF's policy is to present all investments at fair value except for money market investments and investment contracts, which the SRF has elected to report at amortized cost. The fair value of investments traded on public markets is determined using quoted market prices. The fair value of state general obligation bonds, which are not traded on a public market, is estimated using matrix pricing. The cost of the state general obligation bonds approximates their estimated fair value.

There were no material investment gains or losses for the years ended June 30, 2002 and 2001.

Loans, Allowance for Loan Losses and Credit Risk

The SRF makes loans to municipalities in the State of Connecticut for planning, design and construction of water quality projects. Interest on the loans is calculated at two percent of the outstanding balance and recognized as it is earned. The loans are secured by the full faith and credit or revenue pledges of the municipalities, or both. No allowance for loan losses is considered necessary based on management's evaluation of the collectibility of the loans. The evaluation takes into consideration such factors as changes in the size of the municipal loans, overall quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

Restricted Assets

Restricted assets consist of investments, which are segregated into funds and accounts in accordance with the Resolution as previously described plus amounts determined to be prudent by management. The Resolution restricts investments to: a) the State Treasurer's Short-Term Investment Fund, b) Tax Exempt Proceeds Fund of the State, c) interest bearing time deposits held by the trustee, a member bank of the Federal Reserve System, or a bank which is insured by the Federal Deposit Insurance Corporation and d) Investment Obligations as defined in the Resolution.

Bond Premiums/Deferred Loss

The premiums on the revenue bonds are being amortized over the term of the bonds on a straight-line basis, which yields results equivalent to the interest method. The deferred losses on early retirement of bonds (Note 8) are being amortized using the outstanding bond method, which yields results equivalent to the interest method.

Revenue Bonds

The following funds and accounts have been established in accordance with the Resolution:

<u>Fund / Account</u>	<u>Description and Use</u>
Revenue Fund	Receives all pledged receipts including loan repayments from the municipalities. Out flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
a. Pledged Receipts Account	
b. Earnings Account	Receives all earnings on funds and investments in all funds and accounts. Out flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
Loan Fund	Received proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expended for purposes of the State Revolving Fund program, including the financing of loans to municipalities.
Debt Service Reserve Fund	Required to be funded in an amount equal to 50% of all outstanding bonds. The reserve is funded by federal capitalization grant payments drawn under the federal letter of credit and state general obligation bonds. Investment income is transferred to the revenue fund for debt service payments. Used for payment of principal and interest in the event of deficiencies in the revenue accounts.
Debt Service Fund	Receives amounts from the revenue fund accounts sufficient to pay the interest portion due on each interest payment date. Pays interest on outstanding bonds.
a. Interest Account	
b. Principal Account	Receives amounts from the revenue fund accounts sufficient to pay the principal or current sinking fund installments. Pays principal on outstanding bonds.
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.
d. Capitalized Interest Account	Receives any capitalized interest received by the trustee. Amounts in the account are transferred for payment of capitalized interest on outstanding bonds.
Interest Subsidy Fund	Established outside of the state revolving fund, principal and investment income is transferred to the revenue fund, then to the debt service fund for payment of debt service. Provides payment of principal and interest in the event of a deficiency in the debt service reserve fund.
Administrative Fund: Cost of Issuance Account	Established outside the SRF, receives a portion of the revenue bond proceeds. Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.

Fund Net Assets - Restricted for Loans

The fund net assets restricted for loans represents amounts accumulated from federal drawdowns, less administrative expenses not exceeding 4% of the federal grant, transfers from the State representing the 20% match on federal funds and interest earned on municipal loans.

Financial Statement Presentation

During the year ended June 30, 2002, the SRF adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement establishes new financial reporting requirements for state and local governments, including creating new information and restructuring much of the information that governments have presented in the past.

Reclassifications

Certain 2001 amounts have been reclassified to conform with the 2002 presentation.

3 - CASH DEPOSITS AND INVESTMENTS

Governmental Accounting Standards Board Statement No. 3 requires governmental entities to categorize their cash deposits and investments into three levels of risk. Category 1 includes amounts which are insured or registered in the SRF's name or its agent in the SRF's name. Category 2 includes amounts which are uninsured or unregistered for which collateral or securities are held by a counterparty's trust department or agent in the name of the SRF. Category 3 includes amounts in which the deposits or securities are uninsured or unregistered for which collateral or securities are held by the counterparty or its trust department, but not in the name of the SRF.

Cash Deposits

For purposes of this disclosure, cash deposits include cash held by the State Comptroller and STIF investments, and also money market funds and State obligations which are included in restricted assets. As of June 30, 2002 both the institution balance and carrying amount of the SRF's deposits total \$33,573,447, of which \$28,050,820 is included in restricted assets. For purposes of GASB No. 3, the SRF's deposits of \$31,218,607 are considered Category 1, registered in the SRF's name and the remaining balance of STIF investments of \$2,354,840 is not required to be assigned to a risk category.

Investments

Investments consist of State General Obligation Bonds and various investment contracts which for purposes of GASB No. 3 are considered Category 1, registered in the SRF's name.

4 - LOANS RECEIVABLE

The SRF loans funds to qualified municipalities at an annual interest rate of two percent, secured by the full faith and credit or revenue pledges of the municipalities, or both. Principal and interest payments on loans are payable over a 20 year period in equal monthly installments commencing one month after the scheduled completion date, or in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly or annual installments.

Loans receivable by type are as follows as of June 30:

	<u>2002</u>	<u>2001</u>
Construction in process	\$ 85,217,739	\$ 110,722,565
Completed projects	<u>502,019,904</u>	<u>461,907,256</u>
	<u>\$ 587,237,643</u>	<u>\$ 572,629,821</u>

Aggregate maturities of loans receivable in subsequent years for completed projects are as follows:

<u>Year ending June 30</u>	
2003	\$ 33,432,251
2004	33,590,767
2005	33,971,487
2006	34,359,883
2007	34,756,115
Thereafter	<u>331,909,401</u>
	<u>\$ 502,019,904</u>

5 - FEDERAL LETTER OF CREDIT

The following represents a summary of the funds available under the U.S. Environmental Protection Agency's letter of credit as of June 30:

	<u>2002</u>	<u>2001</u>
Awarded	\$ 277,755,714	\$ 277,755,714
Requested	<u>273,040,471</u>	<u>260,247,572</u>
Available federal letter of credit	<u>\$ 4,715,243</u>	<u>\$ 17,508,142</u>

6 - RESTRICTED ASSETS

Restricted assets as of June 30 are comprised of the following:

	<u>2002</u>	<u>2001</u>
Cash equivalents:		
Money market funds/State obligations	\$ 28,050,820	\$ 10,996,825
Investments:		
Investment contracts	341,979,770	380,074,462
State General Obligation Bonds	<u>67,326,112</u>	<u>71,068,427</u>
	<u>\$ 437,356,702</u>	<u>\$ 462,139,714</u>

7 - RELATED PARTY TRANSACTIONS

The SRF is one fund of many within the State of Connecticut financial reporting structure and as a result, certain transactions including operating transfers, loans receivable and allocation of expenses among funds are under the direction of the State.

Investments

The SRF has invested in the State Treasurer's Short Term Investment Fund. The SRF also holds State General Obligation Bonds as presented in Note 6.

Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2002 and 2001, the basic rates were 42.29% and 39.26%, respectively, of the SRF wages and the amounts charged aggregated \$201,672 and \$164,730, respectively.

8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2002 is as follows:

	Balance June 30, 2001	Principal Paydown	Balance June 30, 2002
Revenue bonds payable	\$ 469,725,253	\$ 29,535,000	\$ 440,190,253
Refunding bonds payable	<u>125,625,000</u>	<u>1,505,000</u>	<u>124,120,000</u>
	<u>\$ 595,350,253</u>	<u>\$ 31,040,000</u>	<u>\$ 564,310,253</u>

Revenue Bonds

The State of Connecticut issued Clean Water Fund, Revenue Bonds 2001, 1999, 1997, 1996, 1994, 1993, 1992 and 1991 series, dated May 24, 2001, April 15, 1999, September 1, 1997, March 1, 1996, June 1, 1994, January 1, 1993, 1992 and 1991, respectively. The proceeds of the SRF's bonds are to be used to provide funds to make loans to Connecticut municipalities, for use in connection with the financing or refinancing of wastewater and drinking water treatment projects. The bonds are payable solely from funds pledged pursuant to the Resolution.

In accordance with the State of Connecticut ("State") Clean Water Fund Revenue Bonds, 2001 Series Plan of Finance, the State allocates the proceeds of 2001 series between the SRF and the State of Connecticut Drinking Water Fund - State Revolving Fund ("Drinking Water Fund") (collectively, "The Obligated Group") with \$70,385,253 allocated to the SRF and \$29,614,747 allocated to the Drinking Water Fund. The Drinking Water Fund (an enterprise fund of the State of Connecticut) was also established pursuant to Connecticut General Statutes Section 22a-475 to 22a-483 and provides assistance to municipalities of Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act. Debt service on the 2001 series bonds is to be paid from pledged receipts, earnings on investments held in the debt service reserve funds and maturing principal and interest on investments held in the interest subsidy funds. "Pledged receipts" means payments of principal and interest on municipal obligations, including both timely and delinquent payments with late charges, if any, and includes any fees and charges, fines and penalties collected or held by the State.

Pledged receipts include the repayments of loans made by the Obligated Group, including all loans previously funded as well as future loans. Although amounts attributable to the Obligated Group will be tracked separately for federal reporting purposes, all pledged receipts will secure all bonds of the Clean Water Fund Revenue

Bond Program. The Act and the Resolution permit the pledging of assets of both the SRF and the Drinking Water Fund SRF to secure all bonds.

Revenue bonds payable consist of the following as of June 30:

	<u>2002</u>	<u>2001</u>
Serial bonds, with interest rates from 3.45% to 7%, maturing from 2011 through 2022	\$ 362,720,253	\$ 392,255,253
Term bonds, with interest rates ranging from 4.875% to 7%, maturing from 2011 through 2022	<u>77,470,000</u>	<u>77,470,000</u>
	<u>\$ 440,190,253</u>	<u>\$ 469,725,253</u>

Refunding Bonds - 1996 Series

On March 15, 1996 the State of Connecticut issued \$48,445,000 of Clean Water Fund Refunding Bonds, 1996 Series (1996 Refunding Bonds) with interest rates of 3.45% to 5.6% to advance refund Clean Water Fund 1991 Series Revenue Bonds (Refunded Bonds) with a principal balance of \$43,125,000 and interest rates of 6.3% to 7%. The Refunded Bonds were to mature at various dates through January 1, 2011 but were called on January 1, 2001.

The net proceeds of the 1996 Refunding Bonds of \$47,478,959 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds were called on January 1, 2001. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$43,125,000 were removed from the SRF's balance sheet.

The difference of \$4,733,836 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the 1996 Refunding Bonds using the outstanding bond method. Amortization of the deferred loss for the years ended June 30, 2002 and 2001 totaled \$409,386 and \$413,710, respectively.

Refunding Bonds - 1999 Series

On May 1, 1999 the State of Connecticut, with State Street Bank as Trustee, issued \$78,995,000 of Clean Water Fund Subordinate Revenue Refunding Bonds, 1999 Series (1999 Refunding Bonds) with interest rates of 3.45% to 5.25% to advance refund Clean Water Fund 1991, 1992 and 1994 Series Revenue Bonds (Refunded Bonds) with

principal balances totaling \$74,080,000 and interest rates of 5.65% to 6.7%. The Refunded Bonds mature at various dates through June 1, 2016 and are callable on various dates through June 1, 2004.

The net proceeds of the 1999 Refunding Bonds of \$80,413,679 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds are called on various dates through June 1, 2004. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$74,080,000 were removed from the SRF's balance sheet. As of June 30, 2002, the outstanding principal balance of the Refunded Bonds is \$66,945,000.

The difference of \$6,338,445 between the book value of the 1999 Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the 1999 Refunding Bonds using the outstanding bond method. Amortization of the deferred loss for the years ended June 30, 2002 and 2001 totaled \$553,316 and \$558,565, respectively.

Bond Maturities

Requirements at June 30, 2002 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 27,050,000	\$ 28,087,745
2004	35,275,603	26,588,521
2005	40,798,949	24,700,908
2006	33,807,296	23,674,830
2007	28,499,162	20,458,656
2008-2012	179,673,243	79,489,228
2013-2017	132,256,221	38,780,925
2018-2022	75,730,355	11,569,932
2023	11,219,424	278,290
	<u>\$ 564,310,253</u>	<u>\$ 253,629,035</u>

9 - ARBITRAGE LIABILITY

The Internal Revenue Code provides that interest on certain obligations issued by states, including SRF revenue bonds, are not taxable to the holder provided that bond proceeds are not invested in higher yielding investments, which is referred to as arbitrage. To mitigate arbitrage with respect to the SRF's 1996 and 1997 series revenue bonds, the SRF is required to remit excess investment income to the federal government.

10 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2002 and 2001.

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2000	\$ 73,350,813	\$ 339,880,000	\$ 413,230,813
Change in fund net assets	<u>(10,222,286)</u>	<u>36,303,997</u>	<u>26,081,711</u>
Balance at June 30, 2001	63,128,527	376,183,997	439,312,524
Change in fund net assets	<u>(1,271,054)</u>	<u>26,097,346</u>	<u>24,826,292</u>
Balance at June 30, 2002	<u>\$ 61,857,473</u>	<u>\$ 402,281,343</u>	<u>\$ 464,138,816</u>

11 - OPERATING TRANSFERS

Operating transfers consist of the following for the years ended June 30:

	<u>2002</u>	<u>2001</u>
State operating transfers	<u>\$ 7,258,059</u>	<u>(\$ 1,637,980)</u>

12 - LOAN FUNDING COMMITMENTS

The SRF has entered into various loan agreements with municipalities to fund the planning, design and construction of water quality projects. The following represents a summary of loan commitments at June 30:

	<u>2002</u>	<u>2001</u>
Total funds committed to municipalities	\$ 799,796,192	\$ 798,215,860
Loan amount outstanding to municipalities	<u>587,237,643</u>	<u>572,629,821</u>
Loan commitments outstanding	<u>\$ 212,558,549</u>	<u>\$ 225,586,039</u>

13 - RISK MANAGEMENT

The State of Connecticut is responsible for risk management of the SRF activities through the use of commercial and self-insurance.

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING
LOAN ACCOUNT (STATE REVOLVING FUND)**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2002 AND 2001

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473

INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

Mr. Joxel Garcia, M.D., Commissioner,
Department of Public Health

Mr. Arthur J. Rocque, Commissioner,
Department of Environmental Protection,
State of Connecticut

We have audited the balance sheet of the State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the year ended June 30, 2002, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the SRF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account - SRF as of June 30, 2001, were audited by other auditors whose report dated September 6, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account - SRF as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the SRF adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This resulted in a change in the format and content of the financial statements.

Seward and Monde

North Haven, Connecticut
August 23, 2002

**STATE OF CONNECTICUT
OFFICE OF THE TREASURER
STATE OF CONNECTICUT
DRINKING WATER FUND
FISCAL YEAR ENDED JUNE 30, 2002**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Connecticut Drinking Water Fund in the Office of the Treasurer provides this *Management's Discussion and Analysis* of the Drinking Water Fund. This is a narrative overview and analysis of the activities of the State of Connecticut Drinking Water Fund for the fiscal year ended June 30, 2002. We encourage readers to read it in conjunction with the Fund's financial statements that follow.

The Drinking Water Fund has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 during the fiscal year ended June 30, 2002.

