



\$300,000,000
State of Connecticut
General Obligation Bonds (2005 Series A)
(Variable Rate Demand Bonds)

Dated: **Date of Delivery**Due: **March 1, 2023**

The Bonds will be general obligations of the State of Connecticut (the "State") and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. See **THE BONDS - Nature of Obligation** herein. Initially the Bonds will bear interest at the Weekly Rate as determined by the Remarketing Agent. The Bonds may also be converted to bear interest at a Flexible Rate, an Auction Rate, a R-Floats Rate or a Fixed Rate. See **THE BONDS – Additional Information Related to Variable Rate Demand Bonds** herein and **Appendix I-D** hereto. **The Bonds are subject to optional redemption, mandatory sinking fund redemption and mandatory tender for purchase prior to maturity as more fully described herein.**

While Bonds bear interest at a Weekly Rate, Bondowners will have the right to tender their Bonds for purchase at the times and subject to the conditions set forth in the Bonds. While Bonds bear interest at a Flexible Rate or Rates, Bondowners will not have the right to tender their Bonds for purchase. Bondowners will be required to tender their Bonds for purchase upon expiration, substitution or termination, pursuant to a termination notice, of the Standby Bond Purchase Agreement, and upon Conversion to a different interest rate mode, as described herein and in the Bonds.

The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. When issued, the Bonds will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form. Purchasers will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See **THE BONDS – Book-Entry-Only System** herein. Principal of and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, as Paying Agent, at its corporate trust office in Hartford, Connecticut, so long as DTC or its nominee, Cede & Co., is the Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

In connection with the delivery of the Bonds the State will execute a Standby Bond Purchase Agreement with **Dexia Credit Local**, acting by and through its New York Branch (the "Bank"), to provide funds for the purchase of Bonds tendered and not remarketed in an amount not to exceed the principal amount of the Bonds plus (while Bonds are in the Weekly Rate Mode) accrued interest up to 35 days at an interest rate not exceeding 12% per annum. The Standby Bond Purchase Agreement may be terminated without notice prior to its Stated Expiration Date upon the occurrence of certain Events of Default specified therein. Bondowners shall have **NO** right to tender Bonds, and the Bonds are **NOT** subject to mandatory tender for purchase as a result of such termination. See **Appendix I-D** under the heading **Standby Bond Purchase Agreement** the paragraphs captioned **Events of Default** and **Remedies**. See **Appendix I-D** hereto for a summary of the terms of the Standby Bond Purchase Agreement and **Appendix I-E** hereto for information relating to the Bank.

*In the opinion of Bond Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, under existing law, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the alternative minimum tax, such interest is taken into account in computing the alternative minimum tax, as described under **TAX EXEMPTION** herein.*

In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Price: 100%

The Bonds are offered when, as and if issued and received by the Underwriter, subject to approval as to legality by Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel. Certain legal matters will be passed upon for the State by its Tax Counsel. Certain legal matters will be passed upon for the Underwriter by Underwriter's Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about March 16, 2005.

Honorable Denise L. Nappier
Treasurer of the State of Connecticut

MERRILL LYNCH & CO.

Dated: **March 11, 2005**

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
STATE OF CONNECTICUT
\$300,000,000 General Obligation Bonds (2005 Series A)
(Variable Rate Demand Bonds)

INTRODUCTION

This Official Statement, including the cover and inside cover pages, this Introduction, Part I, Part II and Part III and the Appendices thereto, of the State of Connecticut (the “State”) is provided for the purpose of presenting certain information relating to the State in connection with the sale of \$300,000,000 aggregate principal amount of its General Obligation Bonds (2005 Series A) (Variable Rate Demand Bonds) (the “Bonds”).

Part I of this Official Statement, including the cover and inside front cover pages and the Appendices thereto, contains information relating to the Bonds. Part II of this Official Statement contains information which supplements, as of its date, certain information contained in the most recent Annual Information Statement of the State. Part III of this Official Statement, including the Appendices thereto, is the most recent Annual Information Statement of the State and contains certain information about the State as of its date. The cover page, inside cover page, this Introduction, and Parts I, II and III and the Appendices thereto should be read collectively and in their entirety.

PART I
INFORMATION CONCERNING THE BONDS

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PART I

INFORMATION CONCERNING THE BONDS

STATE OF CONNECTICUT

\$300,000,000 General Obligation Bonds (2005 Series A)

(Variable Rate Demand Bonds)

THE BONDS

Description of the Bonds

The State of Connecticut (the “State”) is issuing \$300,000,000 General Obligation Bonds (2005 Series A) (Variable Rate Demand Bonds) (the “Bonds”) comprised of the following issues:

\$267,500,000 General Obligation Bonds (2005 Series A-1)
\$ 32,500,000 General Obligation Bonds (2005 Series A-2)

The Bonds will be dated the date of delivery, and will bear interest initially at the Weekly Rate as determined by the Remarketing Agent prior to delivery of the Bonds, and thereafter at Weekly Rates payable on each Interest Payment Date until maturity or earlier redemption, or until conversion to a Flexible Rate or Rates, an Auction Rate, a R-Floats Rate or a Fixed Rate or Rates, as described below under **Additional Information Related to Variable Rate Demand Bonds**.

Interest will be calculated on the basis of a 365 or 366-day year, as applicable, for the actual number of days elapsed and will be payable on each Interest Payment Date to the registered owner as of the close of business on the Business Day preceding the Interest Payment Date. The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

The Bonds will be general obligation bonds of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. The Bonds will be issued pursuant to the State general obligation bond procedure act (Section 3-20 of the General Statutes of Connecticut, as amended), resolutions adopted by the State Bond Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. See **Nature of Obligation** herein.

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

U.S. Bank National Association is serving initially as Paying Agent and Tender Agent for the Bonds.

Merrill Lynch, Pierce, Fenner & Smith Incorporated is serving initially as Remarketing Agent for the Bonds.

The Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Bonds of each series will mature on March 1, 2023. The Bonds are subject to mandatory sinking fund redemption as described below under **Sinking Fund Redemption**.

Additional Information Related to Variable Rate Demand Bonds

The Bonds initially will be in the Weekly Rate Mode. The Bonds may be converted to a Flexible Rate Mode or an Auction Rate Mode or a R-Floats Rate Mode or a Fixed Rate Mode. The Auction Rate Mode and R-Floats Rate Mode and certain provisions of the Fixed Rate Mode are not described in this Official Statement. If the State decides to convert the Bonds to an Auction Rate Mode or a R-Floats Rate Mode or a Fixed Rate Mode, the Bonds will be subject to mandatory tender for purchase as described below and the State will prepare a new official statement or a supplement to this Official Statement which will describe the provisions of the Bonds following conversion to the Auction Rate Mode or the R-Floats Rate Mode or the Fixed Rate Mode.

Bonds in the Weekly Rate Mode bear interest at a Weekly Rate. Bonds in the Flexible Rate Mode bear interest at a Flexible Rate or Rates. Depending on which mode is then in effect for the Bonds, the Interest Payment Dates, the dates interest rates are effective, the dates on which notices of tender are required to be given, the dates on which Bonds are to be tendered, the dates for notices of conversion to another mode, and provisions for mandatory tender for purchase applicable to the Bonds will vary. See the description below, the chart on page I-5 and **Appendix I-D** for further details.

The information regarding provisions for the tender and purchase of Bonds should be used in conjunction with the information set forth under **Book-Entry Bonds** below. As initially issued, the Bonds will be issued in book-entry-only form through the facilities of The Depository Trust Company, New York, New York ("DTC"), and the procedures and practices of DTC will govern the tender and purchase procedures applicable to owners of beneficial interests in the Bonds.

Interest. The Bonds will bear interest initially at the Weekly Rate as determined by the Remarketing Agent prior to delivery of the Bonds until and including the first Wednesday which follows the date the Bonds are issued. Initially, all Bonds will be in the Weekly Rate Mode. Thereafter, the Bonds may be converted from time to time as described below.

Interest on Bonds in the Weekly Rate Mode is payable monthly on each Interest Payment Date. Interest on Bonds in the Flexible Rate Mode is payable on each Interest Payment Date upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent. For Bonds in the Weekly Rate Mode, the Interest Payment Date is the first Business Day of each calendar month. For Bonds in the Flexible Rate Mode, the Interest Payment Date is the Business Day after the last day of each Flexible Rate Period. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date which is the Business Day immediately preceding an Interest Payment Date. As long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See **Book-Entry-Only System** herein and **Book-Entry Bonds** below.

Weekly Rate Mode. For Bonds in a Weekly Rate Mode the Weekly Rate shall be determined each week by the Remarketing Agent, by 4:00 P.M., New York Time, on the Business Day prior to the commencement of the Weekly Rate Period (the "Rate Determination Date") to which it relates. Each Weekly Rate Period shall commence on a Thursday and end on Wednesday of the following week. The Weekly Rate for each Weekly Rate Period shall be determined by the Remarketing Agent as that rate of interest which would cause the Bonds to have a market value equal to the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of the Weekly Rate shall be given by the Remarketing Agent to the Paying Agent by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine a Weekly Rate, the Bonds shall bear interest at the interest rate equal to the most recent Interest Index as of the Rate Determination Date for each Weekly Rate Period until a new Weekly Rate is determined. No Weekly Rate on the Bonds may exceed the Maximum Rate. The Maximum Rate is 12% per annum. It may be adjusted upwards, but only under certain conditions. See **Appendix I-D – Definitions - "Maximum Rate"**.

Optional Tender for Purchase During Weekly Rate Mode. Bonds in the Weekly Rate Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written or telephonic notice (promptly confirmed in writing) of tender to the Tender Agent as described below. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode.

At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing or by telephone (and promptly confirmed in writing) to the Tender Agent at its corporate trust office by 3:00 P.M., New York Time, on a Business Day not fewer than seven days prior to the Purchase Date, which may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode, and be in a form satisfactory to the Tender Agent;

(ii) state, whether delivered in writing or by telephone, (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an authorized denomination and which leaves the retained portion of the Bond in an amount which is an authorized denomination, (C) the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the purchase date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder.

Flexible Rate Mode. The Bonds may be converted to a Flexible Rate Mode, bearing interest at Flexible Rates for Flexible Rate Periods, from time to time. The Flexible Rate for each Flexible Rate Period and each Flexible Rate Period applicable to the Bonds shall be determined by the Remarketing Agent by 12:45 P.M. New York Time on the first Business Day of each Flexible Rate Period, and shall take effect on the day following the last day of the preceding Flexible Rate Period or Weekly Rate Period, and be in effect to and including the last day of the Flexible Rate Period (the "Flexible Rate Period"). Each Flexible Rate and Flexible Rate Period for any Bonds shall be that rate of interest and period which would cause the Bonds to have a market value equal to the principal amount thereof (exclusive of accrued interest, if any), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of each Flexible Rate and Flexible Rate Period and the amount of Bonds bearing interest at each Flexible Rate and Flexible Rate Period shall be given by the Remarketing Agent to the Paying Agent by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine the Flexible Rate and Flexible Rate Period for any Bond in the Flexible Rate Mode, such Bond shall be deemed to have a Flexible Rate Period beginning on each Business Day and extending through the day preceding the next Business Day, and shall bear interest at a rate equal to the most recent Interest Index as of the Rate Determination Date for each Flexible Rate Period, until a new Flexible Rate Period and Flexible Rate is determined. No Flexible Rate on any Bond shall exceed the Maximum Rate. The Maximum Rate is 12% per annum. It may be adjusted upwards, but only under certain conditions. See **Appendix I-D – Definitions - "Maximum Rate"**.

Each Flexible Rate Period will commence on a Business Day and end on a Business Day. No Flexible Rate Period may be longer than 270 days, or be longer than the number of days remaining to a Conversion Date or scheduled Mandatory Sinking Fund Redemption of such Bond. Any Bond may bear interest at a Flexible Rate and for a Flexible Rate Period which is different from every other Bond.

Mandatory Tender Upon End of Each Flexible Rate Period. Each Bond in the Flexible Rate Mode is subject to mandatory tender for purchase on the Business Day following the last day of the Flexible Rate Period applicable to such Bond at a Purchase Price equal to 100% of the principal amount of such Bond plus accrued interest. No notice of such mandatory tender shall be given.

Mandatory Tender Upon Conversion Between Weekly Rate Mode and Flexible Rate Mode. Bonds to be converted from the Weekly Rate Mode to the Flexible Rate Mode, or from the Flexible Rate Mode to the Weekly Rate Mode, are subject to mandatory tender for purchase as described below on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest.

If Bonds are to be converted, the State shall give written notice of such conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders of such Bonds by first class mail or at the State's option certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. The Bonds are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement or any Alternate Liquidity Facility; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement or any Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under the Standby Bond Purchase Agreement or Alternate Liquidity Facility. See in **Appendix I-D** under the heading **Standby Bond Purchase Agreement**, paragraph (a) under the caption **Events of Default** for a list of events of default for which the Bank may elect to give a termination notice. The Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the State, shall give written notice to the Bondholders at least 15 days prior to such mandatory tender date.

Mandatory Tender Upon Conversion to Auction Rate Mode, R-Floats Rate Mode or Fixed Rate Mode. The Bonds are subject to mandatory tender for purchase on the date on which the interest rate mode on the Bonds is converted to an Auction Rate Mode, a R-Floats Rate Mode or a Fixed Rate Mode. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest. If Bonds are to be converted, the State shall give written notice of such conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders of such Bonds by first class mail or at the State's option certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Delivery and Payment for Tendered Bonds. The Tender Agent, on behalf of the State, shall purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds. Delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 P.M., New York Time, on the Business Day which is the Purchase Date in order for tendering Bondholders to be paid in immediately

available funds by 4:00 P.M., New York Time, on such day. If the Bonds are delivered after 1:00 P.M., New York Time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

Book-Entry Bonds. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the State, the Tender Agent, the Underwriter nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants. See **Book-Entry-Only System** herein.

Mode Table. The following Mode Table is provided for the convenience of the Bondholders. The information contained in the chart is not intended to be comprehensive. Reference is made to the above description, **Appendix I-D**, and the Bonds for a more complete description.

MODE TABLE

<u>Interest Period</u>	<u>Weekly Rate Mode</u>	<u>Flexible Rate Mode</u>
	From and including a Thursday to and including the following Wednesday.	From and including first day of Flexible Rate Period to and including last day of such Period.
<u>Interest Payment Dates</u>	First Business Day of the month	Business Day after last day of each Flexible Rate Period
<u>Denominations</u>	Minimum of \$100,000, integral multiples of \$5,000 in excess thereof	Minimum of \$100,000, integral multiples of \$5,000 in excess thereof
<u>Record Date</u>	Business Day preceding Interest Payment Date	Business Day preceding Interest Payment Date
<u>Optional Purchase Dates</u>	Any Business Day at least seven days following Tender Notice	None

	<u>Weekly Rate Mode</u>	<u>Flexible Rate Mode</u>
<u>Notice of Tender Required</u>	Telephonic, promptly confirmed in writing, or written by 5:00 P. M., New York Time, on a Business Day not fewer than 7 days prior to Purchase Date	None; Bondholders do not have the right to tender Bonds in the Flexible Rate Mode
<u>Mandatory Tender for Purchase</u>	Conversion to a Flexible Rate Mode; Expiration, substitution or termination, pursuant to a termination notice, of Liquidity Facility; Conversion to Auction Rate Mode, R-Floats Rate Mode or Fixed Rate Mode	Business Day following last day of Flexible Rate Period; Conversion to a Weekly Rate Mode; Expiration, substitution or termination, pursuant to a termination notice, of Liquidity Facility; Conversion to Auction Rate Mode, R-Floats Rate Mode or Fixed Rate Mode
<u>Purchase Price</u>	100% of principal amount plus accrued interest	100% of principal amount plus accrued interest
<u>Method of Payment</u>	Immediately available funds	Immediately available funds

Conversion of Bonds to Fixed Rate. The State may direct that all or a portion of the Bonds be converted to bear interest at a Fixed Rate by written notice to the Paying Agent at least 30 days before the proposed Conversion Date. The Conversion Date must be an Interest Payment Date. Not later than 15 days prior to the date of conversion of all or a portion of the Bonds to a Fixed Rate, the Paying Agent shall give notice of the conversion to a Fixed Rate to all owners of Bonds selected to be converted, all as described in **Appendix I-D**. On the Conversion Date applicable to the Bonds to be converted, the 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, subject to and in accordance with the Bonds; provided, however, that in the event of a failed conversion to a Fixed Rate, the Bonds will not be subject to mandatory tender, will be returned to their owners and will bear interest at the Maximum Rate for the Weekly Rate Mode until the next Rate Determination Date.

If the notices referred to above have been given, the conversion to a Fixed Rate shall occur. After the Conversion Date, interest on Bonds converted to a Fixed Rate will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on March 1 and September 1 in each year to the registered owner as of the close of business on the fifteenth day of February and August in each year or the preceding Business Day if such fifteenth day is not a Business Day. Bonds converted to a Fixed Rate will be subject to optional redemption as described below.

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. Merrill Lynch, Pierce, Fenner & Smith Incorporated will serve as the initial Remarketing Agent for the Bonds. See **Appendix I-D - Definitions and Summary of Certain Provisions of the Bonds Relating to Variable Rate Demand Bonds, the Standby Bond Purchase Agreement and the Remarketing Agreement.**

Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement provides that the Bank agrees to purchase any unremarketed tendered Bonds from time to time in an amount not to exceed the principal amount thereof plus accrued interest thereon in an amount up to 35 days at an interest rate not exceeding 12% per annum, subject to the terms and provisions set forth in the Standby Bond Purchase Agreement. See **Appendix I-D - Definitions and Summary of Certain Provisions of the Bonds Relating to Variable Rate Demand Bonds, the Standby Bond Purchase Agreement and the Remarketing Agreement.** For information concerning the Bank, see and **Appendix I-E - Information Relating to Dexia Credit Local.** All information concerning the Bank has been provided by the Bank, and the State is not responsible for its accuracy or completeness.

Interest Commitment of Standby Bond Purchase Agreement Limited to Weekly Rate Mode. During any period that the Bonds are in the Flexible Rate Mode, the Interest Commitment of the Bank to pay accrued interest

on tendered Bonds is reduced to zero. Interest on Flexible Rate Bonds will be paid when due from State funds. In the event that (1) the Bonds are converted from the Weekly Rate Mode to the Flexible Rate Mode and (2) the State causes the commitment of the Bank to pay accrued interest with respect to any tender of the Bonds to be reduced to zero, the State will not cause the Bonds to be converted from the Flexible Rate Mode to the Weekly Rate Mode unless and until such commitment of the Bank to pay accrued interest with respect to any tender of the Bonds has been reinstated.

Risk of Termination of Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement may be terminated prior to its Stated Expiration Date immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required. In the event of such termination Bondowners have **NO** right to tender Bonds, and the Bonds are **NOT** subject to mandatory tender for purchase solely as a result of such termination. The Tender Agent shall give notice to the bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement. See in **Appendix I-D** under the heading **Standby Bond Purchase Agreement** the paragraphs captioned **Events of Default** and **Remedies** and paragraph (b) under **Events of Default** for a list of events of default for which no termination notice is required to be given.

Swap Agreement for Variable Rate Demand Bonds

In connection with the Bonds, the State expects that it will enter into two variable to fixed interest rate swap agreements (each a “Swap Agreement”) with two financial institutions (each a “Swap Provider”), based on a principal amount of \$140,000,000 each. Under each Swap Agreement the Swap Provider will pay the State or the Paying Agent, on a monthly basis, an amount calculated, for the principal amount of the swap, based on variable rate indices, and the State will pay the Swap Provider, on a monthly basis, an amount calculated for the principal amount of the swap at a fixed rate of interest. In addition, such swap arrangements typically provide for early termination in certain events, and such “termination events” could result in the State being required to make unanticipated termination payments. Such payments, if due, may be substantial. The amounts payable to each Swap Provider under the respective Swap Agreement, including any termination payments, will be general obligations of the State. The State is obligated to make debt service payments on the Bonds regardless of the performance of the Swap Provider of its obligations under the Swap Agreement.

Optional Redemption

Prior to conversion to a Fixed Rate Mode, the Bonds are subject to optional redemption prior to maturity at the election of the Treasurer, in whole or in part at any time, and in such amounts and series and maturities as the Treasurer may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed together with accrued and unpaid interest to the date fixed for redemption but without premium, provided that no such partial redemption will cause the outstanding principal amount of Bonds to be less than \$10,000,000 without the approval of the Remarketing Agent.

The State also has the right to redeem Bonds which are subject to optional or mandatory tender for purchase without notice on any optional or mandatory tender date. The State also has the right to redeem any Bonds held by or for the benefit of the Bank without notice and prior to other Bonds.

Following conversion to a Fixed Rate Mode, the Bonds are subject to optional redemption prior to maturity at the election of the Treasurer, in whole or in part at any time which is at least ten years after the Conversion Date, and in such amounts and series and maturities as the Treasurer may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed together with accrued and unpaid interest to the date fixed for redemption but without premium.

Sinking Fund Redemption

The Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to one hundred percent (100%) of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to

the date specified for redemption on March 1 in each of the years set forth in the following table, in the principal amount specified in each of such years:

Sinking Fund Payments

<u>Year</u>	<u>Series A-1</u>	<u>Series A-2</u>	<u>Total</u>
2006	\$7,500,000	\$2,500,000	\$10,000,000
2007		10,000,000	10,000,000
2016	15,000,000	20,000,000	35,000,000
2017	35,000,000		35,000,000
2018	45,000,000		45,000,000
2019	45,000,000		45,000,000
2020	45,000,000		45,000,000
2021	45,000,000		45,000,000
2022	20,000,000		20,000,000
2023	10,000,000		10,000,000
TOTAL:	\$267,500,000	\$32,500,000	\$300,000,000

The State, at its option, may credit against any mandatory sinking fund redemption Bonds which have been purchased and canceled by the State or which have been redeemed and not previously applied as a credit against any mandatory sinking fund redemption requirement.

To the extent there are Bonds held by or for the benefit of the Bank, such Bonds shall be first entitled to the benefits of any mandatory sinking fund redemption.

Notice of Redemption

Notice of redemption shall be mailed not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the registered owner of such Bond at such Bondowner’s address as it appears on the registration books of the State. However, no notice of redemption is required for Bonds to be redeemed on any optional or mandatory tender dates or for Bonds to be redeemed which are held by or for the benefit of the Bank. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to DTC.

Book-Entry-Only System

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 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 (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation 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 interests in 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 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 communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 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, and redemption premium, if any, with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the State or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, 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, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

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

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

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC. The State takes no responsibility for the accuracy thereof.

Nature of Obligation

Each Bond when duly issued and paid for will constitute a contract between the State and the owner thereof.

The State general obligation bond procedure act pursuant to which the Bonds are issued provides that the Bonds shall be general obligations of the State and that the full faith and credit of the State are pledged for the payment of the principal of and interest on said Bonds as the same become due. Such act further provides that, as part of the contract of the State with the owners of said Bonds, appropriation of all amounts necessary for the punctual payment of such principal and interest is made, and the Treasurer shall pay such principal and interest as the same become due.

The doctrine of governmental immunity (the right of a state not to be sued without its consent) applies to the State but legislation gives jurisdiction to the Connecticut courts to enter judgment against the State founded upon any express contract between the State and the purchasers and subsequent owners and transferees of bonds and notes issued by the State, including the Bonds, reserving to the State all legal defenses except governmental immunity.

In the opinion of Bond Counsel, the above provisions impose a clear legal duty on the Treasurer to pay principal of and interest on the Bonds when due and, in the event of failure by the State to make such payment when due, a bondowner may sue the Treasurer to compel such payment from any monies available.

For the payment of principal of or interest on the Bonds, the State, acting through the General Assembly, has the power to levy ad valorem taxes on all taxable property in the State without limitation as to rate or amount. The State does not presently levy such a tax.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Sources and Uses of Bond Proceeds

Proceeds of the Bonds are to be applied as follows:

Sources:	
Par Amount of Bonds	\$300,000,000
Other Funds	<u>450,000</u>
Total Sources.....	<u>\$300,450,000</u>
Uses:	
Money Available to State.....	\$300,000,000
Underwriter’s Fee.....	<u>450,000</u>
Total Uses.....	<u>\$300,450,000</u>

LEGALITY FOR INVESTMENT

Under existing State law, the Bonds are legal investments for the State and for municipalities, regional school districts, fire districts, and any municipal corporation or authority authorized to issue bonds, notes or other obligations, State chartered or organized insurance companies, bank and trust companies, savings banks, savings and loan associations and credit unions, as well as executors, administrators, trustees and certain other fiduciaries. Subject to any contrary provisions in any agreement with noteholders or bondholders or other contract, the Bonds also are legal investments for virtually all public authorities in the State.

The Bonds may be accepted by the Comptroller as a substitution for amounts paid as retainage under any State contract or subcontract.

RATINGS

Moody’s Investors Service (“Moody’s”), Standard & Poor’s Rating Services (a division of the McGraw-Hill Companies, Inc.) (“S&P”) and Fitch Ratings (“Fitch”) have assigned their municipal bond ratings of Aa3/VMIG-1, AA/A-1+, and AA/F1+, respectively, to the Bonds. The short term ratings are based on the Standby Bond Purchase Agreement with the Bank. 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 downward revision or withdrawal of any such rating may have an adverse effect on the market prices of the Bonds.

TAX EXEMPTION

Opinion of Bond Counsel and Tax Counsel - Federal Tax Exemption

In the opinion of Bond Counsel and Tax Counsel, under existing law, interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax.

Bond Counsel’s and Tax Counsel’s opinions with respect to the Bonds will be rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”). The Code establishes certain requirements which must be met at and subsequent to the issuance of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for federal income tax

purposes. Failure to comply with the continuing requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Tax Compliance Agreement and the Tax Certificate, which will be delivered concurrently with the issuance of the Bonds, the State will covenant to comply with certain provisions of the Code and will make certain representations designed to assure compliance with such requirements of the Code.

Pursuant to Section 3-20 of the General Statutes of the State, as amended, the State covenants that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

Under the Bonds, the State is required to deliver a Favorable Opinion of Bond Counsel as a condition to taking certain actions. The opinions of Bond Counsel and Tax Counsel to be delivered upon the date of issuance of the Bonds will express no opinion as to the effect of any such action on the continued tax-exempt status of interest on the Bonds.

No other opinion is expressed by Bond Counsel or Tax Counsel regarding the federal tax consequences of the ownership of, or the receipt or accrual of interest on, the Bonds.

Other Federal Tax Matters

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, certain insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

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

State Taxes

In the opinion of Bond Counsel and Tax Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Owners of the Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Bonds and the disposition thereof.

General

The opinions of Bond Counsel and Tax Counsel are rendered as of their date and Bond Counsel and Tax Counsel assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may

come to their attention or any changes in law or the interpretation thereof that may occur after the date of their opinions.

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

CONTINUING DISCLOSURE AGREEMENT

The General Statutes of Connecticut give 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 Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form attached as **Appendix I-C** to this Official Statement (the "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 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. The Underwriter's obligation to purchase the Bonds shall be conditioned upon their receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement. The State has never defaulted in its obligation to provide annual financial information pursuant to a Continuing Disclosure Agreement executed by the State in connection with the sale of any other general obligation bonds, except for a failure to make a timely provision to the nationally recognized municipal securities information repositories (the "NRMSIRs") by February 28, 2005 of audits of its financial statements and certain operating data comparing operating results and unreserved fund balances on a budgetary and GAAP basis for its fiscal year ending June 30, 2004, as required under the State's various continuing disclosure agreements in connection with certain of its prior bond issues. The operating data is included in **Part III**. As soon as the audits are available they will be filed with the NRMSIRs. The State experienced delays in completing its financial statements due to implementation of a new financial management software system, which has resulted in delays in completing its audits, as explained in **Part III**. The State has filed with the NRMSIRs its financial statements and other operating data, which have not been audited, but which the State believes to be accurate in all material respects.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

State Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate of the Treasurer, dated the date of delivery of the Bonds, stating that the Official Statement, as of its date, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that there has been no material adverse change (other than in the ordinary course of the operations of the State) in the financial condition of the State from that set forth in or contemplated by the Official Statement. In providing such certificate, the Treasurer will state that she has not undertaken independently to verify information obtained or derived from various publications of agencies of the Federal government and presented in **Appendix III-B** to this Official Statement under the caption **STATE ECONOMY**.

Absence of Litigation

Upon delivery of the Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the 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 Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of monies to the payment of the Bonds. In addition, such certificate shall state that, except as disclosed in the Official Statement, there is no controversy or litigation of any nature now pending 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 its financial condition or the power of the State to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds.

Approving Opinions of Bond Counsel, Opinions of Disclosure Counsel, Tax Counsel and Underwriter's Counsel

The State Treasurer, with the approval of the Attorney General of the State of Connecticut, has appointed the following firms to serve as Bond Counsel with respect to the Bonds, and delivery of the Bonds will be subject to the approving opinions of Bond Counsel as follows:

- (a) Lewis & Munday, A Professional Corporation with respect to the \$267,500,000 General Obligation Bonds (2005 Series A-1);
- (b) Squire, Sanders & Dempsey L.L.P. with respect to the \$32,500,000 General Obligation Bonds (2005 Series A-2).

The opinion of each Bond Counsel with respect to the series of the Bonds indicated above will be substantially in the form included as **Appendix I-B** to this Official Statement. Certain Bond Counsel have served as underwriters' counsel in connection with other State bond issues.

Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day, Berry & Howard LLP of Hartford, Connecticut.

Certain legal matters will be passed upon for the State by its Tax Counsel, Hunton & Williams LLP.

Certain legal matters will be passed upon for the Underwriter by Underwriter's Counsel, Updike, Kelly & Spellacy, P.C., of Hartford, Connecticut, and Gonzalez, Saggio & Harlan, L.L.P. of Milwaukee, Wisconsin.

FINANCIAL ADVISOR

The State has appointed P.G. Corbin & Company, Inc. to serve as financial advisor to assist the State in the issuance of the Bonds.

UNDERWRITING

The aggregate initial offering price of the Bonds to the public is \$300,000,000. The Underwriter has agreed, subject to certain conditions precedent to closing, to purchase the Bonds from the State at an aggregate purchase price of \$300,000,000 and receive payment of an underwriting fee of \$450,000. The Underwriter will be obligated to purchase all the Bonds, if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriter and other dealers depositing the 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 Underwriter.

ADDITIONAL INFORMATION

It is the present policy of the State to make available, upon request to the Office of the State Treasurer, copies of this Official Statement or parts hereof and subsequent official statements or parts thereof relating to the issuance of its general obligation bonds.

Additional information may be obtained upon request to the Office of the State Treasurer, Denise L. Nappier, Attn: Catherine S. Boone, Assistant Treasurer, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3127.

STATE OF CONNECTICUT

Dated at Hartford, Connecticut
this 11th day of March, 2005

/s/ Denise L. Nappier
Denise L. Nappier
State Treasurer

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TABLE OF STATUTORY AUTHORIZATIONS

Each series of Bonds includes the following authorizations which have been consolidated for purposes of sale:

A.	\$	267,500,000	General Obligation Bonds (2005 Series A-1)
	1.	\$ 7,500,000	Interest Subsidy Bonds (Series L) authorized by Public Act No. 97-265 of the General Assembly of the State of Connecticut, January 1997 Session, as amended.
	2.	\$ 260,000,000	School Construction Bonds (Series OOO) authorized by Chapter 173 of the General Statutes of the State of Connecticut, as amended.
B.	\$	32,500,000	General Obligation Bonds (2005 Series A-2)
	1.	\$ 10,000,000	Local Capital Improvement Fund Bonds (1987 Act, Sections 11 through 14, Series OO) authorized by Sections 11 through 14 of Public Act No. 87-584 of the General Assembly of the State of Connecticut, January 1987 Session, as amended.
	2.	\$ 22,500,000	Capital City Convention Center Bonds (Series I) authorized by Section 32-614 of the General Statutes of the State of Connecticut, Revision of 1958, as amended.

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FORM OF BOND COUNSEL OPINION

The opinion of each Bond Counsel with respect to the series of the Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Bonds and will be substantially in the following form:

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

We have examined a record of proceedings relative to the issuance of \$ _____ General Obligation Bonds (2005 Series A-) (Variable Rate Demand Bonds) of the State of Connecticut (the "Bonds"). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut in the aggregate principal amount of \$300,000,000.

The Bonds are dated as of the date of delivery, mature on March 1, 2023 and bear interest from their dated date, payable on each Interest Payment Date until maturity or earlier redemption, at the Weekly Rate as in effect from time to time as provided in the Bonds until converted to another interest rate mode as provided in the Bonds.

The Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to one hundred percent (100%) of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption, on March 1 in each of the years set forth in the following table, in the principal amount specified in each of such years:

<u>Year</u>	<u>Sinking Fund Payment</u>
	\$

The State, at its option, may credit against any mandatory sinking fund redemption bonds which have been purchased and canceled by the State or which have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

The Bonds are payable as to principal and redemption price, if any, at the office of U.S. Bank National Association, in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the Record Date by check mailed to such registered owner at such owner's address as shown on the registration books kept by the State or its designated agent.

The Bonds are subject to redemption and mandatory tender for purchase prior to maturity as therein provided.

The Bonds are comprised of the following issue[s] of bonds which were authorized by the following statutory provision[s] and have been consolidated as a single issue:

[HERE LIST COMPONENT BOND ISSUES WITH STATUTORY AUTHORIZATIONS]

The Bonds are issued under and pursuant to proceedings taken in accordance with Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended, resolutions adopted by the

State Bond Commission including a resolution adopted on December 13, 2004 and proceedings taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Certificate and a Tax Compliance Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof, not exceeding the aggregate principal amount of Bonds maturing in any year. The Bonds are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company, for the purpose of effecting a book-entry system for the ownership and transfer of the Bonds.

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

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

We are of the opinion that the Bonds, when duly certified by U.S. Bank National Association, will be valid and legally binding general obligations of the State of Connecticut for the payment of the principal of and interest on which the full faith and credit of the State are pledged, and that the State, acting through the General Assembly, has the power to levy ad valorem taxes upon all taxable property within the State without limitation as to rate or amount to pay the principal and interest thereof. We are further of the opinion that the Tax Compliance Agreement is a valid and binding agreement of the State and that the Tax Certificate and the Tax Compliance Agreement were duly authorized by the State.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate the State has made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

We are of the opinion that, under existing law, interest on the Bonds, (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax.

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) continuing compliance by the State with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that

the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance Agreement as to such matters. We also have relied upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of \$300,000,000 as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

We express no opinion regarding other federal or state tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Under the Bonds, the State is required to deliver a Favorable Opinion of Bond Counsel as a condition to taking certain actions. The opinions of Bond Counsel and Tax Counsel to be delivered upon the date of issuance of the Bonds will express no opinion as to the effect of any such action on the continued tax-exempt status of interest on the Bonds.

Respectfully yours,

[INTENTIONALLY LEFT BLANK]

FORM OF 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 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 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 Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement (“Agreement”) is made as of the ___ day of March, 2005 by the State of Connecticut (the “State”) acting by its undersigned officer, duly authorized, in connection with the issuance of \$300,000,000 General Obligation Bonds (2005 Series A) (Variable Rate Demand Bonds) dated as of the date hereof (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 March 11, 2005 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, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
<http://www.bloomberg.com/markets/rates/municontacts.html>
Email: Munis@Bloomberg.com

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

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7391
<http://www.interactivedata.com>
Email: NRMSIR@FTID.com

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

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

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

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

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2004) as follows:

(i) 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 as described in Part III to the Final Official Statement, under the caption **FINANCIAL PROCEDURES - Accounting Procedures**). 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.

(ii) To the extent not included in the financial statements described in (i) above, the financial information and operating data within the meaning of the Rule 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:

1. Until such time as the State's only method of presenting its financial statements is substantially in accordance with generally accepted accounting principles (“GAAP”):

- a. General Fund - Summary of General Fund Operating Results - Budgetary (Modified Cash) Basis (for most recent fiscal year) (See Table 2 and Appendices III-D-6 and III-D-7).
 - b. General Fund - Summary of Operating Results - Budgetary (Modified Cash) Basis vs. GAAP Basis (for most recent fiscal year) (See Table 3).
 - c. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis (as of the end of the most recent fiscal year) (See Table 4 and Appendices III-D-4 and III-D-5).
 - d. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis vs. GAAP Basis (as of the end of the most recent fiscal year) (See Table 5).
2. Statutory Debt Limit (as of end of most recent fiscal year or a later date) (See Table 7).
 3. Direct General Obligation Debt - Outstanding Principal Amount (as of end of most recent fiscal year or a later date) (See Table 8).
 4. Summary of Principal, Mandatory Sinking Fund Payments and Interest on Long-Term Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 10).
 5. Outstanding Long-Term Direct General Obligation Debt (as of end of most recent fiscal year) (See Table 11).
 6. Authorized But Unissued Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 12).
 7. Statutory General Obligation Bond Authorizations and Reductions (for recent fiscal years, if any legislative action) (See Table 13).
 8. Bond Authorizations with Limited or Contingent Liability (as of end of most recent fiscal year or a later date) (See Table 16).
 9. Funding status of the State Employees' Retirement Fund and the Teachers' Retirement Fund.