FINANCIAL HIGHLIGHTS

Changes in Net Assets - The Fund net assets under management in the Drinking Water Fund at the close of the fiscal year were \$38.5 million (including assets of \$69.1 million and liabilities of \$30.6 million) compared to \$32.6 million (including assets of \$62.8 million and liabilities of \$30.2 million) in fiscal year 2001. The Fund net assets increased by \$5.9 million or 18.1% reflecting a higher number of loans outstanding. The statements also show \$20.8 million in restricted fund net assets which is \$6.6 million or 4.6% above the 2001 balance.

Statement of Revenues, Expenses and Changes in Fund Net Assets - Although interest income for both loans and investments grew, the fund experienced operating losses as it implemented its leveraging program and issued bonds at the end of fiscal year 2001. The change in fund net assets after federal capitalization grants and operating transfers was \$5.9 million in 2002 and \$31.0 million in 2001. The 2002 results were considerably lower than 2001 because transfers were made in 2001 to implement the leverage strategy. In addition, the 2002 federal capitalization drawdowns reflected changes in 2002's project drawdowns, as the fund will continue to experience adjustments due to the leverage strategy for the next few years.

Statement of Cash Flows - The Statement of Cash Flows shows a positive change in cash for the year of \$45,648.

Debt Outstanding - The Fund's total debt remained at \$29.6 million. During the year, the State did not issue bonds for the Fund.

Loan Receivables - Total Loans Receivable increased by 43% from \$18.8 million to \$26.8 million as the Fund began to finance its loans with revenue bond proceeds.

Capitalization Grants - There were \$7.8 million in new Federal drinking water capitalization grants awarded in fiscal year 2002. During the year, drawdowns were \$6.6 million or about half of the drawdowns of \$13.2 million in fiscal year 2001. At June 30th, \$23.3 million of \$51.5 million in cumulative federal drinking water capitalization grant awards have been drawn.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Drinking Water Fund financial statements are reported by the Office of the Treasurer in conjunction with the Department of Public Health (DPH) and the Department of Environmental Protection (DEP). The Treasurer is accountable for the detailed financial information of the Fund.

The Drinking Water Fund is part of the Clean Water Fund Revenue Bond Program which is an AAA/Aaa/AAA rated (Standard & Poor's/Moody's Investors Service/FITCH) enterprise fund. The Drinking Water Fund within the Clean Water Fund is included in the activities of the State of Connecticut's Fund Financial Statements. In the State of Connecticut, a fund is a fiscal and accounting entity with a self-balancing set of accounts that the State of Connecticut uses to keep track of specific sources of funding and spending for a particular purpose. The Fund Financial Statements report additional and detailed information about the activities of the Fund (rather than the State as a whole which can be found in the State's Government-wide Financial Statements). The primary focus of these statements is to ensure and demonstrate compliance with finance related laws and regulations and are presented by the State of Connecticut in three categories, Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Proprietary Funds focus on the determination of the change in fund net assets, financial position, and cash flows for governmental activities that operate similar to a commercial enterprise. Proprietary funds use the accrual basis of accounting. The statements consist of enterprise funds, one of which is the State of Connecticut Clean Water Fund including the Drinking Water Fund, and internal service funds.

The Balance Sheets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows provide information about the activities of the Fund as a whole and present a longer-term view of the Fund's finances.

The Balance Sheets include all the assets and liabilities of the Fund using the accrual basis of accounting. There have been no significant changes in our processes, procedures, and recognition of revenue and expenses and valuation of assets because of our compliance with GASB 34.

In the Statements of Revenues, Expenses and Changes in Fund Net Assets we divide the activity of the Fund into two categories: 1. Operating Activities, including the Drinking Water Loan Program; and 2. Nonoperating Activities, including Investment of the Funds and the Revenue Bond Program. For the Drinking Water Loan Program activities, these statements tell how the loans were financed in the short term as well as what remains for future spending. For the investment of the Funds, these statements tell how interest income is generated and

describe the long term structure of our investments. For the Revenue Bond Program activities, these statements tell how the bonds were paid in the short term as well as what remains to be repaid in the future. Fund financial statements also provide information about activities of the Fund as a recipient of federal capitalization grants. Where necessary, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund.

Operating Activities

The Drinking Water Loan Program

Loan Status Project funding consists of construction loans or interim funding obligations (IFOs) which accrue interest during construction and the long term permanent financing obligations (PLOs) which are signed after the projects are completed. The PLOs have 20 year repayment terms and can be prepaid at any time. There are no state grants available to participants in this program.

Construction loans in progress totaled \$6.7 million representing a decrease of \$6.2 million from 2001, primarily due to cyclical fluctuations in project starts. Completed projects totaled \$20.0 million, \$14.1 million higher than in 2001. There are no delinquent loans in the Drinking Water Loan Program. Further detail about the loans can be found in the notes to the financial statements.

Non-Operating Activities

Investment of Funds

The federal capitalization grants and State matching funds are used to provide leveraged financing for eligible projects in the State and to provide reserves as a source of payment for the senior debt obligations issued to fund Loans under the SRF Programs. Federal capitalization grants used to meet the Debt Service Reserve Fund Requirement are held by the Trustee in the form of either (a) cash or (b) permitted investments. State Contributions used to meet the Debt Service Reserve Fund Requirement are held by the Trustee in the form of (a) cash or (b) permitted investments, that may include State general obligation bonds.

The State currently invests a significant portion of the funds and accounts created under the General Bond Resolution in investment agreements with financial institutions. The investment agreements are with, or guaranteed by, institutions with ratings at least equal to the rating on the Bonds given by Standard & Poor's and Moody's Investors Service. Certain monies currently held in the Debt Service Reserve Fund are invested pursuant to investment agreements, collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities thereof whose market value is at least 100% of the funds invested. Such agreements are subject to early termination upon certain events. In addition, such agreements may be subject to certain other risks, including the bankruptcy or insolvency of the party with which such funds have been invested under such agreements or which has guaranteed such agreements.

The Bond Program

Long-term debt obligations of the Fund consist of special obligations of the State issued as part of the Clean Water Fund Revenue Bonds which are payable from the revenues or monies pledged to the Fund as provided in the State Act. Revenue dedicated bond payments are made from Pledged Receipts. Further detail about outstanding bonds can be found in the notes to the financial statements.

SUMMARIZED FINANCIAL STATEMENTS

	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>
Operating Revenues	\$ 624,764	\$ 311,301	\$ 313,463
Federal Capitalization Grants	6,646,489	13,157,330	(6,510,841)
Interest on Investments	2,094,672	169,236	1,925,436
Operating Expenses	1,540,884	1,190,703	350,181
Interest Expense	1,375,338	114,612	1,260,726
Change in Fund Net Assets	5,892,811	31,017,712	(25,124,901)

ECONOMIC CONDITIONS AND OUTLOOK

Fiscal year 2002 began with economic indicators reflecting an overall leveling or temporary cooling in the national and state economy. America now finds itself in the midst of an economic recession exacerbated by the tragedies of September 11th. The September attacks and subsequent related events have inflicted economic pain, beyond the human tragedy, that contrasts sharply with the preceding decade of growth and prosperity. Connecticut has not been immune to these events. The impact of the recession is being widely observed.

The major impact of the economic outlook is the possible slowdown in the initiation and planning of drinking water projects as municipalities may evaluate other choices for the uses of their resources. The Fund will continue to monitor planning activities and will assist municipalities in determining the most effective and cost efficient ways to meet their water quality needs. In addition, DPH, DEP and the Treasurer's Office continue to work with municipalities to plan compliance with federal water quality laws.

REQUIRED SUPPLEMENTARY INFORMATION

The Drinking Water Fund does not separately report required supplementary information that contains budgetary comparison schedules, or schedules presenting infrastructure assets, and required supplementary pension fund information. This information is recorded by the State of Connecticut and as such, compliance with GASB Statement 34 is not applicable. Following the financial statements, the Notes to the Financial Statements provide additional supplementary information that further explains and supports the information in the financial statements. The Notes provide additional information that is essential to a full understanding of the data provided in the Drinking Water Fund's financial statements.

CONTACTING THE DRINKING WATER FUND FINANCIAL ADMINISTRATOR IN THE OFFICE OF THE TREASURER

This financial report is designed to provide a general overview of the Drinking Water Fund's finances. Questions about this report or requests for additional information should be addressed to:

Drinking Water Fund Financial Administrator
Connecticut State Treasury
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3134
www.state.ct.us/ott

Questions about the Drinking Water Fund and water quality in Connecticut should be addressed to:

Connecticut Department of Public Health
450 Capitol Avenue
Hartford, CT 06106
Telephone (860) 509-7333
www.state.ct.us/dph

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
BALANCE SHEETS
June 30, 2002 and 2001**

	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,106	\$ 13,458
Interest receivable - investments	999,576	108,202
Interest receivable - loans	287,936	213,641
Due from other funds	24,775	-
Loans receivable	8,081,678	13,193,748
Total current assets	9,453,071	13,529,049
Noncurrent assets:		
Loans receivable	18,672,996	5,594,160
Restricted assets:		
Loan fund	6,261,027	14,141,641
Debt service reserve fund	16,289,526	16,285,500
Debt service fund	18,383,265	13,284,668
Total restricted assets	40,933,818	43,711,809
Total noncurrent assets	59,606,814	49,305,969
Total assets	\$ 69,059,885	\$ 62,835,018
LIABILITIES		
Current liabilities:		
Interest payable on revenue bonds	\$ 349,593	\$ 116,531
Due to other funds	13,503	-
Deferred interest on investments	24,776	-
Deferred grant revenue	93,809	10,061
Total current liabilities	481,681	126,592
Noncurrent liabilities:		
Premium on revenue bonds	468,337	491,370
Revenue bonds payable	29,614,747	29,614,747
Total noncurrent liabilities	30,083,084	30,106,117
Total liabilities	30,564,765	30,232,709
FUND NET ASSETS		
Unrestricted	17,742,681	18,369,639
Restricted for loans	20,752,439	14,232,670
Total fund net assets	38,495,120	32,602,309
Total liabilities and fund net assets	\$ 69,059,885	\$ 62,835,018

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
June 30, 2002 and 2001**

	2002	2001
OPERATING REVENUES		
Interest on loans pledged as security for revenue bonds	\$ 624,764	\$ 311,301
OPERATING EXPENSES		
Salaries	760,562	564,204
Employee benefits	321,642	221,508
Other	458,680	404,991
Total operating expenses	1,540,884	1,190,703
Operating loss	(916,120)	(879,402)
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	2,094,672	169,236
Interest expense	(1,375,338)	(114,612)
Total nonoperating revenues (expenses)	719,334	54,624
Loss before federal capitalization grants and transfers	(196,786)	(824,778)
FEDERAL CAPITALIZATION GRANTS		
Project funds	4,548,958	11,317,425
Set-aside activities	2,097,531	1,839,905
Total federal capitalization grants	6,646,489	13,157,330
OPERATING TRANSFERS	(556,892)	18,685,160
Change in fund net assets	5,892,811	31,017,712
FUND NET ASSETS, beginning	32,602,309	1,584,597
FUND NET ASSETS, ending	\$ 38,495,120	\$ 32,602,309

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
STATEMENTS OF CASH FLOWS
June 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans pledged as security for revenue bonds	\$ 535,914	\$ 103,104
Loan originations	(8,466,504)	(17,510,003)
Principal paid on loans receivable	514,293	257,732
Payments to employees	(1,082,204)	(785,712)
Other payments	(458,680)	(403,945)
Net cash used by operating activities	<u>(8,957,181)</u>	<u>(18,338,824)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal capitalization grants	<u>6,730,237</u>	<u>13,166,345</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from revenue bonds payable	-	30,108,036
Interest payments on bonds	(1,165,309)	-
Operating transfers	(543,389)	18,685,160
Net cash provided (used) by noncapital financing activities	<u>(1,708,698)</u>	<u>48,793,196</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	1,203,299	62,080
(Increase) decrease in restricted assets	<u>2,777,991</u>	<u>(43,669,339)</u>
Net cash provided (used) by investing activities	<u>3,981,290</u>	<u>(43,607,259)</u>
Net increase in cash and cash equivalents	45,648	13,458
CASH AND CASH EQUIVALENTS, beginning	<u>13,458</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 59,106</u>	<u>\$ 13,458</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	(\$ 916,120)	(\$ 879,402)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Increase in interest receivable - loans	(74,295)	(207,151)
Increase in loans receivable	<u>(7,966,766)</u>	<u>(17,252,271)</u>
Net cash used by operating activities	<u>(\$ 8,957,181)</u>	<u>(\$ 18,338,824)</u>

See notes to financial statements.

STATE of CONNECTICUT CLEAN WATER FUND - DRINKING WATER
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
NOTES to FINANCIAL STATEMENTS
June 30, 2002 and 2001

1 - NATURE OF ORGANIZATION

The State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut), established in 1998 pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, provides assistance to the public water systems in Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act (SDWA). The SRF is funded through revenue bonds and federal grants as established under the SDWA, which requires the State of Connecticut (State) to match federal funds to the extent of 20% of federal funds received.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the SRF conform to U.S. generally accepted accounting principles as applicable to government enterprises. The following is a summary of the SRF's significant accounting policies:

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting and the flow of economic resources as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund. Under GASB Statement No. 20, *Accounting and Reporting for Proprietary funds and other Governmental Entities that Use Proprietary Fund Accounting*, the SRF has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating Revenues and Expenses

The SRF's principal operation consists of making low interest loans to public water systems in Connecticut. Operating revenue consists of interest earned on those loans. Operating expenses consist of personnel and other expenses incurred in the initial approval, disbursement and ongoing servicing of those loans through maturity.

Revenue Recognition

Federal capitalization grants are reported as nonoperating revenue and are recognized as federal funds are loaned to public water systems and as the SRF expenditures for administration are made.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the SRF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, the SRF's policy is to exclude restricted assets from cash and cash equivalents for purposes of the statements of cash flows due to the limitations imposed on their use by the Clean Water Fund Revenue Bond Program General Bond Resolution, as amended and supplemented and a Series Resolution, adopted by the State Bond Commission on December 15, 2000 (collectively, the "Resolution"). The SRF had no cash equivalents as of June 30, 2002 and 2001, except as reflected in Note 6.

Investments

The SRF's policy is to present all investments at fair value except for money market investments and investment contracts, which the SRF has elected to report at amortized cost. The fair value of investments traded on public markets is determined using quoted market prices. The fair value of state general obligation bonds, which are not traded on a public market, is estimated using matrix pricing. The cost of the state general obligation bonds approximates their estimated fair value.

There were no material investment gains or losses for the years ended June 30, 2002 and 2001.

Loans, Allowance for Loan Losses and Credit Risk

The SRF makes loans to public water systems in the State of Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the SDWA. Interest rates on the loans range from 2.5% to 4.68% and interest income is recognized as it is earned. The loans are secured by the full faith and credit or revenue pledges of the public water systems, or both. No allowance for loan losses is considered necessary based on management's evaluation of the collectibility of the loans. The evaluation takes into consideration such factors as changes in the size of the public water system loans, overall quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

Restricted Assets

Restricted assets consist of investments, which are segregated into funds and accounts in accordance with the Resolution as previously described plus amounts determined to be prudent by management. The Resolution restricts investments to: a) the State Treasurer's Short-Term Investment Fund, b) Tax Exempt Proceeds Fund of the State, c) interest bearing time deposits held by the trustee, a member bank of the Federal Reserve System, or a bank which is insured by the Federal Deposit Insurance Corporation and d) Investment Obligations as defined in the Resolution.

Premium on Revenue Bonds

The premium on the revenue bonds is being amortized over the term of the bonds on a straight-line basis, which yields results equivalent to the interest method.

Revenue Bonds

The following funds and accounts have been established in accordance with the Resolution:

<u>Fund / Account</u>	<u>Description and Use</u>
Revenue Fund	Receives all pledged receipts including loan repayments from the municipalities. Out flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
a. Pledged Receipts Account	
b. Earnings Account	Receives all earnings on funds and investments in all funds and accounts. Out flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
Loan Fund	Received proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expended for purposes of the State Revolving Fund program, including the financing of loans to municipalities.
Debt Service Reserve Fund	Required to be funded in an amount equal to 50% of all outstanding bonds. The reserve is funded by federal capitalization grant payments drawn under the federal letter of credit and state general obligation bonds. Investment income is transferred to the revenue fund for debt service payments. Used for payment of principal and interest in the event of deficiencies in the revenue accounts.
Debt Service Fund	Receives amounts from the revenue fund accounts sufficient to pay the interest portion due on each interest payment date. Pays interest on outstanding bonds.
a. Interest Account	
b. Principal Account	Receives amounts from the revenue fund accounts sufficient to pay the principal or current sinking fund installments. Pays principal on outstanding bonds.
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.
d. Capitalized Interest Account	Receives any capitalized interest received by the trustee. Amounts in the account are transferred for payment of capitalized interest on outstanding bonds.
Interest Subsidy Fund	Established outside of the state revolving fund, principal and investment income is transferred to the revenue fund, then to the debt service fund for payment of of debt service. Provides payment of principal and interest in the event of a deficiency in the debt service reserve fund.
Administrative Fund: Cost of Issuance Account	Established outside the SRF, receives a portion of the revenue bond proceeds. Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.

Fund Net Assets – Restricted for Loans

The fund net assets reserved for loans represents amounts accumulated from federal drawdowns, less set-aside activity expenses not exceeding 31% of the federal grant, transfers from the State representing the 20% match on federal funds and interest earned on public water system loans.

Financial Statement Presentation

During the year ended June 30, 2002, the SRF adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements established new financial reporting requirements for state and local governments, including creating new information and restructuring much of the information that governments have presented in the past.

Reclassifications

Certain 2001 amounts have been reclassified to conform with the 2002 presentation.

3 - CASH DEPOSITS AND INVESTMENTS

Governmental Accounting Standards Board Statement No. 3 requires governmental entities to categorize their cash deposits and investments into three levels of risk. Category 1 includes amounts which are insured or registered in the SRF's name or its agent in the SRF's name. Category 2 includes amounts which are uninsured or unregistered for which collateral or securities are held by a counterparty's trust department or agent in the name of the SRF. Category 3 includes amounts in which the deposits or securities are uninsured or unregistered for which collateral or securities are held by the counterparty or its trust department, but not in the name of the SRF.

Cash Deposits

For purposes of this disclosure, cash deposits include cash held by the State Comptroller and money market funds which are included in restricted assets. As of June 30, 2002 both the institution balance and carrying amount of the SRF's deposits total \$1,564,874, of which \$1,505,768 is included in restricted assets. For purposes of GASB No. 3, the SRF's deposits of \$1,564,874 are considered Category 1, registered in the SRF's name.

Investments

Investments consist of State General Obligation Bonds and various investment contracts which for purposes of GASB No. 3 are considered Category 1, registered in the SRF's name.

4 - LOANS RECEIVABLE

The SRF loans funds to qualified public water systems. Principal and interest payments on loans are payable over a 20 year period in equal monthly installments commencing one month after the scheduled completion date, or in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments. Loans receivable by type are as follows as of June 30:

	<u>2002</u>	<u>2001</u>
Construction in process	\$ 6,737,497	\$ 12,876,580
Completed projects	<u>20,017,177</u>	<u>5,911,328</u>
	<u>\$ 26,754,674</u>	<u>\$ 18,787,908</u>

Aggregate maturities of loans receivable in subsequent years for completed projects are as follows:

<u>Year ending June 30</u>	
2003	\$ 1,344,181
2004	988,185
2005	995,682
2006	1,003,406
2007	1,011,365
Thereafter	<u>14,674,358</u>
	<u>\$ 20,017,177</u>

5 - FEDERAL LETTER OF CREDIT

The following represents a summary of the funds available under the U.S. Environmental Protection Agency's letter of credit as of June 30:

	<u>2002</u>	<u>2001</u>
Awarded	\$ 51,539,400	\$ 43,750,300
Requested	<u>23,263,784</u>	<u>16,533,548</u>
Available federal letter of credit	<u>\$ 28,275,616</u>	<u>\$ 27,216,752</u>

6 - RESTRICTED ASSETS

Restricted assets as of June 30 are comprised of the following:

	<u>2002</u>	<u>2001</u>
Cash equivalents:		
Money market funds	\$ 1,505,768	\$ 417,570
Investments:		
Investment Contracts	36,348,996	40,215,185
State General Obligation Bonds	<u>3,079,054</u>	<u>3,079,054</u>
	<u>\$ 40,933,818</u>	<u>\$ 43,711,809</u>

7 - RELATED PARTY TRANSACTIONS

The SRF is one fund of many within the State of Connecticut financial reporting structure and as a result, certain transactions including operating transfers, loans receivable and allocation of expenses among funds are under the direction of management.

Allocation of Expenditures

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2002 and 2001, the basic rates were 42.29% and 39.26%, respectively, of the SRF wages and the amounts charged aggregated \$321,642 and \$221,508, respectively.

Investments

The SRF holds State General Obligation Bonds as presented in Note 6.

8 - BONDS PAYABLE

Revenue Bonds

The State of Connecticut issued Clean Water Fund, Revenue Bonds 2001 series, dated May 24, 2001. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities and public water systems, for use in connection with the financing or refinancing of waste water and drinking water treatment projects. These bonds are payable solely from funds pledged pursuant to the Resolution. In accordance with the State of Connecticut ("State") Clean Water Fund Revenue Bonds, 2001 Series Plan of Finance, the State allocated the proceeds between the SRF and the State of Connecticut Clean Water Fund - State Revolving Fund ("Clean Water Fund")

(collectively, "The Obligated Group") with \$29,614,747 allocated to the SRF and \$70,385,253 allocated to the Clean Water Fund. The Clean Water Fund (an enterprise fund of the State of Connecticut) was also established pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, and provides assistance to municipalities and public water systems of Connecticut for the planning, design and construction of water quality projects. Debt service on the 2001 series bonds is to be paid from pledged receipts, earnings on investments held in the debt service reserve funds and maturing principal and interest on investments held in the interest subsidy funds. "Pledged receipts" means payments of principal and interest on municipal obligations, including both timely and delinquent payments with late charges, if any, and includes any fees and charges, fines and penalties collected or held by the State. Pledged receipts include the repayments of loans made by the Obligated Group, including all loans previously funded as well as future loans. Although amounts attributable to the Obligated Group will be tracked separately for federal reporting purposes, all pledged receipts will secure all bonds of the Clean Water Fund Revenue Bond Program. The State Act and the Resolution permit the pledging of assets of both the SRF and the Clean Water Fund SRF to secure these revenue bonds.

The SRF's revenue bonds payable are serial bonds, of which \$29,614,747 was outstanding as of June 30, 2002 and 2001. The serial bonds mature on October 1, 2022 with interest rates ranging from 4% to 5.5%.

Bond Maturities

Principal payments begin October 1, 2003. Requirements at June 30, 2002 to retire the SRF's revenue bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ -	\$ 1,398,371
2004	1,199,397	1,374,383
2005	1,226,051	1,325,874
2006	1,252,704	1,276,299
2007	1,280,838	1,225,628
2008-2012	6,821,757	5,323,174
2013-2017	7,588,779	3,681,487
2018-2022	8,444,645	1,577,854
2023	1,800,576	45,913
	<u>\$ 29,614,747</u>	<u>\$ 17,228,983</u>

9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2002 and 2001.

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2000	\$ 1,584,597	\$ -	\$ 1,584,597
Change in fund net assets	<u>16,785,042</u>	<u>14,232,670</u>	<u>31,017,712</u>
Balance at June 30, 2001	18,369,639	14,232,670	32,602,309
Change in fund net assets	<u>(626,958)</u>	<u>6,519,769</u>	<u>5,892,811</u>
Balance at June 30, 2002	<u><u>\$ 17,742,681</u></u>	<u><u>\$ 20,752,439</u></u>	<u><u>\$ 38,495,120</u></u>

10 - OPERATING TRANSFERS

Operating transfers consist of the following for the years ended June 30:

	<u>2002</u>	<u>2001</u>
State operating transfers	\$ 556,892	\$ 2,892,949
Transfers related to bond offerings	<u>-</u>	<u>15,792,211</u>
	<u><u>\$ 556,892</u></u>	<u><u>\$ 18,685,160</u></u>

11 - LOAN FUNDING COMMITMENTS

The operating agreements for the federal capitalization grants require that the SRF enter into binding commitments with local government units within one year of the receipt of each federal grant payment to provide assistance in an amount equal to 120% (including 20% state matching grants) of each federal capitalization grant.

The following represents a summary of loan commitments at June 30:

	<u>2002</u>	<u>2001</u>
Total funds committed to public water systems	\$ 111,840,724	\$ 56,712,493
Loan amount outstanding to public water systems	<u>26,754,674</u>	<u>18,787,908</u>
Loan commitments outstanding	<u><u>\$ 85,086,050</u></u>	<u><u>\$ 37,924,585</u></u>

12 - RISK MANAGEMENT

The State of Connecticut is responsible for risk management of the SRF activities through the use of commercial and self-insurance.

APPENDIX C

Annual Information Statement of the
State of Connecticut Dated December 1, 2002
Modified February 28, 2003, and Supplemented May 7, 2003

Part II— May 7, 2003 Information Supplement to Annual Information Statement of the State of Connecticut

Part III—Annual Information Statement of the State of Connecticut, Dated December 1, 2002, Modified February 28, 2003

<i>Table of Contents</i>	III-2
Introduction.....	III-3
The State of Connecticut.....	III-4
Financial Procedures.....	III-5
State General Fund.....	III-12
State Debt.....	III-28
Other Funds, Debt and Liabilities	III-41
Pension and Retirement Systems	III-53
Litigation.....	III-57
 <i>Index to Appendices</i>	 III-60
Appendix III-A – Governmental Organization and Services	III-A-1
Appendix III-B -- State Economy	III-B-1
Appendix III-C -- June 30, 2002 General Purpose (GAAP-Based) Financial Statements	III-C-1
Appendix III-D – June 30, 1998 - June 30, 2002 Budgetary (Modified Cash Basis) General Fund Financial Statements	III-D-1
Appendix III-E – June 30, 2002 – June 30, 2003 Adopted Budgets, June 30, 2002 Actual Budget and June 30, 2003 Estimated Budget.....	III-E-1

The above materials have been filed by or on behalf of the State of Connecticut with the Municipal Securities Rulemaking Board and the Nationally Recognized Municipal Securities Information Repositories (“NRMSIR’s”) identified in **Appendix G** of this Official Statement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

SUMMARY OF CERTAIN OF THE PROVISIONS OF THE GENERAL BOND RESOLUTION

The General Bond Resolution (as used in this Appendix D, the "Resolution") contains various covenants and security provisions certain of which are summarized below. Various words or terms used in the following summary are defined in the Resolution and reference thereto is made for full understanding of their import. See also Appendix F for definitions of certain terms.

Resolution to Constitute Contract [Section 2.02]

The provisions of the Resolution shall constitute a contract among the State, the Trustee and the Holders from time to time of the Bonds, and the provisions, covenants and agreements to be performed on behalf of the State shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds.

Application of Bond Proceeds [Section 4.01]

All proceeds of Bonds of any Series, upon their issuance, sale and delivery, shall be deposited in certain funds and accounts in accordance with the provisions of the Supplemental Resolution authorizing the issuance of the Bonds of such Series and shall be applied solely for the purposes for which amounts in such funds and accounts may be applied in accordance with the provisions of the Resolution.

Available Moneys [Section 5.01]

Pursuant to the Resolution, the State is obligated to pay from Available Moneys in the Revolving Fund in accordance with the terms and provisions of the Resolution, the principal of, Redemption Price of, interest on, and Sinking Fund Installments for, the Bonds and any Other Financial Assistance and any Related Program Obligations, subject only to the provisions of the Resolution permitting or further limiting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Pledge [Section 5.02]

With respect to all Bonds and any Other Financial Assistance and any Related Program Obligations, the Pledged Fund, the Bond Proceeds Fund, the Debt Service Fund and the Support Fund, the investments thereof and the proceeds of such investments, if any, are pledged for the payment thereof in accordance with the terms and provisions of the Resolution, subject only to the provisions of the Resolution permitting or further limiting the application thereof for the purposes and on the terms and conditions set forth in the Resolution. In addition, the Pledged Borrower Obligations, if any, shall be pledged to the extent provided in one or more Supplemental Resolutions. This pledge shall be valid and binding from and after the date of adoption of the Resolution, and the Pledged Borrower Obligations, if any, and all other moneys and securities in the funds and accounts established by the Resolution and pledged thereby shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and such lien shall be a just lien and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice thereof.

Revolving Fund [Section 5.03]

(A) The State shall maintain the Revolving Fund in accordance with the requirements of the Acts. The State may apply Available Moneys for any purposes allowed under the Acts, including, without limitation, to make loans to Borrowers and payment of debt service on Outstanding Obligations.

(B) Not later than one Business Day prior to any Payment Date, the State shall transfer to the Debt Service Fund any amounts necessary, together with any amounts on deposit therein, sufficient to pay the amounts coming due on such Payment Date consisting of: (1) principal of, redemption, if any, and interest on Bonds and (2) any other amounts payable from the Debt Service Fund related to Other Financial Assistance and Related Program Obligations.

Establishment of Funds and Accounts [Section 5.04]

The State by the Resolution has established the following Funds and Accounts:

- (1) Pledged Fund, which shall be held within the Revolving Fund;

- (2) Bond Proceeds Fund, which shall be held within the Revolving Fund;
- (3) Debt Service Fund, which shall be held within the Revolving Fund;
- (4) Support Fund, which shall be held within the Revolving Fund; and
- (5) Rebate Fund

Pledged Fund [Section 5.05]

If so provided in a Supplemental Resolution, the Trustee shall establish within the Pledged Fund a Series Pledged Account, and such Supplemental Resolution shall identify the Borrower Obligations which shall constitute the “Pledged Borrower Obligations” with respect to such Supplemental Resolution, and shall provide for the application of the Pledged Receipts and any Earnings thereon.

At the end of each Fiscal Year the State shall determine the amount of Earnings on the Pledged Fund required to be rebated to the United States for such Fiscal Year and shall direct the Trustee in a certificate of an Authorized Officer to deposit such amounts to the Rebate Fund from any available funds on deposit in the Pledged Fund.

Bond Proceeds Fund [Section 5.06]

There shall be deposited into the Bond Proceeds Fund the amount of the proceeds of the Bonds of any Series required to be deposited by the Supplemental Resolution authorizing such Series. Moneys in the Bond Proceeds Fund shall be expended only for the Program, subject to the provisions and restrictions of the Resolution. Except as may be limited by the purposes for which a Series of Bonds is issued as set forth in a Supplemental Resolution authorizing such Series of Bonds, amounts in the Bond Proceeds Fund shall be expended and applied by the State from time to time to payments: (1) for financing Loans to Borrowers under the Program; (2) for paying costs related to Other Financial Assistance; (3) to the extent that other moneys are not available, payments due to be made from the Debt Service Fund, when due, and thereafter; and (4) to redeem Bonds, at the direction of the State.

Debt Service Fund [Section 5.07]

The Trustee or the State, as applicable, shall promptly deposit, or cause to be deposited, the following amounts in the Debt Service Fund (unless provided otherwise in the applicable Supplemental Resolution): (1) any accrued interest received as proceeds of a Series of Bonds; (2) any capitalized interest received by the State with respect to a Series of Bonds; (3) any amounts required to be transferred to the Debt Service Fund, from the Support Fund, as set forth in the applicable Supplemental Resolution; (4) all amounts required to be transferred to the Debt Service Fund from the Bond Proceeds Fund; and (5) all amounts required to be transferred to the Debt Service Fund from the Revolving Fund.