(b) The financial statements and other financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The State's fiscal year currently ends on June 30. The State has experienced delays in preparing its financial statements for the 2003-2004 fiscal year due to the implementation of a new financial management software system. Consequently, the State anticipates that the audits of its financial statements for the 2003-2004 fiscal year will be provided promptly after the appropriate audits have been completed.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents previously provided to each NRMSIR, any SID, or the SEC. If the document to be cross-referenced is a final official statement, it must be available from the MSRB. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the State.

(d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from

time to time; provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

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

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

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

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

Section 5. Use of Agents.

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

Section 6. Termination.

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

Section 7. Enforcement.

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

In the event the State does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The State expressly acknowledges and the beneficial owners are hereby deemed to expressly agree that no monetary damages shall arise or be

payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds.

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

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

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

STATE OF CONNECTICUT

By _____
Denise L. Nappier
Treasurer

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**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS
OF THE BONDS RELATING TO VARIABLE RATE DEMAND BONDS,
THE STANDBY BOND PURCHASE AGREEMENT AND THE REMARKETING AGREEMENT**

The following is a summary of certain provisions of the Bonds relating to Variable Rate Demand Bonds and the Standby Bond Purchase Agreement. The summary is not to be regarded as a full statement of the terms of the Bonds or the Standby Bond Purchase Agreement and, accordingly, is qualified by reference to the Bonds and the Standby Bond Purchase Agreement and is subject to the full text thereof.

See also **The Bonds - Additional Information Related to Variable Rate Demand Bonds** in the Official Statement for a description of certain other provisions relating to Variable Rate Demand Bonds.

Pursuant to the Bonds, the Paying Agent, the Tender Agent and the State are entitled to treat the Owner of each Bond (including Cede & Co. or any other nominee of DTC as to any such Bond registered in the name thereof) as the owner of such Bond, for all purposes. Neither the Paying Agent, the Tender Agent nor the State shall have any duty or responsibility to recognize the beneficial ownership interest of a Beneficial Owner who has acquired such an interest in Bonds registered in the name of Cede & Co. or any other nominee of DTC. The procedures established by DTC, the Paying Agent, the Tender Agent and the Remarketing Agent for trading, exchanging and registering beneficial ownership interests in Bonds shall be implemented by such persons consistent with the terms of the relevant agreements.

DEFINITIONS

“Agreement Default” means any condition or event which constitutes an event of default under a Standby Bond Purchase Agreement, or which, with the giving of notice or lapse of time or both, would, unless cured or waived, become an event of default under a Standby Bond Purchase Agreement.

“Agreement Expiration Date” means the stated expiration date set forth in a Standby Bond Purchase Agreement, initially 5:00 p.m. New York Time on March 16, 2015 or the preceding Business Day.

“Agreement Termination Event” means an event set forth in a Standby Bond Purchase Agreement which would result in the immediate termination of the Standby Bond Purchase Agreement prior to the Agreement Expiration Date without at least thirty days’ prior notice from the Bank to the Tender Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

“Alternate Liquidity Facility” means any liquidity facility, insurance policy, line of credit, standby bond purchase agreement or other liquidity support or mechanism obtained, delivered, made, entered into or otherwise obtained for the purpose of providing funds for the purchase of tendered Bonds and as a replacement for or in substitution of a Standby Bond Purchase Agreement.

“Authorized Denominations” means \$100,000 or any integral multiple of \$5,000 in excess thereof.

“Auction Rate” means, for any Bond in an Auction Rate Mode, the rate of interest thereon determined in accordance with the provisions of the Bonds for auction rates.

“Auction Rate Mode” means the period during which the Bonds bear interest at an Auction Rate.

“Bank” means the issuer of a Standby Bond Purchase Agreement or Alternate Liquidity Facility pursuant to which the issuer thereof agrees to purchase Bonds tendered for purchase in accordance with the optional or mandatory tender provisions thereof, but not remarketed, initially Dexia Credit Local, acting by and through its New York Branch, its successors or assigns.

“*Bank Bonds*” means any Bonds which are purchased and held by or for the benefit of the Bank pursuant to a Standby Bond Purchase Agreement.

“*Bank Base Rate*” means the base rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially for any day, an interest rate per annum equal to the higher of (i) the fluctuating rate per annum equal to the “prime rate” listed daily in the “Money Rate” section of The Wall Street Journal, or if The Wall Street Journal is not published on a particular Business Day, then, the “prime rate” published in any other national financial journal or newspaper selected by the Bank, and if more than one such rate is listed in the applicable publication, the highest such rate shall be used or (ii) the Federal Funds Rate plus fifty basis points (0.50%). Any change in the Base Rate shall take effect on the date specified in the announcement of such change.

“*Bank Default Rate*” means the default rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially the Bank Base Rate plus 3.00%.

“*Bank Rate*” means the rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially equal to (i) for Bonds held during the period from the Purchase Date to 90 days following the Purchase Date, the Bank Base Rate; (ii) for Bonds held during the period from 91 to 180 days following the Purchase Date, the Bank Base Rate plus 1.00%; and (iii) for Bonds held during the period from 181 or more days following the Purchase Date, the Bank Base Rate plus 2.00%; provided, however, any amount due under the Standby Bond Purchase Agreement which is not paid in full when due shall bear interest at the Bank Default Rate.

“*Bond Counsel*” means legal counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes, selected by the State.

“*Bondholder*” or “*Bondowner*” means a registered owner of any of the Bonds.

“*Bonds*” means any of the \$300,000,000 State of Connecticut General Obligation Bonds (2005 Series A)(Variable Rate Demand Bonds).

“*Business Day*” means any date except Saturday, Sunday, any holiday or other day on which the business offices of the State, the Remarketing Agent, the Paying Agent or the Tender Agent are closed, any other day on which commercial banks located in New York, New York or Hartford, Connecticut are required or authorized to close or any day on which the New York Stock Exchange is closed.

“*Conversion*” means the conversion of the interest rate on the Bonds from the Weekly Rate Mode to the Flexible Rate Mode or from the Flexible Rate Mode to the Weekly Rate Mode or from the Weekly Rate Mode or the Flexible Rate Mode to an Auction Rate Mode, a R-Floats Rate Mode or a Fixed Rate Mode, as provided in the Bonds.

“*Conversion Date*” means for any Bond the date upon which Conversion of the interest rate on such Bond takes effect.

“*Delivery Date*” means the date of initial delivery of the Bonds.

“*DTC*” means The Depository Trust Company or any substitute securities depository appointed by the State.

“*Favorable Opinion of Bond Counsel*” means, with respect to any action the occurrence of which requires such an opinion, an opinion of Bond Counsel, to the effect that such action is permitted under the Bonds and will not, in and of itself, result in the inclusion of interest on the Bonds in gross income for federal

income tax purposes (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

“*Federal Funds Rate*” means for any date, (i) the rate per annum rounded upwards, if necessary, to the nearest one-hundredth of one percent, equal to the weighted average of the rates of overnight federal funds transactions with members of the Federal Reserve System arranged by federal fund brokers as published for such day (or if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York; or (ii) if such rate is not so published for any Business Day, such rate as set forth in a Standby Bond Purchase Agreement.

“*Fixed Rate*” means, for any Bond in a Fixed Rate Mode, the fixed rate of interest thereon determined in accordance with the provisions of the Bonds.

“*Fixed Rate Mode*” means the period during which the Bonds bear interest at a Fixed Rate.

“*Flexible Rate*” means, for any Bond in a Flexible Rate Mode, the rate of interest thereon determined for each Flexible Rate Period in accordance with the provisions of the Bonds.

“*Flexible Rate Mode*” means the period during which the Bonds bear interest at a Flexible Rate.

“*Flexible Rate Period*” means for any Bond the period of time during which such Bond bears interest at the same Flexible Rate, determined in accordance with the provisions of the Bonds.

“*Initial Period*” means the period beginning on the Delivery Date and ending on the first Wednesday which is or follows the Delivery Date.

“*Interest Index*” means (a) the BMA Municipal Swap Index, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “BMA Municipal Swap Index”) or (b) if the BMA Municipal Swap Index is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “Kenny Index”) or (c) if neither of the BMA Municipal Swap Index nor the Kenny Index are published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bonds Market Association to determine the BMA Municipal Swap Index. The Tender Agent shall make the determinations required by this definition, upon notification from the State, if there is no Remarketing Agent or if the Remarketing Agent fails to make any such determination.

“*Interest Payment Date*” means (i) with respect to Bonds bearing interest at a Weekly Rate, the first Business Day of each calendar month following any month during which interest has accrued at a Weekly Rate; (ii) with respect to Bonds bearing interest at a Flexible Rate, the Business Day after the last day of the Flexible Rate Period applicable thereto; and (iii) with respect to Bonds bearing interest at a Fixed Rate, March 1 and September 1.

“*Maximum Rate*” initially means 12% per annum for Bonds in the Weekly Rate Mode or the Flexible Rate Mode. The State may, in order to ensure the remarketing of the Bonds at par value, increase the Maximum Rate for the Bonds and any applicable maximum Bank Rate by delivering to the Remarketing Agent (i) a notice from the State Treasurer stating the amount of the adjusted Maximum Rate and any applicable maximum Bank Rate (ii) an opinion of Bond Counsel, to the effect that such increase in the Maximum Rate will not adversely affect (A) the exclusion of the interest payable on the Bonds from the gross income of the owners of the Bonds for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and (B) the exemption of the interest on the Bonds for purposes of the Connecticut income tax on individuals, trusts and estates, (iii) an amendment to the existing liquidity facility providing that the amount that can be drawn or otherwise made available under the liquidity facility for

the payment of interest on the Bonds is equal to 35 days' interest on the Bonds, in the case of the Bonds during a Weekly Rate Period calculated at the Maximum Rate after giving effect to such increase, (iv) written confirmation from each Rating Agency then rating the Bonds that such increase in the Maximum Rate and any applicable maximum Bank Rate will not, in and of itself, result in a reduction or withdrawal of the ratings on the Bonds. The Remarketing Agent shall give written notice to the State, the Bank, the Tender Agent and the Paying Agent of any increase in the Maximum Rate, promptly upon its receipt of the items referred to in this definition.

"Paying Agent" means the bank or banks, if any, designated by the State to receive and disburse the principal of and interest on the Bonds, initially U.S. Bank National Association, its successors and assigns.

"Purchase Date" means, for any Bond required to be purchased pursuant to the terms thereof, the date on which the Purchase Price is required to be paid pursuant to the Bonds.

"Purchase Price" means, for any Bond required to be purchased pursuant to the terms thereof, an amount equal to 100% of the principal amount thereof, plus accrued interest, if any, thereon, to the Purchase Date.

"Rate Determination Date" means (i) for Bonds bearing interest at a Weekly Rate, each Wednesday beginning March 23, 2005, or the preceding Business Day if any such Wednesday is not a Business Day; and (ii) for Bonds bearing interest at a Flexible Rate, the first Business Day of each Flexible Rate Period.

"Record Date" means 5:00 p.m. New York Time on the Business Day preceding each Interest Payment Date.

"Remarketing Agent" means any firm or firms designated by the State to determine the Weekly Rate or the Flexible Rate or Rates and to remarket tendered Bonds pursuant to a Remarketing Agreement, initially Merrill Lynch, Pierce, Fenner & Smith Incorporated, its successors and assigns.

"Remarketing Agreement" means an agreement entered into by the State and a Remarketing Agent setting forth the provisions pursuant to which tendered Bonds are to be remarketed, as the same may be amended from time to time.

"R-Floats Rate" means, for any Bond in a R-Floats Mode, the rate of interest thereon determined in accordance with the provisions of the Bonds for R-Float rates of interest.

"R-Floats Rate Mode" means the period during which the Bonds bear interest at a R-Floats Rate.

"Standby Bond Purchase Agreement" means the Standby Bond Purchase Agreement, initially between the State and Dexia Credit Local, acting by and through its New York Branch, which provides funds for the purchase of tendered Bonds, and any Alternate Liquidity Facility.

"State" means the State of Connecticut.

"Tender Agent" means the bank or banks, if any, designated by the State to perform the duties of tender agent pursuant to the Bonds, initially U.S. Bank National Association, its successors or assigns.

"Weekly Rate" means, for any Bond in a Weekly Rate Mode, the rate of interest thereon determined weekly in accordance with the provisions of the Bonds.

"Weekly Rate Mode" means the period during which the Bonds bear interest at a Weekly Rate.

PROVISIONS OF THE VARIABLE RATE DEMAND BONDS

Interest Rates

Initial Period - Interest Rate Modes

The Bonds shall bear interest initially at the Weekly Rate as determined by the Remarketing Agent prior to delivery of the Bonds. Thereafter, Bonds shall be either in the Weekly Rate Mode or the Flexible Rate Mode. Bonds in the Weekly Rate Mode shall bear interest at a Weekly Rate until maturity or earlier redemption or Conversion to a Flexible Rate Mode or another interest rate mode. Bonds in the Flexible Rate Mode shall bear interest at a Flexible Rate or Rates until maturity or earlier redemption or Conversion to a Weekly Rate Mode or another interest rate mode. Initially, all Bonds will be in the Weekly Rate Mode. Thereafter the Bonds may be converted from time to time to the Flexible Rate Mode or another interest rate mode.

Weekly Rate Mode

Determination of Rate. Bonds in the Weekly Rate Mode bear interest at the Weekly Rate payable monthly on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date. The Weekly Rate shall be determined each week by the Remarketing Agent by 4:00 p.m. New York Time on each Rate Determination Date and shall take effect on each Thursday following such Rate Determination Date, regardless of whether any such Thursday is a Business Day, and be in effect to and including the following Wednesday, regardless of whether such Wednesday is a Business Day (the "Weekly Rate Period"). The Weekly Rate for each Weekly Rate Period shall be that interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Weekly Rate exceed the Maximum Rate.

In the event the Remarketing Agent fails to determine a Weekly Rate for Bonds in the Weekly Rate Mode, the Bonds shall bear interest at the interest rate equal to the most recent Interest Index as of the Rate Determination Date for each Weekly Period, until a new Weekly Rate is determined by the Remarketing Agent.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Weekly Rate to the Paying Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, electronically or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Paying Agent shall promptly notify the State, the Tender Agent and the Bank of each Weekly Rate.

Flexible Rate Mode

Determination of Flexible Rate and Flexible Rate Period. Bonds in the Flexible Rate Mode bear interest at a Flexible Rate or Rates payable on each Interest Payment Date upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date. The Flexible Rate for each Flexible Rate Period and each Flexible Rate Period applicable to a Bond shall be determined by the Remarketing Agent by 12:45 p.m. New York Time on the first Business Day of each Flexible Rate Period, and shall take effect on the day following the last day of the preceding Flexible Rate Period or Weekly Rate Period, and be in effect to and including the last day of the Flexible Rate Period (the "Flexible Rate Period"). Each Flexible Rate and Flexible Rate Period for any Bond shall be that interest rate and period which, in the judgment of the Remarketing Agent, would cause that Bond to have a market value equal to 100% of the principal amount thereof (exclusive of accrued

interest, if any), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall any Flexible Rate on any Bond exceed the Maximum Rate.

Each Flexible Rate Period shall commence on a Business Day and end on a Business Day. No Flexible Rate Period may be longer than 270 days or be longer than the number of days remaining to a Conversion Date or scheduled Mandatory Sinking Fund Redemption of such Bond. Any Bond may bear interest at a Flexible Rate and for a Flexible Rate Period which is different from every other Bond.

In the event the Remarketing Agent fails to determine a Flexible Rate and a Flexible Rate Period for Bonds in the Flexible Rate Mode, the Flexible Rate Periods for such Bonds shall begin on each Business Day and extend through the day preceding the next Business Day, and the Bonds shall bear interest at a rate equal to the most recent Interest Index as of the Rate Determination Date for each Flexible Rate Period, until a new Flexible Rate Period and Flexible Rate is determined by the Remarketing Agent.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Flexible Rate and Flexible Rate Period and the amount of Bonds bearing interest at each Flexible Rate and Flexible Rate Period to the Paying Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, electronically or by telephone; provided that telephonic notice shall be promptly confirmed in writing. The Paying Agent shall promptly notify the State, the Tender Agent and the Bank of each Flexible Rate and Flexible Rate Period and the amount of Bonds bearing interest at each Flexible Rate and Flexible Rate Period.

Binding Effect. Each determination of the interest rate for the Bonds, the terms of each Flexible Rate Period and the amount of Bonds bearing the same Flexible Rate for the same Flexible Rate Period shall be conclusive and binding upon the Bondholders, the State, the Remarketing Agent, the Tender Agent, and the Paying Agent. Upon telephonic request to the Remarketing Agent from the State, the Tender Agent, the Paying Agent or any Bondholder, the Remarketing Agent shall inform such person of the interest rate or rates, the terms of any Flexible Rate Period and the amount of Bonds bearing the same Flexible Rate for the same Flexible Rate Period, then in effect on the Bonds. Failure of the Remarketing Agent to give any of the notices described in the Bonds, or any defect therein, shall not affect the interest rate or rates to be borne by any Bond nor in any way change the rights or obligations of Bondholders to tender their Bonds for purchase in accordance with the Bonds.

Optional Tender

Weekly Rate Mode

Bonds in the Weekly Rate Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written or telephonic notice (promptly confirmed in writing) of tender to the Tender Agent not later than 5:00 P.M., New York Time, on a Business Day not fewer than seven days prior to the Purchase Date. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode.

Notice of Tender. At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing or by telephone (and promptly confirmed in writing) to the Tender Agent at its corporate trust office by 3:00 P.M., New York Time, on a Business Day not fewer than seven days prior to the Purchase Date, which may be any Business Day prior to conversion of the Bonds to a Flexible Rate Mode or another interest rate mode, and be in a form satisfactory to the Tender Agent;

(ii) state, whether delivered in writing or by telephone, (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an Authorized Denomination and which leaves the retained portion of the Bond in an amount which is an Authorized Denomination, (C) the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder. The Tender Agent shall promptly notify the State and the Remarketing Agent upon receipt of a notice of tender.

Tender of Portions of Bonds. In the event a Bondholder files with the Tender Agent a tender notice with respect to a portion of a Bond in an Authorized Denomination, such Bondholder shall be required to deliver such Bond to the Tender Agent along with the tender notice. The Tender Agent shall pay the Purchase Price for such portion as provided herein and the Paying Agent shall issue in the name of such Bondholder a new Bond in the amount not so purchased, which Bond the Tender Agent shall forward to such Bondholder. Notwithstanding anything to the contrary contained herein, no Bondholder shall be entitled to tender a portion of such Bond for purchase unless the portion of such Bond not to be so purchased shall be in an Authorized Denomination.

Flexible Rate Mode

Bonds bearing interest at Flexible Rates may **not** be tendered for purchase at the option of the Holders.

Conversion

The Bonds may be converted from the Weekly Rate Mode to the Flexible Rate Mode or from the Flexible Rate Mode to the Weekly Rate Mode. Any Conversion Date shall be a Business Day.

The State shall give written notice of Conversion at least thirty (30) days prior to the Conversion Date to the Tender Agent, the Paying Agent and the Remarketing Agent, which notice shall specify the proposed Conversion Date and the conditions to conversion, if any, and shall request the Tender Agent to give written notice of such Conversion to Bondholders as described below under “Mandatory Tender Upon Conversion to Flexible Rate Mode” or “Mandatory Tender Upon Conversion to Weekly Rate Mode”, as appropriate.

In the event that (1) the Bonds are converted from the Weekly Rate Mode to the Flexible Rate Mode and (2) the State causes the commitment of the Bank to pay accrued interest with respect to any tender of the Bonds to be reduced to zero, the State will not cause the Bonds to be converted from the Flexible Rate Mode to the Weekly Rate Mode unless and until such commitment of the Bank to pay accrued interest with respect to any tender of the Bonds has been reinstated.

Mandatory Tender

Agreement to Tender Bonds

Any Bondholder, by its acceptance of the Bonds, agrees to tender its Bonds to the Tender Agent for purchase on dates on which such Bonds are subject to mandatory tender, and upon such transfer, to surrender such Bonds, properly endorsed for transfer in blank.

Any notice mailed as provided in this section shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice, and the failure of such Bondholder to receive any such notice shall not affect the validity of the action described in such notice.

Weekly Rate Mode

Bonds bearing interest at a Weekly Rate are subject to mandatory tender for purchase upon conversion to a Flexible Rate Mode and upon the expiration, substitution or termination, pursuant to a termination notice, of a Standby Bond Purchase Agreement or Alternate Liquidity Facility. Bonds are **not** subject to mandatory tender solely as a result of the occurrence of an Agreement Termination Event resulting in the termination of a Standby Bond Purchase Agreement or Alternate Liquidity Facility prior to the Agreement Expiration Date. The Tender Agent shall give notice to the Bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement.

Mandatory Tender Upon Conversion to Flexible Rate Mode. If Bonds are to be converted from the Weekly Rate Mode to a Flexible Rate Mode, Bonds to be so converted are subject to mandatory tender for purchase on the Conversion Date at a Purchase Price equal to 100 percent of the principal amount of the Bonds, plus accrued interest. The State shall give written notice of such Conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders by first class mail or at the State's option certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. The Bonds are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement or any Alternate Liquidity Facility; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement or any Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under the Standby Bond Purchase Agreement or Alternate Liquidity Facility. The Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100 percent of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the State, shall give written notice to Bondholders at least fifteen (15) days prior to such mandatory tender date.

Flexible Rate Mode

Each Bond bearing interest at a Flexible Rate is subject to mandatory tender for purchase on the Business Day following the last day of each Flexible Rate Period applicable to such Bond, upon Conversion to a Weekly Rate Mode, and upon the expiration, substitution or termination, pursuant to a termination notice, of a Standby Bond Purchase Agreement or Alternate Liquidity Facility. Bonds are **not** subject to mandatory tender solely as a result of the occurrence of an Agreement Termination Event resulting in the termination of a Standby Bond Purchase Agreement or Alternate Liquidity Facility prior to the Agreement Expiration Date.

The Tender Agent shall give notice to the Bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement.

Mandatory Tender Upon End of Each Flexible Rate Period. Each Bond in the Flexible Rate Mode is subject to mandatory tender for purchase on the Business Day following the last day of the Flexible Rate Period applicable to such Bond at a Purchase Price equal to 100 percent of the principal amount of such Bond plus accrued interest. No notice of such mandatory tender shall be given.

Mandatory Tender Upon Conversion to Weekly Rate Mode. If Bonds are to be converted from the Flexible Rate Mode to the Weekly Rate Mode, Bonds to be so converted are subject to mandatory tender for purchase on the Conversion Date at a Purchase Price equal to 100 percent of the principal amount of the Bonds, plus accrued interest. The State shall give written notice of such Conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders by first class mail or at the State's option certified mail, return receipt requested, at least fifteen (15) days prior to the Conversion Date, setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. The Bonds are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement or any Alternate Liquidity Facility; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement or any Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under the Standby Bond Purchase Agreement or Alternate Liquidity Facility. The Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100 percent of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the State, shall give written notice to Bondholders at least fifteen (15) days prior to such mandatory tender date.

Weekly Rate Mode or Flexible Rate Mode

Mandatory Tender Upon Conversion to Auction Rate Mode, R-Floats Rate Mode or Fixed Rate Mode. If Bonds are to be converted to an Auction Rate Mode, a R-Floats Rate Mode or a Fixed Rate Mode, Bonds to be so converted are subject to mandatory tender for purchase on the Conversion Date. The Purchase Price for such tenders shall equal 100 percent of the principal amount of the Bonds, plus accrued interest. If Bonds are to be converted, the State shall give written notice of such conversion to the Tender Agent, the Paying Agent, the Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders of such Bonds by first class mail or at the State's option certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Delivery and Payment for Tendered Bonds

The Tender Agent, on behalf of the State, shall purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds.

Delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 P.M., New York Time, on the Business Date which is the Purchase Date in order for tendering Bondholders to be paid in immediately available funds by 4:00 P.M., New York Time, on such day. If the Bonds are delivered after 1:00 P.M., New York Time, payment will be made on the next Business Day without

any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

On any date when Bank Bonds are released to the Tender Agent by the Bank, the Purchase Price of such Bonds released to the Tender Agent shall be paid by wire transfer to the Bank at the wire transfer address specified in the Standby Bond Purchase Agreement.

Conversion of Bonds to an Auction Rate Mode or R-Floats Rate Mode

The Bonds may be converted to an Auction Rate Mode or a R-Floats Rate Mode. Any Conversion Date shall be a Business Day.

The State shall give written notice of Conversion at least thirty (30) days prior to the Conversion Date to the Tender Agent, the Paying Agent and the Remarketing Agent, which notice shall specify the proposed Conversion Date and the conditions to Conversion, if any, and shall request the Tender Agent to give written notice of such Conversion to Bondholders as described above under "Mandatory Tender Upon Conversion to Auction Rate Mode or R-Floats Rate Mode", as appropriate.

No Conversion to an Auction Rate Mode shall occur unless the State has entered into an Auction Agent Agreement and approved a Broker Dealer Agreement in the manner provided in the Bonds for Bonds in an Auction Rate Mode, and the State has received a Favorable Opinion of Bond Counsel. Upon Conversion to an Auction Rate Mode the Bonds so converted shall bear interest at the Auction Rate as provided in the Bonds.

No Conversion to a R-Floats Rate Mode shall occur unless the State has entered into a Tender Agent Agreement with a Tender Agent and a Remarketing Agreement with a Remarketing Agent in the manner provided in the Bonds for Bonds in a R-Floats Rate Mode, and the State has received a Favorable Opinion of Bond Counsel. Upon conversion to a R-Floats Rate Mode, the Bonds so converted shall bear interest at the R-Floats Rate as provided in the Bonds.

Conversion of Bonds to Fixed Rate

The State may direct that all or a portion of the Bonds be converted to bear interest at a Fixed Rate to maturity by written notice to the Remarketing Agent, the Tender Agent and the Paying Agent at least 30 days before the proposed Conversion Date. The Conversion Date must be an Interest Payment Date. Not later than 15 days prior to the date of conversion of all or a portion of the Bonds to a Fixed Rate the Paying Agent shall give notice of the conversion to a Fixed Rate to all owners of Bonds selected to be converted. If on the date the Remarketing Agent determines the Fixed Rate, the Remarketing Agent also determines that the Bonds to be converted would bear a lower effective net interest cost if such Bonds were serial bonds or serial bonds and term bonds with the maturity (or Mandatory Sinking Fund Redemption payment) dates and principal amounts matching the Mandatory Sinking Fund Redemption payments, in which event the Bonds shall become serial bonds or serial bonds and term bonds with such maturity (or Mandatory Sinking Fund Redemption payment) dates and principal amounts and shall bear separate Fixed Rates for each maturity. The Remarketing Agent shall determine the Fixed Rate or Rates not later than 4:00 p.m. New York City time on the Rate Determination Date. The Fixed Rate or Rates shall be the minimum interest rates which, in the judgment of the Remarketing Agent, will result in a sale of the Bonds of the applicable Series at a price equal to the Purchase Price on the Rate Determination Date. The Remarketing Agent shall make the Fixed Rates available by telephone to any Holder, the State, the Paying Agent, the Tender Agent, and the Bank. Upon request of any Holder, the State, the Paying Agent or the Bank, the Tender Agent shall give notice of such rates by electronic Means. Such determination shall be conclusive and binding upon the State, the Paying Agent, the Tender Agent, the Remarketing Agent and the Holders. On the Conversion Date applicable to the Bonds to be converted, the 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, subject to and in accordance with the Bonds; provided, however, that in the event of a failed conversion to a Fixed Rate, the Bonds will not be subject to mandatory tender, will be returned to their owners and will bear interest at the Maximum Rate for the Weekly Rate Mode until the next Rate Determination Date.

If the notices referred to above have been given, and the State has received a Favorable Opinion of Bond Counsel, the Conversion to a Fixed Rate shall occur. After the Conversion Date, interest on Bonds converted to a Fixed Rate will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on March 1 and September 1 in each year to the registered owner as of the close of business on the fifteenth day of February and August in each year or the preceding business day if such fifteenth day is not a Business Day. Bonds converted to a Fixed Rate will be subject to optional redemption as described below.

If a portion of the Bonds are converted to a Fixed Rate the sinking fund redemption amounts or serial maturities for each year shall be allocated pro rata between the principal amount of Bonds converted to a Fixed Rate and the principal amount of Bonds not so converted.

Following conversion to a Fixed Rate, the Bonds are subject to optional redemption prior to maturity at the election of the Treasurer, in whole or in part, at any time which is at least ten years after the Conversion Date, and in such amounts as the Treasurer may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed together with accrued and unpaid interest to the date fixed for redemption but without premium.

Notice of redemption shall be mailed not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the registered owner of such Bond at such Bondowner's address as it appears on the registration books of the State.

Failure to Convert

If the conditions to Conversion to an Auction Rate Mode, a R-Floats Rate Mode or a Fixed Rate Mode are not satisfied, the Conversion shall not take effect and the Bonds shall remain in the Weekly Rate Mode or the Flexible Rate Mode, as applicable.

Book-Entry Bonds

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the State, the Tender Agent, the Underwriters nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., Inc. as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC in accordance with any Letter of Representation with DTC.

Remarketing of Tendered Bonds; Bank Bonds

Merrill Lynch, Pierce, Fenner & Smith Incorporated is appointed the initial Remarketing Agent for the Bonds. The Remarketing Agent shall accept the duties and obligations thereof by execution and delivery of a Remarketing Agreement with the State under which the Remarketing Agent will agree, among other things, to perform the duties of Remarketing Agent as provided in the Bonds, to keep records regarding the remarketing of Bonds and determining the interest rates on the Bonds and to make such records available for inspection by the State at all reasonable times.

The Remarketing Agent shall be authorized by law to perform all the duties imposed upon it by the Bonds. The Remarketing Agent may resign or may be removed at any time upon at least thirty (30) days' written notice. The Remarketing Agent may terminate its duties in certain circumstances upon notice to the State as provided in the Remarketing Agreement.

If the Remarketing Agent resigns or is removed, the State shall have the power to appoint another Remarketing Agent, and the former Remarketing Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity, other than Bonds held for its own account, to its successor.

The Paying Agent, the Tender Agent, the Bank, any Standby Bond Purchase Agreement issuer or the Remarketing Agent, each in its individual capacity, may in good faith and to the extent otherwise permitted by law, buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any Bondholder of the Bonds may be entitled to take with like effect as if it did not act in any capacity hereunder. The Paying Agent, the Bank, each Standby Bond Purchase Agreement issuer, the Tender Agent or the Remarketing Agent, each in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the State, and may act as depository, trustee, or agent for any committee or body of Bondholders of any Bonds secured hereby or other obligations of the State as freely as if it did not act in any capacity hereunder or under the Standby Bond Purchase Agreement.

The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. In the event the Remarketing Agent is unable to remarket tendered Bonds, the Standby Bond Purchase Agreement provides that the Bank agrees to purchase any such Bonds from time to time in an amount not to exceed the principal amount thereof plus (for Bonds in the Weekly Rate Mode) accrued interest up to 35 days at the Maximum Rate, subject to the terms and provisions set forth in the Standby Bond Purchase Agreement. Bank Bonds shall bear interest at the Bank Rate and may have such terms as are set forth in a Standby Bond Purchase Agreement. To the extent there are Bank Bonds such Bank Bonds shall be first entitled to the benefits of any mandatory sinking fund redemption or any optional redemption.

Alternate Liquidity Facility

A Standby Bond Purchase Agreement may be replaced or substituted with an Alternate Liquidity Facility at the option of the State in accordance with the terms of the Standby Bond Purchase Agreement. Any Alternate Liquidity Facility may contain such terms as the State and the Bank may determine, and the Bonds may be amended without consent of the Bondholders to reflect the terms of an Alternate Liquidity Facility which are applicable to Bank Bonds.

If, at any time, in accordance with the Standby Bond Purchase Agreement, the State obtains an Alternate Liquidity Facility, then the Tender Agent shall give prompt notice to the Bondholders that the State has obtained an Alternate Liquidity Facility and that the Standby Bond Purchase Agreement will terminate pursuant to the terms of the Standby Bond Purchase Agreement. The notice shall state: (a) the principal terms

of the Alternate Liquidity Facility; and (b) that the Bonds shall be subject to mandatory tender on the substitution date, and explaining the terms of such mandatory tender.

Any Alternate Liquidity Facility shall meet the following criteria:

(a) Any Alternate Liquidity Facility shall provide that funds may be advanced for the purposes, in the amounts and at the times provided in the Bonds and shall contain administrative provisions satisfactory to the Tender Agent.

(b) Any Alternate Liquidity Facility shall have a term of not less than the remaining term of the Standby Bond Purchase Agreement which such Alternate Liquidity Facility is replacing.

(c) At least five (5) Business Days prior to the delivery to the State of the Alternate Liquidity Facility as provided in the preceding paragraph, the State shall have received an irrevocable commitment to issue or enter into such Alternate Liquidity Facility and on the substitution date the State shall have received an opinion of counsel for the provider or providers of the Alternate Liquidity Facility that the Alternate Liquidity Facility and any documents related to it constitute legal, valid and binding obligation(s) of such provider of the Alternate Liquidity Facility enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, moratorium or insolvency or by equitable principles.

(d) No Alternate Liquidity Facility shall be effective unless the provider of an Alternate Liquidity Facility shall purchase all Bonds held by or for the account of the Bank on the substitution date, and all Bonds held by the Bank shall be paid in full on or prior to the Substitution Date.

If at any time thirty (30) days remain until the Agreement Expiration Date and the Standby Bond Purchase Agreement has not been renewed or replaced or the State has not obtained a written commitment for such renewal or replacement, the Tender Agent shall promptly give notice to the Bondholders that (i) the Standby Bond Purchase Agreement is scheduled to expire and stating the date of such expiration; (ii) the State has not obtained an Alternate Liquidity Facility; and (iii) the Bonds shall be subject to mandatory tender and explaining the terms of such mandatory tender.

Tender Agent

Tender Agent Custody. The Tender Agent shall hold all Bonds (or portions thereof in Authorized Denominations) delivered to it for purchase for the benefit of the respective Bondholder thereof until moneys representing the Purchase Price or redemption price of such Bonds (or portions thereof in Authorized Denominations), as the case may be, shall have been delivered to or for the account of or to the order of the Bondholders thereof.

Procedure for Purchase of Bonds. On the date any Bonds are to be purchased, the Tender Agent shall purchase, but only from the funds and in the order of priority listed below, such Bonds at the Purchase Price thereof:

- (a) Moneys derived from the remarketing of Bonds; and
- (b) Any amounts derived from a draw against the Standby Bond Purchase Agreement; and
- (c) Amounts on deposit in the General Fund of the State appropriated and available therefor.

Any amounts held pursuant to paragraph (a) or (b) above shall be held uninvested until applied as provided herein.

By the close of business (New York Time) on the Business Day following the date on which Bondholders of Bonds in a Weekly Rate Mode have delivered a tender notice to the Tender Agent, the Tender Agent shall provide to the Bank and the Remarketing Agent a notice from the Tender Agent specifying the applicable Purchase Date and the aggregate principal amount of Bonds to be purchased on such Purchase Date.

By 3:00 P.M. (New York Time) on the Business Day prior to the Purchase Date, the Remarketing Agent shall provide to the Bank and the Tender Agent a notice from the Remarketing Agent setting forth the principal amount of Bonds that have not been remarketed by the Remarketing Agent.

By 5:00 P.M. (New York Time) on the Business Day prior to the Purchase Date, the Tender Agent shall provide to the Bank a notice from the Tender Agent as to the Purchase Price expected to be required to be paid by the Bank on the Purchase Date.