The Trustee shall pay out of the Debt Service Fund to the Paying Agents for any of such Bonds, (i) on each Payment Date, the amount required for the payment of principal of, Sinking Installments for and interest on such Bonds due on such Payment Date, (ii) on each Payment Date, the amount required for the payment of amounts due on Other Financial Assistance and Related Program Obligations, and (iii) on any redemption date, the amount required for the payment of accrued interest on such Bonds redeemed unless the payment of such accrued interest shall be otherwise provided for, and such amounts shall be applied by the Paying Agents to such payment.

The amount, if any, accumulated in the Debt Service Fund for each sinking fund redemption may be applied, at the direction of the State, (together with amounts accumulated for the interest with respect to interest on the Bonds subject to sinking fund redemption) by the Trustee prior to the forty-fifth (45th) day preceding the sinking fund redemption date to:

(1) the purchase of Bonds of the Series and maturity as such Bonds subject to such sinking fund redemption, at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds pursuant to such sinking fund redemption plus unpaid interest accrued to the date of purchase, such purchases to be made by the Trustee as directed by the State in writing by an Authorized Officer, or

(2) the redemption (pursuant to Article VI of the Resolution), of such Bonds if then redeemable by their terms, at the Redemption Price referred to in paragraph (1) above.

Upon any purchase or redemption of Bonds of any Series and maturity, under this subsection, for which Sinking Fund Installments shall have been established, an amount equal to the applicable Redemption Prices thereof shall be credited toward any one or more of such Sinking Fund Installments, as directed by the State in an Authorized Officer's certificate, or, failing such direction by November 1, of each year, toward such Sinking Fund Installments in inverse order of their due dates. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of the calculation of principal due on a future date.

As soon as practicable after the forty-fifth (45th) day preceding the date of any such sinking fund redemption, the Trustee shall proceed (pursuant to Article VI of the Resolution) to call for redemption on such redemption date Bonds of the Series and maturity for which such sinking fund redemption was established in such amount as shall be necessary to complete the retirement of the principal amount, specified for such sinking fund redemption. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service Fund sufficient to pay the applicable Redemption Price thereof and to pay interest thereon to the redemption date. The Trustee shall pay out of the Debt Service Fund to the appropriate Paying Agents, on each such redemption date, the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

Any interest earned or gains realized by the investments of moneys held in the Debt Service Fund shall be retained therein and applied on the next Payment Date to payments due.

Support Fund [Section 5.08]

(A) The Support Fund, and the accounts therein, shall be funded in the amounts and in the manner set forth in a Supplemental Resolution, which amounts may be amended from time to time by direction of an Authorized Officer by the filing of a written certificate with the Trustee reflecting such amendment.

(B) Moneys in the Support Fund shall be transferred to the Debt Service Fund and applied to pay the interest, principal and Sinking Fund Installments and Redemption Price due on Bonds in accordance with the schedule set forth in the applicable Supplemental Resolution, which schedule may be amended from time to time by direction of an Authorized Officer by the filing of a written certificate with the Trustee reflecting such amendment.

Rebate Fund [Section 5.09]

(A) The State shall transfer to the Trustee for deposit in the Rebate Fund the amount calculated by the State to be owing to the United States pursuant to the Tax Regulatory Agreement.

(B) The Trustee, upon receipt of written instructions from an Authorized Officer, shall pay to the United States out of amounts in the Rebate Fund such amounts as are required pursuant to the Tax Regulatory Agreement.

(C) Any moneys remaining in the Rebate Fund after payment to the United States shall be transferred to the Revolving Fund.

Privilege of Redemption and Redemption Price [Section 6.01]

Bonds subject to redemption prior to maturity pursuant to the provisions of a Supplemental Resolution shall be redeemable, upon notice as provided in the Resolution, at such times, at such Redemption Prices and upon such terms (in addition to and consistent with the terms contained in the Resolution) as may be specified in the Supplemental Resolution authorizing such Series.

Redemption at the Election or Direction of the State [Section 6.02]

In the case of any redemption of Bonds, the State shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series, maturities and principal amounts thereof to be redeemed shall be determined by the State in its sole discretion, subject to any limitations with respect thereto contained in the State Act or the Resolution and any Supplemental Resolution) and of the moneys to be applied to the payment of the Redemption Price. Such notice shall be given at least sixty (60) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given by the Trustee as provided in the Resolution, the Trustee, if it holds the moneys to be applied to the payment of the Redemption Price, or otherwise the State, shall, at least one day prior to the redemption date, pay to the Trustee and the appropriate Paying Agent or Paying Agents an amount in cash which, in addition to other moneys, if any,

available therefor held by the Trustee and such Paying Agent or Paying Agents, will be sufficient to pay, on the redemption date at the Redemption Price thereof, together with interest accrued to the redemption date, all of the Bonds to be redeemed. The State shall promptly notify the Trustee in writing of all such payments made by the State to a Paying Agent.

Conditional Redemption [Section 6.05]

If, at the time of mailing of the notice of any optional redemption, there has not been deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, the notice may state that it is conditional on the deposit of the redemption moneys with the escrow agent not later than the redemption date. Such notice will be of no effect and the redemption price for such optional redemption will not be due and payable unless such moneys are so deposited.

Payment of Bonds [Section 9.01]

The State shall apply any Available Moneys to the payment, when due, of the principal or Redemption Price, if any, Sinking Fund Installment of every Bond and the interest thereon and payments due under any Other Financial Assistance or any Related Program Obligations. The State shall duly and punctually pay or cause to be paid the principal or Redemption Price, if any, or Sinking Fund Installment of every Bond and the interest thereon, but only from Available Moneys and Pledged Borrower Obligations, if any, and other revenues or receipts, funds or moneys pledged therefor as provided in the State Act and the Resolution, at the dates and places and in the manner provided in the Bonds according to the true intent and meaning thereof.

Power to Issue Bonds and Make Pledges [Section 9.03]

The State is duly authorized pursuant to law to authorize and issue the Bonds, to adopt the Resolution, to contract to apply Available Moneys, to pledge the Pledged Borrower Obligations, if any, and to pledge other moneys, securities, funds and property purported to be pledged by the Resolution, all in the manner and to the extent provided in the Resolution. The Pledged Borrower Obligations, if any, and other moneys, securities, funds and property so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all action on the part of the State to that end has been duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the State in accordance with their terms and the terms of the Resolution. The State shall at all times, to the extent permitted by law, defend, preserve and protect the obligation to apply Available Moneys, to pledge the Pledged Borrower Obligations, if any, and to pledge other moneys, securities, funds and property pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

Accounts and Reports [Section 9.05]

(A) The State shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Pledged Borrower Obligations, Pledged Receipts and all funds and accounts established by the Resolution.

(B) The State shall annually, on or before the last day of December in each year, file with the Trustee a copy of an annual report for the preceding Fiscal Year with respect to the Program, accompanied by an Accountant's Certificate, setting forth in complete and reasonable detail: (1) its operations and accomplishments; (2) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the State for its operating and capital outlay purposes; (3) its assets and liabilities at the end of such Fiscal Year, including a schedule of its Borrower Obligations, Pledged Borrower Obligations, Pledged Receipts, a list of Borrowers in default status and the status of reserve, special or other funds and the funds and accounts established by the Resolution; and (4) a schedule of its Bonds Outstanding and other obligations outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed and issued during such Fiscal Year.

Pledge of Pledged Borrower Obligations [Section 9.08]

To secure the payment of the principal or Redemption Price of, interest on and Sinking Fund Installments for one or more Series of Bonds or the payments due under any Other Financial Assistance or any Related Program Obligations, the State may pledge and assign to the Trustee for the benefit of the Holders of such Bonds, pursuant to a Supplemental Resolution, certain Borrower Obligations, which shall then constitute Pledged Borrower Obligations and payments due thereunder shall constitute Pledged Receipts, and such other security as may be pledged pursuant to any Supplemental Resolution, subject only to the provisions of this Resolution.

Federal Tax Covenants [Section 9.09]

The State shall 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 Bonds shall, for the purposes of Federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

At no time shall any of the proceeds of the Bonds or other funds of the State be used, directly or indirectly, to acquire any security, asset or obligation or other investment-type property the acquisition or holding of which would cause any Bond or Note to be an “arbitrage bond” for the purposes of Section 148 of the Code, and in furtherance thereof, to comply with the Tax Regulatory Agreement. If and to the extent required by the Code, the State shall periodically, at such times as may be required to comply with the Code, pay the amount, if any, required by the Code to be rebated or paid as a related penalty.

The covenants set forth in this section shall survive payment or defeasance of the Bonds.

Notwithstanding the foregoing, the State reserves the right to elect to issue Bonds the interest on which is not exempt from Federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants contained in this section shall not apply to such Bonds.

State Tax Covenant [Section 9.10]

The State covenants with the purchasers and all subsequent Holders and transferees of any Bonds, in consideration of the acceptance and payment for the Bonds, that the Bonds shall be at all times free from taxes levied by any Borrower or political subdivision or special district having taxing powers of the State and the principal of and interest on any Bonds issued under the State Act, their transfer and the income therefrom, including revenues deemed from the sale thereof, shall at all times be free from taxation of every kind by the State or under its authority except for estate or succession taxes.*

Agreement of the State [Section 9.11]

The State pledges to and agrees with the Bondholders and any holders of Other Financial Assistance or Related Program Obligations that the State will not limit or alter the rights vested by the State Act in the State to fulfill the terms of any agreement made with Bondholders or in any way impair the rights and remedies of the Bondholders until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders, are fully met and discharged, provided nothing contained in the Resolution shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the Bondholders.

Payment of Bonds [Section 9.12]

In order to provide sufficient moneys with which to pay the principal and interest when due and payable on its Bonds and any payments on Other Financial Assistance or Related Program Obligations when due, the State shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Acts as interpreted in regulations adopted by the United States Environmental Protection Agency and the State Department of Environmental Protection and in effect, or other applicable regulations, and with the provisions of the Resolution, use and apply the proceeds of the Bonds to finance Loans and to provide Other Financial Assistance pursuant to the Acts and the Resolution, to generate Available Moneys and Pledged Borrower Obligations at least equal to the sum of the principal and interest on the Bonds and the payments due on any Other Financial Assistance or Related Program Obligations, and to take all steps, actions and proceedings for the enforcement of all terms, covenants and conditions of the Loans.

Bond Anticipation Notes [Section 2.07]

Whenever the State shall authorize the issuance of a Series of Bonds, the State Treasurer shall be authorized to issue Notes (and renewals thereof) in anticipation of such Series. The principal of and interest on such Notes and renewals thereof shall be payable solely from the proceeds of such Notes or renewals thereof or from the proceeds of the sale of the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such Notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Resolution. Unless otherwise provided in a Supplemental Resolution, Notes shall not be secured by the Support Fund or any fund or account established under the Resolution.

* Under statutory and judicial authority, this covenant does not grant an exemption from the Connecticut corporation business tax for interest on the Bonds. See “TAX EXEMPTION.”

Ability to Issue Other Obligations [Section 2.08]

The State expressly reserves the right to adopt one or more other general bond resolutions and reserves the right to issue notes and any other obligations so long as the same do not have an equal or prior charge or lien on the Pledged Borrower Obligations, if any or on any Funds pledged under the Resolution.

Other Financial Assistance [Section 2.09]

In connection with the issuance of any Series of Bonds under the Resolution, the State may provide or cause to be provided, Other Financial Assistance with respect to payment of obligations due under the Resolution, all as shall be provided for in the applicable Supplemental Resolution. The repayment of any Other Financial Assistance may be paid from the Debt Service Fund and shall be paid on a parity or subordinate basis with the payment of the Bonds, all as set forth in the applicable Supplemental Resolution.

Related Program Obligations [Section 2.10]

In connection with the furtherance of the Program, the State has entered into and may, in the future, enter into Related Program Obligations. The repayment of any Related Program Obligations may be paid from the Debt Service Fund and shall be paid on a parity or subordinate basis with the payment of the Bonds, all as set forth in the applicable Supplemental Resolution.

Events of Default [Section 12.01]

Each of the following events is declared and shall constitute an “event of default”:

- (a) If the State shall default in the payment of the principal or Redemption Price or Sinking Fund Installment for any Bond when and as the same shall become due, whether at maturity or upon call for redemption;
- (b) If the State shall default in the payment of any installment of interest on any Bonds; or
- (c) If the State shall fail or refuse to comply with the provisions of the State Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, any Supplemental Resolution, or in the Bonds contained, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the Holders of not less than 25% in principal amount of Bonds Outstanding.

Remedies [Section 12.02]

Upon the happening and continuance of any event of default specified in paragraphs (a) or b) above, the Trustee shall proceed, or upon the happening and continuance of any event of default specified in paragraph (c) above, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in principal amount of the Outstanding Bonds, shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (a) by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the State to receive and collect Pledged Receipts, and other properties and to require the State to carry out any other covenant or agreement with Bondholders and to perform its duties under the State Act;
- (b) by bringing suit upon the Bonds;
- (c) by action or suit in equity, require the State to account as if it were the trustee of an express trust for the Holders of the Bonds; or
- (d) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds.

No Holder of any Bond shall have any right to institute any suit unless the Holders of 25% in principal amount of the Bonds then Outstanding shall have made written request to, and offered to indemnify, the Trustee and the Trustee shall not have complied with such request within a reasonable time. [Section 12.06]

Priority of Payments After Default [Section 12.03]

In the event that the funds held by the Trustee and Paying Agents shall be insufficient for the payment of interest and principal or Redemption Price then due on the Bonds, Other Financial Assistance and Related Program Obligations, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption, Other Financial Assistance or Related Program Obligations) and any other moneys received or collected by the Trustee acting pursuant to the State Act and the Resolution, after making provisions for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under this Resolution, shall be applied as follows:

Unless the principal of all of the Bonds shall have become or have been declared due and payable, then with respect to all Outstanding Bonds and Other Financial Assistance and Related Program Obligations payable on a parity basis with the Outstanding Bonds,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds, Other Financial Assistance and Related Program Obligations, which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds, Other Financial Assistance and Related Program Obligations, due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, Other Financial Assistance and Related Program Obligations, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond, Other Financial Assistance or Related Program Obligations over any other Bond, Other Financial Assistance or Related Program Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds, Other Financial Assistance or Related Program Obligations.

Compensation of Trustee [Section 8.05]

The Trustee shall be entitled to reasonable fees and reimbursement by the State for all expenses, charges, counsel fees and other disbursements reasonably incurred by it in the performance of its duties and powers under the Resolution. Each Paying Agent shall also be entitled to reasonable fees and to reimbursement by the State for all expenses and charges reasonably incurred by it in the performance of its duties under the Resolution.

Resignation of Trustee [Section 8.07]

The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than 60 days' written notice to the State, specifying the date when such resignation shall take effect. Such resignation shall take effect immediately upon the appointment of a successor Trustee pursuant to the Resolution.

Removal of Trustee [Section 8.08]

The Trustee shall be removed by the State if at any time such removal is so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the State, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the State. The State may remove the Trustee with or without cause, at any time. Removal of the Trustee shall take effect upon the appointment of a successor Trustee in accordance with the Resolution.