By 11:00 A.M. (New York Time) on the Purchase Date, the Tender Agent shall provide to the Bank a notice from the Tender Agent indicating the exact amounts that will be required to be paid by the Bank, in order to pay the Purchase Price of all tendered Bonds that have not been remarketed at or prior to such time; and

By 11:00 A.M. (New York Time) on each Purchase Date the Tender Agent shall promptly take all action in accordance with the Standby Bond Purchase Agreement necessary to draw under the Standby Bond Purchase Agreement an amount sufficient to pay the Purchase Price of the Bonds on the Purchase Date for which the Tender Agent has not received moneys from the Remarketing Agent from remarketed Bonds.

On the Purchase Date, the Tender Agent shall make provision for the account of the Bank at DTC to be credited such that the Bank becomes the beneficial owner of the tendered Bonds that have not been remarketed and have been purchased by the Bank, in accordance with the standing procedures of DTC.

Notice to Rating Agencies. The Tender Agent shall give notice to Moody's Investors Service, Standard & Poor's Rating Services and Fitch Ratings at the addresses set forth below of (i) any change to the Standby Bond Purchase Agreement or the Bonds; or (ii) the termination, substitution, expiration or extension of the Standby Bond Purchase Agreement or (iii) any redemption of Bonds.

Moody's Investors Service
Public Finance Group
99 Church Street, 9th Floor
New York, New York 10007

Standard & Poor's Rating Services
55 Water Street
New York, New York 10004

Fitch Ratings
One State Street Plaza, 33rd Floor
New York, New York 10004

Non-Delivery of Bonds. In the event that any Bonds required to be tendered or with respect to which a tender notice has been sent are not delivered to the Tender Agent at the time, in the manner and at the place required, the undelivered Bonds will be deemed to have been tendered and purchased by the Tender Agent, and interest accruing on such Bonds on and after the applicable Purchase Date shall no longer be payable to the prior Bondholders thereof. Such prior Bondholders shall have recourse solely to the funds held by the Tender Agent for the purchase of the undelivered Bonds, and the Tender Agent and Paying Agent shall not recognize any further transfer of such undelivered Bonds by such prior Bondholders. The Paying Agent or Tender

Agent, as the case may be, shall register the transfer of such Bonds to the purchaser thereof and shall issue a new Bond or Bonds and deliver the same pursuant to the Bonds, notwithstanding such non-delivery.

The Tender Agent shall at the end of the fifth Business Day after each date upon which Bonds are deemed tendered, deposit with the Paying Agent all funds then held by the Tender Agent by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the provisions thereof. The Paying Agent shall set aside such amount on its books and hold the same in trust for the payment to the prior Bondholders of such Bonds of the Purchase Price thereof. Any such moneys which remain unclaimed for two years after the date such moneys were so deposited with the Paying Agent shall at the written request of the State be paid by the Paying Agent to the State as its absolute property and free from trust, and the Paying Agent shall thereupon be released and discharged with respect thereto and the prior Bondholders of such Bonds shall look only to the State for the payment of the Purchase Price of such Bonds.

Other Duties. Any unremarketed Bonds purchased by the Bank by funds advanced to the Tender Agent under the Standby Bond Purchase Agreement shall be registered in the name of the Bank or its designee (as specified in writing by Bank) and shall be delivered to the Bank or its designee on the applicable Purchase Date. At any time the Bonds are registered in the name of a securities depository, the Bonds shall be deemed purchased under the Standby Bond Purchase Agreement upon the making of appropriate entries on the books of the securities depository showing such Bonds entered in the account of the Bank or its nominee maintained at such securities depository.

The State hereby authorizes the Tender Agent to agree to hold such unremarketed Bonds as custodian for the account of the Bank as Bank Bonds, and to deliver such Bank Bonds to or at the direction of the Bank. With respect to such Bank Bonds the Remarketing Agent shall be required, subject to the provisions of the Remarketing Agreement, to offer for sale, and use its best efforts to sell, such Bank Bonds, at the principal amount thereof. The Remarketing Agent may not, however, sell any such Bank Bonds at a discount or a premium. The Remarketing Agent shall remarket such Bank Bonds as if such Bank Bonds were in the same interest rate mode, bearing interest at the same interest rate as Bonds not held by the Bank. No Bank Bonds purchased with proceeds from the Standby Bond Purchase Agreement shall be sold unless the commitment of the Bank to purchase Bonds as provided in the Standby Bond Purchase Agreement is immediately reinstated upon each sale. The proceeds received from the purchaser of any Bank Bonds so remarketed and resold pursuant to the foregoing sentence shall be paid to the Bank.

In the event of a redemption of any Bank Bonds, the Paying Agent shall remit to the Bank the Redemption Price of such Bank Bonds.

The Tender Agent agrees to:

(a) hold all Bonds properly tendered to it for purchase as agent and bailee of, and in escrow for the benefit of, the respective Bondholders which shall have so tendered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders;

(b) hold all moneys delivered to it for the purchase of Bonds as agent and bailee of, and in escrow for the benefit of, the purchaser which shall have so delivered such moneys, until the Bonds purchased with such moneys shall have been delivered to or for the account of such purchaser;

(c) keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the other parties;

(d) hold all Bank Bonds delivered to it in trust for the benefit of the Bank on behalf of the Bank in accordance with the Standby Bond Purchase Agreement until such Bonds are released by the Bank upon payment therefor or until such Bonds are deemed tendered;

(e) provide to the Paying Agent as soon as practicable after the close of business on each Record Date, but in no case later than 1:00 P.M., New York Time, on the applicable Interest Payment Date, a list of the names and addresses of the Bondholders as of such Record Date; and

(f) give notices as required at the times and in the manner specified in the Bonds.

Upon receipt by the Tender Agent of any tender notice or upon receipt by the Tender Agent of any Bonds delivered pursuant to such tender notice for purchase, the Tender Agent shall, upon request, deliver to the party delivering the tender notice and the Bonds, written evidence of the Tender Agent's receipt of such tender notice or Bonds. The Tender Agent shall promptly return any tender notice (together with the Bonds submitted in connection therewith) that is incomplete or improperly completed or not delivered by the date and time required hereunder to the party submitting such notice upon surrender of the receipt, if any, issued therefor. The Tender Agent's determination of whether a tender notice is properly completed or delivered on a timely basis shall be binding on the State and the Bondholder of the Bonds submitted therewith.

The Tender Agent shall initially be U.S. Bank National Association. Any successor Tender Agent shall be a commercial bank having trust powers or a trust company or a national banking association, having a capital and surplus aggregating at least \$50,000,000 and authorized by law to perform all the duties imposed upon it hereby and shall be rated Baa 3 or higher by Moody's. The Tender Agent may at any time resign and be discharged of the duties and obligations created hereby by giving at least sixty (60) days' notice to the State. The Tender Agent may be removed at any time by the State upon at least seven (7) days' notice. No such resignation or removal shall take effect until the appointment of, and the acceptance of such appointment by, a successor Tender Agent. Successor Tender Agents may be appointed from time to time by the State. Upon the resignation or removal of the Tender Agent, the Tender Agent shall deliver any Bonds and moneys held by it in such capacity to its successor.

The Tender Agent upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Bonds shall examine such instrument to determine whether it conforms to the requirements hereof and shall, in the absence of negligence or willful misconduct on the part of the Tender Agent, be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Tender Agent may consult with counsel and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever the Tender Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the State, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof upon the faith thereof; but in its discretion the Tender Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

In the event that the Tender Agent is required to act pursuant to the terms hereof upon the receipt of telephonic notice, such notice shall be promptly confirmed in writing. If such notice shall not be so confirmed, the Tender Agent shall be entitled to rely upon such telephonic notice for all purposes whatsoever.

In receiving Bonds hereunder, the Tender Agent shall be acting as a conduit and shall not be purchasing such Bonds for its own account.

STANDBY BOND PURCHASE AGREEMENT

The initial Standby Bond Purchase Agreement is between the **State of Connecticut** (the “Borrower”), and **Dexia Credit Local** (the “Bank”), acting through its New York Branch.

In addition to the definitions above, the following definitions apply to the Standby Bond Purchase Agreement:

“Act” means Section 3-20 of the Connecticut General Statutes, Revision of 1958, as amended to date.

“Agreement” means the Standby Bond Purchase Agreement.

“Authorized Principal Sum” means \$100,000 or any integral multiple of \$5,000 in excess thereof.

“Available Commitment” as of any day means the sum of the Available Principal Commitment and the Available Interest Commitment, in each case as of such day.

“Available Interest Commitment” initially means \$3,452,055 and, upon any change in the amount of the Available Principal Commitment hereunder, means an amount equal to thirty-five (35) days accrued interest at twelve percent (12%) per annum (computed on the basis of a year of 365 days for the actual number of days elapsed) on the Available Principal Commitment then in effect; provided, however, in the event the Available Interest Commitment is reduced as provided in the Agreement upon the conversion of the Bonds to the Flexible Rate Mode, the Available Interest Commitment shall be zero.

“Available Principal Commitment” initially means \$300,000,000 and thereafter means such initial amount as adjusted from time to time pursuant to the Agreement.

“Bank Obligations” means Bank Bonds, all fees relating to the Agreement, and all other obligations, indebtedness, and liabilities of the Borrower to the Bank, now or hereafter arising under or in connection with the Agreement.

“Bond Documents” means the Resolutions, the Bonds, the Remarketing Agreement, the Agreement and the Tender and Paying Agent Agreement.

“Default” means any condition or event which constitutes an Event of Default or which, with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“Default Rate” means a fluctuating per annum rate of interest, computed on the basis of the actual number of days elapsed and a 365/366-day year, as applicable, equal to the Base Rate plus three percent (3%).

“Effective Date” means March 16, 2005.

“Event of Default” has the meaning set forth in the Agreement.

“Excluded Bonds” means Bonds which are (i) Bank Bonds, or (ii) owned by or held for the benefit of the Borrower.

“Expiration Date” means the earliest to occur of (a) the Stated Expiration Date, (b) the first Business Day upon which no Bonds remain Outstanding, (c) the Termination Date, or (d) the Business Day on which an Alternate Liquidity Facility becomes effective.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of Delaware, its successors and assigns and, if such corporation is dissolved or liquidated or no longer performs the functions

of a securities rating agency “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency then rating the Bonds; provided, however, such other nationally recognized securities rating agency shall be acceptable to Bank.

“Governmental Authority” means any nation or government, any state or political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory, or administrative functions of or pertaining to government.

“Highest Rate” means, with respect to the Agreement or the transactions contemplated thereunder, twenty-five percent (25%) per annum.

“Material Indebtedness” means any payment obligation of the Borrower constituting a general obligation of the Borrower to which its full faith and credit is pledged issued or incurred pursuant to the Act.

“Moody’s” means Moody’s Investors Service, its successors and assigns and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other national recognized securities rating agency then rating the Bonds; provided, however, such other nationally recognized securities rating agency shall be acceptable to the Bank.

“Notice of Bank Purchase” means the notice in the form of Exhibit A to the Agreement given by the Tender Agent to the Bank in connection with the purchase of Tendered Bonds by the Bank pursuant to the Agreement.

“Outstanding” means Bonds which have been issued but not repaid or defeased.

“Owner” means the registered owner of any Bond.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, a limited liability company or any other entity or organization, including a Governmental Authority or any other government or political subdivision or any agency or instrumentality thereof.

“Purchase Period” means the period from the Effective Date to and including the Expiration Date; provided, that if the Expiration Date is not a Business Day, the Purchase Period shall end on the preceding Business Day.

“Purchase Price” means, with respect to any Tendered Bond, the unpaid principal amount thereof and interest accrued and unpaid thereon from the prior Interest Payment Date to but excluding the Purchase Date in each case without premium; provided that the portion of the Purchase Price for any Tendered Bond consisting of principal shall not exceed the Available Principal Commitment and the portion consisting of accrued and unpaid interest shall not exceed the Available Interest Commitment; and provided, further, if the Purchase Date for any Tendered Bond is also an Interest Payment Date, the Purchase Price shall not include any interest accrued on the Tendered Bond.

“Rating Agency” means Moody’s, S&P or Fitch, collectively or individually, as applicable.

“S&P” means Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency then rating the Bonds; provided, however, such other nationally recognized securities ratings agency shall be acceptable to the Bank.

“Standby Bond Purchase Agreement” means the Standby Bond Purchase Agreement between the State and the Bank.

“Stated Expiration Date” means 5:00 p.m. (New York time) on March 16, 2015 or if such day is not a Business Day, the immediately preceding day that is a Business Day, or any extension thereof by the Bank pursuant to the Agreement.

“Tender and Paying Agent Agreement” means the Tender and Paying Agent Agreement dated as of the date of issue of the Bonds by and among between the Borrower, the Paying Agent and the Tender Agent, initially U.S. Bank National Association, and any other Tender and Paying Agent Agreement executed by the Borrower, a Tender Agent and a Paying Agent with respect to the Bonds.

“Tendered Bonds” means Bonds which have been tendered or which are deemed to be tendered pursuant to the optional or mandatory tender provisions of the Bonds; provided, however, that any Bonds which are Excluded Bonds shall not be Tendered Bonds.

Commitment to Purchase Bonds. Subject to the terms and conditions of the Agreement, the Bank agrees to purchase unremarketed Tendered Bonds from time to time on a Purchase Date during the Purchase Period at the Purchase Price; provided, however, that (a) the aggregate principal amount of any unremarketed Tendered Bonds purchased on any Purchase Date shall be in an Authorized Principal Sum, (b) the aggregate principal amount of all unremarketed Tendered Bonds purchased on any Purchase Date shall not exceed the Available Principal Commitment on such date and (c) the aggregate amount of accrued and unpaid interest paid as a part of the Purchase Price of such Tendered Bonds shall not exceed the Available Interest Commitment on such date. Notwithstanding anything to the contrary contained in the Agreement, only unremarketed Tendered Bonds shall be entitled to the benefits of the Agreement.

Bank’s Rights as Bond Owner. During such time as the Bank holds any Bank Bond, the Bank shall have all rights granted to Owners under the Bonds as well as any additional rights as may be granted to the Bank under the Agreement or under any of the Bond Documents. Bank Bonds shall bear interest at the Bank Rate or the Default Rate, as applicable, and shall be due and payable as provided under the Agreement and in the Bonds.

Bank Bonds. The Borrower agrees to pay the outstanding principal of and accrued and unpaid interest on each Bank Bond as follows:

(a) The Borrower shall pay to the Bank an amount equal to the portion of the Purchase Price paid constituting the principal of Tendered Bonds (together with all accrued and unpaid interest at the applicable rate) no later than the 181st day following the Purchase Date; provided, however, if, while Bank Bonds are outstanding, Bonds are called for redemption, the Borrower agrees to redeem Bank Bonds prior to redeeming any other Bonds.

(b) Interest at the Bank Rate shall be payable on the Purchase Price (i) monthly on the first Business Day of each calendar month, (ii) upon purchase pursuant to subsection (e) below (to the extent of interest accrued on the amount being purchased), (iii) upon the sale of any Bank Bond to the Remarketing Agent or any Person designated by the Remarketing Agent, as provided in the Agreement, (iv) upon redemption, (v) at maturity, and (vi) after maturity on demand (each such date a “Bank Bond Interest Payment Date”). The portion of the Purchase Price constituting accrued and unpaid interest on any Tendered Bond purchased by the Bank shall be due and payable on the first Bank Bond Interest Payment Date following the Purchase Date of such Tendered Bond together with interest accrued thereon at the Bank Rate. Thereafter interest at the Bank Rate shall be payable on the portion of the Purchase Price constituting the principal of the Tendered Bonds purchased by the Bank.

(c) In the event any Bank Bond is remarketed or otherwise transferred by the Bank before payment in full of funds provided by the Bank under the Agreement with respect thereto, together with interest thereon at the Bank Rate, the provisions of this section shall continue to apply to such indebtedness until all sums owing for all periods during which the same was a Bank Bond shall be paid.

(d) Upon delivery of any Alternate Liquidity Facility all unrepaid Purchase Price plus accrued but unpaid interest thereon shall be due and payable in full.

(e) The Borrower may, at its election, purchase any Bank Bond by payment to the Bank of the Purchase Price therefor plus accrued but unpaid interest thereon at the Bank Rate.

(f) On the one hundred eighty first (181st) day after the Purchase Date, if no Event of Default shall have occurred and all representations and warranties set forth in the Agreement shall be true and correct as of such date, Bank Bonds shall not be subject to immediate repurchase but shall instead be subject to special mandatory redemption (or repurchase) over a three (3) year period with principal payable in six (6) equal semi-annual installments with interest at the Bank Rate or the Default Rate, as applicable, payable monthly in arrears, the first such installment to be due on the six (6) month anniversary of the day on which such Purchased Bonds first became Purchased Bonds, provided that all accrued and unpaid interest and principal of Purchased Bonds shall be due, unless repaid earlier as set forth in the Agreement, and paid no later than the third (3rd) anniversary of the Purchase Date. Notwithstanding the foregoing, principal and interest of Purchased Bonds shall be due and payable on the earliest to occur of (i) the dates required by the immediately preceding sentence, (ii) when required pursuant to mandatory sinking fund installment, or (iii) at maturity.

Fees and Default Interest

(a) The Borrower agrees to pay to the Bank all fees and amounts set forth in the Agreement.

(b) The Borrower shall pay to the Bank, on demand, interest on the outstanding balance of any amounts due and owing under the Agreement from and after the earlier of the date such amounts are due and owing and the occurrence of an Event of Default at a rate equal to the Default Rate.

Termination, Reduction, and Reinstatement of the Available Commitment

(a) The amount of the Available Principal Commitment shall be reduced by an amount equal to (i) the principal amount of any Bonds purchased which have not been resold pursuant to the Agreement, and (ii) any redemption, prepayment or other payment of all or any portion of the principal amount of the Bonds by reason of redemption, prepayment, maturity, acceleration, defeasance or otherwise. In addition, the Available Commitment shall terminate on the last day of the Purchase Period.

(b) During the Purchase Period, concurrently with the resale of each Bank Bond and the receipt by the Bank, of an amount equal to the principal amount of such Bank Bond plus accrued interest to the date of such resale, the Available Principal Commitment shall automatically and immediately increase by an amount equal to the principal amount of such Bank Bond. Any amounts received by the Paying Agent from the Bank pursuant to the terms of the Agreement and not used to pay the Purchase Price of Tendered Bonds shall be returned to the Bank and the Available Commitment shall automatically increase by an amount equal to the amount so returned to, and received by, the Bank.

(c) The Borrower may notify the Bank, in writing, to reduce the Available Interest Commitment to zero when the Bonds are converted to the Flexible Rate Mode (as defined in the Bonds). If such reduction occurs the Available Interest Commitment will remain at zero unless the Agreement is modified or amended by agreement of the Bank with respect to the Available Interest Commitment.

Termination by Delivery of Alternate Liquidity Facility. In the event the Borrower replaces the Agreement with an Alternate Liquidity Facility (a) thirty (30) days prior to the termination of the Agreement by such replacement, the Borrower shall provide written notice of such termination to the Bank, (b) on or before the day on which such Alternate Liquidity Facility becomes effective, the Borrower shall cause the provider of the Alternate Liquidity Facility to purchase from the Bank all Bank Bonds at a purchase price equal to the principal amount thereof plus unpaid accrued interest thereon at the Bank Rate to the date of purchase from the Bank, and (c) on or before the date any such Alternate Liquidity Facility becomes effective, the Borrower shall pay, satisfy and discharge in full all of the Bank Obligations to the Bank under the Agreement and the Bond Documents.

Extension of Commitment. No earlier than one hundred fifty (150) days and no later than one hundred twenty (120) days prior to the Stated Expiration Date, the Borrower may, by written notice to the Bank, request that the Stated Expiration Date be extended. The Bank shall notify the Borrower of its decision whether or not to extend the Stated Expiration Date within forty-five (45) days of receipt of such written notice from the Borrower, it being understood and agreed that the failure of the Bank to notify the Borrower of any decision within such period shall be deemed to be a rejection of such request by the Bank and that the Bank shall not incur any liability or responsibility whatsoever by reason of the Bank's failure to notify the Borrower of its decision within such period. If the Bank rejects (or is deemed to reject) any such request, the Stated Expiration Date shall not be extended pursuant to such request.

Conditions Precedent to Each Purchase of Tendered Bonds. The obligation of the Bank to purchase Tendered Bonds under the Agreement is subject to the following conditions precedent:

- (a) the Bank shall have received a timely Notice of Bank Purchase in accordance with the Agreement;
- (b) the Tendered Bonds are required to be purchased pursuant to the optional or mandatory tender provisions of the Bonds;
- (c) the Tendered Bonds to be so purchased are not Excluded Bonds; and
- (d) no Event of Default described in subsection (b) of "Events of Default" below shall have occurred.

Events of Default. Upon the occurrence of any of the following events of default (each an "Event of Default"):

- (a) (i) the Borrower shall fail to pay when due any amount payable under the Agreement within five (5) days of the Borrower's receipt of notice thereof or under any Bond Document beyond any period of grace granted thereunder;
- (ii) the Borrower shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in the Agreement (other than those covered by clause (a)(i) above) or any Bond Document to which it is a party for thirty (30) days after written notice thereof has been given to it by the Bank; or
- (iii) any representation, warranty, certification or statement made by the Borrower in (or incorporated by reference in) the Agreement or any Bond Document to which the Borrower is a party or in any certificate, financial statement or other document delivered by the Borrower pursuant to the Agreement or any Bond Document shall prove to have been incorrect in any material respect when made (or deemed made);

(b) (i) the failure to pay when due any installment of principal of or interest on, the Bonds (or any general obligation bonds ranking on a parity therewith) or the failure to pay when due any installment of principal and interest on, after giving effect to any applicable grace period, any other Material Indebtedness;

(ii) the Borrower shall either (A) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or a substantial part of its assets, (B) consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, (C) make a general assignment for the benefit of creditors, (D) fail generally to pay its debts as they become due, or (E) take any corporate action to authorize any of the foregoing;

(iii) any of the following shall occur: (A) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its assets, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of ninety (90) days; or (B) an order for relief shall be entered against the Borrower under the federal bankruptcy laws as now or hereafter in effect which, if pursuant to an involuntary case, shall remain undismissed and unstayed for a period of ninety (90) days;

(iv) the Agreement or the Bonds in their entirety for any reason ceases to be valid and binding as the result of a final judgment or other action by a Governmental Authority on the Borrower in accordance with its terms or is declared, pursuant to a final nonappealable judgment, to be null and void; or the validity or enforceability of the Agreement or the Bonds is repudiated, rejected or contested by any official of the Borrower having authority to do so or a proceeding is commenced by the Borrower seeking to establish the invalidity or unenforceability of the Agreement or the Bonds;

(v) a moratorium on the payment of any Material Indebtedness of the Borrower shall have been declared in writing by the Borrower or any other appropriate Governmental Authority;

(vi) any Material Indebtedness shall have been found to have been illegally issued or unenforceable by a final and non-appealable judgment of a court of competent jurisdiction; or

(vii) the long-term rating assigned by the Rating Agencies then rating the Bonds or any other Material Indebtedness of the Borrower then rated by such Rating Agencies shall be withdrawn or suspended for credit-related issues, or reduced below “Baa3” by Moody’s, below “BBB” by S&P, and below “BBB” by Fitch, as the case may be:

Then, and in any such event, the Bank may take any one or more of the actions described in “Remedies”.

Remedies.

(a) Upon the occurrence of an Event of Default under subsection (b) of “Events of Default” above) the Available Commitment shall immediately be reduced to zero, in which case the obligations of the Bank to purchase Tendered Bonds under Article II of the Agreement shall immediately terminate and expire without the requirement of notice by the Bank. After such termination or expiration, the Bank shall deliver, within a reasonable time period, to the Borrower, the Remarketing Agent and the Tender Agent written notice of such termination or expiration; provided, however, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration. Upon the occurrence of an Event of Default (whether under subsection (a) or (b) of “Events of Default” above), the Bank shall have all other remedies provided at law or equity, including, without limitation and if available, specific performance; and in addition, the Bank, in its sole discretion, may do one or more of the following: (i) deliver to the Borrower, the

Remarketing Agent and the Tender Agent written notice that an Event of Default has been declared under the Agreement, which notice shall be a Termination Notice, and the Purchase Period shall thereafter terminate on the date which is thirty (30) days following receipt by the Tender Agent of such notice; (ii) exercise any right or remedy available to it under any provision of the Agreement; or (iii) exercise any other rights or remedies available under any Bond Document, any other agreement or at law or in equity.

(b) In addition to the foregoing remedies, if at the time of the occurrence of an Event of Default any Person holding any Material Indebtedness issued or incurred by the Borrower has the right to accelerate the obligation of the Borrower to repay such Material Indebtedness, the Bank, in its sole discretion, may declare the Bank Obligations to be due and payable, and the same shall become immediately due and payable without demand, presentment, protest, notice of intent to accelerate, notice of acceleration or further notice of any kind, all of which are expressly waived.

The rights and remedies of the Bank specified in the Agreement are for the sole and exclusive benefit, use and protection of the Bank, and the Bank is entitled, but shall have no duty or obligation to the Borrower, the Tender Agent, the Paying Agent, the Owners of the Bonds or otherwise, (i) to exercise or to refrain from exercising any right or remedy reserved to the Bank under the Agreement or (ii) to cause the Tender Agent, the Paying Agent, or any other party to exercise or to refrain from exercising any right or remedy available to it under any of the Bond Documents.

Highest Rate. If the effective rate or amount of interest that would be payable on amounts owed under the Agreement or with respect to Bank Bonds would exceed the Highest Rate, the amount of interest payable on the amounts owed under the Agreement or with respect to Bank Bonds to the Bank shall be paid at the Highest Rate. If the amount of interest which would have been payable under the Agreement, but for the application of this section, is reduced by reason of this section then, if the interest payable under the Agreement, in any subsequent period would be at a rate less than the Highest Rate, the interest rate used in such subsequent period shall be the Highest Rate until the Bank is paid an amount equal to all interest which would have been paid but for the application of this section. All amounts paid or agreed to be paid in connection with this transaction that would under applicable law be deemed “interest” shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full term of the Agreement.

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**INFORMATION RELATING TO
DEXIA CREDIT LOCAL**

The following information relating to Dexia Credit Local has been furnished by Dexia Credit Local for use in this Official Statement. The State takes no responsibility for the accuracy thereof.

Dexia Credit Local (“Dexia”) is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 16 billion euros as of December 31, 2003, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group’s first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe and the United States of America. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2003 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2003, total funding raised by Dexia and Dexia Municipal Agency was 8.6 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. (“FSA Holdings”), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2003, Dexia had total consolidated assets of 174.0 billion euros, outstanding medium and long-term loans to customers of 152.6 billion euros and shareholders’ equity of over 4.2 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 617 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2003, the exchange rate was 1.0000 euro equals 1.2629 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody’s, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7th Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

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PART II
INFORMATION SUPPLEMENT
OF THE STATE OF CONNECTICUT

March 11, 2005

The Annual Information Statement of the State of Connecticut (the "State"), dated February 1, 2005, modified February 23, 2005, appears in this Official Statement as **Part III** and contains information through February 1, 2005. The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as Part II of future Official Statements of the State.

This Information Supplement updates certain information in the February 1, 2005 Annual Information Statement, modified February 23, 2005, through March 11, 2005. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

INVESTIGATIONS

There is an ongoing federal investigation of the Rowland administration regarding alleged improprieties with contract awards. In connection with that investigation, federal authorities are also reviewing gifts given to the former Governor. On December 23, 2004, former Governor John G. Rowland pleaded guilty to one federal charge of conspiracy to commit honest services mail fraud and tax fraud. Sentencing is scheduled for March, 2005.

STATE GENERAL FUND

Page III-23. The following information is added after the section on *Fiscal Year 2004-2005 Operations*.

Pursuant to section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates to the Comptroller by the twentieth day of each month of revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on February 20, 2005, General Fund revenues for the 2004-05 fiscal year were estimated at \$13,657.2 million, General Fund expenditures and miscellaneous adjustments were estimated at \$13,323.8 million and the General Fund balance for the 2004-05 fiscal year was estimated to have a surplus of \$333.4 million. In the monthly report of the Comptroller dated March 1, 2005, as of the period ending January 31, 2005, the Comptroller estimated that General Fund revenues for the 2004-05 fiscal year including the surplus of \$150.3 million carried over from the 2003-04 fiscal year, were \$13,657.2 million, General Fund expenditures and miscellaneous adjustments were \$13,323.1 million and the General Fund balance for the 2004-05 fiscal year was estimated to have a surplus of \$334.1 million. These estimates have not been outlined in **Appendix III-E** to this **Part II**.

On February 9, 2005, the Governor introduced her proposed budget for the 2005-06 and 2006-07 fiscal years (discussed more fully below). The Governor included as part of that budget proposal several recommendations which impact fiscal year 2004-05. The Governor's budget proposal includes an additional \$20 million in revenue due to stronger than anticipated collections under the income tax. This increased the projected surplus used by the Governor to \$335.6 million. The Governor's budget proposal calls for the use of this projected surplus in the following manner: (i) \$137.7 million would be utilized to pay the debt service costs in fiscal 2005-06 and 2006-07 on the outstanding Economic Recovery Notes, (ii) \$79.1 million would be utilized to fund expenditures over the upcoming biennium that are primarily one-time in nature, (iii) \$57.1 million in funds that were projected to lapse at the end of this fiscal year will be carried forward to fund

expenditures in fiscal year 2005-06, (iv) \$20 million would be utilized to fund the Governor's stem cell initiative, and (v) the remaining \$41.7 million would be deposited into the Budget Reserve Fund.

The above projections are only estimates and the information in the monthly letter of the Office of Policy and Management to the Comptroller and in the Comptroller's monthly report contain only estimates and no assurance can be given that future events will materialize as estimated or that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2004-05 operations of the General Fund.

Governor's Recommended Budget for Fiscal Years 2005-2006 and 2006-2007.

The Governor presented the State budget plans for fiscal years 2005-06 and 2006-07 to the General Assembly on February 9, 2005.

The Governor's General Fund budget proposal for fiscal year 2005-06 assumes revenues of \$14,124.7 million and appropriations of \$14,124.3 million, resulting in a projected surplus of \$0.4 million. For fiscal year 2006-07, the Governor's General Fund budget proposal assumes revenues of \$14,681.0 million and appropriations of \$14,680.6 million, resulting in a projected surplus of \$0.4 million.

The Governor's budget proposal closed a General Fund current services gap of \$1.1 billion in fiscal year 2005-06 and a current services gap of \$1.4 billion in fiscal 2006-07. In addition, on a current services basis, the fiscal year 2005-06 budget would have been over the expenditure cap by \$732.0 million and by \$858.5 million in fiscal year 2006-07.

The Governor's budget proposal assumes \$553.4 million in revenue increases in fiscal year 2005-06 and \$701.9 million in revenue increases in fiscal year 2006-07. The following more significant revenue changes include: (i) delaying the proposed increase in the property tax credit under the income tax from \$350 to \$500, saving \$105 million in each year of the biennium, (ii) increasing the state's cigarette tax from \$1.51 per pack to \$2.25 per pack, raising \$104.0 million and \$87.6 million, respectively, in each year of the biennium, (iii) imposing a corporation tax surcharge of 15% in income year 2005 and 10% in income year 2006, raising \$67.1 million and \$10.9 million, respectively, in each year of the biennium, (iv) reducing the revenue intercept for the Mashantucket Pequot grant to towns from the current services amount of \$135 million in each year of the biennium to \$86.3 million, saving \$48.7 million in each year, (v) instituting a 6% nursing home provider tax as part of an overall plan to garner additional federal funds for the provider industry. This change is expected to generate \$139.2 million in revenue from the tax in each year of the biennium and \$118.6 million and \$119.1 million, respectively, in additional federal funds in each year of the biennium.

The Governor's budget proposal assumes \$563.7 million in expenditure reductions from current services in fiscal year 2005-06 and \$746.4 million in expenditure reductions from current services in fiscal 2006-07. Even with these significant reductions from current services, the Governor's budget proposal does contain an expenditure increase of 3.9% in fiscal year 2005-06 versus estimated expenditures in fiscal year 2004-05. Expenditures in the second year of the biennium also rise by 3.9%. The following significant expenditure changes include: (i) nursing home rate increases in the Department of Social Services totaling \$187.6 million in the first year of the biennium, (ii) medicaid excluding nursing home rate increases, up \$59.1 million in the first year of the biennium, (iii) state employee retirement contributions, up \$92.8 million and \$30 million, respectively, in each year of the biennium, (iv) teachers' retirement contributions, up \$75.8 million and \$10.4 million, respectively, in each year of the biennium, (v) Department of Mental Retardation, up \$68.5 million and \$25.4 million, respectively, in each year of the biennium, (vi) Department of Children and Families, up \$58.4 million and \$27 million, respectively, in each year of the biennium, and (vii) state employee health benefits, up \$37 million and \$68.1 million, respectively, in each year of the biennium. The Governor's budget proposal includes funding for pay increases for employees covered by settled collective bargaining

contracts and for employees not covered by collective bargaining. It does not include funds for raises for employees whose collective bargaining contracts are not settled.

Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes codify the language on the State's expenditure cap. As mentioned above, the Governor's budget proposal includes the institution of a new provider tax on nursing homes and the expenditure of those funds within various sectors of the provider industry. The expenditure of these funds would place the proposed budget above the expenditure cap in fiscal year 2005-06. However, the Governor has indicated that within the context of a responsible adopted budget and in accord with the provisions of Article XXVIII of the Amendments to the Constitution, she would issue a declaration to exceed the State's expenditure cap in order to garner the additional federal funds associated with the program. This declaration would have to be ratified by a three-fifths vote of each house of the General Assembly. If the declaration is so ratified, the remaining portion of the Governor's biennial budget proposal would be \$45.3 million below the expenditure cap for fiscal year 2005-06 and \$63.6 million below the expenditure cap for fiscal year 2006-07.

The Governor's proposed budget also includes a net increase in general obligation bond authorizations of \$997.6 million to take effect in fiscal year 2005-06 and \$1,123.6 million to take effect in fiscal year 2006-07. The Governor's recommendations also include \$100 million in additional clean water revenue bond authorizations to take effect in fiscal year 2006-07 and special transportation obligation bond authorizations of \$238.9 million to take effect in fiscal year 2005-06 and \$274.4 million in fiscal year 2006-07. For the University of Connecticut, general obligation bond authorizations of \$79 million will take effect in fiscal year 2005-06 and \$89 million will take effect in fiscal year 2006-07.

Deliberations on the Governor's budget recommendations are expected to continue throughout the legislative session with an expected adjournment date of June 8, 2005.

See **Appendix III-E** of this **Part II** for more information regarding the Governor's Proposed Budget for fiscal years 2005-06 and 2006-07.

APPENDIX III-E

Appendix III-E to this **Part II** reflects the Governor's Proposed Biennial Budget for fiscal years 2005-06 and 2006-07. It also reflects the Midterm Budget Adjustments for fiscal year 2004-05 and revenues and expenditures for the 2003-04 fiscal year and revenue and expenditure estimates for the 2004-05 fiscal year as of the period ending December 31, 2004.