Defeasance [Section 14.01]

If the State shall pay or cause to be paid to the Holders of all Bonds then Outstanding, the principal or Redemption Price, if any, and interest to become due thereon, and the payments on Other Financial Assistance or Related Program Obligations, all at the times and in the manner stipulated therein and in the Resolution, then the covenants, agreements and other obligations of the State to the Bondholders shall be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys or securities shall have been set aside and shall be held in trust by Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the above paragraph. All Outstanding Bonds of any Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect so expressed if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the State shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption on such Bonds on said date as provided in the Resolution and (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be. Neither Defeasance Securities or moneys so deposited with the Trustee nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on such Bonds

Modification and Amendment Without Consent [Section 10.01]

The State may adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution will become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer:

- (1) To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to specify and determine such matters and things referred to in Article II of the Resolution and to prescribe the terms and conditions pursuant to which such Bonds may be issued paid or redeemed;
- (2) To add additional covenants and agreements of the State for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the State contained in the Resolution;
- (3) To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the State which are not contrary to or inconsistent with the limitation and restrictions thereon theretofore in effect;
- (4) To surrender any right, power or privilege reserved to or conferred upon the State by the terms of the Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the State contained in the Resolution;
- (5) To confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Resolution of the Pledged Borrower Obligations and Pledged Receipts or of any other moneys, securities or funds;
- (6) To permit the issuance of Bonds in bearer form if authorized under the Resolution, including such provisions relating to payment, notices, selection of Bonds for redemption, and similar matters relating to bearer bonds in general;
- (7) To establish such additional funds and/or accounts or consolidate one or more funds and/or accounts, all as may be deemed necessary and proper to further the purposes of the Clean Water Fund program;
- (8) To modify or amend any of the provisions of the Resolution to conform with any changes required or permitted by the Acts, provided that such modifications or amendments do not materially adversely affect the Holders of Outstanding Bonds;

(9) To modify any of the provisions of the Resolution to or any previously adopted Supplemental Resolution in any other respects, provided that such modifications will not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Resolution cease to be Outstanding, and all Bonds issued under such resolutions must contain a specific reference to the modifications contained in such subsequent resolutions; or

(10) To cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect.

Amendments [Section 11.01]

Other than modifications or amendments permitted as described immediately above, any modification or amendment of the Resolution and of the rights and obligations of the State and of the Holders of the Bonds, in any particular, may be made by a Supplemental Resolution, with the written consent of:

(1) the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, or

(2) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, the Holders of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given;

provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under Section 1101.

No such modification or amendment may permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or Sinking Fund Installment therefor, or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or may reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

The terms and provisions of the Resolution and the rights and obligations of the State and of the Holders of the Bonds may be modified or amended in any respect upon the adoption and filing with the Trustee by the State of a copy of a Supplemental Resolution and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in the Resolution, except that no notice to Bondholders either by mailing or publication will be required; provided, however, that no such modification or amendment will change or modify any of the rights or obligations of the Trustee or Paying Agents without the filing with the Trustee of his written assent thereto in addition to the consent of Bondholders.

Fixed Rate Conversion at Option of State [Supplemental Resolution Section 2.07]

At the option of the State, all of a Series of ARS Bonds may be converted to bear interest at the Fixed Interest Rate as provided in the Supplemental Resolution. Any such conversion shall be made as follows:

(A) The Fixed Rate Conversion Date shall be the Interest Payment Date following the final Auction Period.

(B) Not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to subparagraph (c) below, the State shall give written notice of the conversion to the Trustee, the Auction Agent and the Broker-Dealer, setting forth the Proposed Fixed Rate Conversion Date. Together with such notice, the State shall file with the Trustee an Opinion of Bond Counsel to the effect that the conversion of the Series of ARS Bonds to the Fixed Interest Rate, including the assignment of new Maturity Dates and Amortization Requirements pursuant to subsection (G) below, will not adversely affect the validity of the 2003 Series C Bonds or any exclusion from gross income for federal income tax purposes to which interest on the 2003 Series C Bonds would otherwise be entitled. No conversion to the Fixed Interest Rate shall occur unless the State shall also file with the Trustee an Opinion of Bond Counsel to the same effect dated the Fixed Rate Conversion Date.

(C) The Trustee shall mail a notice of the proposed conversion to the Owners of all ARS Bonds to be converted not less than twenty (20) days prior to the Proposed Fixed Rate Conversion Date.

(D) Not later than 12:00 noon, New York City time, on the Business Day prior to the Fixed Rate Conversion Date, the Remarketing Agent shall determine the Fixed Interest Rate for the ARS Bonds to be converted.

(E) Such determination shall be conclusive and binding upon the State, the Paying Agent/Trustee, the Broker-Dealer, the Auction Agent and the Owners of the 2003 Series C Bonds to which such rate will be applicable. Not later than 5:00 p.m., New York City time, on the date of determination of the Fixed Interest Rate, the Remarketing Agent shall notify the Trustee, the Bank and the State of such rate by telephone.

(F) The State may revoke its election to effect a conversion of the interest rate on the 2003 Series C Bonds from ARS Bonds to 2003 Series C Bonds bearing a Fixed Interest Rate by giving written notice of such revocation to the Paying Agent/Trustee, the Auction Agent and the Broker-Dealer at any time prior to the determination of the Fixed Interest Rate by the Remarketing Agent.

(G) Prior to the conversion of any of the 2003 Series C Bonds to a Fixed Interest Rate pursuant to the Supplemental Resolution the Remarketing Agent shall deliver to the Trustee and the State a certificate which includes a schedule specifying the principal amount of 2003 Series C Bonds to be converted to a Fixed Interest Rate which will mature on October 1 of the years specified in such schedule and the interest rate payable on the 2003 Series C Bonds to be converted to a Fixed Interest Rate of each such Maturity Date and a schedule specifying the principal amount of 2003 Series C Bonds to be converted to a Fixed Interest Rate maturing on October 1 of the years specified in such schedule or to be called for mandatory redemption pursuant to the Amortization Requirement on October 1 of the Bond Years specified in such schedule. In determining the Maturity Dates, Amortization Requirements and interest rates, the Remarketing Agent shall use the following guidelines:

(i) The Remarketing Agent shall determine the schedule of principal payments on the 2003 Series C Bonds to be converted to a Fixed Interest Rate to achieve annual level debt service with respect to the converted 2003 Series C Bonds. In making such schedule, the Remarketing Agent shall, to the extent necessary, alternately round down and up to the nearest \$5,000 the amount allocable to the 2003 Series C Bonds which are being converted;

(ii) The Remarketing Agent shall allocate the 2003 Series C Bonds to be converted to a Fixed Interest Rate between serial bonds and term bonds in such manner as shall produce the lowest aggregate interest payable with respect to such 2003 Series C Bonds; and

(iii) The Remarketing Agent shall set the interest rate on each 2003 Series C Bonds to be converted to a Fixed Interest Rate of a particular Maturity Date at the lowest interest rate that will enable such 2003 Series C Bonds, upon conversion, to be remarketed at par (plus any accrued interest) taking into account the Maturity Date of such 2003 Series C Bonds and Amortization Requirements with respect to the 2003 Series C Bonds of such Maturity Date.

The foregoing notwithstanding, the State may agree to another method for providing for payment of principal of the 2003 Series C Bonds after the Fixed Rate Conversion Date if (i) the Remarketing Agent deems the utilization of such other method necessary in order to remarket the 2003 Series C Bonds at a price of par, (ii) there is delivered to the Trustee an Opinion of Bond Counsel to the effect that utilization of such other method will not adversely affect the validity of any 2003 Series C Bonds or any exclusion from federal income taxation to which the interest on the 2003 Series C Bonds would otherwise be entitled, and (iii) the State consents in writing thereto.

(H) Mandatory redemption of the 2003 Series C Bonds converted to the Fixed Interest Rate by operation of the Sinking Fund Account shall be without premium. The 2003 Series C Bonds converted to the Fixed Interest Rate shall be redeemed by the Trustee and a Written Determination of the State, if any, provided, however, no such notice from or direction by the State is required.

(I) On the conversion date applicable to the 2003 Series C Bonds to be converted, the 2003 Series C Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the 2003 Series C Bonds bearing interest at the ARS Rate so tendered is payable solely from the proceeds of the remarketing of such 2003 Series C Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable 2003 Series C Bonds bearing interest at the ARS Rate on a mandatory tender date, the 2003 Series C Bonds bearing interest at the ARS Rate will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum ARS Rate.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF EACH PROJECT LOAN AND PROJECT GRANT AGREEMENT

The Loan Agreement

Each Project Loan and Project Grant Agreement (hereinafter a “Loan Agreement”) is an entirely separate agreement but contains substantially the same terms and provisions as the other Loan Agreements. The following is a summary of certain terms of each Loan Agreement, and is qualified in its entirety by reference to the detailed provisions of each Loan Agreement. In the following summary of each Loan Agreement, references to “Municipality” and “Recipient” have the same meaning as the term “Borrower” under the Resolution and in the Official Statement. References to the Municipality or Recipient, as the case may be, and the Project refer to the Municipality or Recipient, as the case may be, and the Project relating to such Loan Agreement.

Loan Provisions

Loan Clauses. Subject to the conditions and in accordance with the terms of the Loan Agreement the State agrees to make the Project Loan and the Municipality or Recipient, as the case may be, agrees to accept the Project Loan from the State.

To the extent permitted by law the Municipality or Recipient, as the case may be, agrees to establish a dedicated source for repayment of the Project Loan satisfactory to the State and not inconsistent with federal law. The Municipality or Recipient, as the case may be, shall issue a note in satisfaction of the above-stated requirement.

[Section 4.1]

The Municipality or Recipient, as the case may be, will issue and deliver one or more Project Loan Obligations to evidence its obligation to repay the Project Loan. The Project Loan Obligation shall bear interest at the rate of 2% per annum and shall be payable as to principal and interest (a), in equal monthly installments commencing one month after the Scheduled Completion Date, or (b) in a single annual installment, representing the first year’s principal and interest not later than one year from the Scheduled Completion Date and monthly installments thereafter and shall mature no later than twenty years from the Scheduled Completion Date.

[Section 4.3 and 4.5]

Prepayment by Municipality or Recipient, as the case may be. The Municipality or Recipient, as the case may be, may at any time prepay any Interim Funding Obligation or Project Loan Obligation in whole or in part together with accrued interest to the date of such prepayment on the amount paid. Prepayments of Interim Funding Obligations shall be applied against Project Loan Advances that have been outstanding the longest. Prepayments of Project Loan Obligations shall be applied to the principal of the Project Loan Obligation in inverse order of maturity of the installments of principal due thereon or in such other order as may be acceptable to the Municipality or Recipient, as the case may be, and the State. Prepayments of Project Loan Obligations shall be in whole multiples of \$5,000 only, provided that any installment less than \$5,000 shall be paid in such amount.

[Section 4.6]

Disbursement of Loan Proceeds. Prior to any disbursements, the Municipality or Recipient, as the case may be, must establish an Account with the State Tax Exempt Bond Fund. The Account is the sole instrument by which the Municipality or Recipient, as the case may be, will receive its Project Grant and Project Loan proceeds from the State. Proceeds of the Project Loan and Project Grant shall be disbursed as an Advance and wired by the State to the Account upon the written request thereof from the Municipality or Recipient, as the case may be, to the State accompanied by evidence that such amounts have been incurred by or on behalf of the Municipality or Recipient, as the case may be, for the payment of Project Costs. Each such request from the Municipality or Recipient, as the case may be, shall indicate (a) the total amount of the costs incurred for the Project which have not been included in any prior Advance request, (b) the total amount of such costs which are Eligible Project Costs, (c) the total amount of such costs which are Grant Eligible Costs, (d) the amount of the Project Grant Advance, and (e) the amount of the Project Loan Advance.

The Municipality or Recipient, as the case may be, has covenanted to use the proceeds of the Project Loan solely to pay or reimburse itself for paying Project Costs. The Municipality or Recipient, as the case may be, shall promptly disburse, as applicable, the proceeds of such Project Loan after it receives notice that such proceeds have been deposited in its Account of the Tax Exempt Bond Fund.

[Sections 4.4 and 7.5]

Reimbursement of the State. If any Audit required by the Loan Agreement reveals that the actual Eligible Project Costs are less than the amount specified in such Loan Agreement, the Municipality or Recipient, as the case may be, shall, as soon as practicable, but not less than 90 days after the State notifies such Municipality or Recipient, as the case may be, in writing of the

results of the Audit, repay the difference between the Project Loan received and the Project Loan it would have received if the Audited Eligible Project Costs figure had been used to calculate the Project Loan.

[Section 4.5]

Remedies. If an Event of Default, as defined in the Loan Agreement, shall occur and be continuing, then the State may declare by notice to the Municipality or Recipient, as the case may be, that the principal of and interest accrued on any outstanding Interim Funding Obligation and Project Loan Obligation is immediately due and payable, whereupon the same shall be due and payable immediately, without further notice or demand of any kind.

[Section 9.21]

The Project

Construction and Maintenance of the Project. The Municipality or Recipient, as the case may be, will undertake and complete the Project in accordance with the final plans and specifications developed and approved by the Commissioner of the State Department of Environmental Protection in compliance with the schedule established by the Commissioner. The Municipality or Recipient, as the case may be, will operate and maintain the Project properly after completion of construction, will own such Project and will comply with all existing statutes, rules and regulations applicable to the operation of the Project for the design life of the Project.

[Sections 7.1 and 7.3]

Compliance with Law

The Municipality or Recipient, as the case may be, shall at all times comply with all applicable Federal and State laws and regulations pertaining to the Project.

[Section 6.8]

Tax Compliance

The Municipality or Recipient, as the case may be, agrees and covenants that it shall at all times do and perform all acts and things reasonably requested by the State to ensure that interest paid on any Bonds issued by the State, as defined in the Loan Agreement, shall for purposes of Federal income taxation be excludable from the gross income of the recipients thereof under the Internal Revenue Code of 1986, as amended.

[Section 7.7]

Continuing Disclosure; Official Statement

The Municipality or Recipient, as the case may be, shall provide or cause to be provided to the State and/or directly to information repositories such annual financial information, operating data regarding the Project, audited financial statements and any other financial information as may be required by the State, in its sole judgment, to comply with Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission in connection with issuance of Bonds. The obligation of the Municipality or Recipient, as the case may be, shall include the execution of a Continuing Disclosure Agreement and/or other certifications related to the Loan Agreement, in each case when requested by the State based on applicable requirements and materiality standards under the Rule.

Further, the Municipality or Recipient, as the case may be, agrees to provide to the State such information with respect to the Municipality or Recipient, as the case may be, as may be requested by the State for inclusion in an appendix to the State's official statement or other offering documents relating to the offering and sale of Bonds.

[Section 7.11]

Modification and Amendments

The Loan Agreement shall not be modified or amended except upon a written instrument executed by the State and the Municipality or Recipient, as the case may be.

[Section 10.10]

APPENDIX F
DEFINITIONS OF CERTAIN TERMS

The following definitions apply to summaries of the Loan Agreements and the Resolution and to the terms not otherwise defined in the Official Statement.

Accountant's Certificate--shall mean a certificate signed by a certified public accountant of a firm of independent certified public accountants of recognized standing selected by the State.

Acts --shall mean, collectively, the Federal Act and the State Act.

Audit--shall mean an accounting and certification of all Eligible Project Costs incurred in accordance with the approved plans and specifications pursuant to a Loan Agreement.

Authorized Officer--shall mean the Treasurer, any Deputy Treasurer of the State and any other person designated to the Trustee by such persons as an Authorized Officer.

Bond Counsel--shall mean an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the State.

Bondholders or *Holder of Bonds* or *Holder*--(when used with reference to Bonds) or any terms of similar import, shall mean the Person who owns a Bond, provided that, the Person in whose name a Bond is registered in the Bond Register shall be regarded for all purposes as such owner.

Bond Proceeds Fund shall mean the Bond Proceeds Fund established pursuant to the Resolution.

Debt Service Fund--shall mean the Debt Service Fund established pursuant to the Resolution.