APPENDIX III-E

**GENERAL FUND REVENUES AND EXPENDITURES
ESTIMATED FINAL BUDGET FOR FISCAL YEAR 2003-2004
REVISED ADOPTED BUDGET AND ESTIMATED BUDGET FOR FISCAL 2004-05
PROPOSED BIENNIAL BUDGET FOR FISCAL YEARS 2005-2006 AND 2006-2007**

(In Millions)

	Estimated Final Budget <u>2003-04^(h)</u>	Revised Adopted Budget <u>2004-05⁽ⁱ⁾</u>	Estimated Budget <u>2004-05⁽ⁿ⁾</u>	Governor's Proposed Budget <u>2005-2006^(r)</u>	Governor's Proposed Budget <u>2006-2007^(r)</u>
Revenues					
<u>Taxes</u>					
Personal Income Tax	\$ 4,934.4	\$ 5,131.0	\$ 5,370.0	\$ 5,769.0 ^(s)	\$ 6,034.0 ^(s)
Sales & Use Corporation ^(a)	3,133.9 ⁽ⁱ⁾	3,320.3 ⁽ⁱ⁾	3,278.8	3,455.1	3,593.2
Public Service	518.0	501.7	570.3	612.9 ^(t)	602.2 ^(t)
Inheritance & Estate ^(b)	193.6	189.4	206.0	197.4	200.1
Insurance Companies	147.6	166.1	165.0	84.6	65.0
Cigarettes ^(c)	233.4	234.8	239.0	244.9	251.0
Real Estate Conveyance	279.6	266.0	267.6	358.5 ^(u)	323.1 ^(u)
Oil Companies	176.7	145.8	176.5	164.0	152.4
Alcoholic Beverages	106.9	89.6	137.4	106.0	109.0
Admissions and Dues	44.0	43.5	44.1	51.9	51.6
Miscellaneous	31.7	33.1	32.3	32.9	33.6
Total Taxes	<u>\$ 9,843.7</u>	<u>\$ 10,155.1</u>	<u>\$ 10,523.6</u>	<u>\$ 11,272.9</u>	<u>\$ 11,622.3</u>
Less Refunds of Taxes	(650.8)	(700.0)	(720.0)	(855.0)	(884.4)
Less R&D Credit Exchange	(10.4)	(14.0)	(14.0)	(17.0)	- ^(bb)
Net Taxes	<u>\$ 9,182.5</u>	<u>\$ 9,441.1</u>	<u>\$ 9,789.6</u>	<u>\$ 10,400.9</u>	<u>\$ 10,737.9</u>
<u>Other Revenues</u>					
Transfers- Special Revenues	286.7	283.1	266.6	272.0	277.4
Indian Gaming Payments	402.7	430.0	420.0	436.8	454.3
Licenses, Permits, Fees	154.6	138.1	140.5	154.8	142.6
Sales of Commodities & Services	41.0	36.0	37.0	38.3	39.7
Rents, Fines & Escheats	117.7	144.5 ^(m)	180.0 ^(o)	107.1	110.8
Investment Income	1.8	15.3	12.0	25.0	27.0
Miscellaneous	111.3	105.0	111.8	113.0	115.8
Less Refunds of Payments	(0.6)	(0.5)	(0.6)	(0.6)	(0.6)
Total Other Revenue	<u>\$ 1,115.2</u>	<u>\$ 1,151.5</u>	<u>\$ 1,167.3</u>	<u>\$ 1,146.4</u>	<u>\$ 1,167.0</u>
<u>Other Sources</u>					
Federal Grants	2,564.1 ^(j)	2,469.6	2,497.2	2,586.7 ^(w)	2,641.4 ^(w)
Transfers to the Resources of the G.F. ^(d)	232.3	94.5	54.5 ^(p)	14.0	77.0
Transfers from Tobacco Settlement Funds	114.6	113.0	108.3	104.0	103.0
Transfers from FY 2004 to FY 2005	--	125.3	125.3		
Transfers from FY 2006 to FY 2007				(41.0) ^(x)	41.0 ^(x)
Transfers to Other Funds ^(e)	(85.0)	(85.0)	(85.0)	(86.3)	(86.3)
Total Other Sources	<u>\$ 2,826.0</u>	<u>\$ 2,717.4</u>	<u>\$ 2,700.3</u>	<u>\$ 2,577.4</u>	<u>\$ 2,776.1</u>
Total Unrestricted Revenues ^(f)	\$ 13,123.7	\$ 13,310.0	\$ 13,657.2	\$ 14,124.7	\$ 14,681.0

	Estimated Final Budget 2003-04 ^(h)	Revised Adopted Budget 2004-05 ⁽ⁱ⁾	Estimated Budget 2004-05 ⁽ⁿ⁾	Governor's Proposed Budget 2005-2006 ^(r)	Governor's Proposed Budget 2006-2007 ^(t)
Appropriations/Expenditures					
Legislative	\$ 60.9	\$ 66.0	\$ 66.0	\$ 69.6	\$ 73.4
General Government	389.7	440.0	451.5	431.4	444.8
Regulation & Protection	200.4	209.4	215.9	226.6	227.8
Conservation & Development	83.1 ⁽ⁱ⁾	91.4 ⁽ⁱ⁾	91.4	82.4 ^(y)	85.6 ^(y)
Health & Hospitals	1,210.5	1,267.3	1,283.2	1,378.0	1,408.6
Human Services	3,833.9	3,916.6	3,921.0	4,196.2 ^(z)	4,339.4 ^(z)
Education, Libraries & Museums	2,814.8	2,901.5	2,903.4	3,105.0	3,162.1
Corrections	1,172.6	1,197.3	1,234.4	1,321.4	1,370.9
Judicial	370.3	399.5	400.4	429.7	440.1
Non- Functional					
Debt Service	1,127.5	1,311.2	1,311.2	1,281.7 ^(aa)	1,394.5 ^(aa)
Miscellaneous	1,409.2	1,536.0	1,535.9	1,706.6	1,837.7
Subtotal	\$ 12,672.9	\$ 13,336.2	\$ 13,414.3	\$ 14,228.6	\$ 14,784.9
Unallocated Lapse	-	(109.9)	(104.8)	(104.3)	(104.4)
Net Appropriations/Expenditures	\$ 12,672.9	\$ 13,226.3	\$ 13,309.5	\$ 14,124.3	\$ 14,680.6
Surplus (or Deficit) from Operations	450.8	83.7	347.7	0.4	0.4
Miscellaneous Adjustments	1.7	-	(12.3)	-	-
Reserve for Fiscal Year 2004-05	(150.3)				
Balance^(g)	\$ 302.2 ^(k)	\$ 83.7	\$ 335.4 ^(q)	\$ 0.4	\$ 0.4

NOTE: Columns may not add due to rounding.

- (a) Per Public Act No. 03-1 and No. 03-6 includes a 25% corporate tax surcharge and an increase in the preference tax. These changes are expected to yield \$79.5 million in fiscal 2003-04 and \$63.5 million in fiscal 2004-05.
- (b) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act No. 01-1 of the November Special Session, Public Act No. 03-1 of the June Special Session and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to raise \$55 million in fiscal year 2004-05 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.
- (c) Per Public Act No. 03-2, the increase in Cigarette Tax from \$1.11 per pack to \$1.51 per pack effective March 15, 2003 is estimated to yield \$70.9 million in fiscal year 2003-04 and \$70.9 million in fiscal year 2004-05 in cigarette and sales taxes.
- (d) Per the adopted budget, funds being transferred in fiscal year 2003-04 include: \$144 million from a securitization of a portion of the Energy Conservation and Load Management Fund, \$25.0 million from a securitization of a portion of the Clean Energy Fund, \$17.5 million from quasi-public agencies, and approximately \$9 million from miscellaneous accounts. In fiscal year 2004-05, transfers include \$40 million from securitization of unclaimed property, \$25.0 million from a securitization of a portion of the Clean Energy Fund, \$17.5 million from quasi-public agencies, and approximately \$12 million from miscellaneous accounts.
- (e) Transfer to Mashantucket Pequot and Mohegan Fund for grants to towns.
- (f) Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants, which are not included in this Appendix. Expenditures of these grants are also not included; the amount of such expenditures is generally the same as the amount of grants received.
- (g) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to ten percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. When in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to the Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit.
- (h) Per the Comptroller's annual report dated February 23, 2005 for the period ending June 30, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management.

- (i) Public Act No. 04-216 incorporates the Commission on Arts, Tourism, Culture, History, and Film into the general fund beginning in fiscal year 2003-04.
- (j) Per the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (PL 108-27), the State will receive \$115.8 million of flexible grants and an estimated \$134.3 million due to a temporary increase in the federal medical assistance percentage (FMAP) for medical expenses in fiscal year 2003-04.
- (k) Based on fiscal transactions posted through June of 2004, the Office of Policy and Management is projecting a General Fund surplus of \$302.1 million. Once the surplus is certified by the Comptroller, this surplus will be deposited into the Budget Reserve Fund and added to the balance in the Budget Reserve Fund.
- (l) Public Act No. 04-2 of the May Special Session and Public Act No. 04-216 constitute the revised biennial budget for fiscal year 2004-05. The act includes \$112.4 million for appropriations carried forward to fund fiscal year 2004-05 expenditures. The act also transferred \$125.3 million to fiscal year 2004-05 revenue and provided \$259.1 million additional appropriations for fiscal year 2004-05.
- (m) Per Public Act No. 04-216, the one time sale of unclaimed property will raise revenue by \$50 million.
- (n) Per the Comptroller's monthly report dated February 1, 2005 for the period ending December 31, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management as subsequently revised upward by \$20 million under the personal income tax per the Governor's Biennial Budget proposal submitted on February 9, 2005.
- (o) Per Public Act 04-216, the Treasurer's Office transferred to the State's General Fund a sum in excess of \$88 million, which exceeds the projected revenue by just over \$38 million.
- (p) Eliminates the securitization of unclaimed property revenue of \$40 million.
- (q) Per the Governor's proposed Biennial Budget, the projected surplus by the Office of Policy and Management of \$335.6 million will be used as follows: i) \$137.7 million would be utilized to pay the debt service costs in fiscal 2005-06 and 2006-07 on the outstanding Economic Recovery Notes, ii) \$79.1 million would be utilized to fund expenditures over the upcoming biennium that are primarily one-time in nature, iii) \$57.1 million in funds that were projected to lapse at the end of the fiscal year will be carried forward to fund expenditures in fiscal year 2005-06, iv) \$20 million would be utilized to fund the Governor's Stem Cell initiative, and v) the remaining \$41.7 million would be deposited into the Budget Reserve Fund.
- (r) Per the Governor's Proposed Biennial Budget dated February 9, 2005 for the period ending June 30, 2006 and June 30, 2007.
- (s) Per the Governor's proposed Biennial Budget, delaying the restoration of the \$500 property tax credit and the increase in the singles exemption for 2 years, and exempting 50% of military pensions and tax nonresident gambling winnings are expected to yield \$115.0 million in fiscal year 2005-06 and \$128.0 million in fiscal year 2006-07.
- (t) Per the Governor's proposed Biennial Budget, imposing a 15% surcharge on corporate entities for income year 2005 and a 10% surcharge for income year 2006, and reducing the net operating loss carry forward period from 20 years to 5 years are expected to yield \$74.5 million in fiscal year 2005-06 and \$28.8 million in fiscal year 2006-07.
- (u) Per the Governor's proposed Biennial Budget, increasing the tax from \$1.51 per pack to \$2.25 per pack, raising the excise tax on the wholesale price of non-cigarette tobacco products from 20% to 90%, and increasing the tax on tobacco products sold by the ounce from 40¢ to \$1.80 per ounce are expected to yield \$112.9 million in fiscal year 2005-06 and \$97.1 million in fiscal year 2006-07.
- (v) Per the Governor's proposed Biennial Budget, imposing a gross receipts tax on nursing homes and deferring phase-down of the Gift Tax by 2 years are expected to yield \$139.2 million in fiscal year 2005-06 and \$145.2 million in fiscal year 2006-07.
- (w) Per the Governor's proposed Biennial Budget, instituting a 6% nursing home provider tax is expected to garner additional federal funds of \$118.6 million and \$119.1 million, respectively, in each year of the biennium.
- (x) Per the Governor's proposed Biennial Budget, a transfer of excess revenues of \$41.0 million in fiscal year 2005-06 to fiscal year 2006-07.
- (y) Per the Governor's proposed Biennial Budget, the elimination and reduction of subsidies to certain arts and tourism organizations amounted to \$4.0 million. Additionally, two programs reimbursing towns for taxes abated to low-income housing projects were also eliminated, saving \$5.0 million.
- (z) Per the Governor's proposed Biennial Budget, major changes include a rate increase for nursing homes and other providers that would cost \$260.4 million in fiscal year 2005-06 and continue for fiscal year 2006-07. Funding

for services for abused and neglected children would increase by \$58.4 million in fiscal year 2005-06 and an additional \$27 million in fiscal year 2006-07.

- (aa) Per the Governor's proposed Biennial Budget, the cost of the Economic Recovery Notes during the biennium will be paid from the fiscal year 2004-05 surplus. The amount pre-funded for fiscal year 2005-06 is \$70.1 million and the amount in fiscal year 2006-07 is \$67.6 million.
- (bb) Per the Governor's proposed Biennial Budget, eliminating the R&D credit exchange is expected to increase revenues by \$20.0 million in fiscal year 2006-07.

NOTE: The information in Appendix III-E of this Part II contains only projections and no assurances can be given that subsequent projections will not result in changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

FEBRUARY 1, 2005
MODIFIED FEBRUARY 23, 2005

This Annual Information Statement of the State of Connecticut (the "State") contains information through February 1, 2005, *modified February 23, 2005* to include June 30, 2004 unaudited financial statements of the State prepared in accordance with generally accepted accounting principles ("GAAP") and a modified cash basis as **Appendices III-C and III-D**, respectively, to delete June 30, 2003 audited financial statements of the State which previously appeared as **Appendices III-C**, to correct references thereto and to reflect information contained therein, including revisions to **Table 3, Table 5 and Table 6**, and to make minor corrections. For information about the State after February 1, 2005, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

The State expects to revise this Annual Information Statement each year and expects to modify Annual Information Statements each year following the release of the State's GAAP based financial statements and audited financial statements. The State expects generally to prepare Information Supplements from time to time for the purpose of updating certain information contained in this Annual Information Statement. Such Information Supplements are expected to include certain interim financial information prepared on a modified cash basis, but are not expected to include interim financial information prepared in accordance with GAAP.

The Annual Information Statement and the most recent Information Supplement, if any, may be obtained, when prepared, by contacting the Office of the State Treasurer, Attn.: Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3137.

Constitutional Elected Officers

* Governor	M. Jodi Rell
Lieutenant Governor	Kevin B. Sullivan
Secretary of the State	Susan Bysiewicz
* Treasurer	Denise L. Nappier
* Comptroller	Nancy S. Wyman
* Attorney General	Richard Blumenthal

Executive Branch Officers

* Secretary of the Office of Policy and Management	Robert L. Genuario
* Commissioner of Public Works	James T. Fleming
Commissioner of Transportation	Stephen E. Korta

Legislative Branch Officers

President Pro Tempore of the Senate	Sen. Donald E. Williams, Jr.
Speaker of the House of Representatives	Rep. James A. Amann
* Co-chairpersons of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. Eileen Daily Rep. Cameron C. Staples
* Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. William H. Nickerson Rep. Richard O. Belden
* Auditors of Public Accounts	Kevin P. Johnston Robert G. Jaekle

* Denotes member of the State Bond Commission

PART III
February 1, 2005
Modified February 23, 2005
ANNUAL INFORMATION STATEMENT OF THE
STATE OF CONNECTICUT

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INTRODUCTION

This Modified Annual Information Statement of the State of Connecticut (the “State”) contains certain information which a potential investor might consider material in reaching a decision to invest in securities of the State. All quotations from and summaries and explanations of provisions of laws of the State contained in this Modified Annual Information Statement do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

The information included in this Modified Annual Information Statement is organized as follows:

The State of Connecticut comprises a brief introductory summary of the governmental organization of the State and the services it provides, as well as a historical overview of the State’s economic performance. A more detailed discussion of these topics, including additional information, is contained in **Appendices III-A** and **III-B** to this Modified Annual Information Statement.

Financial Procedures discusses the legal and administrative processes, procedures and policies that generally apply to all State funds.

State General Fund discusses the State’s General Fund, which is the source of financing for most operating activity of the State. The discussion includes both prospective and historic information about the General Fund. Additional information regarding General Fund activity is included in **Appendices III-C, III-D** and **III-E** to this Modified Annual Information Statement.

State Debt describes the procedures for the authorization of the State to incur debt and the various ways in which the State may borrow funds to finance State functions. This section provides both current and historical information about the State’s borrowing practices and State indebtedness.

Other Funds, Debt and Liabilities provides an overview of certain activities of the State which are not accounted for in the General Fund. These include the budget and debt of the Special Transportation Fund, certain special revenue funds and debt, contingent liability debt, grant commitments, guaranties and annuities. Certain additional information regarding these other funds, debt and liabilities of the State is included in **Appendix III-C** to this Modified Annual Information Statement.

Pension and Retirement Systems describes the major pension and retirement systems of the State. Additional information regarding these systems is included in **Appendix III-C** to this Modified Annual Information Statement.

Litigation comprises a summary of pending legal actions in which the fiscal impact of an adverse decision may not be determined at this time and the Attorney General is unable to opine that a final judgment against the State in such suits would not materially adversely affect the State’s financial position.

Appendices III-A through III-E to this Modified Annual Information Statement contain detailed information relating to the information summarized in the Annual Information Statement and should be read in their entirety with the other information contained therein.

This Modified Annual Information Statement will constitute **Part III** to Official Statements of the State prepared in connection with the offering of certain bonds of the State and should be read in its entirety together with **Part I** and **Part II**, if any, of such Official Statement. The Annual Information Statement speaks only as of its date. For more current information, potential investors should read **Part II - Information Supplement**, if any, or should contact the State directly as described in **Part I - Information Concerning the Bonds**, under the caption **ADDITIONAL INFORMATION**.

THE STATE OF CONNECTICUT

Governmental Organization and Services

The State Constitution divides the functions and powers of State government into three distinct branches, referred to in the Constitution as “departments”. The State government’s legislative, executive and judicial functions and powers are vested in the legislative department, the executive department and the judicial department, respectively.

In addition to the State government, a number of other governmental bodies exist in Connecticut. These bodies include: State-wide and regional special purpose authorities, districts and similar bodies, 169 cities and towns, and numerous local special purpose authorities, districts and similar bodies. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within these cities and towns. In certain instances, regional bodies perform governmental functions that would otherwise be performed at the local level.

Services provided by the State or financed through State appropriations are classified under one of ten major government function headings or are classified as “non-functional”. The major function headings are: Human Services; Education, Libraries and Museums; Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection; Transportation; Conservation and Development; and Legislative. These function headings apply to the General Fund as well as to other funds of the State which are used to account for appropriated moneys. State expenditures for the Department of Transportation are primarily paid from the Transportation Fund, not the General Fund. For budgetary purposes, State agencies, boards, commissions and other bodies are each assigned to one of the function headings.

A detailed discussion of the organization of State government, including information on state employees, as well as services provided at the various levels of government in the State, is included as **Appendix III-A** to this Modified Annual Information Statement.

State Economy

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State. The State’s population grew at a rate which exceeded the United States’ rate of population growth during the period 1940 to 1970, and slowed substantially during the past three decades. The State has extensive transportation and utility services to support its economy.

Connecticut’s economic performance is measured by personal income which has been and is expected to remain among the highest in the nation; gross state product (the market value of all final goods and services produced by labor and property located within the State) which demonstrated stronger output growth than the nation in general during the 1980s, slower growth for a few years in the early 1990s, and steadily increasing growth during the rest of the 1990s; employment which fell during the early 1990s but rose steadily during the rest of the decade to a level above those experienced in the early 1990s; and the unemployment rate which is lower than the regional and national rate.

A detailed summary of economic resources including population information and services, and economic performance indicators, including personal income, gross state product and employment in the State is included as **Appendix III-B** to this Modified Annual Information Statement.

FINANCIAL PROCEDURES

The Budgetary Process

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

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

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

Budget Document. By statute, the budget document consists of four parts. Part I is the Governor's budget message, and contains his program for meeting the expenditure needs of the State as well as financial statements detailing the condition of State debt, the financial position of all major State operating funds, recommended appropriations and State revenues on an actual basis for the last completed fiscal year and on an estimated basis for the fiscal year in progress and the fiscal years to which the budget relates. If a budget deficit or surplus is projected, the Governor will recommend the manner in which the deficit will be met or surplus used. The Governor's recommended appropriations from the General Fund and all special and agency funds comprise Part II of the budget document. Appropriations are set forth for meeting the cost of each major function and program. An accounting of federal funds and recommendations for the capital program are also included. Part III of the budget document consists of drafts of appropriations and revenue bills to carry out the Governor's budget recommendations. In Part IV of the budget, the Governor makes recommendations concerning the State's economy and analyzes the impact on the economy of the proposed spending and revenue programs.

Preparation of the Budget. Formulation of the budget document commences with the preparation of estimates of expenditure requirements for each fiscal year of the next biennium by the administrative head of each budgeted agency. These estimates are submitted on or before September 1 of each even-numbered year to the Office of Policy and Management ("OPM") and to the joint legislative standing committee on

appropriations and the committee having cognizance of matters relating to such budgeted agency. In odd-numbered years, each agency submits its recommended adjustments or revisions of such estimates. A detailed statement showing revenue and estimated revenue for the current fiscal year and estimated revenue for the next fiscal year, and in the even-numbered year, for the next biennium, must also be submitted by such agency heads to OPM on or before September 1 and the joint legislative standing committee on finance on or before November 15. Upon receipt of such agency reports, it is OPM's practice to prepare a preliminary budget report.

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

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

Financial Controls

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

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

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

Treasurer's Role. Each warrant, draft or order upon the Treasurer must specify the particular appropriation against which it is drawn, and no money may be paid by the Treasurer absent such specification.

The Treasurer is required to honor all warrants, drafts and orders properly drawn by the Comptroller. The Treasurer also has primary responsibility for the investment of State funds and the issuance of debt of the State.

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

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

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

Unappropriated Surplus. The State Constitution provides that any resulting unappropriated surplus shall be used to fund a budget reserve fund, to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. The General Statutes provide that the Treasurer shall transfer any unappropriated surplus in the General Fund to a budget reserve fund, unless otherwise directed by law. When the amount in the budget reserve fund in any fiscal year equals 10 % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2004, there was a zero balance (unaudited) in the budget reserve fund. However, fiscal year 2003-04 did end with a surplus that may approach \$300 million according to OPM projections. When the Comptroller certifies the final 2003-04 year-end result, that surplus will be credited to the Budget Reserve Fund, unless otherwise directed by law. In the past, moneys in the budget reserve fund were applied to partially offset a general fund deficit and surplus moneys in excess of amounts transferred to the budget reserve fund have been held or applied to provide for the retirement of outstanding indebtedness or for debt avoidance.

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

Accounting Procedures

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

At the present time the State is not required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP") and does not prepare GAAP statements on an interim basis. However, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by the Governmental Accounting Standards Board ("GASB"). These reports include audited annual financial statements prepared in accordance with GAAP. A 1993 statute authorized OPM to implement the use of GAAP with respect to the preparation of the annual budget effective with the fiscal year commencing July 1, 1995, and provided for the amortization of the GAAP-based deficit commencing with the fiscal year ending June 30, 1997. Subsequent legislation has extended the implementation date to July 1, 2005 and the amortization date to June 30, 2007.

As specifically permitted by statute, the only present modifications from the cash basis in recording revenues under the modified cash method are: (1) the accrual of sales and use taxes to be received for the calendar quarter ending at the close of such fiscal year as estimated by the Secretary of OPM; (2) the accrual of cigarette tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (3) the accrual of alcoholic beverage tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (4) the accrual of motor fuels tax revenue and motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (5) the accrual of utility company tax revenue and tax revenue on gross earnings from the sale of petroleum products which is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (6) the accrual of corporation business tax revenue received by the Department of Revenue Services no later than the fifteenth day of August immediately following the end of such fiscal year; (7) the accrual of income tax revenue received by the Commissioner of Revenue Services from employers no later than the last day of July immediately following the end of such fiscal year; (8) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; (9) the accrual of real estate conveyance tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; and (10) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal government or other parties.

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

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

additional federal and other grant moneys as revenues which are not so recognized in the modified cash basis of accounting.

The Treasurer is required to submit to the Governor and the Investment Advisory Council, by October 15 of each year, audited financial statements of the State's combined investment funds, and financial statements of the Short Term Investment Fund, the Second Injury Fund, and the Tax Exempt Proceeds Fund for the prior fiscal year.

In July 2003, the State implemented the first phase of a new, fully integrated, Internet based, financial management and human resources system called Core-CT. The financial software modules (accounts payable, accounts receivable, commitment control, general ledger and reporting) came online first in July 2003, followed by the human resources and payroll applications (payroll, time and labor) in October 2003. Additional financial enhancements relating to asset management and inventory control, contracts and billing and project management are expected to go online during fiscal years 2004-05 and 2005-06.

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

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

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

However, because of these initial implementation problems, the preparation of financial statements and reports for fiscal year 2003-04 year-end were delayed. The Comptroller's Office issued unaudited legal basis financial statements for major funds on February 23, 2005 and the remaining minor funds are expected to be completed by April 2005. The unaudited statements prepared on the basis of generally accepted accounting principles (GAAP) are included in **Appendix III-C** to this Modified Annual Information Statement. Delay in completing the financial statements has also resulted in delay in completing the audit of the financial statements which is not expected before late April 2005.

Investment and Cash Management

Treasurer's Role. The Treasurer has the investment responsibility for all funds of the State and functions as the trustee of all State pension, retirement and trust funds. The Treasurer is authorized to invest or reinvest funds under the control of the Treasurer in United States government or agency obligations, shares or

interests in an investment company or trust registered under the Investment Company Act of 1940, whose portfolio is limited to obligations of the United States, its agencies or instrumentalities, or repurchase agreements fully collateralized by such obligations, United States postal service obligations, certificates of deposit, commercial paper, savings accounts and bank acceptances. The Treasurer may also invest funds, excluding civil list funds, in the sale or acquisition of securities or obligations which the Treasurer is authorized to sell or acquire for purposes of any combined investment fund, subject to repurchase agreements with any securities dealer or bank included in the list of primary dealers prepared by the Federal Reserve Bank of New York. The Treasurer is also authorized to invest all or any part of any sinking fund in bonds in which savings banks may legally invest, provided such bonds mature prior to maturity of the bonds of the State which are outstanding. The Treasurer is required to report by October 15 annually to the Governor and the Investment Advisory Council as to the activities of the Office of the Treasurer for the preceding fiscal year.

Investment Advisory Council. All trust fund investments by the Treasurer are reviewed by the Investment Advisory Council, comprised of the Treasurer and the Secretary of OPM as ex officio members, five members of the public with experience in investment matters, three representatives of the teachers' union and two representatives of the State employees' unions. The Treasurer, with the approval of the Council, adopts an investment policy statement for trust funds. The Governor may direct the Treasurer to change any investments when in the judgment of the Council such action is in the best interest of the State. At the close of each fiscal year a report is submitted to the Governor on the value of all security investments of the State.

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

Medium Term Investment Fund. A 1997 statute created the Medium-Term Investment Fund. The Treasurer may purchase participation units of the fund for all trusts and other funds for which the Treasurer has investment responsibility. The Treasurer may sell participation units in the Medium-Term Investment Fund to all agencies, authorities, instrumentalities and political subdivisions of the State. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers' acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. To date, the Medium Term Investment Fund has not been implemented.

Tax Exempt Proceeds Fund. Under the terms of the General Statutes, the Treasurer has facilitated the establishment of the Tax Exempt Proceeds Fund, Inc. ("TEPF"), a diversified, open-end management investment company, registered under the Investment Company Act of 1940, whose investment objectives are to provide its investors with high current interest income exempt from federal income taxes, preservation of capital and maintenance of liquidity. TEPF will only invest in securities that qualify as an investment in "tax-exempt bonds" as defined in Section 150(a)(6) of the Internal Revenue Code of 1986, as amended (the "Code") and amplified in Treasury Department Regulations. Therefore, shareholders of TEPF that are tax-

exempt bond issuers are expected to be exempt from the arbitrage rebate provisions of the Code. TEPF seeks to achieve its objectives by investing primarily in a liquid money market portfolio of short-term, high quality, tax-exempt, fixed rate and variable rate obligations issued by states, municipal governments and by public authorities, and in participation interests therein issued by banks, insurance companies or other financial institutions that meet this federal income tax definition. The TEPF seeks to maintain a constant net asset value of \$1.00 per share. TEPF's investment policies were developed for the particular federal income tax needs of entities that are issuers of tax-exempt state and local bonds, such as states and municipalities and their authorities, agencies, instrumentalities and subdivisions. All recipients of any grant or loan monies of the State funded from Connecticut tax-exempt bond proceeds must invest such monies in TEPF, unless the Treasurer waives this requirement upon a determination that a waiver will not adversely affect the tax-exempt status of State bonds, notes or other evidences of indebtedness. The State may, from time to time, deposit bond proceeds of the State in TEPF. Reich & Tang Asset Management, LLC acts as investment manager of TEPF and a Board of Directors is responsible for TEPF's overall management and supervision.

Investment of Pension Funds. Seven investment funds serve as the investment medium for the various pension, retirement and trust funds of which the Treasurer is the trustee. They are the Cash Reserve Account, the Mutual Equity Fund, the Mutual Fixed Income Fund, the Commercial Mortgage Fund, the Real Estate Fund, the International Stock Fund and the Private Investment Fund. The pension, retirement and trust funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the seven investment funds. By statute no more than 60% of any of the State's trust funds may be invested in common stock and if market fluctuations cause this limit to be exceeded, after six months no more than 65% of the State's trust funds may remain invested in common stock. Other than these limits, the statutes of the State permit investment in securities under the "Prudent Investor" rule. See also **PENSION AND RETIREMENT SYSTEMS** herein.

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

Cash Management. It is the practice of the State to treat all civil list funds (including monies in the General Fund, various bond funds, and the Special Transportation Fund) as common cash, with amounts released from the various funds to the common cash pool in accordance with the State's overall cash flow needs. All banks holding major account balances for the State Treasury report these balances daily, enabling the Treasurer to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested.

Interest Rate Risk Management. The Treasurer, with the authorization of the State Bond Commission, has the power to enter into reimbursement and similar agreements in connection with liquidity or credit facilities and to pledge the full faith and credit of the State or other collateral to secure the State's payment obligations under any such agreement. The Treasurer, with the authorization of the State Bond Commission, has the power to enter into contracts to place the obligation of the State as represented by bonds or notes of the State, on such interest rate or cash flow basis as the Treasurer may determine, including swap agreements and other arrangements to manage interest rate risk. The counter party to any arrangement must have a rating on its unsecured long-term obligations which is the same as or higher than the underlying rating of the State on the applicable bonds. The State Bond Commission may authorize the Treasurer to pledge the full faith and credit of the State and any other collateral pledged to secure the applicable bonds to also secure the State's payment obligations under any such contract.

STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). For an explanation of the differences between the budgetary-basis and GAAP based accounting, see **FINANCIAL PROCEDURES — Accounting Procedures** herein. The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. GAAP based unaudited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2004 are included as **Appendix III-C** to this Modified Annual Information Statement. The State gives no assurance that it will continue to prepare GAAP based financial statements in the future. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 2000 through June 30, 2003 and the unaudited financial statements for the fiscal year ending June 30, 2004 are included in **Appendix III-D** to this Modified Annual Information Statement. The revised adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the estimated final budgetary-basis results for the fiscal year ending June 30, 2004 (unaudited) and the estimated (as of December 31, 2004) budget for the fiscal year ending June 30, 2005 are included as **Appendix III-E** to this Modified Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

General Fund Revenues

Forecasted, Adopted and Historical Revenues

Procedure For Forecasting Revenues. Revenue forecasting in Connecticut incorporates a blend of econometric modeling and economic advice obtained from an array of expert sources. Some of these major sources include: "Blue Chip Economic Indicators" which is a compilation of the consensus forecast for major national economic indicators from the top 50 economic and financial institutions; Economy.com, a nationally recognized econometric forecasting firm; and "The Connecticut Economy," a University of Connecticut quarterly review written and edited by widely known State economists.

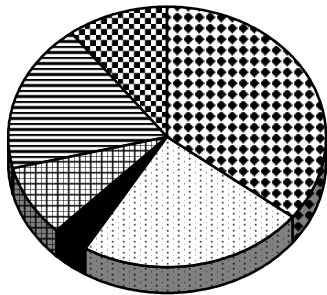
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a consensus interpretation of all available data. Annual revenue estimates from the beginning of each year attempt to account for possible variations in economic activity during the year. Periodic economic data, such as seasonal adjustments to estimated personal income growth, or a monthly drop in employment, are analyzed on an on-going basis. Adjustments are made when the aggregate values of such changes deviate beyond tolerable levels from aggregate and historical estimates. The State believes that the process followed in developing Connecticut's revenue forecast is consistent with approaches taken in many other states.

Fiscal 2003-2004 and 2004-2005 Adopted Revenues. General Fund revenues as forecasted at the adoption of the mid-term budget adjustments for the fiscal years ending June 30, 2004 and June 30, 2005 ("Adopted Revenues") are reflected in **Appendix III-E** to this Modified Annual Information Statement. The State, as of the forecast date, expected to derive approximately seventy percent of its General Fund revenues from taxes during the 2003-04 fiscal year and the 2004-05 fiscal year. The revised adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the estimated final budgetary-basis results for the fiscal year ending June 30, 2004 (unaudited) and the estimated budgetary basis results (as of December 31, 2004) for the fiscal year ending June 30, 2005 are included as **Appendix III-E** to this Modified Annual Information Statement.

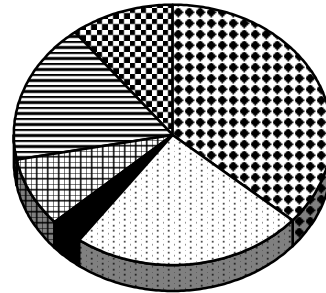
General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources based on the adopted budget, as revised, for the fiscal year ending June 30, 2004 and for the fiscal year ending June 30, 2005, are set forth below:







Adopted General Fund Revenues (In Millions)







Adopted Revenues 2003-2004
\$12,668.7 ^(a)



Adopted Revenues 2004-2005
\$13,310.0 ^(a)



	Personal Income Tax	\$ 4,852.0	35.6%
	Sales and Use Tax	3,142.0	23.1%
	Corporate Business Tax	497.7	3.7%
	Other Taxes ^(b)	1,178.9	8.7%
	Unrestricted Federal Grants	2,538.7	18.6%
	Other Non-Tax Revenues ^(c)	1,409.7	10.4%

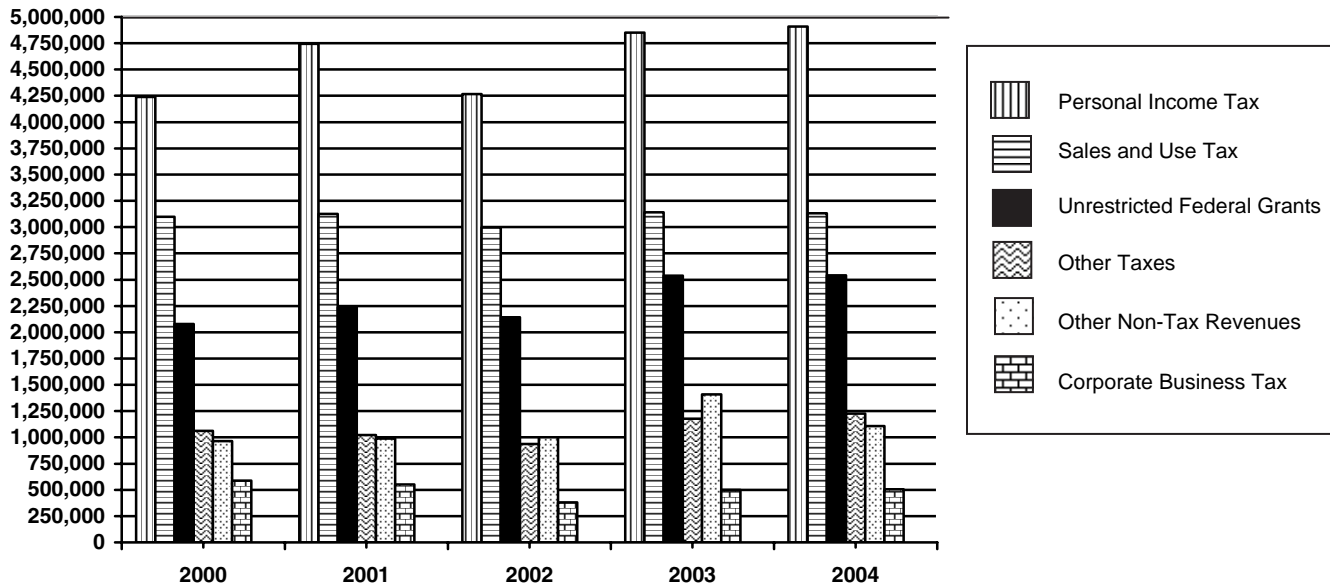
	Personal Income Tax	\$ 5,131.0	36.4%
	Sales and Use Tax	3,320.3	23.5%
	Corporate Business Tax	501.7	3.6%
	Other Taxes ^(b)	1,202.1	8.5%
	Unrestricted Federal Grants	2,469.6	17.5%
	Other Non-Tax Revenues ^(c)	1,484.3	10.5%

- (a) The pie charts reflect the total of the listed tax and revenue amounts of \$13,619.0 million for 2003-04 and \$14,109 million for 2004-05 and do not reflect tax refunds and transfers to other funds of \$950.3 million for 2003-04 and \$799 million for 2004-05. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.
- (b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and other miscellaneous taxes. See **Appendix III-E**.
- (c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income, other miscellaneous revenues and designated Tobacco Settlement Revenues and special transfers to the resources of the General Fund. See **Appendix III-E**.

SOURCE: Public Act No. 04-216 as modified by the Finance Revenue and Bonding Committee per Section 2-35 of the Connecticut General Statutes by the Committee on June 28, 2004.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years ending June 30, 2000 through 2003 and unaudited General Fund revenues for fiscal year 2003-04 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

General Fund Revenues ^(a)
Fiscal Year Ending June 30
(In Thousands)



	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Taxes:					
Personal Income Tax	\$ 4,238,228	\$ 4,744,233	\$ 4,265,912	\$ 4,263,070	\$ 4,943,430
Sales Tax.....	3,096,780	3,125,078	2,997,766	3,025,743	3,133,888
Corporate Business Tax	587,756	550,509	380,985	507,975	518,009
Other Taxes ^(b)	<u>1,063,543</u>	<u>1,022,755</u>	<u>937,782</u>	<u>1,252,376</u>	<u>1,248,406</u>
Subtotal.....	8,986,307	9,442,575	8,582,445	9,049,164	9,843,733
R & D Credit Exchange.....	-	-	-	(11,148)	(10,378)
Refunds of Taxes	<u>(713,359)</u>	<u>(735,482)</u>	<u>(851,491)</u>	<u>(808,209)</u>	<u>(650,800)</u>
Total Net Taxes	\$ 8,272,948	\$ 8,707,093	\$ 7,730,954	\$ 8,229,807	\$ 9,182,555
Other Revenue:					
Federal Grants					
(Unrestricted).....	2,078,914	2,237,045	2,142,269	2,318,421	2,564,105
Other Non-Tax Revenues					
(Unrestricted) ^(c)	963,784	987,932	999,888	1,078,620	1,115,194
Transfers to Other Funds	(180,000)	(85,400)	(147,686)	(93,009)	(85,000)
Transfers from Other Funds.....	<u>78,000</u>	<u>138,800</u>	<u>120,000</u>	<u>489,486</u>	<u>346,883</u>
Total Other Revenues	\$ 2,940,698	\$ 3,278,377	\$ 3,114,471	\$ 3,793,518	\$ 3,941,183
Total Revenues	\$ 11,213,646	\$ 11,985,470	\$ 10,845,425	\$ 12,023,325	\$ 13,123,738

- (a) The bar graph reflects the total of the listed tax and revenue amounts and does not reflect the listed adjustments for tax refunds and transfers to or from other funds. See **Appendix III-D** for adjustments to revenues.
- (b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of hospitals (until April 1, 2000) and public service corporations, net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and cabarets and other miscellaneous taxes.
- (c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income and other miscellaneous revenues less refunds of payments.

SOURCE: 2000, 2001, 2002 and 2003 Annual Reports of the State Comptroller; 2004 unaudited annual report of the State Comptroller.

Components of Revenue

Personal Income Tax. The State imposes a personal income tax on the income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The tax imposed is at the maximum rate of 5% on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from \$12,000 to \$24,000, with the lower end of the range increasing annually to \$15,000 by taxable year 2010 for certain taxpayers. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at certain higher income levels. Neither the personal exemption nor the tax credit described above is available to trusts or estates. Legislation enacted in 1995 effected a graduated rate structure beginning in tax year 1996. Under this revised structure, the top rate remains at 5% with a rate of 3% applicable to taxable income up to certain amounts. The first \$20,000 of taxable income for a joint filer and the first \$10,000 of taxable income for a single filer is taxed at the 3% rate. In addition, an income tax credit for property taxes paid has been decreased from a maximum of \$500 per filer to \$350 per filer beginning with the taxable year commencing January 1, 2003, but is scheduled to revert to \$500 on January 1, 2005 in accordance with Public Act No. 04-216 which is effective for tax years beginning January 1, 2005. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

Sales and Use Taxes. The Sales Tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the State, including (a) sales at retail of tangible personal property, (b) the rendering of certain services, (c) the leasing or rental of tangible personal property, (d) the production, fabrication, processing, printing, or imprinting of tangible personal property to special order or with materials furnished by the consumer, (e) the furnishing, preparation or serving of food, meals, or drinks, and (f) the transfer of occupancy of hotel or lodging house rooms for a period not exceeding thirty consecutive calendar days. The Use Tax is imposed, with certain exceptions, on the consideration paid for certain services or purchases or rentals of tangible personal property used within the State pursuant to a transaction not subject to the Sales Tax. The tax rate for the Sales and Use Taxes is 6%. A separate rate of 12% is charged on the occupancy of hotel rooms. Various exemptions from the Sales and Use Taxes are provided, based on the nature, use or price of the property or services involved or the identity of the purchaser. Tax returns and accompanying payments with respect to revenues from these taxes are generally due monthly on or before the last day of the month next succeeding the taxable month.

Corporation Business Tax. The Corporation Business Tax is imposed on any corporation, joint stock company or association, any dissolved corporation that continues to conduct business, any electric distribution company or fiduciary of any of the foregoing which carries on or has the right to carry on business within the State or owns or leases property or maintains an office within the State or is a general partner in a partnership or a limited partner in a limited partnership, except an investment partnership, that does business, owns or leases property or maintains an office within the State. Certain financial services companies are exempt from this tax. For taxable years commencing on or after January 1, 1999, this exemption extends to domestic insurance companies. The Corporation Business Tax provides for three methods of computation. The taxpayer's liability is the greatest amount computed under any of the three methods.

The first method of computation is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income with limited variations less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. The Income-Base Tax had been levied at the rate of 10.75% in 1996 and was phased down over subsequent years to 7.5% for taxable years commencing on and after January 1, 2000. The second method of computing the Corporation Business Tax is an alternative tax on capital. This alternative tax is determined either as a

specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or in part to its capital stock and balance sheet surplus, profit and deficit. The third method of computing the Corporation Business Tax is the minimum tax which is a flat \$250. Corporations must compute their tax liability under all three methods, determine which calculation produces the greatest tax, and pay that amount to the State.

Public Act No. 02-1 of the May 9th Special Session instituted a \$250 charge on LLCs, LLPs and S corporations, and limited corporation credits from reducing tax liability by more than 70%. Public Act No. 02-4 of the May 9th Special Session extended the tax to single-member LLCs that are not considered entities separate from their owners for federal tax purposes. Public Act No. 03-2 institutes a one time corporation business tax surcharge of 20% in income year 2003 and Public Act No. 03-1 of the June 30th Special Session imposes another one time corporation business tax surcharge of 25% in income year 2004.

Other Taxes. Other tax revenues are derived from inheritance taxes, taxes on gross receipts of hospitals until April 1, 2000, taxes on public service companies, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarette and alcoholic beverage excise taxes, real estate conveyance taxes, taxes on admissions and dues and other miscellaneous tax sources.

Federal Grants. Depending upon the particular program being funded, federal grants in aid are normally conditioned to some degree, on resources provided by the State. More than 99% of unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal year 2003-04 were made for the purposes of providing medical assistance payments to the low income and the indigent and temporary assistance to needy families. The State also receives certain restricted federal grants which are not reflected in annual appropriations but which nonetheless are accounted for in the General Fund. In addition, the State receives certain federal grants which are not accounted for in the General Fund but are allocated to the Transportation Fund, various Capital Project Funds and other funds.

Other Non-Tax Revenues. Other non-tax revenues are derived from special revenue transfers; Indian gaming payments; licenses, permits and fees; sales of commodities and services; rents, fines and escheats; investment income; other miscellaneous revenue sources; and designated Tobacco Settlement Revenues.

General Fund Expenditures

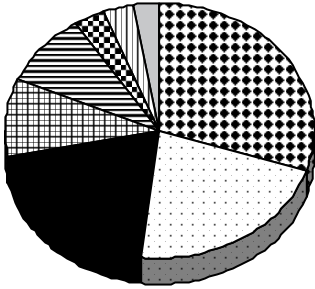
Appropriated and Historical Expenditures

Fiscal 2003-2004 and 2004-2005 Appropriated Expenditures. State expenditures are categorized for budget and appropriation purposes under ten functional headings, with expenditures by agency generally shown as subheadings in the following functional categories, listed in order of magnitude of expenditure for the current budget biennium: Human Services; Education, Libraries and Museums; Non-Functional (debt service and miscellaneous expenditures including fringe benefits); Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection of Persons and Property; Conservation and Development; and Legislative. State expenditures for Department of Transportation functions are paid from the Transportation Fund, not the General Fund.

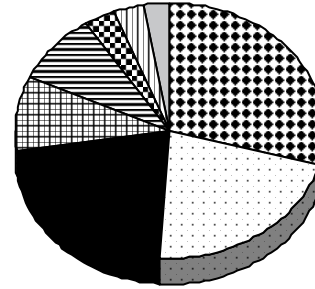
The revised adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the estimated final budgetary-basis results (unaudited) for the fiscal year ending June 30, 2004 and the estimated (as of December 31, 2004) budgetary – basis results for the fiscal year ending June 30, 2005 are included as **Appendix III-E** to this Modified Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2004 and June 30, 2005 is set forth below.

















Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 2003-2004
\$12,654.7 ^(a)



Appropriated Expenditures 2004-2005
\$13,226.3 ^(a)



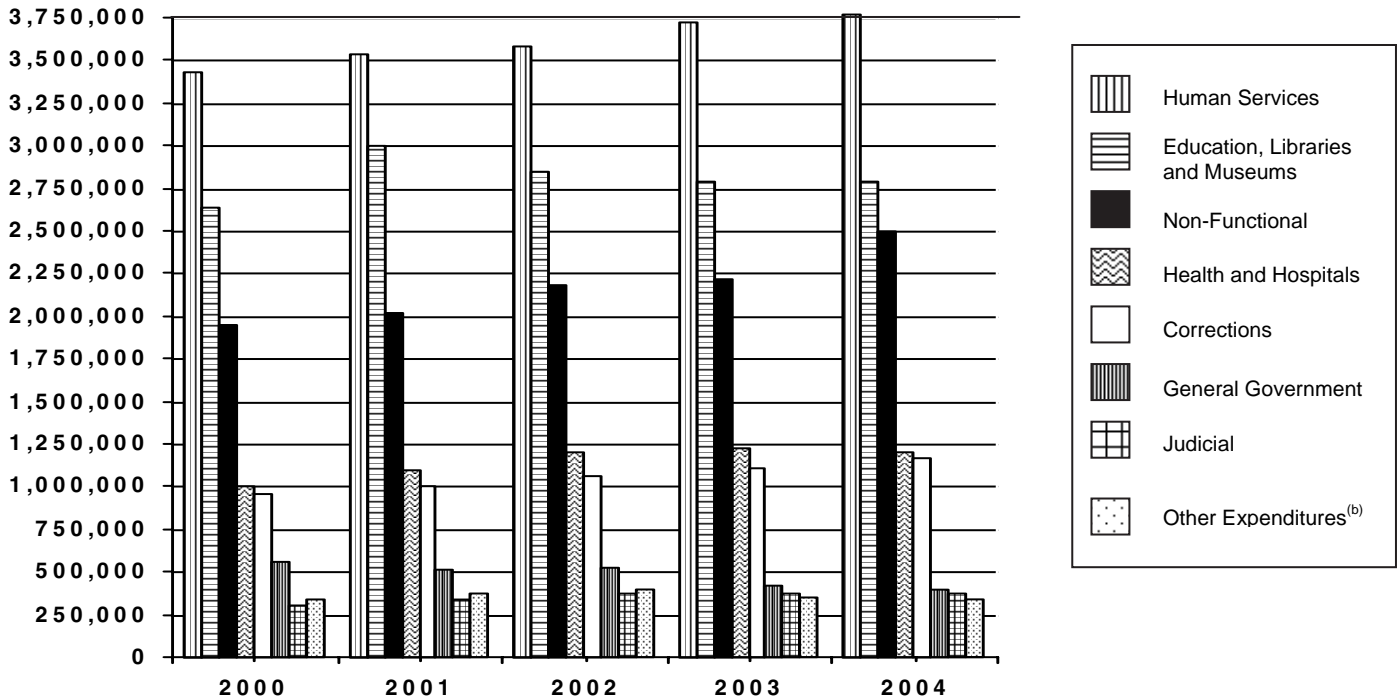
	Human Services	\$3,860.8	29.9%		Human Services	\$3,916.6	29.4%
	Education, Libraries and Museums	2,851.9	22.1%		Education, Libraries and Museums	2,901.5	21.8%
	Non-Functional	2,561.7	19.8%		Non-Functional	2,847.1	21.3%
	Health and Hospitals	1,268.3	9.8%		Health and Hospitals	1,267.3	9.5%
	Corrections	1,198.5	9.3%		Corrections	1,197.3	9.0%
	General Government	419.4	3.2%		General Government	440.0	3.3%
	Judicial	390.3	3.0%		Judicial	399.5	3.0%
	Other Expenditures ^(b)	368.3	2.9%		Other Expenditures ^(b)	366.8	2.7%

(a) The pie charts reflect the total listed expenditures of \$12,919.2 million for 2003-2004 and \$13,336.1 million for 2004-2005, and do not reflect adjustments for unallocated lapses of \$264.5 million for 2003-2004 and \$109.8 million for 2004-2005. See **Appendix III-E** for anticipated adjustments to appropriated expenditures.

(b) Other expenditures are comprised of appropriations for Regulation and Protection, Conservation and Development and Legislative.

SOURCE: Public Act No. 03-1 of the June 30 Special Session.
Public Act No. 04-216 as adjusted by Public Act 04-253, Public Act 04-258, and Public Act 04-2 of the May Special Session.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 2000 through 2003 and unaudited General Fund expenditures for Fiscal Year 2004 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund expenditures for last five fiscal years is illustrated below:



General Fund Expenditures By Function^(a)
Fiscal Year Ending June 30
(In Thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Human Services	\$ 3,430,561	\$ 3,537,462	\$ 3,589,653	\$ 3,724,789	\$ 3,776,415
Education, Libraries and Museums	2,637,518	3,007,391	2,847,540	2,789,051	2,789,367
Non-Functional	1,954,711	2,019,041	2,182,512	2,224,838	2,502,332
Health and Hospitals	1,005,233	1,092,361	1,198,335	1,222,978	1,206,855
Corrections	957,555	999,052	1,068,183	1,111,416	1,165,656
General Government	566,310	511,430	527,287	420,241	394,193
Judicial	309,319	338,568	376,813	368,143	368,326
Other Expenditures(b).....	339,697	377,395	396,703	348,877	343,679
Totals	\$ 11,200,904	\$ 11,882,700	\$ 12,187,026	\$ 12,210,333	\$ 12,546,822

(a) The bar graphs and amounts listed do not reflect expenditure of restricted federal and other grants. See **Appendix III-D** for total expenditures.

(b) Other expenditures are comprised of appropriations for Legislative, Regulation and Protection, and Conservation and Development.

SOURCE: 2000, 2001, 2002 and 2003 Annual Reports of the State Comptroller; 2004 unaudited annual report of the State Comptroller.

Components of Expenditures

Human Services. Virtually all of the State expenditures for Human Services are allocated to the Department of Social Services for various programs and services, including Medicaid payments, Temporary Assistance to Families, and General Assistance payments.

Education, Libraries and Museums. Based upon the adopted budget for the 2004-05 fiscal year, approximately 72% of the State expenditures for Education, Libraries and Museums is allocated to the Department of Education, the largest share of which consists of payments to local governments. The remaining 28% consists of expenditures for higher education (including the University of Connecticut, the Connecticut State University System and the Regional Community-Technical Colleges), the Teachers' Retirement Board, the State Library, and services for the blind and deaf.

Non-Functional. Non-Functional State expenditures consist of debt service payments, State employee fringe benefit accounts and other miscellaneous appropriations.

Health and Hospitals. State expenditures for Health and Hospitals are allocated primarily for programs and services provided by the State Departments of Public Health, Mental Retardation, and Mental Health and Addiction Services.

Corrections. Appropriations to the State Department of Correction and the Department of Children and Families comprise the largest portion of State expenditures for Corrections. Other expenditures include expenses of the Board of Pardons, the Board of Parole and the County Sheriffs.

General Government. State expenditures for General Government may be classified into three categories: executive, financial administration and legal, the largest of which is expenditures for financial administration. Such expenditures are primarily for salaries and other miscellaneous expenses of various State departments.

Judicial. Judicial expenditures are comprised of salaries, expenses and payments for special programs of the Judicial Department and the Public Defender Services Commission.

Regulation and Protection. State expenditures for Regulation and Protection consist primarily of appropriations for the Department of Public Safety for salaries, equipment, training and other services and expenses. Other agencies and programs for which appropriations are made include the Police Officer Standards and Training Council, the Board of Firearms Permit Examiners, the Military Department, the Commission on Fire Prevention and Control, the Department of Consumer Protection, the Department of Labor, the Commission on Human Rights and Opportunities, the Office of Protection and Advocacy for Persons with Disabilities, and the Office of the Child Advocate.

Conservation and Development. State expenditures for Conservation and Development fall into three general categories: agriculture; development of historical sites, commerce and industry; and environment, the latter accounting for approximately 38% of all appropriations for Conservation and Development based upon the adopted budget for the 2004-2005 fiscal year.

Legislative. Legislative expenditures are comprised primarily of salaries, equipment and other expenses necessary for Legislative Management and the Auditors of Public Accounts.

Expenditures by Type

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments). Such payments to third parties amount to approximately 63% of total General Fund appropriations under the revised adopted budget for the 2004-05 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 37% of all General Fund appropriations under the revised adopted budget for the 2004-05 fiscal year.

Appropriations categorized as payments to third parties are generally referred to for budgetary purposes as “fixed charges.” Contractually required payments to third parties include debt service payments. Statutorily required payments to third parties include grants to local governments and individual beneficiaries under a wide variety of programs established by statute. The amount of such payments is generally either specifically set forth in the statutes in question or is calculated in accordance with a formula set forth in such statutes. Despite the characterization of these statutorily determined payments to third parties as “fixed charges,” the Governor’s budgetary recommendations routinely include proposed modifications in the amounts and formulas for calculating the amounts of such appropriations, and such modifications are often, in fact, adopted by the General Assembly. A summary of fixed charges is shown on **Table 1**. This summary includes a breakdown of total fixed charges into payments to local governments and total payments, as well as information as to the most significant types of expenditures in each category.

TABLE 1¹
Fixed Charges - General Fund
Summarized by Function of Government and Expenditure Category
Including Major Expenditure Items
(In Thousands of Dollars)

	<u>Fiscal Year 2002-03²</u> <u>(Actual)</u>		<u>Fiscal Year 2003-04</u> <u>(Unaudited)</u>		<u>Fiscal Year 2004-05</u> <u>(Appropriated)</u>	
	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>
LEGISLATIVE						
Total – Legislative.....	261	0	265	0	283	0
GENERAL GOVERNMENT						
Property Tax Relief Elderly Circuit Breaker.....	20,506	20,506	20,506	20,506	20,506	20,506
P.I.L.O.T. - New Manufacturing Machinery and Equipment	55,828	55,828	50,730	50,730	50,730	50,730
Undesignated	40,187	25,274	33,349	18,963	27,764	12,982
Total – General Government.....	116,521	101,608	104,585	90,199	99,000	84,218

	<u>Fiscal Year 2002-032 (Actual)</u>		<u>Fiscal Year 2003-04 (Unaudited)</u>		<u>Fiscal Year 2004-05 (Appropriated)</u>	
	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>
REGULATION AND PROTECTION						
Total - Regulation and Protection	273	0	37	0	37	0
CONSERVATION AND DEVELOPMENT						
Total - Conservation and Development	11,914	4,821	24,759	17,550	28,027	19,022
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Dept. of Mental Retardation)	114,033	0	115,364	0	118,312	0
Community Residential Services (Dept. of Mental Retardation)	242,483	0	248,679	0	258,249	0
Grants for Substance Abuse Services.	19,821	0	20,491	0	20,491	0
Grants for Mental Health Services	74,115	0	73,598	0	72,805	0
Undesignated	45,408	9,942	42,573	8,236	43,364	10,050
Total - Health and Hospitals	495,860	9,942	500,705	8,236	513,221	10,050
Transportation						
Total – Transportation	0	0	0	0	0	0
HUMAN SERVICES						
Medicaid	2,703,204	0	2,785,097	0	2,926,074	0
Old Age Assistance	29,959	0	29,175	0	29,885	0
Aid to the Disabled	55,291	0	54,267	0	53,480	0
Temporary Assistance to Families – TANF	113,628	0	127,564	0	135,302	0
Connecticut Pharmaceutical Assistance Contract to the Elderly .	69,194	0	75,272	0	66,048	0
Medicaid - Disproportionate Share - Mental Health	105,935	0	105,935	0	105,935	0
Connecticut Home Care Program	29,060	0	33,187	0	36,660	0
Child Care Services - TANF/CCDBG	99,090	0	60,851	0	60,123	0
Housing/Homeless Services	22,520	0	21,799	0	21,891	0
Disproportionate Share - Medical Emergency Assistance	71,725	0	64,005	0	63,725	0
DSH - Urban Hospitals in Distressed Municipalities	26,550	0	31,550	0	31,550	0
State Administered General Assistance	122,427	0	133,809	0	123,379	0
Undesignated	57,391	5,147	47,724	6,151	49,458	5,110
Total - Human Services	3,505,974	5,147	3,570,235	6,151	3,703,510	5,110
EDUCATION, LIBRARIES AND MUSEUMS						
Charter Schools					21,732	0
Transportation of School Children	43,140	43,140	43,140	43,140	43,140	43,140
Education Equalization Grants	1,514,903	1,514,903	1,522,564	1,522,564	1,562,870	1,562,870
Priority School Districts	78,384	78,384	82,156	82,156	99,804	99,804

	<u>Fiscal Year 2002-032 (Actual)</u>		<u>Fiscal Year 2003-04 (Unaudited)</u>		<u>Fiscal Year 2004-05 (Appropriated)</u>	
	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>
Excess Cost - Student Based	62,700	62,700	61,520	61,520	67,104	67,104
Magnet Schools.....	43,719	43,719	54,353	54,353	66,639	66,639
Teachers' Retirement Contributions ...	179,824	0	185,348	0	185,348	0
Undesignated	156,883	59,981	147,054	57,789	132,644	61,346
Total – Education	2,079,553	1,802,827	2,096,135	1,821,522	2,179,281	1,900,903
CORRECTIONS						
Community Support Services (Dept. of Correction) ³	17,235	0	19,764	0	22,359	0
Board and Care for Children – Adoption.....	44,389	0	49,718	0	51,456	0
Board and Care for Children – Foster Board and Care for Children – Residential.....	75,190	0	81,791	0	87,986	0
Undesignated	127,306	0	146,844	0	149,320	0
Undesignated	73,224	0	71,549	0	73,159	0
Total – Corrections	337,344	0	369,666	0	384,280	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security)	988,515	0	1,127,452	0	1,311,154	0
Reimbursement to Towns for Loss of Taxes on State Property.....	64,959	64,959	64,959	64,959	69,959	69,959
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property.....	100,932	100,932	100,932	100,932	105,932	105,932
Undesignated	694	0	674	0	925	0
Total - Non Functional	<u>1,155,100</u>	<u>165,891</u>	<u>1,294,017</u>	<u>165,891</u>	<u>1,487,970</u>	<u>175,891</u>
Total - Fixed Charges	7,702,800	2,090,236	7,960,404	2,109,549	8,395,609	2,195,194

¹ Table 1 includes estimates of fixed charges in connection with the Fiscal Year 2003-04 (unaudited) results and Fiscal Year 2004-05 (appropriated) results due to difficulties in obtaining certain reports from the State's Core-CT System.

² Includes funds carried forward from the previous fiscal year. Source: Comptroller's Annual Report, Schedule B-3, Expenditure column.

³ In fiscal year 2002-03, Community Support Services were paid from two separate accounts - Community Residential Services and Community Non-residential Services.

SOURCE: Office of Policy and Management

Fiscal Year 2003-2004 Operations:

The State ended the 2003-04 fiscal year with a surplus. In the unaudited annual financial report provided by the Comptroller on February 23, 2005 as June of 30, 2004, General Fund revenues were \$13,123.7 million, General Fund expenditures and net miscellaneous adjustments were \$12,821.5 million and the General Fund surplus for the 2003-04 fiscal year was \$302.2 million. **Appendix III-D** and **Appendix III-E** show the results for the 2003-04 fiscal year per the Comptroller's annual report.

The above projections are provided by the Comptroller and are unaudited. No assurances can be given that such projections will not be modified pursuant to the audit by the State Auditors of Public Accounts.

Midterm Budget Adjustments for 2003-2004 and 2004-2005

A number of Midterm Budget Adjustments were made to both fiscal year 2003-04 and fiscal year 2004-05. The legislature passed, and the Governor signed on May 6, 2004, Public Act No. 04-216. At the time the midterm budget adjustments were adopted, the legislature was projecting a fiscal year 2003-04 gross surplus of \$328.2 million. Of this amount, Public Act No. 04-216 increased appropriations by \$234.9 million in fiscal year 2003-04, of which \$90.5 million was for fiscal year 2003-04 deficiencies and \$112.4 million was for appropriations carried forward to fund fiscal year 2004-05 expenditures. Additionally, \$125.3 million was transferred to fiscal year 2004-05 revenue. This act also increased the original fiscal year 2004-05 General Fund appropriation for state agencies and accounts by \$259.1 million to \$13,226.3 million. The revised fiscal year 2004-05 budget was \$129.5 million under the spending cap. On June 28, 2004, pursuant to Section 2-35 of the Connecticut General Statutes, the Finance, Revenue and Bonding Committee adopted revised fiscal year 2004-05 revenue estimates for the General Fund. The revised revenue estimates were \$83.6 million higher than what was adopted in Public Act No. 04-216.

In addition to the transfer of \$125.3 million in revenue from fiscal year 2003-04 to fiscal year 2004-05 mentioned above, other significant revenue adjustments for fiscal year 2004-05 included a one-time acceleration of the liquidation of escheated property for an additional \$50.0 million and securitization of future unclaimed property revenue for another additional \$40.0 million. These actions, along with the State's improving budget situation, eliminated the need for a previously planned securitization of future tobacco settlement revenue which was expected to raise \$300.0 million. The act also increased the maximum property tax credit against the State personal income tax from \$350 to \$500 starting with tax years beginning on or after January 1, 2005. This change had no impact on the fiscal year 2004-05 biennial budget but was anticipated to result in a General Fund revenue loss of \$105 million in fiscal year 2005-06 and subsequent years.

On the expenditure side, this act provided \$259.1 million in additional fiscal year 2004-05 General Fund appropriations. Significant changes included an increase of \$40.0 million in aid to municipalities for education and an additional \$43.5 million for increased health services costs for retired employees. Other notable changes included: an elimination of \$55.0 million in required lapses; a reduction in savings expected from the early retirement incentive program of \$29.7 million; Medicaid provider rate increases of \$12.9 million; restoration of HUSKY benefits of \$17.7 million; and expansion of funding for priority school districts of \$18.7 million.

The Midterm Budget Adjustments for fiscal year 2003-04 and for fiscal year 2004-05 are outlined in **Appendix III-E** to this Modified Annual Information Statement.

Fiscal Year 2004-2005 Operations:

Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares the revenues already received and revenues estimated to be collected to the expenditures already made and expenditures estimated to be made during the balance of the fiscal year. The monthly report of the Comptroller dated February 1, 2005 for the period ending December 31, 2004, estimates an operating surplus of \$315.4 million for the 2004-05 fiscal year. General Fund revenues for the 2004-05 fiscal year were estimated at \$13,637.2 million, General Fund expenditures and miscellaneous adjustments were estimated at \$13,321.8 million resulting in the estimated surplus of \$315.4 million.

Since the beginning of the 2004-05 fiscal year, revenue projections have been increased by \$327.2 million. The areas with the largest changes include the: (i) personal income tax, up \$219.0 million, (ii) sales tax, down \$41.5 million, (iii) corporation tax, up \$68.6 million, (iv) real estate conveyance tax, up \$30.7 million, and (v) oil companies tax, up \$47.8 million.

Additional expenditure requirements of \$78.1 million are also anticipated for the 2004-05 fiscal year. The areas with the largest deficiencies include the: (i) Department of Correction, \$23.3 million, (ii) Department of Children and Families, \$13.8 million, (iii) Office of Policy and Management – Energy Contingency, \$10 million, and (iv) Department of Mental Retardation, \$7.4 million.

The estimated operating results for fiscal year 2004-05 are outlined in **Appendix III-E** to this Modified Annual Information Statement.

The above projections are only estimates, and the information in the monthly letter of the Office of Policy and Management to the Comptroller and in the Comptroller’s monthly report contain only estimates. No assurances can be given that future events will materialize as estimated or that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2004-05 operations of the General Fund.

General Fund Budget History

Table 2 summarizes the results of operation of the General Fund on the budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the fiscal years 2000 through 2004 are set forth in **Appendix III-D** to this Modified Annual Information Statement.

TABLE 2
General Fund
Summary of Operating Results – Budgetary (Modified Cash) Basis
(In Millions)
Fiscal Years Ending June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Total General Fund Revenues ^(a)	\$11,213.6	\$11,985.5	\$10,845.4	\$ 12,023.3	\$ 13,123.7
Net Appropriations/Expenditures ^(b)	10,913.2	11,954.8 ^(c)	11,662.5	12,119.9	12,821.5
Operating Surplus/(Deficit)	<u>\$ 300.4^(d)</u>	<u>\$ 30.7^(e)</u>	<u>\$ (817.1)^(f)</u>	<u>\$ (96.6)^(g)</u>	<u>\$ 302.2^(h)</u>

- (a) Does not include Restricted Accounts and Federal and Other Grants. See **Appendix III-D-6**.
- (b) Does not include expenditures for Restricted Accounts and Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D**.
- (c) Does not include expenditures which were financed from fiscal year 2000 reserves for debt avoidance.
- (d) \$34.9 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining \$265.5 million was reserved for debt avoidance.
- (e) \$30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.
- (f) \$594.7 million from the Budget Reserve Fund was applied to partially fund the deficit. The remaining deficit balance was financed through the issuance of economic recovery notes.
- (g) The deficit balance was financed through the issuance of economic recovery notes. In addition to the deficit balance, there was an estimated \$25 million in lagged hospital service claims which was also financed by economic recovery notes.
- (h) The entire surplus balance of \$302.2 million is reserved for transfer to the Budget Reserve Fund.

SOURCE: Comptroller’s Office

Table 3 shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Adopted unaudited GAAP based financial statements for fiscal year 2004 are included in **Appendix III-C**.

TABLE 3
General Fund
Summary of Operating Results — Budgetary (Modified Cash) Basis vs. GAAP Basis
(In Millions)
Fiscal Years Ending June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Modified Cash Basis Operating Surplus/(Deficit)	\$ 300.4	\$ 30.7	\$ (817.1)	\$(96.6)	\$302.2
<u>Adjustments:</u>					
Increases (decreases) in revenue accruals:					
Governmental Receivables.....	59.8	80.0	37.0	(3.9)	27.8
Other Receivables	15.5	(15.1)	9.0	(75.0)	90.1
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	(161.5)	(115.8)	69.4	59.6	(166.6)
Salaries and Fringe Benefits Payable	120.8	(14.1)	(15.6)	8.7	(97.2)
Increase (decrease) in Continuing					
Appropriations	(289.8)	334.0	(543.8)	(82.0)	126.2
Reclassification of equity adjustments	(118.1)	(266.5)	—	—	(154.1)
Proceeds of Recovery Notes.....	—	—	—	<u>222.4</u>	<u>97.7</u>
GAAP Based Operating Surplus/(Deficit).....	<u>\$ (72.9)</u>	<u>\$ 33.2</u>	<u>\$(1,261.1)</u>	<u>\$33.2</u>	<u>\$226.1</u>

SOURCE: Comptroller's Office

Table 4 sets forth on the budgetary (modified cash) basis the actual cumulative unreserved fund balance (deficit) for the General Fund for the last five fiscal years.

TABLE 4
General Fund
Unreserved Fund Balance — Budgetary (Modified Cash) Basis
(In Millions)
Fiscal Years Ending June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Operating Surplus/Deficit.....	\$300.4	\$ 30.7	\$ (817.1)	\$ (96.6)	\$ 302.2
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund.....	34.9	30.7	--	--	302.2
Transfers from Budget Reserve Fund.....	--	--	594.7	--	--
Economic Recovery Note Debt Retirement.....	--	--	--	--	--
Reserve for Debt Service Appropriation.....	--	--	--	--	--
Reserve for Debt Avoidance	<u>265.5</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Transfers/Reserves	300.4	30.7	594.7	0	0
Unreserved Fund Balance					
Surplus/(deficit)	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$(222.4)</u>	<u>\$(96.6)</u>	<u>\$ 0.0</u>

SOURCE: Comptroller's Office

Table 5 shows the reconciliation of the actual cumulative unreserved General Fund balance (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting for the last five fiscal years.

TABLE 5
General Fund

Unreserved Fund Balance — Budgetary (Modified Cash) Basis vs. GAAP Basis

(In Millions)

Fiscal Years Ending June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	\$ 0.0	\$ 0.0	\$(222.4)	\$(96.6)	\$0.0
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	35.0	25.4	—	—	—
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(151.3)	(194.1)	(221.8)	(268.2)	(233.5)
Eliminate Corporation Accrual	(19.5)	(23.3)	(16.9)	(19.0)	(12.9)
Additional Taxes Receivable	<u>4.0</u>	<u>7.0</u>	<u>9.3</u>	<u>15.2</u>	<u>6.4</u>
Net Increase (Decrease) Taxes	(166.8)	(210.4)	(229.4)	(272.0)	(240.0)
Net Accounts Receivable	76.2	83.8	57.3	87.3	155.0
Federal and Other Grants Receivable ^(a)	435.7	525.8	582.0	478.2	589.7
Due From Other Funds	<u>4.8</u>	<u>7.2</u>	<u>13.1</u>	<u>13.0</u>	<u>23.4</u>
Total Additional Assets	\$ 349.9	\$ 406.4	\$423.0	\$306.5	\$528.1
Additional Liabilities					
Salaries and Fringe Payable	(158.0)	(173.4)	(189.3)	(180.6)	(233.8)
Accounts Payable—Department of Social Services	(676.7)	(773.3)	(704.8)	(631.3)	(723.0)
Accounts Payable—Trade & Other	(175.6)	(191.2)	(180.7)	(162.4)	(335.1)
Payable to Local Governments	-	-	-	-	-
Payable to Federal Government	(48.8)	(72.6)	(62.0)	(49.5)	(120.9)
Due to Other Funds	<u>(.8)</u>	<u>(3.1)</u>	<u>(7.8)</u>	<u>(28.4)</u>	<u>(15.9)</u>
Total Additional Liabilities	\$(1,059.9)	\$(1,213.6)	\$(1,144.6)	\$(1,052.2)	\$(1,428.7)
Unreserved Fund Balance (Deficit)					
GAAP Basis	<u>\$ (675.0)</u>	<u>\$ (781.8)</u>	<u>\$ (944.0)</u>	<u>\$ (842.3)</u>	<u>\$ (900.6)</u>

(a) Primarily reimbursement for additional liabilities accrued to federal grant accounts or programs with federal participation, e.g., Medicaid.

SOURCE: Comptroller's Office

Table 6 sets forth on a GAAP basis the components of the fund balance for the General Fund for the last five fiscal years.

TABLE 6
General Fund Fund Balances-GAAP Basis
(In Millions)
Fiscal Years Ending June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Reserved:					
Petty Cash.....	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
Budget Reserve.....	564.0	594.7	-	-	302.2
Loans & Advances to Other Funds.....	5.0	6.6	5.9	6.7	16.8
Restricted Purposes	265.5	249.3	283.2	249.3	150.3
Inventories	37.7	36.2	41.9	42.1	37.4
Continuing Appropriations	343.5	687.0	167.8	86.6	212.8
Debt Service	<u>13.2</u>	<u>20.7</u>	<u>9.3</u>	<u>55.1</u>	<u>--</u>
Total	1,229.9	1,595.5	509.1	440.8	720.5
Unreserved:	<u>(675.0)</u>	<u>(781.8)</u>	<u>(944.0)</u>	<u>(842.3)</u>	<u>(900.6)</u>
Total Fund Balance	<u>\$ 554.9</u>	<u>\$ 813.7</u>	<u>\$ (434.9)</u>	<u>\$ (401.5)</u>	<u>\$ (180.1)</u>

SOURCE: Comptroller's Office

STATE DEBT

Constitutional Provisions

The State has no constitutional limit on its power to issue obligations or incur debt other than it may borrow only for public purposes. There are no reported court decisions relating to State bonded debt other than two cases validating the legislative determination of the public purpose for improving employment opportunities and related activities. The State Constitution has never required a public referendum on the question of incurring debt. Therefore, State statutes govern the authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters.