Defeasance Security-- shall mean

- (i) a Government Obligation, excluding obligations described in clause (iii) of this definition, but including the interest component of REFCORP bonds for which the separation of principal and interest is made by request of the Federal Reserve Bank of New York in book-entry form, that is not subject to redemption prior to maturity other than at the option of the holder thereof or that has been irrevocably called for redemption on a stated future date;
- (ii) if so provided by the State statutes, an Exempt Obligation (a) that is not subject to redemption prior to maturity other than at the option of the holder thereof or as to which irrevocable instructions have been given to the trustee of such Exempt Obligation by the obligor thereof to give due notice of redemption and to call such Exempt Obligation for redemption on the date or dates specified in such instructions and such Exempt Obligation is not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, (b) the timely payment of the principal or redemption price thereof and interest thereon is fully secured by a fund consisting only of cash or obligations described in clauses (i) and (ii) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Exempt Obligation on the maturity date thereof or the redemption date specified in the irrevocable instructions referred to in clause (a) above, and (c) that is rated in the highest rating category of a nationally recognized rating service;
- (iii) a bond, debenture, note, participation certificate or other obligation, is issued by federal land banks, the Federal National Mortgage Association, the federal home loan bank system, the federal intermediate credit banks, the Tennessee Valley Authority, public housing authorities and fully secured by payment of both principal and interest by a pledge of annual contributions under contracts with the United States of America, the United States Postal Service, banks for cooperatives and the Farmers Home Administration, or any other instrumentality of the United States of America that is permitted under the Act; provided, however, that such term shall not mean any interest in a unit investment trust or mutual fund; or
- (iv) if so provided by the State statutes, money markets secured by Government Obligations.

Earnings--shall mean all income or gain on moneys deposited in any of the Funds established by the Resolution, except for the Rebate Fund, including the amortization of premiums on each Interest Payment Date and the recognition of discounts at maturity.

Exempt Obligation--shall mean pre-refunded municipal obligations.

Federal Act--shall mean, collectively, (a) the federal Water Quality Act of 1987, which amended the federal Clean Water Act of 1972, together with any regulations promulgated thereunder, as amended from time to time, (b) the federal Safe Drinking Water Act Amendments of 1996, together with any regulations promulgated thereunder, as amended from time to time, and (c) any future federal acts that may establish programs funded with federal grants or other federal funding, the programs which may be cross-collateralized with the Program and which the State has determined to so cross-collateralize.

Fiduciary or Fiduciaries--shall mean the Trustee, and Paying Agent or any or all of them, as may be appropriate.

Fiscal Year--shall mean any twelve (12) consecutive calendar months commencing with the first day of July and ending the last day of the following June.

Government Obligation--shall mean (a) a direct obligation of, or an obligation the timely payment of the principal of and interest on which is guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Federal Farm Credit System, or in certificates of deposit or time deposits secured by such obligations, and (b) an obligation described in subsection (a) which has been stripped by the United States Department of the Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS").

Interim Funding Obligation--shall mean any bonds or notes issued by a Borrower in anticipation of a Project Loan Obligation.

Investment Obligations--shall mean:

- (i) bonds or obligations of, or guaranteed by, the State or the United States, or agencies or instrumentalities of the United States;
- (ii) certificates of deposit, commercial paper, savings accounts and bank acceptances in the obligations of any state of the United States or any political subdivision thereof or the obligations of any instrumentality, authority or agency of any state or political subdivision thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State commissioner of banking, and applicable to such obligations;
- (iii) the obligations of any regional school district in the State, of any municipality in the State or any metropolitan district in the State, provided that at the time of investment such obligations of such government entity are rated within one of the top three rating categories of any nationally recognized rating service or of any rating service recognized by the State commissioner of banking, and applicable to such obligations;
- (iv) any fund in which a trustee may invest pursuant to Section 36a-353 of the Connecticut General Statutes;
- (v) investment agreements with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State commissioner of banking or whose short-term obligations are rated within the top rating category of any nationally recognized rating service or of any rating service recognized by the State commissioner of banking;
- (vi) investment agreements rated within the top rating categories of any nationally recognized rating service or of any rating service recognized by the State commissioner of banking;
- (vii) investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States;
- (viii) to the extent permitted by State statutes, (a) the Short Term Investment Fund of the State ("STIF"), (b) the Tax Exempt Proceeds Fund of the State ("TEPF") or (c) interest-bearing time deposits, or other similar

banking arrangements, the Trustee has established with itself or a member bank or banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation; provided, that no moneys in such funds or accounts shall be so deposited as provided in (a), (b) or (c) above if such deposit would result in a decrease in the rating on the Bonds according to Standard & Poor's and Moody's Investors Service; provided further, that each such STIF deposit, TEPF deposit, interest-bearing time deposit or other similar banking arrangement shall permit the moneys so placed to be available for use at the times provided with respect to the investment or reinvestment of such moneys; and provided further, that all moneys in each such interest-bearing time deposit or other similar banking arrangement shall be continuously and fully secured by direct obligations of the United States of America or of the State or obligations the principal and interest of which are guaranteed by the United States of America or by the State, of a market value equal at all times to the amount of the deposit or of the other similar banking arrangement.

- (ix) other investments permissible pursuant to Section 3-20 of the General Statutes of the State as such Section may be amended from time to time.

Memorandum of Agreement--shall mean the document which creates a cooperative relationship between the Treasurer and the DEP and delegates to the Treasurer certain responsibilities with respect to the implementation and management of the Program.

Notes--shall mean any bond anticipation notes issued by the State pursuant to the State Act for purposes of the State Revolving Fund General Revenue Bond Program.

Other Financial Assistance-- shall mean any guaranty, credit support, credit enhancement, interest rate hedge agreement, interest rate lock agreement, interest rate exchange agreement, bond insurance or investment agreement entered into by the State with respect to one or more Series of Bonds.

Outstanding--when used with reference to Bonds, other than Bonds owned or held by or for the account of the State, shall mean, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except: (a) any Bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (b) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Bond Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (c) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Bond Resolution, and (iv) Bonds deemed to have been defeased as provided in the General Bond Resolution.

Outstanding Obligations-- shall mean any outstanding obligations of the State that were issued pursuant to any authorization in furtherance of any of the purposes of the Program.

Person or person--means an individual, corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Pledged Borrower Obligations-- shall mean any Borrower Obligations that are pledged to one or more Series of Bonds pursuant to applicable Supplemental Resolutions.

Pledged Fund-- shall mean the Pledged Fund established pursuant to the Resolution.

Pledged Receipts--shall mean, the payments from Pledged Borrower Obligations.

Program--shall mean all of the State's revolving fund programs operated under the Federal Act, which consists of providing assistance in furtherance of the purposes set forth in the Acts, as each may from time to time be modified, amended or supplemented.

Project--shall mean the design, acquisition, construction, improvement, repair, reconstruction, renovation or expansion of any project that may be eligible for financing by the State in furtherance of the Program.

Project Loan Obligations--shall mean bonds or notes issued by a Borrower to evidence the permanent financing by such Borrower of its indebtedness under a Loan Agreement with respect to a Loan, made payable to the State for the benefit of

the Clean Water Fund and containing such terms and conditions and being in such form as may be approved by the Commissioner of DEP.

Rebate Fund--shall mean the Rebate Fund established pursuant to the Resolution.

Record Date--shall mean, unless otherwise determined by a Supplemental Resolution for a Series of Bonds, the close of business on the fifteenth day preceding a payment date or, if such day shall not be a Business Day, the immediately preceding Business Day.

Redemption Price--shall mean, with respect to any Bonds, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the General Bond Resolution and the Supplemental Resolution pursuant to which such Bond was issued.

Related Program Obligations--shall mean any financial obligation entered into by the State in furtherance of the Program that may be legally payable from the Revolving Fund, and designated in a Supplemental Resolution to be paid from the Debt Service Fund.

Revolving Fund--shall mean collectively, (a) the State water pollution control revolving loan account within the Clean Water Fund established in accordance with Title VI of the Federal Water Pollution Control Act (33 U.S.C. Section 1251 et seq.), as it may be amended from time to time, (b) the State drinking water federal revolving loan account within the Clean Water Fund established in accordance with the federal Safe Drinking Water Act (42 U.S.C. Section 300f et seq.), as it may be amended from time to time, and (c) a similar account related to any expansion of the Program as a result of changes to the definition of Federal Act as described in the definition thereof.

Series or Bonds of a Series or words similar meaning--shall mean the series of Bonds authorized by a Supplemental Resolution and issued under the Resolution.

Sinking Fund Installment--shall mean, as of any particular date of calculation, (i) the amount required by the General Bond Resolution and the Supplemental Resolution to be deposited by the State for the retirement of bonds which are stated to mature subsequent to such date or (ii) the amount required by the General Bond Resolution and the Supplemental Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

State Act--shall mean the Clean Water Fund Act, being Sections 22a – 475 to 22a – 483, inclusive, of the General Statutes of the State, as amended from time to time, together with any future State acts that may establish programs funded with federal grants or other federal funding, the programs which may be cross-collateralized with the Program and which the State has determined to so cross-collateralize.

Support Fund--shall mean the Support Fund established pursuant to the Resolution.

Support Requirement--shall mean, with respect to one or more Series of Bonds, the amount established from time to time by the State, as described in the applicable Supplemental Resolution.

Tax Exempt Bond Fund--shall mean the Tax Exempt Proceeds Fund Inc., created pursuant to Connecticut General Statutes Section 3-24a, as amended.

Trustee--shall mean the bank or trust company appointed pursuant to the General Bond Resolution to act as trustee thereunder, and its successor or successors and any other bank or trust company at any time substituted in its place pursuant to the General Bond Resolution.

Underwriter--shall mean collectively the individuals or firms which purchase and reoffer the Bonds at the prices or yields set forth in the Official Statement to investors.

APPENDIX G

FORM OF STATE CONTINUING DISCLOSURE AGREEMENT

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the State will agree, pursuant to a Continuing Disclosure Agreement for the 2003 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 2003 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 2003 Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement (the "Agreement") is made as of the ____ day of July, 2003 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of \$335,245,000 State Revolving Fund General Revenue Bonds, 2003 Series (the "Bonds"), 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 June 18, 2003 prepared in connection with the Bonds.

"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/muni_contactinfo.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.dpcdata.com>
Email: nrmsir@dpcdata.com

I FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
<http://www.interactivedata.com>
Email: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository
55 Water Street – 45th Floor
New York, NY 10041
(212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

"Obligated Person" means any borrower identified by the State pursuant to Section 2(a)(3)(iii) of this Agreement.

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

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

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

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2003) as follows:

(1) Financial statements of the State's Clean Water Fund - State Revolving Fund and the Drinking Water Fund - State Revolving Fund, 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 prepares the financial statements in accordance with generally accepted accounting principles but is not required to do so. The financial statements will be audited.

(2) Financial statements of the State's general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust and agency (fiduciary) funds and the general long-term debt account group 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 described in the State's Annual Information Statement and Information Supplement included by cross-reference in Appendix C to the Final Official Statement). As of the date of this Agreement, the State also prepares its financial statements in accordance with generally accepted accounting principles but is not required to do so. The financial statements will be audited.

(3) To the extent not included in the financial statements described in (1) above, the financial information and operating data within the meaning of the Rule described below (with references to the Final Official Statement); provided, however, that references to 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 or annual information reports: a list of Clean Water Fund and Drinking Water Fund borrowers indicating (i) amounts of loans outstanding and undrawn commitments (as of the end of the most recent fiscal years of the Clean Water Fund and Drinking Water Fund), (ii) expected additional loan commitments through the end of the next succeeding fiscal years of the Clean Water Fund and Drinking Water Fund, and (iii) any such borrower whose total Clean Water Fund and Drinking Water Fund loans outstanding, undrawn commitments and expected additional loan commitments equals in the aggregate 10% or more of the aggregate principal amount of the State's State Revolving Fund Revenue Bonds issued under the State's SRF Program to fund the State's Clean Water Fund and Drinking Water Fund Programs then outstanding.

(b) The State shall require borrowers entering into Clean Water Fund and Drinking Water Fund Project Loan and Project Grant Agreements to agree to enter into Continuing Disclosure Agreements in the event they become Obligated Persons. If the State receives notice that an Obligated Person has failed to provide annual financial information or operating data, the State shall use its best efforts to otherwise provide the continuing disclosure for such Obligated Person.

(c) 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 Clean Water Fund and Drinking Water Fund fiscal years currently end on June 30. The State's fiscal year currently ends on June 30.

(d) 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.

(e) 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.

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(c) 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.

Section 8. Miscellaneous.

(a) The State 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 law 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 two-thirds of the aggregate principal amount of the Bonds then outstanding. 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 the adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

STATE OF CONNECTICUT

By _____
Denise L. Nappier
Treasurer

FORM OF MUNICIPAL CONTINUING DISCLOSURE AGREEMENT

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, each Borrower included in Appendix A of the Final Official Statement will agree, pursuant to a Municipal Continuing Disclosure Agreement for the 2003 Bonds to be executed by the Borrower substantially in the following form, to provide, or cause to be provided, (i) certain annual financial information and operating data, and (ii) timely notice of a failure of the Borrower to provide the required annual financial information on or before the date specified in the Municipal Continuing Disclosure Agreement for the 2003 Bonds.

Municipal Continuing Disclosure Agreement

This Municipal Continuing Disclosure Agreement (the “Agreement”) is made as of the ____ day of July, 2003 by the _____ (the “Borrower”) acting by its undersigned officer, duly authorized, in connection with the issuance of \$335,245,000 State of Connecticut (the “State”) State Revolving Fund General Revenue Bonds, 2003 Series (the “Bonds”), 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 June 18, 2003 prepared in connection with the Bonds.

“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/muni_contactinfo.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.dpcdata.com>
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
<http://www.interactivedata.com>
Email: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository
55 Water Street – 45th Floor
New York, NY 10041
(212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

“Objective Criteria” means any Borrower whose total loans outstanding, undrawn commitments and expected additional loan commitments equals in the aggregate 10% or more of the aggregate principal amount of the State’s State Revolving Fund Revenue Bonds issued under the State’s SRF Program to fund the State’s Clean Water Fund and Drinking Water Fund Programs then outstanding.

“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 Borrower agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual

financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2003) as follows:

(i) Financial statements of the Borrower's general fund, special revenue funds, enterprise and internal service (proprietary) funds, agency and trust (fiduciary) funds and general fixed assets and general long-term obligations account groups, 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 Borrower prepares its financial statements in accordance with generally accepted accounting principles. 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 relating to the Borrower contained in Appendix A of the Final Official Statement.

(b) The financial statements and other financial information and operating data described above will be provided on or before the eight months after the close of the fiscal year for which such information is being provided. The Borrower'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 Borrower.

(d) The Borrower 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 Borrower agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

(Not applicable to Borrower)

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

The Borrower agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB, (ii) any SID, and (iii) the State, notice of any failure by the Borrower 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 Borrower or by any agents which may be employed by the Borrower for such purpose from time to time.

Section 6. Termination.

The obligations of the Borrower 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 determines that (A) the Borrower ceases to be an obligated person meeting the Objective Criteria with respect to the Bonds within the meaning of the Rule and the State's Continuing Disclosure Agreement with respect to the Bonds and (B) all borrowers meeting the Objective Criteria have entered into Municipal Continuing Disclosure Agreements with respect to the Bonds.

Section 7. Enforcement.

The Borrower 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 Borrower shall fail to perform its duties hereunder, the Borrower 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 undertaking set forth in Section 4 of this Agreement) from the time the Borrower's Comptroller/Treasurer/Authorized Official, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Borrower is _____.

In the event the Borrower 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 Borrower 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.

Section 8. Miscellaneous.