Types of State Debt

Pursuant to various public and special acts the State has authorized a variety of types of debt. These types fall generally into the following categories: direct general obligation debt, which is payable from the State's General Fund; special tax obligation debt, which is payable from specified taxes and other funds which are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds which are maintained outside the State's General Fund. In addition, the State has a number of programs under which the State is contingently liable on the debt of certain State quasi-public agencies and political subdivisions. See **OTHER FUNDS, DEBT AND LIABILITIES** for information concerning debt and contingent liabilities on debt other than direct general obligation debt.

State Direct General Obligation Debt

General

Statutory Authorization and Security Provisions. In general, the State issues general obligation bonds pursuant to specific statutory bond acts and Section 3-20 of the General Statutes, the State general obligation bond procedure act. That act provides that such bonds shall be general obligations of the State and that the full faith and credit of the State of Connecticut are pledged for the payment of the principal of and interest on such bonds as the same become due. Such act further provides that, as a part of the contract of the State with the owners of such bonds, appropriation of all amounts necessary for the punctual payment of such principal and interest is made, and the Treasurer shall pay such principal and interest as the same become due.

There are no State Constitutional provisions precluding the exercise of State power by statute to impose any taxes, including taxes on taxable property in the State or on income, in order to pay debt service on bonded debt now or hereafter incurred. The constitutional limit on increases in General Fund expenditures for any fiscal year does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There are also no constitutional or statutory provisions requiring or precluding the enactment of liens on or pledges of State General Fund revenues or taxes, or the establishment of priorities for payment of debt service on the State's general obligation bonds. There are no express statutory provisions establishing any priorities in favor of general obligation bondholders over other valid claims against the State.

Statutory Debt Limit. Section 3-21 of the General Statutes provides that no bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly or issued except as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of

the State for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. However, in computing the aggregate amount of indebtedness at any time, there shall be excluded or deducted revenue anticipation notes having a maturity of one year or less, refunded indebtedness, bond anticipation notes, borrowings payable solely from the revenues of a particular project, the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, the amount of federal grants certified by the Secretary of OPM as receivable to meet the principal of certain indebtedness, all authorized and issued indebtedness to fund any budget deficits of the State for any fiscal year ending on or before June 30, 1991 and for the fiscal years ending June 30, 2002 and June 30 2003, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, and any indebtedness represented by agreements entered into pursuant to certain provisions of the General Statutes, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness. For purposes of the debt limit statute, all bonds and notes issued or guaranteed by the State and payable from General Fund tax receipts are counted against the limit, except for the exclusions or deductions described above. In addition, under Public Act No. 95-230 and Public Act No. 02-3, the amount of authorized but unissued debt for UConn 2000 and UConn 21st Century programs is limited to the amount permitted to be issued under the cap. See *Types of Direct General Obligation Debt — UConn 2000 Financing*.

Under the General Statutes, the Treasurer is required to compute the aggregate amount of indebtedness as of January 1 and July 1 each year and to certify the results of such computation to the Governor and the General Assembly. If the aggregate amount of indebtedness reaches 90% of the statutory debt limit, the Governor shall review each bond act for which no bonds, notes or other evidences of indebtedness have been issued, and recommend to the General Assembly priorities for repealing authorizations for remaining projects.

The total tax receipts for the fiscal year beginning July 1, 2004 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, and the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of January 1, 2005, is described in the following table.

TABLE 7

**Statutory Debt Limit
as of January 1, 2005 ^(a)**

Total General Fund Tax Receipts Multiplier	\$9,441,100,000.00	
Debt Limit	<u>1.60</u>	\$15,105,760,000.00
Outstanding Debt ^(b)	\$8,798,358,986.06	
Guaranteed Debt ^(c)	\$718,555,146.50	
Authorized Debt ^(d)	<u>\$3,008,911,526.00</u>	
Total Subject to Debt Limit		\$12,525,825,658.56
Less Debt Retirement Funds ^(e)	\$39,651,710.00	
Aggregate Net Debt		\$12,486,173,948.56
Debt Incurring Margin		\$2,619,586,051.44

-
- (a) Economic Recovery Notes are exempt from the statutory debt limit and are not included in the debt limit calculations.
- (b) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes UConn 2000 Bonds, tax increment financings, short term revenue anticipation notes, and lease financings other than the Middletown Courthouse and the Juvenile Training School.
- (c) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt**. Guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds. Excludes accreted value of UConn 2000 capital appreciation bonds.
- (d) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap for 2004-05 fiscal year.
- (e) Includes debt service funds for self-liquidating debt issued to finance facilities at the University of Connecticut and Connecticut State University.

SOURCE: State Treasurer’s Office

State Bond Commission. The general obligation bond procedure act establishes the State Bond Commission and empowers it to authorize the issuance of general obligation bonds for purposes and in amounts and subject to other limits established by the legislature in a bond act. The Commission consists of the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of the Office of Policy and Management (“OPM”), the Commissioner of the Department of Public Works, and the Co-Chairpersons and Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding of the General Assembly. The Secretary of OPM serves as secretary to the Commission.

Subject to satisfaction of certain conditions, the Commission may authorize the issuance of general obligation bonds by the approving vote of at least a majority of the Commission, upon a finding that such authorization will be in the best interest of the State. Upon authorization, the principal amount of bonds so authorized is deemed an appropriation of such amount for such purpose or project and, subject to allotment thereof by the Governor, contracts may be awarded and obligations incurred with respect to the project or purpose, in amounts not exceeding the authorized principal amount, notwithstanding the fact that the contracts and obligations may at a particular time exceed the amount of the proceeds from the sale of such bonds received by the State up to that time. The Commission also determines the terms and conditions of the bonds authorized or delegates such determination to the Treasurer. The Commission generally meets monthly in formal session.

Types of Direct General Obligation Debt

Bond Acts. Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to authorize bonds for a variety of projects or purposes. Each bond act is usually specific as to its projects or purposes and the amount of bonds to be issued therefor, although each bond act may contain several projects or purposes. Each bond act also usually sets forth a maximum maturity of the bonds.

The types of projects and purposes for which the State has authorized general obligation debt include the following: acquisition, construction, renovation and improvement of buildings and facilities for State departments and agencies, educational institutions, prisons, college and university facilities, library facilities and courthouses, acquisition of development rights to preserve open space and farmland, and the provision of grants and loans to promote economic development within the State. Some bonds authorized for university and college facilities are self-liquidating, and certain fees and charges collected by the college or university are set aside and used to service the debt on these bonds. Bonds are also authorized to fund a wide variety of grant programs. Such grants are made to local governments for local school construction projects or to finance a variety of local government, economic development, highway, bridge and other capital improvement projects. Certain bonds are authorized to finance grants and loans to local housing authorities and developers of affordable housing. Other general obligation debt finances grants and loans to municipalities for design and construction of water pollution control facilities, in addition to loans that are financed under the State's Clean Water revenue bond program.

UConn 2000 Financing. The General Assembly has enacted two acts for the financing of projects at the University of Connecticut. In 1995 the General Assembly enacted Public Act No. 95-230, The University of Connecticut 2000 Act. That act established the University of Connecticut as a separate corporate entity and instrumentality of the State that is empowered to issue bonds and construct the infrastructure improvements contemplated by the act for the University of Connecticut. The estimated costs of the infrastructure improvements set forth in the act totaled \$1,250 million, of which \$382 million was scheduled to be undertaken in fiscal years 1996-1999 (Phase I) and \$868 million in fiscal years 2000-2005 (Phase II). The act authorized the University to borrow money to finance the UConn 2000 projects, to finance cash flow deficits, and to refund such financings. Such borrowings are to be general obligations of the University payable from any revenues or assets of the University and may be secured by pledges of the University's revenues or assets other than mortgages.

The UConn 2000 projects are to be financed by \$18 million general obligation bonds of the State and \$962 million bonds of the University which are secured by the State's debt service commitment, which is an annual amount for any debt service requirements when due and payable. Under the act, appropriations of all amounts of the State's debt service commitment are made out of the resources of the State's General Fund and the State Treasurer is obligated to make such payments. For this reason, all general obligation borrowings by the University are treated as part of the State's general obligation debt. The amount of the University's bonds which are secured by the State's debt service commitment is capped for each fiscal year, but any amount not used may be carried forward to future fiscal years. The cap does not apply to bonds issued to finance any special capital reserve fund or other debt service reserve fund, costs of issuance or capitalized interest. The amount of bonds issued by the University and secured by the State's debt service commitment and the amount of bonds which are authorized to be issued in a fiscal year under the cap are counted against the State's debt limit. The aggregate cap for fiscal years 1996-1999 was \$382 million, with the remaining cap of \$580 million spread over the fiscal years 2000-2005.

In 2002 the General Assembly enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn. That act extended the existing UConn 2000 financing program for an additional 10 years from July 1, 2005 through June 30, 2015. The act authorizes an additional 51 projects for a

total estimated cost of \$1,348 million for Phase III and increases UConn's bonding authority in 2005 from \$50 million to \$100 million.

Of this total number of projects, 41 projects estimated to cost \$1,043 million are for the Storrs and regional campuses and 10 projects costing \$305.4 million are for the UConn Health Center. The act allows the University to borrow an additional \$1,250 million for Phase III, which is to be secured by the State's debt service commitment. It requires the State Bond Commission to approve the master resolution or indenture for state-backed securities and eliminates UConn's authority to issue securities to finance temporary deficits.

The total amount of University bonds and State general obligation bonds authorized by the acts is approximately \$368 million less than the estimated costs of the infrastructure improvements set forth in the acts. This difference is expected to be addressed by capital cost reductions, deferring certain projects to a future date, and by securing additional funding sources, such as private fundraising and special obligation bonds. Special obligation bonds are to be secured by particular revenues of the University pledged therefore, are not subject to the cap on the University's general obligation bonds and are not counted against the State's debt limit.

The form of master resolution for bonds secured by the State's debt service commitment must be approved by the State Bond Commission, as must any substantive amendment thereto. Each resolution approved by the University to borrow money, including bonds secured by the State's debt service commitment, may be rejected by the Governor within thirty days of submission. All borrowing by the University is to be undertaken by the State Treasurer.

Lease Financing. The State has issued certificates of participation for the development of courthouse facilities and an energy facility at a juvenile training school, based upon State rental payments under a lease purchase agreement between the State and the project developer. The State has treated this method of lease financing as general obligation debt. However, the State has entered into other leasing arrangements for the development of government facilities which are not treated as general obligation debt, most often in circumstances where the lease is a standard lease or the State is not a participant in the securitization of rental payments under the lease.

Tax Increment Financing. In 1992 the General Assembly authorized the Connecticut Development Authority to issue tax increment bonds for certain types of economic development projects. Under the program the amount of such bonds that may be issued is limited so that the debt service on the bonds may not exceed the estimated increases in the sales tax and the admissions, cabaret and dues taxes generated by the project and allocated by the Authority for debt service on the bonds. Under the General Statutes, debt service on the bonds is required to be paid from such tax receipts (whether or not the actual tax receipts equal or exceed the estimated amount) and is deemed appropriated from the General Fund. The State has classified such tax increment bonds as general obligation debt. No such tax increment bonds may be issued without the approval of the State Bond Commission and no commitments for new projects under this program may be approved by the Authority on or after July 1, 2005.

Certain Short-Term Borrowings. The General Statutes authorize the Treasurer, subject to the approval of the Governor, to borrow such funds, from time to time, as may be necessary, and to issue obligations of the State therefor, which shall be redeemed by the Treasurer whenever, in the opinion of the Treasurer, there are funds in the treasury available for such purpose. The State has established programs of temporary note issuances from time to time to cover periodic cash flow requirements. No temporary notes are outstanding and none have been issued since 1991.

Economic Recovery Notes. In 2002, the General Assembly authorized the Treasurer to issue notes of up to five years to fund the State's budget deficit for the fiscal year ending June 30, 2002 and to exempt these notes from the overall limit on state debt. In 2003, the General Assembly authorized the Treasurer to issue notes of up to five years to fund (1) the amount required to pay any remaining retrospective reimbursements

billed by hospitals for inpatient and outpatient services for services rendered to recipients of medical assistance in the State Administered General Assistance and General Assistance programs; and (2) the State's budget deficit for the fiscal year ending June 30, 2003.

Forms of Debt. In addition to the bonds, notes and lease financings described above, the State Treasurer has the authority to issue refunding bonds, bond anticipation notes, and capital appreciation bonds. The State general obligation bond procedure act provides that the Treasurer may issue temporary notes and any renewals thereof in anticipation of the proceeds from the sale of bonds whenever the State Bond Commission has adopted a resolution authorizing bonds. The Treasurer is also authorized by the State general obligation bond procedure act to issue refunding bonds whenever the Treasurer finds that the sale is in the best interests of the State and that the State reasonably expects to achieve net debt service savings as a result of such refunding. Certain of the State's general obligation bonds have been issued as capital appreciation bonds. Capital appreciation bonds are issued at a deep discount and interest on the bonds is compounded semi-annually and only paid at maturity. For purposes of the State's debt tables, the interest which has accrued on capital appreciation bonds up to the date of the table is added to the principal amount of the State's debt. Pursuant to State statute, accrued interest on UConn 2000 capital appreciation bonds is excluded from the calculation of the statutory debt limit.

Derivatives. The General Statutes authorize the Treasurer, with the approval of the State Bond Commission, to enter into various agreements in connection with liquidity and credit facilities and swap and other arrangements to manage interest rate risk. See **FINANCIAL PROCEDURES - Investment and Cash Management - Interest Rate Risk Management.**

Debt Statement

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds as of January 1, 2005) for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State's General Fund.

TABLE 8

**Direct General Obligation Indebtedness ^(a)
Principal Amount Outstanding as of January 1, 2005
(In Thousands)**

General Obligation Bonds	\$8,986,514
UConn 2000 Bonds	723,966
Lease Financings	40,905
Tax Increment Financings	<u>29,850</u>
Long Term General Obligation Debt Total	9,781,235
Short Term General Obligation Debt Total	<u>-</u>
Gross Direct General Obligation Debt	9,781,235
Deduct:	
University Auxiliary Services ^(b)	<u>39,652</u>
Net Direct General Obligation Debt	<u>\$9,741,583</u>

-
- (a) The table does not include refunded bonds for which escrow funds and investments are sufficient to pay all debt service. The table also does not include limited or contingent liabilities of the State or obligations of the State to towns for participation in the construction and alteration of school buildings. See **OTHER FUNDS, DEBT AND LIABILITIES**.
- (b) Considered self-liquidating. The proceeds of such bonds have been used to build facilities for the State University System and the University of Connecticut. Student fees, other than tuition, for use of such facilities, are deposited into enterprise funds and are used for the operation of such facilities and for deposit annually into a debt service fund maintained by the Treasurer for payment of the debt service on such bonds.

SOURCE: State Treasurer's Office

Debt Ratios

The following table sets forth certain ratios relating to the State's gross and net direct general obligation indebtedness:

TABLE 9
Debt Ratios - Long Term General Obligation Debt
(As of June 30)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Gross Direct Debt ^(a)	\$7,432,891	\$7,920,531	\$8,619,092	\$9,289,485	\$9,913,819
Net Direct Debt ^(a)	\$7,315,945	\$7,795,785	\$8,492,234	\$9,239,987	\$9,868,591
Ratio of Debt to Personal Income ^(b)					
Gross Direct Debt	5.25%	5.38%	5.83%	6.16%	6.57%
Net Direct Debt	5.17%	5.29%	5.74%	6.12%	6.54%
Ratio of Debt to Estimated Full Value ^(c)					
Gross Direct Debt	2.51%	2.48%	2.39%	2.37%	2.23%
Net Direct Debt	2.47%	2.44%	2.36%	2.36%	2.22%
Per Capita Debt ^(d)					
Gross Direct Debt	\$2,178	\$2,307	\$2,492	\$2,664	\$2,829
Net Direct Debt	\$2,144	\$2,270	\$2,455	\$2,650	\$2,816

- (a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in **Table 11**.
- (b) See **Appendix III-B, Table B-2**. Personal Income: 2000 — \$141,570 million; 2001—\$147,323 million; 2002—\$147,856 million; 2003 — \$150,801; and 2004 ratio uses 2003 data.
- (c) Full value estimated by OPM. Uses final equalized net grand lists: 1998 — \$296 billion; 1999 – \$320 billion; 2000—\$360 billion; 2001—\$392 billion; and 2002 — \$444 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2000 ratio uses 1998 data; 2001 ratio uses 1999 data; 2002 ratio uses 2000 data; 2003 ratio uses 2001 data; and 2004 ratio uses 2002 data.
- (d) See **Appendix III-B, Table B-1**. State population: 2000—3,412,000; 2001—3,433,000; 2002—3,459,000; 2003—3,487,000; and 2004—3,504,000.

Debt Service Schedule

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of January 1, 2005. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

TABLE 10

**Summary of Principal, Mandatory Sinking Fund Payments,
and Interest on Long-Term Direct General Obligation Debt^(a)
as of January 1, 2005**

<u>Fiscal Year</u>	<u>Principal Payments</u> ^(b)	<u>Interest Payments</u> ^{(b)-(c)}	<u>Total Debt Service</u>
2004-05	\$385,414,891	\$234,639,795	\$620,054,686
2005-06	796,175,405	484,199,098	1,280,374,503
2006-07	786,112,353	457,873,912	1,243,986,265
2007-08	795,846,834	430,370,203	1,226,217,037
2008-09	707,108,493	437,848,570	1,144,957,063
2009-10	691,218,599	398,276,048	1,089,494,648
2010-11	655,214,105	307,110,854	962,324,959
2011-12	596,430,834	255,251,605	851,682,439
2012-13	537,492,960	207,403,866	744,896,826
2013-14	489,395,000	166,977,926	656,372,927
2014-15	472,586,365	133,906,432	606,492,797
2015-16	398,590,061	111,284,923	509,874,984
2016-17	373,044,988	91,668,401	464,713,389
2017-2031	<u>1,607,094,072</u>	<u>247,403,716</u>	<u>1,854,497,788</u>
Totals	\$9,291,724,960	\$3,964,215,350	\$13,255,940,310

(a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$9,291,724,960), plus accreted interest (\$489,509,572) on State and UConn 2000 capital appreciation bonds, total the amount of such long-term debt (\$9,781,234,532) as shown in **Table 8**. See footnotes (b) to (c) for further explanation.

(b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bond issues pursuant to the College Savings Bond Program and UConn 2000 bonds. Capital appreciation bonds mature in fiscal years 2005-2014.

(c) Some of the State's direct debt pays interest at variable rates. The interest on such debt is calculated based on the following assumed average rates:

<u>Year Issued</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Maturities</u>	<u>Interest Rate</u>
1997	\$100,000,000	\$99,235,000	2005-2014	3.75%
2001	100,000,000	100,000,000	2018-2021	3.75
2002	100,000,000	100,000,000	2005-2012	4.25
2002	70,140,000	70,140,000	2006-2007	3.50
2003	77,700,000	70,200,000	2005-2013	4.25
2004	97,700,000	97,700,000	2005-2009	3.50

SOURCE: State Treasurer's Office

Outstanding Long-Term Direct General Obligation Debt

The following table and graph sets forth the total long-term direct general obligation debt outstanding and the net long-term direct general obligation debt outstanding at the end of each of the last ten fiscal years. Net debt excludes bonds that are considered self-liquidating. See *Table 8*.

TABLE 11

**Outstanding Long-Term Direct General Obligation Debt
(As of June 30-In Thousands)**

<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>	<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>
1995	\$6,186,518 ^(a)	\$6,051,141 ^(a)	2000	\$7,432,891	\$7,315,945
1996	6,573,810 ^(b)	6,428,391 ^(b)	2001	7,920,531	7,795,785
1997	6,826,826 ^(c)	6,678,398 ^(c)	2002	8,619,092	8,492,234
1998	6,981,212 ^(d)	6,865,905 ^(d)	2003	9,289,485 ^(e)	9,239,987 ^(e)
1999	7,176,905	7,067,276	2004	9,913,819 ^(f)	9,868,591 ^(f)

- (a) Includes \$315,710,000 Economic Recovery Notes.
- (b) Includes \$236,055,000 Economic Recovery Notes.
- (c) Includes \$157,055,000 Economic Recovery Notes.
- (d) Includes \$78,055,000 Economic Recovery Notes.
- (e) Includes \$219,235,000 Economic Recovery Notes.
- (f) Includes \$273,215,000 Economic Recovery Notes.

SOURCE: State Treasurer's Office

Future Issuance of Direct General Obligation Debt

Authorized But Unissued Direct General Obligation Debt. The General Assembly has empowered the State Bond Commission to authorize direct obligation bonds pursuant to certain bond acts. The table below shows, as of January 1, 2005, the amount of bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The table shows the same information for UConn 2000 bonds secured by the State's debt service commitment authorized to be issued under the cap through June 30, 2005.

TABLE 12
Authorized but Unissued Direct General Obligation Debt
as of January 1, 2005^(a)
(In Thousands)

	State Direct Debt	UCONN 2000^(b)	Tax Increment^(c)	Total
Bond Acts in Effect	\$17,722,385	\$1,012,482	\$42,800	\$18,777,667
Amount Authorized	16,098,341	1,012,482	42,800	17,153,623
Amount Issued	14,819,419	912,482	39,330	15,771,231
Authorized but Unissued	1,278,922	100,000	3,470	1,382,392
Available for Authorization	1,624,044			1,624,044

- (a) Economic Recovery Notes are not included in calculations.
- (b) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amount issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
- (c) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission as of January 1, 2005, since there is no statutory amount of authorization.

SOURCE: State Treasurer's Office; Office of Policy and Management

Bond Authorizations and Reductions. The General Assembly authorizes bonds in various public and special acts each year or each biennium. In addition to authorizing bonds for new projects and purposes, the General Assembly reviews prior authorizations and may repeal certain projects and bond authorizations or otherwise reduce prior bond authorizations. The table and graph below list the amount of new authorizations of general obligation debt and the net amount after subtracting prior bond authorizations which have been repealed or reduced.

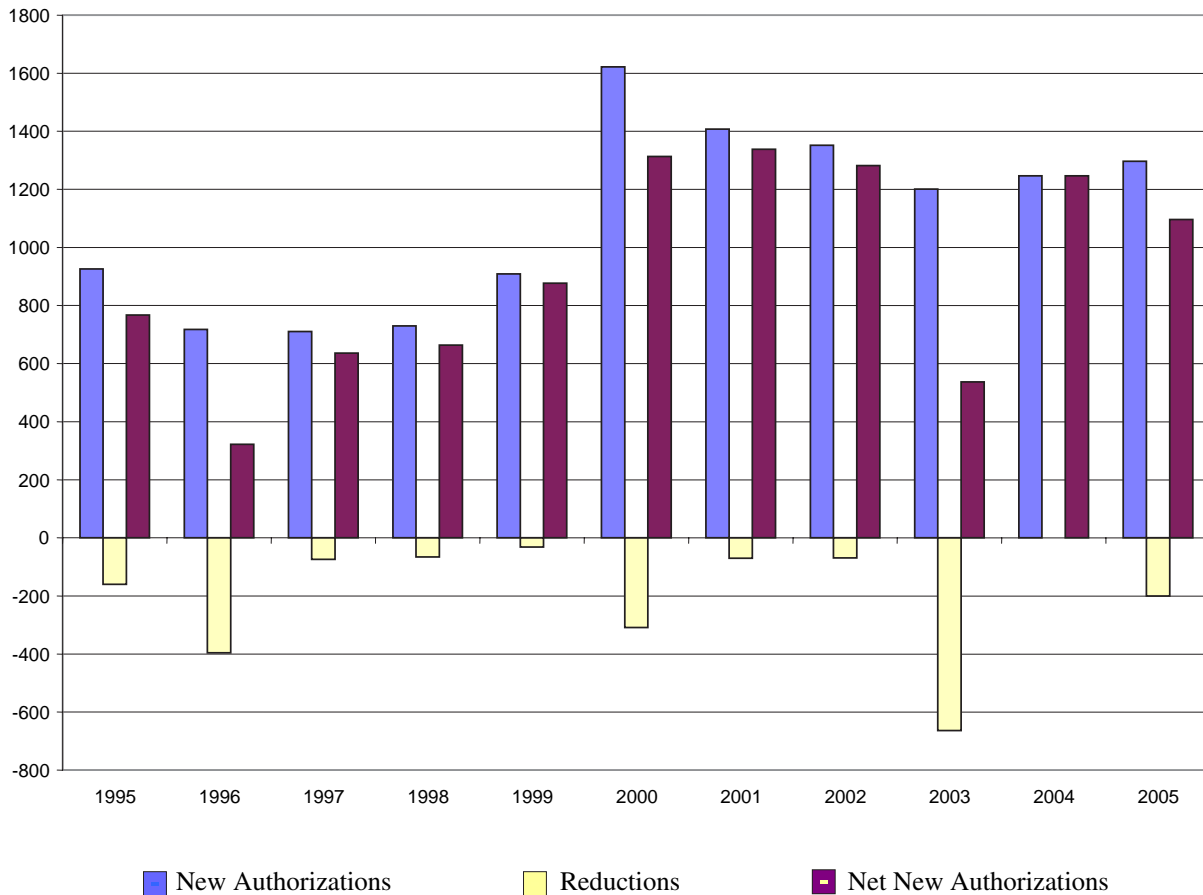
TABLE 13
Statutory General Obligation Bond Authorizations and Reductions^(a)
(In Millions)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
New Authorizations	\$926.3	\$717.8	\$710.1	\$729.8	\$908.8	\$1,621.6	\$1,407.9	\$1,351.6	\$1,201.0	\$1,246.1	\$1,296.5
Reductions	(159.6)	(396.0)	(74.3)	(66.0)	(31.7)	(308.4)	(70.1)	(69.9)	(663.6)	0.0	(200.3)
Net New Authorizations	\$766.7	\$321.8	\$635.8	\$663.8	\$877.1	\$1,313.2	\$1,337.8	\$1,281.7	\$537.4	\$1,246.1	\$1,096.2

(a) Does not include lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 1997 through 2005, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Does not include authorizations which take effect after 2005.

SOURCE: Office of Policy and Management

Statutory Bond Authorizations and Reductions
(In Millions)



Purposes of Recent Bond Authorizations. The purposes for which the State issues its general obligation bonds include those described in the next table. The amounts authorized for each of these purposes for recent fiscal years is reflected in the following table, including amounts authorized for UConn 2000. The table does not reflect any statutory reductions of authorized items from prior years, nor are tax increment or cash flow borrowings or lease financings included.

TABLE 14

**New Agency Authorizations (Does Not Include Reductions)
(In Thousands)**

Purpose	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Policy & Management	\$ 179,921	\$ 228,600	\$ 210,600	\$ 165,000	\$131,800
Revenue Services.....	0	0	0	20,100	20,100
Comptroller.....	0	50,000	0	34,000	8,800
Administrative Services.....	0	53,000	0	0	0
Information Technology	0	4,500		5,000	10,000
Public Works	20,000	52,900	15,000	35,400	15,232
Public Safety (POST)	2,300	10,000	0	0	19,000
Motor Vehicles	0	0	0	1,000	10,250
Military	1,300	0	0	0	0
Agriculture.....	1,000	3,000	3,000	0	500
Environmental Protection	141,150	191,000	106,250	69,000	2,500
Economic and Community Development:					5,500
Housing.....	10,500	10,000	10,000	0	20,500
Economic Development.....	138,500	110,900	51,000	17,000	0
Other	0	0	0	0	13,500
Ct Innovations Inc.....	10,000	10,000	10,000	5,000	0
Public Health	0	12,500	1,000	0	55,000
Mental Retardation	4,000	2,500	1,500	0	2,000
Mental Health and Addiction Services.....	21,750	6,000	6,000	0	5,000
Social Services.....	6,000	3,500	0	0	6,000
Education	482,100	191,800	488,100	495,000	660,397
State Library	2,500	2,500	2,500	0	3,500
Culture & Tourism.....	1,300	1,300	1,300	0	4,600
Regional Community- Technical Colleges	74,855	69,070	66,162	120,180	90,430
State University	88,352	88,550	95,658	126,485	80,708
Legislative Management.....	0	0	0	0	0
Children & Families	14,500	15,000	3,000	0	4,000
Judicial.....	20,500	56,500	27,500	32,888	17,200
CPTV	2,000	2,500	2,500	1,000	2,000
Corrections.....	35,000	50,000	0	10,000	0
UConn.....	20,000	0	0	0	8,000
UConn Health	3,400	0	0	2,000	0
UConn 2000 ^(a)	100,000	100,000	100,000	100,000	100,000
Hartford Econ Dev Projects....	<u>27,000</u>	<u>26,000</u>	<u>0</u>	<u>7,000</u>	<u>0</u>
Totals	\$1,407,928	\$1,351,620	\$1,201,070	\$1,246,053	\$1,296,517

(a) To be issued by University of Connecticut based on cap for the year indicated prior to actual bond issuance. Does not include additional amounts which may exceed cap to finance reserve funds, issuance costs and capitalized interest. Does not include \$1,250 million authorizations for UConn 2000 which take effect from fiscal years 2005-06 through 2014-15.

SOURCE: Office of Policy and Management

OTHER FUNDS, DEBT AND LIABILITIES

The State conducts certain of its operations through State funds other than the State General Fund and, pursuant to legislation, may issue debt secured by the special taxes or revenues pledged to certain of such funds. In addition, the State is contingently liable or has limited liability, from the resources of the State's General Fund, for payment of debt service on certain obligations of quasi-public State agencies and municipalities of the State. The State has also made commitments to municipalities to make future grant payments for school construction projects, payable over a period of years. In addition, the State has committed to apply moneys for debt service on loans to finance child care facilities and has certain other contingent liabilities for future payments.

Transportation Fund and Debt

In 1984 the State adopted legislation establishing a transportation infrastructure program and authorizing special tax obligation ("STO") bonds to finance the program. The infrastructure program is a continuous program for planning, construction and improvement of State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program, waterway facilities, mass transportation and transit facilities, aeronautic facilities (excluding Bradley International Airport), the highway safety program, maintenance garages and administrative facilities of the Department of Transportation, payment of the State's share of the costs of the local bridge program established under the act, and payment of State contributions to the local bridge revolving fund established under the act. The infrastructure program is administered by the Department of Transportation.

The cost of the infrastructure program for State fiscal years 1985-2008, which is to be met from federal, State, and local funds, is currently estimated at \$17.6 billion. During fiscal years 1985-2005, \$15.6 billion of the total infrastructure program was approved. The remaining \$2.0 billion is required for fiscal years 2006-2008. The \$2.0 billion is comprised of \$490.5 million from the anticipated issuance of new special tax obligation bonds, \$37.2 million in anticipated revenues, and \$1.5 billion in anticipated federal funds. The State's share of the 1985-2008 infrastructure program costs, estimated at \$6.3 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of STO bonds. The portion of State program costs not financed by STO bonds is estimated at \$0.6 billion and includes the expenses of the infrastructure program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the infrastructure program for State fiscal years 1985-2008 to be financed by STO bonds is estimated at \$5.7 billion. The actual amount may exceed \$5.7 billion to finance reserves and cost of issuance amounts. The issuance of such STO bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. STO bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

The State has established a Special Transportation Fund for the purpose of budgeting and accounting for all transportation related taxes, fees and revenues credited to such Fund and securing the STO bonds. STO bonds are payable solely from revenues of the Special Transportation Fund. The aggregate of certain motor fuel taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, and portions of the oil companies tax and sales tax on motor vehicles and other transportation related revenue sources, including enacted adjustments to all the foregoing sources, are intended to cover the cost of the State's share of the infrastructure program, including debt service requirements. After providing for debt service requirements, the balance of the receipts from such revenue sources may be applied to the payment of general obligation bonds of the State issued for transportation purposes and for the payment of annually budgeted expenses of the Department of Transportation and the Department of Motor Vehicles.

The following table shows the amount of STO bonds authorized by the General Assembly for the program, the amount issued and the amount outstanding (excluding refunded bonds) as of January 1, 2005. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

TABLE 15
Special Tax Obligation Bonds
As of January 1, 2005
(In Millions)^(a)

	<u>New Money</u>	<u>Total</u>
Amount Authorized	\$5,792.5	
Amount Issued	5,396.6	8,224.9
Amount Outstanding	1,413.3	3,110.4

(a) The amounts under the New Money column include only new money borrowings, and not refundings. The amounts under the Total column include both new money borrowings and refundings.

SOURCE: State Treasurer's Office

Debt service on State direct general obligation bonds for transportation purposes may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2004, the Special Transportation Fund paid \$13.8 million of State direct general obligation transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for fiscal year 2004-05 is \$4.5 million.

Over the past decade, the Fund's revenues and expenses have undergone a variety of legislative changes. Several legislative actions in 2003 affected the revenues and expenditures of the Fund. Among other legislative changes, Public Act 03-1 (June 30 Spec. Sess.) altered the transfer of certain revenues into the Fund and Public Act 03-2 provided for a one-time transfer of \$52 million from the Fund to the State's General Fund.

In addition, legislation passed in 2001 created the Connecticut Transportation Strategy Board ("TSB"). The 15 member board consists of five appointed members from the private sector, five appointed members from each of the five Transportation Investment Areas established in the legislation, the Commissioners of Transportation, Environmental Protection, Economic and Community Development, and Public Safety, and the Secretary of the Office of Policy and Management ("OPM"). The TSB's strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement of goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the state economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system. In January 2003, the TSB presented its recommendations to the Governor and the General Assembly. Legislation passed later in 2003 authorized bonding for TSB projects of \$265 million during fiscal years 2004-2013. This authorization is subject to certain determinations that have not been made at this time and thus it is not included in **Table 15**. The legislation also approved the principles set forth in the TSB recommendations.

Other Special Revenue Funds and Debt

Bradley Airport

Bradley International Airport, located in Windsor Locks, Connecticut, is owned by the State and operated by the Bureau of Aviation and Ports in the State's Department of Transportation. The General Assembly has authorized the issuance of revenue bonds for improvements at Bradley International Airport, payable from all or a portion of the revenues generated at the Airport. Legislation passed in 2001 removed a \$294 million bond issuance cap for Bradley Airport but retained the requirement for State Bond Commission approval of any new bond issue. As of January 1, 2005, there were \$236.5 million of Bradley International Airport Revenue Bonds outstanding.

The legislation also established a Bradley Board of Directors to oversee the operation and development of Bradley Airport. The seven-member board includes five appointed members and the Commissioners of Transportation and Economic and Community Development. The Bradley Board is charged with a wide range of duties and responsibilities, including developing an organizational and management structure, approving the annual capital and operating budget, master plan, and community relations policies of the airport, and ensuring customer service standards and performance assessments.

Additional special obligation bonds to finance self-sustaining special facilities at Bradley International Airport payable solely from the revenues derived from such special facilities were authorized in 1993. In March 2000, the State issued \$53.8 million Bradley International Airport Special Obligation Parking Revenue Bonds to finance the construction of a five story parking garage facility at the airport and as of January 1, 2005 \$51.9 million of such bonds are outstanding.

Clean Water Fund

The General Assembly has authorized the issue of up to \$1,180.1 million revenue bonds for the purpose of funding various State and federally mandated water pollution control and drinking water projects. The revenue bonds are payable solely from the revenues or other receipts, funds or moneys pledged therefor. The proceeds of the revenue bonds are loaned to Connecticut municipalities to finance water pollution control and drinking water improvements, and the loan repayments by the municipalities secure the bonds. The loans are evidenced by interim funding obligations and project loan obligations of the municipalities, pursuant to which either the full faith and credit of each such municipality is pledged, or the revenues and other funds of a municipal sewer system are pledged. As of January 1, 2005, \$833.5 million revenue bonds had been issued and \$246.1 million revenue bonds (excluding refunded bonds) were outstanding.

Unemployment Compensation

The State pays unemployment compensation benefits from the State's Unemployment Compensation Fund, which is funded by unemployment compensation taxes collected from employers. In 1993, the State responded to a deficit in the Fund by, among other things, issuing three series of special obligation bonds totaling \$1,020.7 million to repay certain federal borrowings and to fund certain reserves. All of these bonds were defeased in June 2001. To fund future shortfalls, the State has reserved the authority to issue bonds in an aggregate amount outstanding at any time not in excess of \$1,000 million, plus amounts for certain reserves and costs of issuance. The State has not incurred any additional borrowing since 1993 other than borrowings from the Federal Unemployment Trust Fund for cash flow purposes which have been repaid prior to September 30 in each case and which therefore have not been subject to federal interest charges.