(a) The Borrower 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 Borrower from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the Borrower elects to provide any such additional information, data or notices, the Borrower 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 Borrower 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 Borrower, (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 two-thirds of the aggregate principal amount of the Bonds then outstanding. 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 the adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

BORROWER

By _____
Authorized Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX H

FORM OF CO-BOND COUNSEL OPINION

Upon the issuance of the 2003 Bonds, Nixon Peabody LLP, New York, New York and the Hardwick Law Firm, LLC, Kansas City, Missouri, as Co-Bond Counsel, will deliver its Co-Bond Counsel opinion in substantially the same form as set forth in this Appendix H.

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

We have examined the transcript of proceedings (the “Transcript”) relating to the issuance by the State of Connecticut (the “State”) of \$118,085,000 aggregate principal amount of State Revolving Fund General Revenue Bonds, 2003 Series A (the “2003 Series A Bonds”), \$115,785,000 aggregate principal amount of State Revolving Fund Refunding General Revenue Bonds, 2003 Series B (the “2003 Series B Bonds”) and \$121,375,000 aggregate principal amount of State Revolving Fund Refunding General Revenue Bonds, 2003 Series C (Auction Rate Securities) (the “2003 Series C Bonds”, and together with the 2003 Series A Bonds and 2003 Series B Bonds, the “2003 Bonds”). The 2003 Bonds are authorized to be issued under and pursuant to the Constitution and laws of the State, particularly Sections 22a-475 to 22a-483, inclusive, as amended, of the General Statutes of Connecticut (the “Act”) and by a resolution entitled “State Revolving Fund General Revenue Bond Program General Bond Resolution” adopted by the State Bond Commission (the “Commission”) on December 17, 2002, as supplemented (the “General Resolution”), a resolution adopted by the Commission on December 17, 2002 entitled “A Supplemental Resolution Authorizing the Issuance of \$125,000,000 State Revolving Fund General Revenue Bonds, 2003 Series A” (the “2003 Series A Supplemental Resolution”) and a resolution adopted by the Commission on December 17, 2002 entitled “A Supplemental Resolution Authorizing the Issuance of \$400,000,000 State Revolving Fund Refunding General Revenue Bonds, 2003 Series B and State Revolving Fund Refunding General Revenue Bonds (Auction Rate Securities), 2003 Series C” (the “2003 Series B and 2003 Series C Supplemental Resolution”, and together with the 2003 Series A Supplemental Resolution and the General Resolution, the “Resolutions”) and proceedings duly had and taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer dated July 10, 2003 and filed with the Secretary of the Commission.

The 2003 Series A Bonds are being issued for the purpose of providing funds to carry out the State Revolving Fund Program, including the making of loans to Borrowers (as defined in the General Resolution) in the State for water pollution control projects and safe drinking water projects eligible for financing under the Acts. The 2003 Series B Bonds and the 2003 Series C Bonds are being issued to refund portions of various series of bonds issued by the State under and pursuant to a general bond resolution adopted December 7, 1990 (the “1990 Resolution”). The Transcript documents include certified copies of the Resolutions and the Certificate of Determination. We also have examined a conformed copy of a 2003 Series A Bond, a 2003

Series B Bond and a 2003 Series C Bond. All capitalized terms used in this opinion and not otherwise defined herein shall have the same meanings assigned to them in the Resolutions.

The Series 2003 C Bonds will be initially issued as Auction Rate Securities. At the option of the State, all or a portion of the Series C Bonds may be converted to bear interest at a Fixed Interest Rate pursuant to the 2003 Series B and 2003 Series C Supplemental Resolution.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

(1) The 2003 Bonds have been duly authorized, executed and issued in accordance with the Constitution and statutes of the State, particularly the Act, and constitute valid and legally binding special revenue obligations of the State, the payment of which the State is obligated to pay from Available Moneys in the Revolving Fund. The Pledged Fund, the Bond Proceeds Fund, the Debt Service Fund and the Support Fund, the investments thereof and the proceeds of such investments, if any, are pledged therefor under the General Bond Resolution. The 2003 Bonds shall not be payable from nor charged upon any funds other than receipts, funds or moneys pledged therefor as provided in the Act or the Resolutions. Payment of the principal of and interest on the 2003 Bonds is subject to bankruptcy laws and other laws affecting creditors' rights and the exercise of judicial discretion.

(2) The 2003 Series A Supplemental Resolution and the 2003 Series B and 2003 Series C Supplemental Resolution have been duly and lawfully adopted in accordance with, and are authorized and permitted by the provisions of the General Bond Resolution, and the Resolutions have been duly and lawfully adopted by the State, are in full force and effect and are valid and binding upon the State and enforceable in accordance with their terms and no other authorizations for the Resolutions are required.

(3) The 2003 Bonds and any Bonds which subsequently may be issued under the General Bond Resolution, are secured by a pledge in the manner and to the extent set forth in the General Bond Resolution. The General Bond Resolution creates the valid pledge of and the valid lien upon the revenues or receipts, securities, funds or moneys held or set aside or to be set aside and held in the Pledged Fund, Bond Proceeds Fund, the Debt Service Fund and the Support Fund established or confirmed thereunder, which the General Bond Resolution purports to create, subject only to the provisions of the General Bond Resolution permitting the application thereof for or to the purposes and on the terms and conditions set forth in the General Bond Resolution. Such lien is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice thereof.

(4) The 2003 Bonds do not constitute a debt or liability of the State or bonds issued or guaranteed by the State within the meaning of Section 3-21 of the General Statutes of Connecticut, as amended, or a pledge of its full faith and credit or of its taxing power and are payable from the Available Moneys and funds provided therefor pursuant to the Resolutions and the Act.

(5) The Internal Revenue Code of 1986 (the “Code”) sets forth certain requirements which must be met subsequent to the issuance and delivery of the 2003 Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2003 Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issue of the 2003 Bonds. Pursuant to the Resolutions and the Tax Compliance Certificate, the State has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion from gross income of the interest on the 2003 Bonds from gross income for Federal income tax purposes pursuant to Section 103 of the Code. In addition, the State has made certain representations and certifications in the Resolutions and the Tax Compliance Certificate.

Under existing law and assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the 2003 Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the 2003 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

Co-Bond Counsel is also of the opinion that interest on the 2003 Bonds is excluded from Connecticut income tax on individuals, trusts and estates and 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. Interest on the 2003 Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Co-Bond Counsel is further of the opinion that the difference between the principal amount of the 2003 Series A Bonds maturing October 1, 2009, October 1, 2010 and October 1, 2025 and a portion of the 2003 Series A Bonds maturing October 1, 2011 through October 1, 2018, October 1, 2020, October 1, 2021, October 1, 2023 and October 1, 2024 and the 2003 Series B Bonds maturing October 1, 2010 (the “Discount Bonds”) and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Bonds of the same maturity was sold constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the 2003 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each 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. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

Except as stated in the preceding four paragraphs, we express no opinion as to any other Federal or state tax consequences of the ownership or disposition of the 2003 Bonds.

Honorable Denise L. Nappier
July 10, 2003
Page 4

Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the 2003 Bonds, or the interest thereon, if any action is taken with respect to the 2003 Bonds or the proceeds thereof upon the advice or approval of other counsel.

Very truly yours,

APPENDIX I
ARS PROVISIONS

Definitions

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Appendix I and elsewhere in this Official Statement have the following meanings with respect to the State of Connecticut General Revenue Refunding Bonds (Auction Rate Securities) 2003 Series C Bonds (the “2003C Bonds”) in a ARS Rate Period unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 55% of the ARS Index in effect on such Auction Date.

“ARS” means each subseries of the 2003C Bonds, while they bear interest at the ARS Rate.

“ARS Index” will have the meaning specified in “ARS Index” of this Appendix I.

“ARS Interest Payment Date” means with respect to each subseries of the 2003C Bonds, the first ARS Interest Payment Date set forth on the inside front cover page of this Official Statement, and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, or (ii) 92 or more days, (A) in the case of 2003C Bonds with Auctions generally conducted on Fridays, each thirteen Monday after the first day of such Special Auction Period or the next Business Day if such Monday is not a Business Day and on the Business Day immediately following such Special Auction Period, (B) in the case of 2003C Bonds with Auctions generally conducted on Mondays, each thirteen Tuesday after the first day of such Special Auction Period or the next Business Day if such Tuesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (C) in the case of 2003C Bonds with Auctions generally conducted on Tuesdays, each thirteen Wednesday after the first day of such Special Auction Period or the next Business Day if such Wednesday is not a Business Day and on the Business Day immediately following such Special Auction Period, (D) in the case of 2003C Bonds with Auctions generally conducted on Wednesdays, each thirteen Thursday after the first day of such Special Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Special Auction Period, (E) in the case of 2003C Bonds with Auctions generally conducted on Thursdays, each thirteen Friday after the first day of such Special Auction Period or the next Business Day if such Friday is not a Business Day and on the Business Day immediately following such Special Auction Period.

“ARS Rate” means the rate of interest to be borne by the 2003C Bonds of such subseries during each Auction Period determined in accordance with the Resolution as summarized under “Determination of ARS Rate” of this Appendix I; provided, however, in no event may the ARS Rate exceed the Maximum Interest Rate.

“ARS Rate Conversion Date” means with respect to any subseries of the 2003C Bonds, the date on which the Bonds of such subseries convert from an interest rate period other than a ARS Rate Period and begin to bear interest at a ARS Rate.

“ARS Rate Period” means after the Initial Period any period of time commencing on the day following the Initial Period to but not including a Fixed Rate Conversion Date.

“ARS Multiple” means, as of any Auction Date, the Percentage of ARS Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the 2003C Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	Percentage of ARS Index
AAA/Aaa	150%
AA/Aa	175
A/A	200
BBB/Baa	225
Below BBB/Baa	250

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with the provisions of the Resolution and will initially be Willington Trust Company.

“Auction Agreement” means an agreement between the Auction Agent and Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Resolution, with respect to the 2003C Bonds while bearing interest at a ARS Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means, with respect to the 2003C Bonds, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Resolution, (i) if the 2003C Bonds are in a daily Auction Period, each Business Day, (ii) if the 2003C Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the 2003C Bonds are in any other Auction Period, the Business Day next preceding each ARS Interest Payment Date for such 2003C Bonds (whether or not an Auction will be conducted on such date); provided, however, that the last Auction Date with respect to a subseries of 2003C Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period will be the earlier of (a) the Business Day next preceding the ARS Interest Payment Date next preceding the Conversion Date for the 2003C Bonds and (b) the Business Day next preceding the ARS Interest Payment Date next preceding the final maturity date for the 2003C Bonds; and provided, further, that if the 2003C Bonds are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day next preceding the Conversion Date for the 2003C Bonds and (y) the Business Day next preceding the final maturity date for the 2003C Bonds. The last Business Day of a Special Auction Period will be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Dates for the 2003C Bonds as set forth in the inside cover page of this Official Statement.

“Auction Period” means with respect to each subseries of 2003C Bonds:

- (a) a Special Auction Period;
- (b) with respect to 2003C Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;
- (c) with respect to 2003C Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the

prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to 2003C Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to 2003C Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to 2003C Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(g) with respect to 2003C Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding April 30 or October 31;

provided, however, that

Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i. e. the ARS Interest Payment Date for the prior Auction Period) and will end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

“Auction Procedures” means the procedures for conducting Auctions for each subseries of 2003C Bonds during a ARS Rate Period set forth in the Resolution and summarized in this Appendix I.

“Auction Rate” means for each subseries of 2003C Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of such 2003C Bonds are the subject of Submitted Hold Orders, the All Hold Rate with respect to such 2003C Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum ARS Rate with respect to such 2003C Bonds.

“Available Bonds” means for each subseries of 2003C Bonds on each Auction Date, the aggregate principal amount of the 2003C Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of “Orders by Existing Owners and Potential Owners” of this Appendix I.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Resolution that is a member of, or a direct participant in, the Securities Depository, that has been selected by the State, with the consent of Goldman, Sachs & Co., so long as Goldman, Sachs & Co. is a Broker-Dealer, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the State and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in the Resolution, as such agreement may from time to time be amended or supplemented.

“Conversion Date” means the date on which the 2003C Bonds begin to bear interest at a Fixed Interest Rate.

“Default Rate” means, in respect of any Auction Period other than a daily Auction Period, a per annum rate equal to two hundred seventy-five percent (275%) of the ARS Index determined on the Auction Date next preceding the first day of such Auction Period or in the case of the 2003C Bonds in a daily Auction Period, two hundred seventy-five percent (275%) of the ARS Index determined on the Auction Date which was the first day of such Auction Period, provided, however, the Default Rate shall not exceed the Maximum Interest Rate.

“Existing Owner” means a Person who is listed as the beneficial owner of the 2003C Bonds in the records of the Auction Agent.

“Hold Order” has the meaning specified in subsection (a) of “Orders by Existing Owners and Potential Owners” of this Appendix I.

“Initial Period” means for each subseries of 2003C Bonds, the period from the Closing Date to but not including the applicable first ARS Interest Payment Date as shown on the inside front cover of this Official Statement.

“LIBOR” means on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%) for deposits in U.S. dollars for a one-month period which appears on the Telerate page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market then on the next preceding day on which such dealings were transacted in such market.

“Maximum Interest Rate” means the lesser of fifteen percent (15%) or the maximum rate permitted by applicable law.

“Maximum ARS Rate” means as of any Auction Date, the product of the ARS Index multiplied by the ARS Multiple; provided, however, that in no event shall the Maximum ARS Rate exceed the Maximum Interest Rate.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the 2003C Bonds in addition to the 2003C Bonds currently owned by such Person, if any.

“Prevailing Rating” means (a) AAA/Aaa, if the 2003C Bonds shall have a rating of AAA or better by S&P and a rating of Aaa or better by Moody’s, (b) if not AAA/Aaa, AA/Aa if the 2003C Bonds shall have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody’s, (c) if not AAA/Aaa or AA/Aa, A/A if the 2003C Bonds shall have a rating of A- or better by S&P and a rating of A3 or better by Moody’s, (d) if not AAA/Aaa, AA/Aa or A/A, BBB/Baa, if the 2003C Bonds shall have a rating of BBB- or better by S&P and a rating of Baa3 or better by Moody’s, and (e) if not AAA/Aaa, AA/Aa, A/A or BBB/Baa then below BBB/Baa, whether or not the 2003C Bonds are rated by any securities rating agency. For purposes of this definition, S&P’s rating categories of “AAA”, “AA,” “A-” and “BBB-” and Moody’s rating categories of “Aaa,” “Aa3,” “A3” and “Baa3” shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the 2003C Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the 2003C Bonds are split between two or more of the foregoing categories, the lower rating shall determine the Prevailing Rating. If there is no rating, then the ARS Rate shall be the Maximum ARS Rate.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the State, the US Bank National Association and each Broker-Dealer.

“Securities Depository” means The Depository Trust Company and its successors and assigns or any other securities depository selected by the State which agrees to follow the procedures required to be followed by such securities depository in connection with the 2003C Bonds.

“Sell Order” has the meaning specified in “Orders by Existing Owners and Potential Owners” of this Appendix I.

“Special Auction Period” means, with respect to a subseries of 2003C Bonds, any period of not less than seven nor more than 1092 days which begins on an ARS Interest Payment Date and ends (i) in the case of a subseries of 2003C Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a subseries of 2003C Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a subseries of 2003C Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a subseries of 2003C Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a subseries of 2003C Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date for a subseries of the 2003C Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for a subseries of 2003C Bonds in a daily Auction Period, or such other time on such date as will be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“Submitted Bid” has the meaning specified in “Determination of ARS Rate” of this Appendix I.

“Submitted Hold Order” has the meaning specified in “Determination of ARS Rate” of this Appendix I.

“Submitted Order” has the meaning specified in “Determination of ARS Rate” of this Appendix I.