Second Injury Fund

The Second Injury Fund is a State-run workers' compensation insurance fund which pays lost wages and medical benefits to qualified injured workers. The State Treasurer is the custodian of the Second Injury Fund, and is responsible for its administration. The State established the Second Injury Fund in 1945 to encourage the hiring of persons with pre-existing physical impairments, such as veterans. Until the July 1, 1995 statutory closure of the Second Injury Fund to second injury claims, the Fund provided relief to employers when an injured worker, who already had a pre-existing injury or condition, was hurt on the job and the second injury was made worse by the existence of the first injury. Employers transferred liability for workers' compensation claims to the Second Injury Fund after 104 weeks if certain criteria were met.

The Second Injury Fund maintains on-going statutory and financial responsibilities for uninsured employer claims, certain dependent and survivor death benefits, a pro-rata share of lost time cost in concurrent employment claims, and the cost of reimbursing employers and insurers for cost of living adjustments (COLAs) in certain cases, in addition to Second Injury claims transferred prior to July 1, 1999.

The Second Injury Fund is financed by assessments levied on Connecticut employers. Insured employers pay a surcharge on workers' compensation insurance policies based on annual standard premiums. The assessment for self-insured employers is based upon the amount of their workers' compensation loss costs for medical and indemnity benefits incurred in the prior calendar year.

The Second Injury Fund has been conducting audits of a number of insurance companies and self insured employers to insure compliance with the assessment provisions in the applicable statutes and regulations. In the course of these audits, the Second Injury Fund determined that it may have over-collected on certain assessment penalties. The Fund currently maintains sufficient reserves to make restitution on such over-collections.

In 1995 and 1996, the State enacted legislation to reform the Second Injury Fund. Those laws include provisions that closed the Second Injury Fund to claims resulting from second injuries occurring on and after July 1, 1995, set a final date of July 1, 1999 for the transfer of these claims to the Second Injury Fund, authorized the issuance of an amount not to exceed \$750 million in revenue bonds and notes outstanding at any one time to provide funds for stipulations.

The State issued \$100 million Second Injury Fund Revenue Bonds in 1996, which were defeased in 2004, and an additional \$124.1 million in 2000, which have a final maturity of 2011. As of January 1, 2005, \$46.4 million remain outstanding. The bonds are payable solely from amounts held in the Finance Account of the Second Injury Fund, revenues pledged for their payment pursuant to legislation and amounts held under the indenture of trust with respect to the bonds, including a special assessment premium surcharge on employers. Based on the Second Injury Fund's experience to date, it is not expected that additional revenue bonds will be issued. The management objective is to pay additional claims and settlements from current income and, if necessary, short term borrowings.

Rate Reduction Bonds

The General Assembly authorized the issuance of special obligation bonds ("Rate Reduction Bonds") to sustain funding of the conservation and load management and the renewable energy investment programs (the "Programs") established under the general statutes. The State issued \$205.3 million Special Obligation Rate Reduction Bonds (2004 Series A) on June 23, 2004. The Rate Reduction Bonds are secured by certain revenues ("RRB Revenues") collected through a non-bypassable charge imposed upon each customer of the electric utilities within the State. The RRB Revenues are property of the State and are pledged towards payment of debt service on the Rate Reduction Bonds and related costs. The Rate Reduction Bonds are secured by a first priority lien on the RRB Revenues. The net proceeds of the bonds were deposited in the General Fund.

Abandoned Property Fund

The General Assembly in 2004 authorized the issuance of approximately \$60.0 million special obligation bonds payable solely from revenues under the special abandoned property fund established under Public Act No. 04-216. Under the act, the opportunity for securitization is limited to fiscal year 2004-2005. It is not anticipated that any such bonds will be issued. Revenues come from receipts from the disposition of abandoned property.

Contingent Liability Debt

The General Assembly has the power to impose limited or contingent liabilities upon the State in such a manner as it may deem appropriate and as may serve a public purpose. This power has been used to support the efforts of quasi-public agencies, municipalities and other authorities formed to carry out essential public and governmental functions by authorizing these entities to issue indebtedness backed, partially or fully, by General Fund resources of the State. Not all entities that are authorized to issue such indebtedness have done so, and the description below of the State's limited or contingent liability is restricted only to specific indebtedness backed by the State.

Special Capital Reserve Funds

The primary vehicle through which the State has undertaken contingent or limited liability is the special capital reserve fund. A special capital reserve fund, if established, provides additional security for bonds issued by the entity authorized to establish such a reserve fund. Subject to exceptions in the legislation authorizing the establishment of a particular special capital reserve fund, monies held in and credited to a special capital reserve fund are intended to be used solely for the payment of the principal of bonds secured by such special capital reserve fund, the purchase of such bonds, the payment of interest on such bonds or the payment of any redemption premium required to be paid when such bonds are redeemed prior to maturity. The special capital reserve fund is frequently funded with bond proceeds to a specified amount (the minimum of which is often the maximum annual principal and interest payments due on the bonds). The State undertakes the obligation to restore a special capital reserve fund to its minimum level. The method for determining such required minimum capital reserve is set out in the legislation authorizing the special capital reserve fund. If the special capital reserve fund should fall below the required minimum capital reserve amount, an official of the authority or municipality which established the special capital reserve fund shall certify to the Secretary of the Office of Policy and Management or the State Treasurer or both the amount necessary to restore such special capital reserve fund to the required minimum capital reserve amount. On or before December 1, annually, there will be deemed to be appropriated from the State's General Fund such amount as specified in the certificate, which amount shall be allotted and paid to the entity that established the special capital reserve fund. On an annual basis, the State's liability under any special capital reserve fund mechanism is limited to its obligation to restore that fund to its minimum capital reserve amount.

Quasi-Public Agencies

The State has established by legislation several quasi-public agencies. These quasi-public agencies are not departments, institutions or agencies of the State. They are, however, bodies politic and corporate that constitute public instrumentalities and political subdivisions of the State and whose exercise of authority granted to them is deemed to be the performance of an essential public and governmental function. These organizations provide a wide range of services that might otherwise be provided directly by the State.

Among the public authorities are: the Connecticut Development Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Housing Finance Authority and the Connecticut Resources Recovery Authority. Each of these public authorities is authorized to issue bonds in its own name to facilitate its activities and each has issued bonds secured by a special capital reserve fund for which the State has limited contingent liability.

Connecticut Development Authority (“CDA”). The CDA was established in 1973 as a successor Authority. In order to discharge its responsibilities and fulfill its purposes, the CDA is authorized to offer various financing programs including The Mortgage Insurance and Loan Program (the “Insurance Fund”), the Umbrella Bond Program, the Self-Sustaining Bond Program, the Connecticut Growth Fund, the Connecticut Works Fund, the Connecticut Works Guarantee Fund, the Connecticut Capital Access, the Connecticut Small Business Reserve Fund, the Environmental Assistance Revolving Loan Fund, the Tax Incremental Financing Program, the High-Technology Infrastructure Fund and the General Obligation Bond Program. Currently, only certain CDA bonds issued pursuant to the Umbrella Bond Program and the General Obligation Bond Program are further secured by special capital reserve funds.

Under the Umbrella Bond Program the CDA issues bonds to provide loans to private entities for the acquisition of industrial land, buildings, machinery, equipment and pollution control devices. Loan payments from the borrower to the CDA provide funds to service the debt on such bonds. Loans financed under the Umbrella Bond Program are secured by real and/or personal property of the borrower and by the Insurance Fund, which is, in part, State funded and insures payment of the loans. Loans may be insured up to an aggregate outstanding principal amount not to exceed four times the funds available to the Insurance Fund. As of January 1, 2005 the assets in the Insurance Fund totaled \$7.6 million and an additional \$20.45 million of State bonds have been authorized to fund the Insurance Fund but remain unissued. As of January 1, 2005, loans insured by the Insurance Fund totaled \$7.5 million.

Under the General Obligation Bond Program (the “Program”), the CDA issues bonds to finance eligible economic development and information technology projects. Pursuant to an Indenture of Trust between the CDA and Fleet National Bank (formerly Shawmut Bank Connecticut, N.A.), general revenues of the CDA, which are not otherwise pledged, are made available to service the debt of bonds issued under the Program. Although such bonds may also be secured by a special capital reserve fund, to date under the Program only \$30.56 million 1993 Series A (Hartford Whalers Project) bonds have been secured by such a fund. As of January 1, 2005, \$13.73 million of such bonds remain outstanding.

The Board of Directors of the CDA is comprised of eleven members: the State Treasurer, the Commissioner of Economic and Community Development, the Secretary of the Office of Policy and Management, as *ex officio* members; four members appointed by the governor and experienced in the field of financial lending or the development of commerce, trade or business; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives.

Connecticut Health and Educational Facilities Authority (“CHEFA”). CHEFA was established to assist in the financing of facilities for educational or health care purposes, including colleges and universities, secondary schools, nursing homes, hospitals, child care facilities, and any other qualified non-profit institutions through the issuance of bonds and other obligations. Payments from institutions provide funds to service the debt on loans made pursuant to the issuance of bonds and other obligations by CHEFA. CHEFA is also authorized to issue tax-exempt and taxable revenue bonds secured by one or more special capital reserve funds solely to finance projects for “participating nursing homes,” or for housing, student centers, food service facilities and other auxiliary service facilities at public institutions of higher learning, including the Connecticut State University system. In addition, Public Act No. 04-01 of the May Special Session authorized CHEFA to issue up to \$100.0 million special obligation bonds secured by a special capital reserve fund to finance equipment acquisitions by hospitals.

Under CHEFA’s nursing home program, loans are secured by mortgages on the nursing homes and pledges of gross receipts. Minimum debt service coverage ratios of 1.25 times annual debt service are required and restrictions are placed on the issuance of additional debt. Participating nursing homes are required to fund a debt service reserve fund in an amount equal to one year’s maximum annual debt service and a working capital fund reserve account in an amount equal to 60 days of operating expenses or three year’s maximum annual debt service. If a participating nursing home is in default or is likely to become in default under its loan

agreement with CHEFA due to the failure to make any payment(s) required, CHEFA may request that the Commissioner of the Department of Social Services withhold any funds in the State's custody that are due and payable to the nursing home via a Medicaid intercept. Funds subject to withholding under this section include federal and state grants, contracts, allocations and appropriations. In 2005, CHEFA had to apply the working capital fund reserve account and Medicaid intercept to one financing where \$15.38 million bonds are outstanding because of a nursing home's failure to make monthly debt service payments.

The State Treasurer has applied appropriated funds and General Fund budget surplus to defease certain bonds for nursing homes in order to avoid any draw on the special capital reserve fund which secures such bonds. Legislation enacted in 1998 provides that no bonds secured by a special capital reserve fund are to be issued by CHEFA in the future for nursing homes, except for bonds that at least in part, refund, refinance, or otherwise restructure bonds under certain circumstances where the aggregate liability of the State with respect to such bonds will be less than the aggregate liability of the State with respect to the bonds being refunded, refinanced or restructured and that doing so is in the best interest of the State.

CHEFA is also allowed to issue revenue bonds to finance facility improvements for the Connecticut State University System (the "System") which are secured by one or more special capital reserve funds. The System has pledged University Student Fees as a source of funds for the payment of debt service on the bonds. In the past, many facilities of the System were financed through self-liquidating general obligation bonds of the State, so implementation of this program should limit the need for the State to issue such bonds in the future.

The Board of Directors of CHEFA is comprised of ten members including the State Treasurer and Secretary of OPM, both serving *ex officio*, and eight members appointed by the governor based on their qualifications in the areas of health care, higher education, or public finance.

Connecticut Higher Education Supplemental Loan Authority ("CHESLA"). CHESLA provides financial assistance in the form of education loans to students in or from the State, their parents or others responsible for the cost of their education and provides an alternative method to enable institutions for higher education in the State to assist qualified students to attend such institutions. CHESLA is authorized to issue bonds the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayment of such loans service the debt on CHESLA bonds. CHESLA, in connection with the issuance of its bonds has made certain covenants with respect to such loans, including a covenant to do or cause to be done all such acts and things necessary to receive and collect all revenues due with respect to such loans. CHESLA bonds are further secured by a special capital reserve fund.

The Board of Directors of CHESLA is comprised of eight members including the State Treasurer, the Secretary of OPM and the Commissioner of Higher Education, serving *ex officio*, and five members appointed by the Governor based on their qualifications in the areas of higher education and/or public finance.

Connecticut Housing Finance Authority ("CHFA"). CHFA was established in 1969 to meet the needs of low and moderate income families and persons for decent housing and to encourage and assist the development and construction of multifamily housing by reducing the cost of mortgage financing therefor. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements including unrestricted statutory income limits in certain urban areas. The enabling act authorizes CHFA to make or purchase construction and permanent mortgage loans which are guaranteed or insured by the United States of America or any agency or instrumentality thereof, by the Federal Home Loan Mortgage Corporation, by a private mortgage insurance company or the State or the Authority itself without limitation as to amount and to make or purchase mortgage loans not so insured or guaranteed in an aggregate amount not to exceed \$750 million. In order to finance these activities CHFA has established a Housing Mortgage Finance Program and has issued its general obligation bonds under a General Bond Resolution pursuant to which CHFA has pledged all revenues which it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal

therefrom from any source and any monies received from investments. In addition, such General Bond Resolution provides for general covenants such as a covenant to do all things necessary with respect to the operation of such Housing Mortgage Finance Program in order to pay principal of and interest on its bonds and provides for certification as to self-sufficiency in order to issue any additional bonds. Bonds issued under CHFA's General Bond Resolution are further secured by a special capital reserve fund. In addition, while not specifically pledged, CHFA has other funds reserved in respect of mortgages financed under the General Bond Resolution.

CHFA has also established a Special Needs Housing Mortgage Finance Program (formerly known as the Group Home Mortgage Finance Program) and has issued and expects to issue additional Special Needs Housing Mortgage Finance Program Special Obligation Bonds under a separate indenture, which bonds are and will be secured by State appropriations to or on behalf of the residents thereof and further secured by a special capital reserve fund.

The Board of Directors of CHFA is comprised of fifteen members: the Commissioner of Economic and Community Development, the Secretary of OPM, the Commissioner of Banking and the State Treasurer, serving *ex officio*; seven members appointed by the Governor; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives who among them are experienced in all aspects of housing design, development, finance, management and state and municipal finance.

Connecticut Resources Recovery Authority ("CRRA"). CRRA was created in 1973 to assist municipalities in meeting their solid waste disposal and recycling needs. To further its purpose CRRA develops, finances and supervises solid waste management facilities and contracts. CRRA has developed four integrated solid waste systems that serve over 100 municipalities in the State. CRRA bonds may be secured by a special capital reserve fund. CRRA bonds are generally secured by service agreements with participating municipalities under which the municipalities agree to deliver a minimum amount of waste to a specified facility each year or to pay the tipping fee for any amount that does not meet the minimum commitment. These service agreements are generally secured by the municipality's full faith and credit. CRRA bonds are additionally secured by revenues from the sale of energy generated by the facility and waste from non-municipal sources.

CRRA has approximately \$153.0 million bonds outstanding as of January 1, 2005 which are secured by a special capital reserve fund. The bonds pertain to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. In addition to tipping fees under service agreements with participating municipalities, CRRA's bonds are payable from the sale of electricity. Enron Power Marketing, Inc. ("Enron") is the entity which was obligated to pay the Authority a monthly capacity charge and an additional charge for electrical output from the facility. Enron filed for bankruptcy on December 2, 2001 and has not made its capacity or electricity payments since that time.

CRRA, in an effort to generate adequate revenues to pay debt service on its bonds for the Mid-Connecticut facility following the Enron bankruptcy, has increased tipping fees, is pursuing remedies in civil court with the Attorney General, and has entered into two consecutive two-year electricity sales agreements with Select Energy, a subsidiary of Northeast Utilities. The agreements with Select Energy provide for the sale to Select Energy of the output that would have been sold to Enron. In addition to attempting to increase its revenues, CRRA has decreased its expenses by implementing reductions in administrative and operational expenses. The State is obligated to maintain the Minimum Capital Reserve Requirement for these bonds to the extent CRRA uses monies in the capital reserve fund to pay debt service on CRRA's outstanding bonds. It is unclear at this time whether there will be any need for the State to make payments to maintain the Minimum Capital Reserve Requirement, but the maximum obligation of the State in each year to maintain the reserve fund for the Mid-Connecticut bonds is limited to approximately \$25.3 million.

During August 2003, the General Assembly passed Public Act No. 03-5 which authorized a loan by the State to the CRRA of up to \$22 million for fiscal years ending June 30, 2003 and June 30, 2004, and, for subsequent fiscal years, an additional aggregate amount of \$93 million, to support the repayment of CRRA's debt for the Mid-Connecticut facility and to minimize the amount of tipping fee increases chargeable to the towns which use the Mid-Connecticut facility. As of January 1, 2005, CRRA has borrowed a total of \$21.5 million from the State pursuant to the loan and \$19.4 million remain outstanding. Interest on these loans accrues at a variable rate, and CRRA is required to make monthly payments of principal and interest. Final payment on the loans is scheduled to coincide with the expiration of the municipal service agreements and final maturity of the bonds issued to finance the Mid-Connecticut facility.

In August 2004, CRRA sold its Enron bankruptcy claims to Deutsche Bank Securities through a competitive bid auction. Deutsche Bank Securities agreed to pay CRRA approximately \$111.2 million, once the bankruptcy claim was deemed final. On January 20, 2005, the bankruptcy court approved the Enron settlement agreement, and after a ten-day appeal period, the Enron bankruptcy order was deemed final and accordingly \$111.6 million in funds (including accrued interest) were released to CRRA on February 1, 2005.

The Board of Directors of CRRA is comprised of eleven members: three members appointed by the Governor; two members appointed by each of the president pro-tempore of the Senate, the speaker of the House of Representatives, the minority leader of the Senate, the minority leader of the House of Representatives. In addition, there are eight ad hoc members, two representing each of the four facilities. Such ad hoc members may only vote on matters pertaining to their respective facility. As of January 1, 2005, only three ad hoc seats were filled.

Capital City Economic Development Authority ("CCEDA"). CCEDA was created in 1998 and was granted the power to issue revenue bonds for a convention center in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. Public Act No. 04-01 of the May Special Session authorized CCEDA to use a special capital reserve fund in connection with any such revenue bonds but there are currently no plans for such an issue.

In December 2003, the State Bond Commission approved up to \$100 million of revenue and other borrowings and in December 2004 approved an increase in the authorized amount to \$122.5 million. \$72.5 million of CCEDA revenue bonds were issued in July 2004 backed by the State's contract assistance agreement equal to annual debt service on the revenue bonds. An additional \$12.5 million of borrowing, not backed by the contract assistance agreement, has been incurred in the form of a credit agreement. The remaining \$37.5 million of authorized indebtedness is expected to take the form of revenue bonds backed by the contract assistance agreement and issued as funds are required. Although debt service on the revenue bonds is payable from debt service appropriations in the General Fund, it is anticipated that revenues from capitalized interest and parking fees will cover such debt service. General Fund monies will be applied only if there is a shortfall in such revenues. Under the agreement between CCEDA and the State, CCEDA is required to maintain pledged revenues equal to 1.2 times debt service, after operating expenses. The State's obligation under the assistance agreement is not included in any of the debt calculations in **Tables 7, 8, 10 or 16**.

UConn 2000 Special Obligation Financing. The University of Connecticut may issue special obligation bonds which may be secured by a special capital reserve fund which the State undertakes to restore to its minimum level. Before issuing special obligation bonds secured by such a special capital reserve fund, the act requires the board of trustees of the University to determine that project revenues, other than those derived from the State's debt service commitment and the State's minimum operating provision, are estimated to be sufficient to pay the debt service on the special obligation bonds, to maintain reserves and to operate the physical infrastructure of the University. The act requires the Treasurer to confirm that such determination is not unreasonable or arbitrary. The University may also issue special obligation bonds which are not secured by such a special capital reserve fund.

Assistance to Municipalities

In addition to the limited or contingent liabilities that the State has undertaken in connection with the activities of its quasi-public agencies, the State has undertaken certain limited or contingent liabilities to assist municipalities. The State currently has limited or contingent liabilities outstanding in connection with bonds or other obligations issued by the City of Waterbury and the Southeastern Connecticut Water Authority. The State previously was obligated pursuant to the establishment of a special capital reserve fund to secure certain bonds issued by the City of Bridgeport to fund its past budget deficits; however such bonds were refunded by the City in 1996. The State previously had guaranteed debt service on bonds of the City West Haven, but an irrevocable escrow has been established to pay such bonds. Legislation also authorized distressed municipalities, in certain circumstances and subject to various conditions, to issue deficit funding obligations secured by a special capital reserve fund. There are no such obligations currently outstanding.

The City of Waterbury. In March and June 2001, the State adopted legislation to assist the City of Waterbury in financing its budget deficits. The legislation imposed certain financial controls on the City and created a Waterbury Financial Planning and Assistance Board. The legislation authorizes the City, subject to approval of the Board and the State Treasurer, to issue bonds for the purpose of funding the City's budget deficits. Payment of the bonds is serviced through the City's taxing authority. The legislation requires the City to direct certain of its tax revenues to a trustee through a tax intercept mechanism for the purpose of servicing the debt on its bonds. The legislation also provides for the establishment of a special capital reserve fund to further secure up to \$100 million bonds issued by the City to fund its budget deficits. The State is contingently obligated to restore the special capital reserve fund to its required minimum. The City issued \$97.5 million Special Capital Reserve Fund Bonds in April 2002. The Minimum Capital Reserve Requirement is \$10.1 million.

The Waterbury Financial Planning and Assistance Board is comprised of the Secretary of the Office of Policy and Management, the State Treasurer, the Mayor of the City, and four members appointed by the Governor, one of whom shall be affiliated with a business located in the City, one of whom shall have expertise in finance, one of whom shall be a resident of the City and one of whom shall be a representative of organized labor. The Board may be terminated when the City meets certain conditions outlined in the Act.

Southeastern Connecticut Water Authority. The Southeastern Connecticut Water Authority was established for the purpose of developing a reliable water supply for southeastern Connecticut. The State Bond Commission is authorized to approve a State guarantee of obligations of the Southeastern Connecticut Water Authority. Amounts borrowed by the Authority are to be repaid by July 1, 2045.

State Treasurer's Role

By statute, CDA, CHEFA, CHFA, CHESLA, CRRA and CCEDA may not owe any money or issue any bonds or notes which are guaranteed by the State of Connecticut or for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State until or unless such borrowing or issuance is approved by the State Treasurer or the Deputy State Treasurer. The approval shall be based on documentation provided by the authority that the authority anticipates receiving sufficient revenues to (1) pay the principal of and interest on the bonds and notes issued, (2) establish, increase and maintain any reserves deemed by the authority to be advisable to secure the payment of the principal of and interest on such bonds and notes, (3) pay the cost of maintaining, servicing and properly insuring the purpose for which the proceeds of the bonds and notes have been issued, if applicable, and (4) pay such other costs as may be required.

Similarly, no municipality may issue any obligation for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State unless and until such obligation and the agreement establishing the capital reserve fund are approved by the State Treasurer. The State Treasurer's

approval shall be based upon factors delineated in the general statutes, including the establishment of a property tax intercept procedure to service the municipality's debt.

Outstanding Contingent Debt

The amount of outstanding debt which is secured by special capital reserve funds or State guarantees as described above is outlined in the following table.

TABLE 16
Bond Authorizations With
Limited Or Contingent Liability
(In Millions)

	Authorized SCRF or Guaranteed Debt	Outstanding SCRF or Guaranteed Debt	Minimum Capital Reserve Requirement
	<u>As of 1/1/05</u>	<u>As of 1/1/05</u>	<u>As of 1/1/05</u>
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	\$300.0	\$3.2	\$2.0
General Obligation Bond Program	30.6	13.7	2.4
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	84.0	8.9
Connecticut State University System.....	(a)	277.2	21.0
Hospital Equipment Program.....	100.0	0.0	0.0
Connecticut Higher Education Supplemental Loan Authority (b)			
	170.0	105.2	8.5
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	2,720	233.2
Special Needs Housing Mortgage Finance Program	(a)	45.0	2.9
Connecticut Resources Recovery Authority (c).....	725.0	220.0	33.6
University of Connecticut Student Fee			
Revenue Bonds	(a)	29.1	2.1
City of Waterbury Special Capital Reserve Fund Bonds	100.0	92.6	10.1
INDEBTEDNESS GUARANTEED BY STATE			
Southeastern Connecticut Water Authority	15.0	0.0	N.A.

(a) No statutory limit.

(b) On or about March 15, 2005, the Connecticut Supplemental Loan Authority expects to issue its SCRF Secured Series A and Series B Bonds in the aggregate amount of \$38,355,000. In connection with the issuance of these bonds, \$8,670,000 currently outstanding bonds will be redeemed and there will be a net increase in the Minimum Capital Reserve Requirements of \$550,000.

(c) Of the \$220.0 million of outstanding SCRF or guaranteed debt as of January 1, 2005 of the Connecticut Resources Recovery Authority, approximately \$153.0 million pertains to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. Those bonds have a Minimum Capital Reserve Requirement of approximately \$25.3 million. (See discussion above under *Connecticut Resources Recovery Authority*).

School Construction Grant Commitments

The State is obligated to various cities, towns and regional school districts under a grant-in-aid public school building program to fund certain of the costs of construction and alteration of school buildings or to support part of the debt service payments on municipal debt issued to fund the State's share of such school building projects. For certain school projects approved by the General Assembly, cities, towns and districts are ranked according to their adjusted equalized net grand list per capita and based on such rankings a percentage is assigned which determines the amount of grant money a town or regional school district is eligible to receive for a project or type of project authorized by the legislature and approved by the Commissioner of Education.

For school construction projects approved during the 1997 legislative session and thereafter, the State pays the costs of its share of construction projects on a progress payment basis during the construction period. Each year the legislature authorizes grant commitments which vary in amounts from year to year. The amount of grant commitments authorized for the local school construction program is expected to increase in the coming years. As of June 30, 2004 the Commissioner of Education estimates that current grant obligations under this program are approximately \$2,900 million which includes approximately \$4,500 million in grants approved to date less payments already made of \$1,600 million.

Prior to 1997, the grant program was conducted differently. For certain school projects grants for construction costs are paid to the cities, towns and districts in installments which correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2004, the State is obligated to various cities, towns and regional districts for approximately \$730 million in aggregate principal installment payments and \$190 million in aggregate interest subsidies, for a total of \$920 million. Funding for these payments may come from future State direct general obligation bond sales. No new grant commitment can be authorized under this program.

The legislature has authorized bonds for both grant programs based on the amount of grants that the Commissioner of Education estimates will be paid during each fiscal year. Since there is generally a lapse of one or more years from the time grant commitments are approved to the time grant payments are required to be made, the amount of unpaid grant commitments will be significantly greater than the amount of bonds authorized to fund the grant commitments.

Child Care Facilities Debt Service Commitments

Legislation enacted in 1997 authorized CHEFA to issue bonds and loan the proceeds to various entities to finance child care facilities. The Department of Social Services may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on CHEFA's bonds. Legislation enacted in 1999 provided for the obligation of the Department of Social Services to make debt service payments to be made by the State Treasurer. Any obligation by the Department of Social Services or the State Treasurer to pay is subject to annual appropriation. CHEFA first issued special obligation bonds under this program in 1998. CHEFA has approximately \$38.8 million bonds outstanding under this program with annual debt service of approximately \$3.0 million, of which the Department of Social Services is committed to pay approximately \$2.4 million. The remaining portion of debt service is paid from Department of Education and Department of Social Services intercepts of revenues from providers.

Two other Child Care Facilities programs also authorize the Commissioner of the Department of Social Services to enter into guaranties of loans made to entities to finance the development of child care and child development centers or programs. CHEFA is administering this program on behalf of the Department,

and is currently limiting the aggregate amount of guaranties to the balance of monies in the reserve funds for the respective programs.

Other Contingent Liabilities

The Connecticut Lottery Corporation (the "Corporation") was created in 1996 as a public instrumentality of the State to operate the State's lottery pursuant to the Connecticut Lottery Corporation Act (the "CLC Act"). The State and the Corporation purchase annuities under group contracts with insurance companies which provide payments corresponding to the obligation for payments to lottery prize winners. The State has transferred to the Corporation all annuities purchased by it and the Corporation has assumed responsibility for the collection of revenue generated from the lottery and for the payment of all lottery prizes. Under the CLC Act, the termination of the Corporation would not affect any outstanding contractual obligation of the Corporation and the State would succeed to the obligations of the Corporation under any such contract. As of June 30, 2004 the current and long term liabilities of the Corporation total \$436 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 47,926 active members, 1,744 inactive (vested) members and 36,749 retired members as of June 30, 2004. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2004 approximately 18% of the total work force was covered under the Tier I Plan. Other employees generally participate in the Tier II plan, which is non-contributory and provides somewhat lesser benefits. As of July 1, 2004 approximately 52% of the total workforce was covered under the Tier II plan. Employees hired after July 1, 1997 participate in the Tier IIA plan, which requires contributions from its employee members. As of July 1, 2004 approximately 30% of the total work force was covered under the Tier IIA Plan.

With the exception of the fiscal year ending June 30, 2004, since 1971 payments into the fund and investment income generally have been sufficient to fund a full normal cost contribution and to make payments in respect of the unfunded past service liability in amounts which have varied over time due to changes in statute and union agreements. Payments into the State Employees' Retirement Fund are made from employee contributions, General and Transportation Fund appropriations and grant reimbursements from Federal and other funds.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation, dated November 16, 2004, indicated that as of June 30, 2004 the State Employees' Retirement Fund had assets with an actuarial value of \$8,238,250,287. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 9.10% on investment assets in the State Employees' Retirement Fund over the past ten years (fiscal year 1994-95 through fiscal year 2003-04) and an annualized net return of 3.63% over the past five years (fiscal year 1999-2000 through fiscal year 2003-04). As of June 30, 2004 the market value of the fund's investment assets was \$7,677,233,815, which amount was less than the actuarial value by \$561,016,472.

Set forth below are State contributions to the Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, and benefits paid for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of Retirement Fund assets and the resulting unfunded accrued liabilities for the actuarial valuations as of June 30, 2000, June 30, 2002 and June 30, 2004.

TABLE 17
State Employees' Retirement Fund

	Year Ending June 30				
	2000	2001	2002	2003	2004
General Fund					
Contributions.....	\$212,947,331	\$257,806,736	\$284,527,059	\$285,694,490	\$321,866,112
Transportation Fund					
Contributions.....	27,636,000	31,321,880	36,676,000	40,214,000	44,864,000
Federal and other					
Reimbursements.....	102,176,999	86,494,566	94,289,540	95,543,241	103,602,832
Employee Contributions....	<u>43,782,742</u>	<u>46,088,785</u>	<u>49,577,375</u>	<u>50,953,367</u>	<u>47,632,219</u>
Total Contributions	\$386,543,072	\$421,711,967	\$465,069,974	\$472,405,098	\$517,965,163
Investment Income ^(a)	\$286,587,354	\$276,494,999	\$271,253,981	\$319,223,363	\$312,386,363
Net Realized Gains (Losses)	\$299,651,658	(\$2,140,298)	\$1,341,884	\$9,032,166	\$49,503,590
Benefits Paid	\$596,333,139	\$619,174,473	\$651,201,069	\$702,878,746	\$868,165,140
Actuarial Accrued Liabilities	\$11,512,154,892	N/A	\$12,806,115,474	N/A	\$15,128,502,117
Actuarial Values Of Assets	<u>7,196,039,538</u>	N/A	<u>7,893,683,977</u>	N/A	<u>8,238,250,287</u>
Unfunded Accrued Liabilities	\$4,316,115,354	N/A	\$4,912,431,497	N/A	\$6,890,251,830

(a) Investment Income (exclusive of net realized gains and losses).

Teacher's Retirement Fund

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor or superintendent in the public school systems of the State, with certain exceptions. While establishing salary schedules for teachers, municipalities do not provide contributions to the maintenance of the Fund. As of June 30, 2004, there were approximately 54,490 active and former employees with accrued and accruing benefits and approximately 24,297 retired members.

With the exception of the fiscal year ending June 30, 2004, since 1979 payments into the fund and investment income generally have been sufficient to fund a full normal cost contribution and make payments in varying amounts in respect of the unfunded past service liability. Contributions to the Fund are made by employees and by General Fund appropriations from the State. State contributions to the Fund are made quarterly on the basis of certifications submitted by the Teachers' Retirement Board and are funded with annual appropriations from the General Fund.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation, dated November 29, 2004, indicated that as of June 30, 2004 the Teachers' Retirement Fund had assets, inclusive of the excess earnings account, with an actuarial value of \$11,306,878,529. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 9.21% on investment assets in the Teachers' Retirement Fund over the past ten years (fiscal year 1994-95 through fiscal year 2003-04) and an annualized net return of 3.69% over the past five years (fiscal year 1999-2000 through fiscal year 2003-04). As of June 30, 2004 the market value of the fund's investment assets was \$10,853,461,575 which amount was less than the actuarial value by \$453,416,954.

Set forth below are State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, and benefits paid for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of Retirement Fund assets and the resulting unfunded accrued liabilities for the actuarial valuations as of June 30, 2000, June 30, 2002 and June 30, 2004.

TABLE 18
Teachers' Retirement Fund

	Year Ending June 30				
	2000	2001	2002	2003	2004
General Fund					
Contributions.....	\$204,445,443	\$214,665,698	\$204,511,460	\$179,823,603	\$185,348,144
Employee					
Contributions ^(a)	<u>168,207,183</u>	<u>173,884,438</u>	<u>187,095,618</u>	<u>204,659,700</u>	<u>237,705,201</u>
Total Contributions	\$372,652,626	\$388,550,136	\$391,607,078	\$384,483,303	\$423,053,345
Investment Income ^(b)	\$410,683,507	\$399,305,587	\$388,785,006	\$453,002,988	\$440,180,533
Net Realized Gains (Losses)	\$461,947,176	(\$3,335,159)	\$1,584,432	\$11,694,321	\$66,792,223
Benefits Paid	\$630,885,706	\$690,674,530	\$754,655,476	\$811,028,527	\$874,593,010
Actuarial Accrued Liabilities	\$13,361,062,324	N/A	\$15,253,882,989	N/A	\$16,530,678,148
Actuarial Values Of Assets ^(c)	<u>11,169,434,208</u>	N/A	<u>11,961,346,260</u>	N/A	<u>11,306,878,529</u>
Unfunded Accrued Liabilities	\$2,191,628,116	N/A	\$3,292,536,729	N/A	\$5,223,799,619

- (a) Includes municipal contributions under early retirement incentive programs (\$1,495,353 during the 2003-04 fiscal year); does not include employee contributions to the Teacher's Retirement Health Insurance Fund (\$24,242,639 during the 2003-04 fiscal year).
- (b) Investment Income (exclusive of net realized gains and losses).
- (c) Includes excess earnings account.

Other Retirement Systems

The other minor retirement systems funded by the State include the Judicial Retirement System, the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2004, there were approximately 225 active members of these plans and approximately 243 retired members.

Unclassified employees of the Connecticut State System of Higher Education and the central office staff of the Department of Higher Education are eligible to participate in the Connecticut Alternate Retirement Program. This program is a defined contribution program, and thus the State has no unfunded liability with respect to the program. All member contributions and State appropriations are held in a separate retirement fund by the Treasurer who may invest and reinvest as much of the fund's assets as are not required for current disbursements, which are comprised primarily of benefit payments. Any employee who elects or has elected to participate in the program may elect to receive a refund of all contributions made by the employee into the state employees retirement system in lieu of receiving any pension benefits under said retirement system.

The State is the administrator of the Connecticut Municipal Employees' Retirement System and the Connecticut Probate Judges and Employees' Retirement System. As the administrator of these systems the State owes a fiduciary obligation to these systems; however, the State has no direct financial liability to pay benefits under these systems.

Social Security and Other Post-Employment Benefits

State employees, except for police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958, are entitled to Social Security coverage. Certain employees hired prior to that date have also elected to be covered. Pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security coverage. As of June 30, 2004, approximately 58,728 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2003-04 was \$182.5

million. Of this amount, \$170.3 million was paid from the General Fund and \$12.2 million was paid from the Transportation Fund.

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. The State finances the cost of such benefits on a pay-as-you-go basis; as such, the State has not established any fund for the accumulation of assets with which to pay post-retirement health care and life insurance benefits in future years. The State will need to make significant General Fund appropriations for such benefits each fiscal year. For the fiscal year 2004-05, \$378.0 million was appropriated.