“Submitted Sell Order” has the meaning specified in “Determination of ARS Rate” of this Appendix I.

“Sufficient Clearing Bids” means with respect to a subseries of the 2003C Bonds, an Auction for which the aggregate principal amount of the 2003C Bonds of such subseries that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum ARS Rate is not less than the aggregate principal amount of the 2003C Bonds of such subseries that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum ARS Rate.

“Winning Bid Rate” means with respect to a subseries of the 2003C Bonds the lowest rate specified in any Submitted Bid for such subseries which if selected by the Auction Agent as the ARS Rate would cause the aggregate principal amount of the 2003C Bonds of such subseries that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds of such subseries.

Auction Procedures

Orders by Existing Owners and Potential Owners.

- (a) Prior to the Submission Deadline on each Auction Date:
 - (i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as will be reasonably acceptable to such Broker-Dealer, information as to:
 - (A) the principal amount of the 2003C Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period;
 - (B) the principal amount of the 2003C Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period will not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding ARS Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period will be less than the rate per annum then specified by such Existing Owner); and/or
 - (C) the principal amount of the 2003C Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding ARS Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period.
 - (ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the 2003C Bonds, the Broker-Dealers will contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the 2003C Bonds, if any, which each such Potential Owner

irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b)(i) A Bid by an Existing Owner will constitute an irrevocable offer to sell:

(A) the principal amount of the 2003C Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date will be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the 2003C Bonds to be determined as described in subsection (a)(v) of the section below entitled "Allocation of 2003C Bonds" if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate; or

(C) a lesser principal amount of the 2003C Bonds to be determined as described in subsection (b)(iv) of the section below entitled "Allocation of 2003C Bonds" if such specified rate will be higher than the Maximum ARS Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner will constitute an irrevocable offer to sell:

(A) the principal amount of the 2003C Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the 2003C Bonds as described in subsection (b)(iv) of the section below entitled "Allocation of 2003C Bonds" if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner will constitute an irrevocable offer to purchase:

(A) the principal amount of the 2003C Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date will be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the 2003C Bonds as described in subsection (a)(vi) of the section below entitled "Allocation of 2003C Bonds" if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the 2003C Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof will be rounded down to the nearest \$25,000, and the Auction Agent will conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a ARS Bond which has been called for redemption on or prior to the ARS Interest Payment Date next succeeding such Auction will be invalid with respect to such portion and the Auction Agent will conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of an ARS Bond which has been called for redemption on or prior to the ARS Interest Payment Date next succeeding such Auction will be included in the calculation of Available Bonds for such Auction;

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the US Bank National Association or the State of the occurrence of an Event of Default resulting from a failure to pay principal, premium or interest on any ARS Bond when due [(provided however that for purposes of this provision only, payment by the Bond Insurer shall be deemed to cure such Event of Default and no such suspension of the Auction Procedures shall occur)] but shall resume two Business Days after the date on which the Auction Agent receives notice from the US Bank National Association that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter; and

(v) except as provided under "Changes in Auction Period or Auction Date," if an Order or Orders covering all outstanding 2003C Bonds subject to Auction on an Auction Date held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline for such Auction Date the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of such outstanding 2003C Bonds held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer will submit to the Auction Agent in writing or by such other method as will be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and, if requested, specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the 2003C Bonds of each subseries, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the 2003C Bonds of each subseries, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the 2003C Bonds of each subseries, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the 2003C Bonds of each subseries, if any, subject to any Sell Order placed by such Existing Owner.

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the 2003C Bonds of a particular subseries held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of the 2003C Bonds of such subseries held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the 2003C Bonds of the subseries to be converted held by such Existing Owner, the Auction Agent will deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of the 2003C Bonds of such subseries to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding 2003C Bonds of a subseries held by any Existing Owner are submitted to the Auction Agent, such Orders will be considered valid as follows:

(i) all Hold Orders will be considered Hold Orders, but only up to and including in the aggregate the principal amount of the 2003C Bonds of such subseries held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner will be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the 2003C Bonds of such subseries held by such Existing Owner over the principal amount of the 2003C Bonds of such subseries subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate will be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the 2003C Bonds of such subseries held by such Existing Owner over the principal amount of the 2003C Bonds of such subseries held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids will be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of the 2003C Bonds of such subseries held by such Existing Owner over the principal amount of the 2003C Bonds of such subseries held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such 2003C Bonds of such subseries subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) will be treated as the subject of a Bid by a Potential Owner.

(iii) all Sell Orders will be considered Sell Orders, but only up to and including a principal amount of the 2003C Bonds of such subseries equal to the excess of the principal amount of the 2003C Bonds of such subseries held by such Existing Owner over the sum of the principal amount of the 2003C Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the 2003C Bonds of such subseries considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate will be aggregated and considered a single Bid and each Bid submitted with a different rate will be considered a separate Bid with the rate and the principal amount of the 2003C Bonds specified therein.

(f) Neither the State, the US Bank National Association nor the Auction Agent will be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(g) If the fees of the Broker-Dealer are not paid, the Trustee shall notify the Auction Agent of such failure and the Auction Agent shall treat such nonpayment as a default and the interest rate for the Auction Period shall be the Maximum ARS Rate.

Determination of ARS Rate.

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for the 2003C Bonds, the Auction Agent will advise the Broker-Dealers and the US Bank National Association by telephone or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum ARS Rate and the ARS Index for the 2003C Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for the 2003C Bonds, the Auction Agent will assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a

“Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and will determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent will advise the US Bank National Association by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the US Bank National Association will promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period will be the same as the preceding Auction Period and the ARS Rate for the new Auction Period will be the same as the ARS Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period will be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the ARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extend to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended; provided that if the Auction Procedures are suspended due to the failure to pay principal of, premium or interest on, any 2003C Bonds, the ARS Rate for the next succeeding Auction Period will be the Default Rate.

(e) In the event of a failed conversion, with respect to the 2003C Bonds to a Variable Rate Period, a Flexible Rate Period or a Fixed Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the ARS Rate for the next Auction Period will be the Maximum ARS Rate and the Auction Period will be a seven-day Auction Period.

(f) If the 2003C Bonds are not rated or if the 2003C Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the ARS Rate will be the Maximum ARS Rate.

Allocation of 2003C Bonds.

(a) In the event of Sufficient Clearing Bids for the 2003C Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Bonds will be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner will be accepted, thus requiring each such Existing Owner to continue to hold the 2003C Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner will be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate will be rejected, thus requiring each such Existing Owner to sell the 2003C Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate will be accepted, thus requiring each such Existing Owner to continue to hold the 2003C Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate will be accepted, thus requiring each such Potential Owner to purchase the 2003C Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate will be accepted, thus requiring each such Existing Owner to continue to hold the 2003C Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the 2003C Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding 2003C Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which will be the principal amount of Outstanding 2003C Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which will be the aggregate principal amount of Outstanding 2003C Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid will be rejected, thus requiring each such Existing Owner to sell any excess amount of the 2003C Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate will be accepted, thus requiring each such Potential Owner to purchase the 2003C Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the 2003C Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding 2003C Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which will be the principal amount of Outstanding 2003C Bonds subject to such Submitted Bid and the denominator of which will be the sum of the aggregate principal amount of Outstanding 2003C Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid will be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate will be rejected.

(b) In the event there are not Sufficient Clearing Bids for a subseries of the 2003C Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders, for each subseries of the 2003C Bonds will be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner will be accepted, thus requiring each such Existing Owner to continue to hold the 2003C Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum ARS Rate will be accepted, thus requiring each such Existing Owner to continue to hold the 2003C Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum ARS Rate will be accepted, thus requiring each such Potential Owner to purchase the 2003C Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner will be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum ARS Rate will be deemed to be and will be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the 2003C Bonds obtained by multiplying (A) the aggregate principal amount of the 2003C Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which will be the principal amount of Outstanding 2003C Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which will be the principal amount of Outstanding 2003C Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid will be deemed to be and will be accepted as a Hold Order and each such Existing Owner will be required to continue to hold such excess amount of the 2003C Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum ARS Rate will be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the 2003C Bonds which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent will by lot, in such manner as it will determine in its sole discretion, round up or down the principal amount of the 2003C Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the 2003C Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date will be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any 2003C Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of the 2003C Bonds on any Auction Date, the Auction Agent will by lot, in such manner as it will determine in its sole discretion, allocate the 2003C Bonds for purchase among Potential Owners so that the principal amount of ARS purchased on such Auction Date by any Potential Owner will be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing the 2003C Bonds on such Auction Date.

Notice of ARS Rate.

(a) On each Auction Date, the Auction Agent will notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to each subseries of the 2003C Bonds for which an Auction was held on such Auction Date:

- (i) the ARS Rate determined on such Auction Date for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of the 2003C Bonds, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of the 2003C Bonds, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of the 2003C Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the 2003C Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of the 2003C Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and
- (vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each subseries of the 2003C Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner will: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the ARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the 2003C Bonds to be purchased pursuant to such Bid (including, with respect to the 2003C Bonds in a daily Auction Period, accrued interest if the purchase date is not an ARS Interest Payment Date for such Bond) against receipt of such 2003C Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was

accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the 2003C Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

ARS Index

- (a) The ARS Index is LIBOR.
- (b) If for any reason on any Auction Date the ARS Index will not be determined as hereinabove provided in this Section, the ARS Index will be the ARS Index for the Auction Period ending on such Auction Date.
- (c) The determination of the ARS Index as provided herein will be conclusive and binding upon the State, the US Bank National Association, the Broker-Dealers, the Auction Agent and the Owners of the 2003C Bonds.

Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix I, each reference to the purchase, sale or holding of the "2003C Bonds" will refer to beneficial interests in the 2003C Bonds, unless the context clearly requires otherwise.

(b) During a ARS Rate Period with respect to the 2003C Bonds and the 2003C Bonds, the provisions of the Resolution and the definitions contained therein and described in this Appendix I, including without limitation the definitions of Default Rates, Maximum ARS Rate, Maximum Interest Rate, All Hold Rate, ARS Index, ARS Interest Payment Date, ARS Multiple and the ARS Rate, may be amended pursuant to the Resolution, by obtaining the consent of the owners of all Outstanding 2003C Bonds and 2003C Bonds bearing interest at a ARS Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the US Bank National Association mailed notice of such proposed amendment to the registered owners of the Outstanding 2003C Bonds and 2003C Bonds as required by the Resolution, (i) the ARS Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the State and the US Bank National Association an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the 2003C Bonds or any exemption from federal income tax to which the interest on the 2003C Bonds would otherwise be entitled, the proposed amendment will be deemed to have been consented to by the owners of all affected 2003C Bonds and 2003C Bonds bearing interest at a ARS Rate of such subseries.

(c) If the Securities Depository notifies the State that it is unwilling or unable to continue as owner of the 2003C Bonds or if at any time the Securities Depository will no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the State within 90 days after the State receives notice or becomes aware of such condition, as the case may be, the State will execute and the US Bank National Association will authenticate and deliver certificates representing the 2003C Bonds. Such 2003C Bonds will be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, will instruct the State and the US Bank National Association.

During a ARS Rate Period, so long as the ownership of the 2003C Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of an ARS Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the ARS Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such 2003C Bonds to that Broker-Dealer or another customer of that Broker-Dealer will not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the 2003C Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Changes in Auction Period or Auction Date.

(a) Changes in Auction Period. (i) During any ARS Rate Period, the State may, from time to time on any ARS Interest Payment Date, change the length of the Auction Period with respect to all of the 2003C Bonds of any subseries in a ARS Rate Period among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such 2003C Bonds; provided, however, in the case of a change from a Special Auction Period, the date of such change will be the ARS Interest Payment Date immediately following the last day of such Special Auction Period. The State will initiate the change in the length of the Auction Period by giving written notice to the US Bank National Association, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period will be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period and will be for all of the 2003C Bonds of a subseries in a ARS Rate Period.

(iii) The change in the length of the Auction Period for any subseries of the 2003C Bonds will not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for any subseries of 2003C Bonds will take effect only if (A) the US Bank National Association and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the State consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner will be deemed to have submitted Sell Orders with respect to all of its subseries 2003C Bonds except to the extent such Existing Owner submits an Order with respect to such 2003C Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period will be the Maximum Interest Rate and the Auction Period will be a seven-day Auction Period.

(v) On the conversion date for the 2003C Bonds selected for conversion from one Auction Period to another, any 2003C Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, with the written consent of the State, may specify an earlier Auction Date for any subseries (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the 2003C Bonds. The Auction Agent will provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the US Bank National Association, the State, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the ARS Interest Payment Date relating to a Special Auction Period will be adjusted accordingly.

Conversions from ARS Rate Periods.

At the option of the State, all or a portion of the 2003C Bonds may be converted from a ARS Rate Period to a Fixed Rate Period, provided that after any partial conversion there are no less than \$10,000,000 of the 2003C Bonds outstanding, bearing interest at a ARS Rate, unless consented to by all Broker-Dealers as follows:

(i) The Fixed Rate Conversion Date will be the ARS Interest Payment Date following the final Auction Period.

(ii) The State will give written notice of any such conversion to the US Bank National Association, the Auction Agent, the Remarketing Agent, if any, and the Broker-Dealer not less than seven (7) Business Days prior to the date on which the US Bank National Association is required to notify the Bondholders of the conversion pursuant to subparagraph (iii) below. Such notice will specify the proposed Fixed Rate Conversion Date. Together with such notice, the State will file with the US Bank National Association an Opinion of Bond Counsel to the effect that the proposed conversion of the 2003C Bonds to a Fixed Rate Period, including the assignment of maturity dates and sinking fund payment dates, will not adversely affect the validity of the 2003C Bonds or any exemption from federal income taxation to which interest on the 2003C Bonds would otherwise be entitled. No change to a Fixed Rate Period will become effective unless the State will also file with such an Opinion of Bond Counsel dated the Fixed Rate Conversion Date.

(iii) Not less than twenty (20) days prior to the Fixed Rate Conversion Date, the Trustee will mail a written notice of the conversion to the holders of all 2003C Bonds to be converted, specifying the Fixed Rate Conversion Date and setting forth the matters required to be stated pursuant to the Resolution with respect to purchases of the 2003C Bonds.

(iv) If on a Fixed Rate Conversion Date any condition precedent to such conversion required under the Resolution is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the 2003C Bondholders, the State that such conversion has not occurred, that the 2003C Bonds will not be purchased on the failed Fixed Rate Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the 2003C Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Fixed Rate Conversion Date, and that the interest rate will continue to be the ARS Rate; provided, however, that the interest rate borne by the 2003C Bonds during the Auction Period commencing on such failed Fixed Rate Conversion Date will be the Maximum ARS Rate, and the Auction Period will be the seven-day Auction Period.

Auction Agent

Auction Agent.

(a) The Auction Agent will be appointed by the US Bank National Association at the written direction of the State, to perform the functions specified in the Resolution. The Auction Agent will designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it under the Resolution by a written instrument, delivered to the State, the US Bank National Association and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as will be satisfactory to the State and the US Bank National Association.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the 2003C Bonds with the same rights as if such entity were not the Auction Agent.

Qualifications of Auction Agent; Resignation; Removal. The Auction Agent will be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Resolution and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least ninety (90) days notice to the State, and the US Bank National Association. The Auction Agent may be removed at any time by the State by written notice, delivered to the Auction Agent, the State and the US Bank National Association. Upon any such resignation or removal, the US Bank National Association will appoint a successor Auction Agent meeting the requirements of this paragraph. In the event of the resignation or removal of the Auction Agent, the Auction Agent will pay over, assign and deliver any moneys and the 2003C Bonds held by it in such capacity to its successor. The Auction Agent will continue to perform its duties until its successor has been appointed by the US Bank National

Association. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the State and the US Bank National Association even if a successor Auction Agent has not been appointed.

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



Recycled Paper - Printed by
IMAGEMASTER 800.452.5152