Set forth below are the number of employees retired from State employment eligible to receive post-retirement health care and life insurance benefits, the number of retirees, respectively, actually receiving health care benefits and life insurance benefits, and the amount expended by the State for such coverage for each of the past five fiscal years.

TABLE 19
State Employee Retirees Health Care And Life Insurance Benefits

	Year Ending June 30				
	2000	2001	2002	2003	2004
Retirees Eligible to Receive Benefits	32,101	32,225	32,602	37,233	38,078
Retirees Receiving Health Care Benefits.....	30,827	30,941	31,276	35,280	35,581
Retirees Receiving Life Insurance Benefits	23,156	22,968	22,997	23,734	25,871
General Fund Expenditures on Retiree Health Care and Life Insurance Benefits (millions).....	\$173.9	\$174.0	\$204.8	\$242.2	\$316.0

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund. The amount of \$14,112,609 has been appropriated for such purpose for fiscal year 2004-05. No fund has been established for the accumulation of assets with which to pay such benefits in future years; therefore, significant General Fund appropriations will be required for each fiscal year. Legislation which became effective July 1, 1998 generally requires the State to subsidize the health insurance costs of retired teachers who are not members of the Board's health benefit plan in a manner consistent with its prior practice of subsidizing the health insurance costs of those retired teachers who were members of the Board's health benefit plan. Of the total General Fund appropriation for fiscal year 2004-05, \$5,775,000 is attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Set forth below are State contributions to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund and the portions of such contribution attributable to the health insurance cost subsidy for retired teachers who are not members of the Board's health benefit plan for each of the past five fiscal years.

TABLE 20
Teachers' Retirement Health Insurance Fund

	Year Ending June 30				
	2000	2001	2002	2003	2004
General Fund Contributions.....	\$8,007,343	\$9,440,747	\$10,485,936	\$11,367,016	\$12,206,066
Portions Attributable To Non-Board Health Insurance Cost Subsidy	\$4,323,636	\$4,454,670	\$4,751,670	\$5,051,970	\$5,333,743

Additional Information

The June 30, 2004 unaudited financial statements which are included as **Appendix III-C** hereto, and in particular notes 11 through 14 and note 16 and the required PERS Supplementary Information of the accompanying Basic Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 23 of such financial statements identifies a contingent liability of the State to pay pension liabilities of certain persons who are not employees of the State.

LITIGATION

The State, its officers and employees, are defendants in numerous lawsuits. The ultimate disposition and fiscal consequences of these lawsuits are not presently determinable. The Attorney General's Office has reviewed the status of pending lawsuits and reports that it is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in aggregate in a final judgment against the State which would materially adversely affect its financial position, except that in the cases described below the fiscal impact of an adverse decision might be significant but is not determinable at this time. The cases described in this section generally do not include any individual case where the fiscal impact of an adverse judgment is expected to be less than \$15 million, but adverse judgments in a number of such cases could, in the aggregate and in certain circumstances, have a significant impact.

Sheff v. O'Neill is a Superior Court action brought in 1989 on behalf of black and Hispanic school children in the Hartford school district. The plaintiffs sought a declaratory judgment that the public schools in the greater Hartford metropolitan area are segregated de facto by race and ethnicity and are inherently unequal to their detriment. They also sought injunctive relief against state officials to provide them with an "integrated education." On April 12, 1995, the Superior Court entered judgment for the State. On July 9, 1996, the State Supreme Court reversed the Superior Court judgment and remanded the case with direction to render a declaratory judgment in favor of the plaintiffs. The Court directed the legislature to develop appropriate measures to remedy the racial and ethnic segregation in the Hartford public schools. The Supreme Court also directed the Superior Court to retain jurisdiction of this matter. The 1997 General Assembly enacted P.A. 97-290, An Act Enhancing Educational Choices and Opportunities, in response to the Supreme Court decision. In response to a motion filed by the plaintiffs, the Superior Court in 1998 ordered the State to show cause as to whether there has been compliance with the Supreme Court's ruling. In a Memorandum of Decision issued March 3, 1999, the Superior Court found that the State complied with the 1996 decision of the Supreme Court. The Superior Court noted that the plaintiffs failed to allow the State enough time to take additional steps in its remedial process.

The plaintiffs filed a motion on December 28, 2000 seeking to have the Superior Court, once again, monitor the State's compliance with the State Supreme Court's 1996 decision. A hearing about whether the State is still complying with the Supreme Court's ruling and what order, if any, the Court should issue was held in April, 2002. Before the filing of briefs, the parties reached a settlement. The agreement was submitted to the General Assembly on January 26, 2003, and was deemed approved pursuant to Section 3-125a of the Connecticut General Statutes on February 25, 2003, when it was not rejected by 3/5 vote of both houses of the legislature. The Court approved the settlement on March 12, 2003.

Under the settlement agreement, the State will be obligated, over the next four years to, among other things, open two new magnet schools in the Hartford area each year, substantially increase the voluntary interdistrict busing program in the Hartford area, and work collaboratively with the plaintiffs in planning for the period after the four year duration of the proposed order. The anticipated additional costs of the proposed order over current expenditures, exclusive of school renovation/construction costs, are approximately \$4.5 million in the first year, \$9.0 million in the second year, \$13.5 million in the third year, and \$18.0 million in the fourth year, for a total additional cost of \$45.0 million.

On August 3, 2004, the plaintiffs filed a motion seeking an order that the defendants are in material breach of the settlement approved by the Court. Specifically, the Court is presently addressing a dispute between the parties regarding Section III.A.1 of the settlement agreement, which provides: "The State will provide sufficient resources to plan, develop, open and operate two new host magnet schools of approximately 600 students each, for approximately 1200 students total per year, each year of the four year period of the Stipulation (or eight new magnet schools)." The plaintiffs claim that the State is not in compliance with this provision because the schools do not each currently have 600 enrolled students. Both the plaintiffs and the State have briefed the issue. It is anticipated that the Court will set a schedule for further proceedings after deciding this issue.

Carr v. Wilson-Coker is a Federal District Court action brought in 2000 in which the plaintiffs seek to represent a class of certain Connecticut Medicaid beneficiaries. The plaintiffs claim that the Commissioner of the Department of Social Services fails to provide them with reasonable and adequate access to dental services and to adequately compensate providers of dental services. The plaintiffs seek declaratory and injunctive relief, plus attorneys' fees and costs. The parties have filed cross-summary judgment motions, which are pending with the Court.

Foreman v. State is a Federal District Court action brought in January, 2001, challenging the policy and/or practice of strip searching all adult inmates arriving at correctional centers, including temporary surrenders, regardless of whether there is a reasonable suspicion that the person might be carrying weapons or contraband. The complaint purports to be brought on behalf of a class of similarly situated individuals, and seeks damages, declaratory and injunctive relief, plus attorneys' fees and costs.

Association for Retarded Citizens of Connecticut, Inc. v. O'Meara is a Federal District Court action brought in October 2001 alleging that the State of Connecticut's Department of Mental Retardation is in violation of applicable Medicaid law and Title II of the Americans With Disabilities Act, along with other federal law, by maintaining a waiting list for Medicaid services of approximately 1600 Medicaid eligible persons. The suit also alleges that the Department of Mental Retardation's placement of persons in quasi-institutional settings, without first allowing them to choose a more integrated community setting, violates federal law. The case seeks mandatory injunctive relief, attorneys' fees and costs. The District Court has granted plaintiff's motion for class certification and discovery is proceeding. A tentative settlement has been presented to the legislature in accordance with Section 3-125(a) of the Connecticut General Statutes.

Seymour v. Region One Board of Education is a case in which the plaintiff property owners in Canaan claim that Section 10-51(b) of the Connecticut General Statutes, which sets out the cost allocation formula for towns comprising regional school districts, denies Canaan taxpayers equal protection because Canaan is one of the poorest towns in the district. Since all towns in the district pay the same per pupil charge, the plaintiffs allege that they must bear an inequitable tax burden. They seek to enjoin the present statutorily-mandated system and to have the Court order the regional board to devise a formula more favorable to them. The Superior Court dismissed the case as nonjusticiable, but the Connecticut Supreme Court reversed and remanded. The Superior Court dismissed the case once again for lack of standing, and the plaintiffs have appealed that second dismissal. That appeal remains pending in the Connecticut Supreme Court.

State Employees Bargaining Agent Coalition v. Rowland is a Federal District Court case in which a purported class of laid off State employees have sued the Governor and the Secretary of the Office of Policy and Management alleging that they were laid off in violation of their constitutional rights. The plaintiffs claim back wages, damages, attorneys fees and costs. The defendants have moved to dismiss the action, and that motion is currently pending.

In ***State of Connecticut v. Philip Morris, Inc., et al.***, the action that resulted in the 1998 Master Settlement Agreement (MSA) entered into by Connecticut and nearly all other states and territories to resolve litigation claims against the major domestic tobacco manufacturers, three manufacturers that subsequently agreed to participate in the MSA, Commonwealth Brands, Inc., King Maker Marketing, Inc., and Sherman 1400 Broadway N.Y.C. Inc., have filed a petition to compel arbitration against the State with regard to certain alleged obligations of the State under the MSA. These parties contend that the State has not diligently enforced its obligations under the MSA to enforce statutory requirements against non-participating manufacturers and that the issue is subject to arbitration under the MSA. If such claims are determined to be subject to arbitration, and an arbitration panel were to conclude that the State had not diligently enforced its obligations under the MSA against non-participating manufacturers, then the payments that the State receives under the MSA could be reduced or eliminated for any year that the State was found not to have diligently enforced its obligations.

Since 1991, the State Department of Children and Families has been operating under the provisions of a federal court-ordered consent decree in the *Juan F.* case. In October 2003, the State entered into an agreement with the *Juan F.* Court Monitor and lawyers representing the plaintiff class of children in the child welfare system designed to end judicial oversight of the agency by November 2006. The agreement was approved and ordered by the court. The agreement included the establishment of a Transition Task Force which included the *Juan F.* Court Monitor, who was given full and binding authority to develop an Exit Plan. The Court Monitor's Exit Plan includes an open-ended funding provision (virtually identical to that contained in the Consent Decree). The State has objected to this provision of the Exit Plan, which was adopted by the court in December 2003, claiming in part that the Exit Plan requires the State to provide open-ended funding to implement the plan which could violate the State's constitutional cap on spending. On February 10, 2004 the court denied the State's request to reconsider the funding provision. The State is currently working to meet the requirements of the Exit Plan.

While the various cases described in this paragraph involving alleged *Indian Tribes* do not specify the monetary damages sought from the State, the cases are mentioned because they claim State land and/or sovereignty over land areas that are part of the State of Connecticut. Several suits have been filed since 1977 in the Federal District Court and the Connecticut Superior Court on behalf of alleged *Indian Tribes* in various parts of the State, claiming monetary recovery as well as ownership to land in issue. Some of these suits have been settled or dismissed. The plaintiff group in one of the remaining suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull and Orange. In June of 2004, the Federal Bureau of Indian Affairs denied recognition to the alleged Golden Hill Paugussett Tribe of Indians. The alleged Tribe has filed an appeal with the United States Secretary of the Interior, and that appeal is pending. An additional suit has been filed by the alleged Schaghticoke Indian Tribe claiming privately and town held lands in the Town of Kent. The State is not a defendant to that action. In February 2004, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Schaghticoke Tribal Nation. The State has appealed that decision to the Interior Board of Appeals, and that appeal is pending. The land claims have been stayed pending the resolution of the federal recognition matter. It is possible that other land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. The State has also challenged the decision of the Federal Department of the Interior which allows the Mashantucket Pequot Tribe to add land holdings of the Tribe outside of its reservation to the land held in trust for its benefit by the Department. The added land was not part of the Tribe's original reservation designated under the Federal Settlement Act with the Tribe. The additional land was purchased by the Tribe. The United States Court of Appeals for the Second Circuit rejected the State's claim that the Federal Settlement Act does not allow the Federal Department of the Interior to take this additional land and add it to the Tribe's reservation land. The Mashantucket Pequot Tribe has withdrawn its application to take the additional lands outside its reservation into trust, although the Tribe could renew its application. The case pending before the United States District Court was dismissed as moot in April 2002. In June 2002, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State has appealed that decision to the Interior Board of Appeals. If federal recognition is upheld, the tribe could institute land claims against the State or others. In any of the land claim matters, irrespective of whether federal recognition is granted, denied or upheld, a particular tribe could institute or renew land claims against the State or others, or press the claims it has already asserted.

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

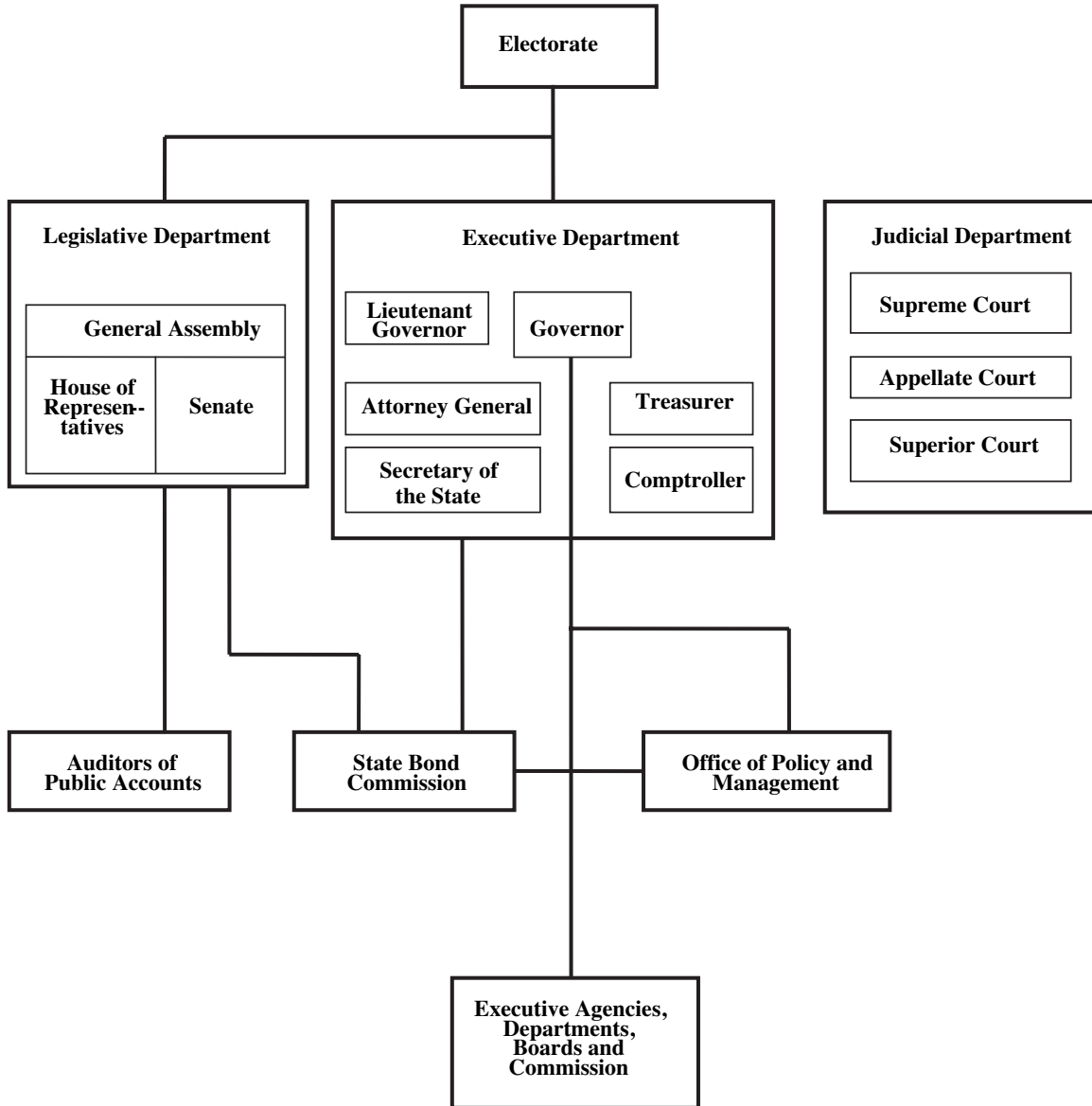
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General Assembly. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within the cities and towns. A number of regional bodies exist to perform governmental functions that would otherwise be performed at the local level. Most of the State's 169 cities and towns were established or incorporated during the 18th and 19th centuries, and many are still governed under charters enacted by the General Assembly by Special Act. The State's Constitution grants home rule powers to cities and towns, within certain limitations. A large number of smaller municipalities lack charters, and the components and structure of these municipalities are determined directly by the General Statutes. The General Statutes also contain a variety of provisions pertaining to the organization and operation of all units of local government, including both those with charters and those without. In addition to the 169 cities and towns that are the basic units of local government in Connecticut, the General Statutes provide procedures for the creation of many types of local special purpose authorities, districts and similar bodies. These include, among others, local housing authorities, regional school districts, and a variety of special tax and service districts.

Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute to file petitions to become debtors under Chapter Nine of Title 11 of the Federal Bankruptcy Code without the prior written consent of the Governor.

State Government Organization

Under the State Constitution, the legislative, executive and judicial functions and powers of State government are divided among three distinct branches referred to in the Constitution as "departments": the legislative department, the executive department and the judicial department. The following table shows the structure of the three departments.

TABLE A-1
Structure of State Government



Legislative Department. Legislative power is vested in the General Assembly, composed of the Senate and House of Representatives. Currently the Senate consists of 36 members, each representing a single senatorial district, and the House of Representatives consists of 151 members, each representing a single assembly district. Both the number of members and the boundaries of the legislative districts may vary in accordance with the requirements of the State's Constitution. The General Assembly is assisted by a full-time staff. General Assembly employees are included under the legislative function in **Tables A-2** and **A-3** below.

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 2004, and the new members took office in January 2005.

A regular session of the General Assembly is held each year. These sessions run from January through June in odd-numbered years and February through May in even-numbered years. The General Assembly reconvenes for special sessions in general only in emergencies or to consider bills or appropriations vetoed by the Governor. Even-year sessions are supposed to be limited to budgetary, revenue and financial matters, bills and resolutions raised by committees of the General Assembly and certified emergencies.

Two Auditors of Public Accounts, who cannot be of the same political party, are appointed by the General Assembly to four-year terms. The State Auditors are required to make an annual audit of the accounts of the Treasurer and the Comptroller and, biennially or as frequently as they deem necessary, to audit the accounts of each officer, department, commission, board and court of the State government authorized to expend State appropriations. The Auditors are required to report unauthorized, illegal, irregular or unsafe handling or expenditure of State funds or any actual or contemplated breakdown in the safeguarding of any resources of the State promptly upon discovery to the Governor, the State Comptroller, the Attorney General and appropriate legislative agencies. Each budgeted agency of the State must keep its accounts in such form and by such methods as to exhibit facts required by the State Auditors. A full-time staff assists the State Auditors. Employees of the State Auditors are included under the legislative function in **Tables A-2** and **A-3** below.

Executive Department. The Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 2002 for terms beginning in January 2003. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit. On June 21, 2004, Governor John G. Rowland announced that he would resign as Governor of the State, effective on July 1, 2004. Under Article Fourth, Section 18 of the State Constitution, when Governor Rowland's resignation took effect the Lieutenant-Governor, M. Jodi Rell, became Governor of the State to serve as Governor until a governor is chosen at the next regular election for governor and is duly qualified. The new Governor is a member of the same party as the previous Governor and was elected on the same slate at the last regular election. Under Article Fourth, Section 19 of the State Constitution, the President Pro Tempore of the Senate, Kevin B. Sullivan, succeeded to the Office of the Lieutenant-Governor.

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

The Treasurer is primarily responsible for receiving and disbursing all monies belonging to the State, superintending the collection of State taxes and revenues and the investment of State funds, administering certain State trust funds and managing State property. Subject to the approval of the Governor, the Treasurer is authorized, when necessary, to make temporary borrowings evidenced by State obligations. In addition, the

State Bond Commission may delegate to the Treasurer the responsibility for determining the terms and conditions and carrying out the issuance of State debt.

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 179 sitting Superior Court judges, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

On July 1, 1983, the Appellate Court was created and the appellate session of the Superior Court was dissolved. The Appellate Court hears appeals from decisions of the Superior Court except for certain matters

which are directly appealable to the Supreme Court. There are ten Appellate Court judges nominated by the Governor and appointed by the General Assembly to eight-year terms.

The Connecticut Supreme Court reviews decisions of the Appellate Court and, in certain cases, of the Superior Court. Except in cases where original jurisdiction exists in the Supreme Court, there is no right of review in the Supreme Court unless specifically provided by statute. The Supreme Court consists of seven Justices (one Chief Justice and six Associate Justices) nominated by the Governor and appointed by the General Assembly to eight-year terms.

In addition to the principal trial and appellate courts, there is a Court of Probate in each of 123 probate districts situated throughout the State.

Employees of the judicial department are shown in **Tables A-2** and **A-3** under the judicial function heading.

Quasi-Public Agencies. In addition to the budgeted components of State government provided for in the State's Constitution and the General Statutes, important State-wide governmental functions are performed by quasi-public agencies, authorities and similar bodies created under the General Statutes. A number of these entities receive significant funding from the State, although they are not budgeted agencies of the State. Each of these entities is governed by a board of directors chosen in accordance with its respective enabling statute. These boards generally include legislative appointees, gubernatorial appointees and ex officio directors holding certain executive branch offices.

State Employees

Employment Statistics. Statistics regarding approximate filled permanent full-time positions within budgeted components of State government are shown on the following two tables.

TABLE A-2
State Employees^(a)
By Function of Government

<u>Function Headings^(b)</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004^(c)</u>
Legislative.....	434	447	509	502	
General Government.....	3,910	3,910	3,909	3,261	
Regulation and Protection.....	4,550	4,592	4,620	3,950	
Conservation and Development.....	1,463	1,457	1,496	1,261	
Health and Hospitals.....	8,747	8,635	8,710	7,330	
Transportation.....	3,643	3,626	3,631	2,918	
Human Services.....	2,375	2,332	2,315	1,847	
Education.....	14,357	14,921	15,331	14,384	
Corrections.....	10,027	9,956	10,168	9,485	
Judicial.....	<u>3,224</u>	<u>3,342</u>	<u>3,369</u>	<u>3,769</u>	
Total	52,730	53,218	54,058	48,707	51,449

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

(b) A breakdown of the agencies, boards, commissions and similar bodies included in each of the listed government function headings is shown in **Table A-5**.

(c) Total for 2004 represents approximate filled full-time positions. Breakdowns could not be determined at this time because of difficulties in obtaining the appropriate reports from the State's Core-CT System.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2003^{(a)(b)}

By Function of Government and Fund Categories

Function Headings	General Fund	Special Transportation Fund	Other Appropriated Funds	Special Funds – Non- Appropriated	Federal Funds	Private Contributions	TOTALS
Legislative	502						502
General Government	2,560	9	8	348	24	312	3,261
Regulation and Protection	1,949	549	478	183	781	10	3,950
Conservation and Development	522		7	336	284	112	1,261
Health and Hospitals	6,874			60	347	49	7,330
Transportation		2,806		112			2,918
Human Services	1,548		12		276	11	1,847
Education	9,010			5218	156		14,384
Corrections	9,326			85	74		9,485
Judicial	3,725			12	32		3,769
Total	36,016	3,364	505	6,354	1,974	494	48,707

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

^(b) Breakdown for 2004 could not be determined at this time because of difficulties in obtaining the appropriate reports from the State's Core-CT System. There are approximately 51,449 filled full-time positions as of June 30, 2004.

SOURCE: Office of Policy and Management

Collective Bargaining Units and Process. The General Statutes guaranty State employees, other than elected or appointed officials and certain management employees and others with access to confidential information used in collective bargaining, the right to organize and participate in collective bargaining units. There are presently 32 such bargaining units representing State employees.

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

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

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

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

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented^(a)</u>	<u>Contract Status, if any</u>
<u>Covered by Collective Bargaining</u>		
Correction Officers	9.86%	Contract in place through 6/30/2008
Administrative Clerical	8.75%	Contract in place through 6/30/2006
Maintenance and Service	7.90%	Contract in place through 6/30/2005
Health Care Non-Professionals	7.83%	Contract in place through 6/30/2005 (b)
Social and Human Services	7.38%	Contract in place through 6/30/2006
Administrative and Residual	5.67%	Contract in place through 6/30/2003 (b)
Health Care Professionals	5.61%	Contract in place through 6/30/2005 (b)
Engineering, Scientific and Technical	4.64%	Contract in place through 6/30/2005 (b)
University Health Professionals (University of Connecticut Health Center)	3.24%	Contract in place through 6/30/2006
Judicial Employees	2.67%	Contract in place through 6/30/2006
Connecticut State University Faculty	2.57%	Contract in place through 6/30/2007
University of Connecticut Faculty	2.54%	Contract in place through 6/30/2007
University of Connecticut Professional Employee Association	2.50%	Contract in place through 6/30/2007
Vocational Technical School Teachers	2.34%	Contract in place through 6/30/2007
Congress of Connecticut Community Colleges	2.30%	Contract in place through 6/30/2007
State Police	2.23%	Contract in place through 6/30/2004 (b)
Judicial Professionals	2.07%	Contract in place through 6/30/2006
Education Professionals (Institutions)	1.65%	Contract in place through 6/30/2005
Protective Services	1.65%	Contract in place through 6/30/2008
Other Bargaining Units (13 units)	<u>5.36%</u>	Varies by Unit
Total Covered by Collective Bargaining	88.75%	
<u>Not Covered by Collective Bargaining</u>		
Auditors of Public Accounts	0.19%	Not Applicable
Other Employees	<u>11.06%</u>	Not Applicable
Total Not Covered by Collective Bargaining	11.25%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 51,449 filled full-time positions as of June 30, 2004.

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

SOURCE: Office of Policy and Management.

Governmental Services

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

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

Legislative

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

General Government

Governor’s Office
Secretary of the State
Lieutenant Governor’s Office
Elections Enforcement Commission
Ethics Commission
Freedom of Information Commission
Judicial Selection Commission
State Properties Review Board
State Treasurer
State Comptroller
Department of Revenue Services
Division of Special Revenue
State Insurance and Risk
Management Board
Gaming Policy Board
Office of Policy and Management
Department of Veterans’ Affairs
Office of Workforce Competitiveness
Department of Administrative Services
Department of Information Technology
Department of Public Works
Attorney General
Office of the Claims Commissioner
Division of Criminal Justice
Criminal Justice Commission
State Marshal Commission

Regulation and Protection

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

Conservation and Development

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

Health and Hospitals

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

Transportation

Department of Transportation

Human Services

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

Education, Libraries and Museums

Department of Education
Board of Education and Services for
the Blind
Commission on the Deaf and Hearing
Impaired
State Library
Department of Higher Education
University of Connecticut
University of Connecticut Health
Center
Charter Oak State College
Teachers’ Retirement Board
Regional Community-Technical
Colleges
Connecticut State University

Corrections

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

Judicial

Judicial Department
Public Defender Services Commission

- (a) In addition to the ten listed government function headings, the State also employs a “non-functional” heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
- (b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2004.

SOURCE: Office of Policy and Management.

In addition to services provided directly by the State, various State-wide and regional quasi-public agencies, authorities and similar bodies also provide services. Such entities principally assist in the financing of various types of facilities and projects. In addition to their own budgetary resources and the proceeds of their borrowings, a number of such entities have received substantial funding from the State, which the entities generally use to provide financial assistance to the general public and the private and nonprofit sectors.

Because Connecticut does not have an intermediate county level of government between State and local government, local entities provide all governmental services not provided by the State and quasi-public agencies. Such services are financed principally from property tax revenues, State funding of various types and federal funding.

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STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State.

Economic Resources

Population Characteristics. Connecticut had a population count of 3,405,565 in April 2000, an increase of 118,449, or 3.6%, from the 3,287,116 figure of 1990. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially and trailed the national average markedly during the past three decades. The following table presents the population trends of Connecticut, New England and the United States since 1940. Connecticut's population increased 3.6% from 1990 to 2000 versus 5.4% in New England. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. The mid-2004 population in Connecticut was estimated at 3,503,604 up 0.5% from a year ago, compared to increases of 0.3% and 1.0% for New England and the United States, respectively.

TABLE B-1

**Population
(In Thousands)**

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>
1940 Census	1,709	%	8,437	%	132,165	%
1950 Census	2,007	17.4	9,314	10.4	151,326	14.5
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
1995....	3,324	0.2	13,473	0.6	266,278	1.2
1996....	3,337	0.4	13,555	0.6	269,394	1.2
1997....	3,349	0.4	13,642	0.6	272,647	1.2
1998....	3,365	0.5	13,734	0.7	275,854	1.2
1999....	3,386	0.6	13,838	0.8	279,040	1.2
2000....	3,412	0.8	13,953	0.8	282,192	1.1
2001....	3,433	0.6	14,046	0.7	285,102	1.0
2002....	3,459	0.8	14,130	0.6	287,941	1.0
2003....	3,487	0.8	14,201	0.5	290,789	1.0
2004....	3,504	0.5	14,239	0.3	293,655	1.0

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1995-2004, Mid-year estimates.

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

The State is highly urbanized with a 2004 population density of 723 persons per square mile, as compared with 83 for the United States as a whole and 227 for the New England region. Of the 8 counties in the State, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

Transportation. Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Bradley International Airport, in Windsor Locks, is well situated for overseas air freight operations and is accessible from all areas of the State and Western Massachusetts.

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

Connecticut provides financial assistance for all of the urban and rural bus services operating in the State. In addition, the State supports commuter express bus operations, Americans with Disabilities Act and paratransit services, and ridesharing programs. Rail commuter service operates between New Haven and New York City and related points. Also, rail commuter service operates between New London and Stamford.

Connecticut initiated a transportation infrastructure renewal program in 1984 and continues that program today. It has resulted in the restoration and enhancement of the major components of the transportation system and provides for the continued maintenance of these systems.

Utility Services. The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, New England and Canada. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England, Inc., operates this regional system.

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

The restructuring legislation mandated a 10 percent rate reduction (from 1996 levels) subject to specific adjustments during the period of 2000 to 2003. This "standard offer" service was available to all consumers except those who had already entered into special contracts with the electric companies. The legislation also provided a procedure allowing for the recovery of utility's stranded costs, including the issuance of revenue bonds.

Legislation passed in 2003 extended the "standard offer" service, which was set to expire on January 1, 2004. During the period of 2004 to 2007, a new "transitional standard offer" service will be available to all consumers except those who have already entered into special contracts with the electric companies. The total rates charged under the "transitional standard offer" shall not exceed the 1996 base rates, excluding specific rate reductions made in September 2002. The 2003 legislation also provides that proceeds from rate reduction revenue bonds may be used to sustain funding of conservation and load management and renewable energy

investment programs by substituting disbursements to the General Fund from such proceeds for disbursements from the Energy Conservation and Load Management Fund and from the Renewable Energy Investment Fund.

Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, Energy East Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas has also been recently acquired by Northeast Utilities.

Since 1996 the DPUC has allowed some competitive market forces to enter the natural gas industry in Connecticut. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. The gas is delivered to the consumer using the local distribution company's mains and pipelines. This competitive market is not yet available to the residential consumer.

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Two LECs currently offer local telephone services in Connecticut. They are SBC Communications, Inc., which acquired The Southern New England Telephone Company (SNET) in 1997, and Verizon New York, Inc. Connecticut also has approximately 139 CLECs certified to provide local exchange services including Comcast, Cox Connecticut Telecommunication, LLC and Connecticut Telephone and Communications Systems, Inc.

Connecticut is dependent upon oil, including imported oil, for a portion of its energy requirements. This dependence is greatest in the transportation sector. Connecticut also relies on heating oils in both the residential and commercial sectors, and is reliant on residual oils and diesel fuels for the production of electricity. This petroleum dependence can make Connecticut particularly affected by developments in the oil commodity markets. Events that affect the international or domestic production of oil, the domestic and international refining capabilities, or the transportation of petroleum products within the United States or into the New England region can affect Connecticut's local oil markets.

Economic Performance

Personal Income. Connecticut has a high level of personal income. Historically, the State's average per capita income has been among the highest in the nation. The high per capita income is due to the State's concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. The following table shows total and per capita personal income for Connecticut residents during the period from 1994 to 2003 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE B-2

Connecticut Personal Income by Place of Residence

<u>Calendar Year</u>	<u>Connecticut</u>		<u>Connecticut Per Capita as % of</u>	
	<u>Total</u> (Millions of Dollars)	<u>Per Capita</u> (Dollars)	<u>New England</u>	<u>United States</u>
1994.....	98,467	29,695	115.6	133.7
1995.....	103,199	31,047	115.7	134.5
1996.....	108,189	32,421	115.0	134.1
1997.....	115,134	34,379	115.8	135.7
1998.....	123,918	36,826	116.3	137.0
1999.....	129,807	38,336	115.7	137.2
2000.....	141,570	41,492	114.9	139.0
2001.....	147,323	42,914	114.9	140.3
2002.....	147,856	42,745	114.2	138.8
2003.....	150,801	43,292	113.7	137.6

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

The following table indicates the annual growth rate of personal income, on a current and constant dollar basis, of Connecticut, New England and the United States.

TABLE B-3

Annual Growth Rates in Personal Income By Place of Residence

<u>Calendar Year</u>	<u>Conn.</u> (Current)	<u>New England</u> (Current)	<u>U.S.</u> (Current)	<u>Conn.</u> (Constant)	<u>New England</u> (Constant)	<u>U.S.</u> (Constant)
1994	2.7%	4.3%	5.0%	0.6%	2.1%	2.8%
1995	4.8%	5.1%	5.3%	2.7%	2.9%	3.2%
1996	4.8%	5.7%	6.0%	2.9%	3.7%	4.0%
1997	6.4%	6.0%	6.1%	4.7%	4.2%	4.3%
1998	7.6%	7.4%	7.4%	6.4%	6.2%	6.2%
1999	4.8%	5.4%	5.1%	3.3%	3.9%	3.6%
2000	9.1%	9.9%	8.0%	6.7%	7.6%	5.7%
2001	4.1%	3.6%	3.5%	1.6%	1.2%	1.1%
2002	0.4%	1.2%	1.7%	(1.3%)	(0.4%)	0.1%
2003	2.0%	2.7%	3.2%	0.2%	0.8%	1.3%

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

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

The following table indicates the sources of personal income by place of residence for the State and the United States in 2003.

TABLE B-4

**Sources of Personal Income By Place of Residence
Calendar 2003
(In Millions)**

	<u>Conn.</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing	\$ 73,545	48.77%	\$4,434,814	48.41%
Property Income (Div., Rents & Int.)	24,543	16.28%	1,476,508	16.12%
Wages in Manufacturing	12,219	8.10%	668,753	7.30%
Transfer Payments less Social Insurance Paid.....	4,998	3.31%	562,133	6.14%
Other Labor Income	18,933	12.55%	1,185,458	12.94%
Proprietor's Income.....	<u>16,563</u>	<u>10.98%</u>	<u>834,100</u>	<u>9.10%</u>
Personal Income—Total.....	\$150,801	100.0%	\$9,161,766	100.0%

Note—Columns may not add due to rounding.

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

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

In 2002, the State produced \$165.7 billion worth of goods and services and \$158.9 billion worth of goods and services in 2000 chained dollars.

The following table shows the Gross State Product in current dollars for Connecticut, New England and the United States.

TABLE B-5
Gross State Product
(In Millions of Dollars*)

Year	Connecticut		New England^(a)		United States^(b)	
	\$	% Growth	\$	% Growth	\$	% Growth
1998	143,232		495,753		8,679,658	
1999	148,251	3.5	523,099	5.5	9,201,138	6.0
2000	157,988	6.6	564,534	7.9	9,749,105	6.0
2001	162,411	2.8	579,858	2.7	10,031,393	2.9
2002	165,744	2.1	595,910	2.8	10,407,141	3.7

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

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

* The system for these calculations was converted from SIC Codes to the NAICS system for years 1998 and later and therefore prior year figures are not included.

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

The following table shows the Gross State Product in 2000 chained dollars.

TABLE B-6
Gross State Product
(In Millions of 2000 Chained Dollars*)

Year	Connecticut		New England		United States	
	\$	% Growth	\$	% Growth	\$	% Growth
1998	148,276		508,805		9,004,664	
1999	151,013	1.8	530,553	4.3	9,404,246	4.4
2000	157,988	4.6	564,534	6.4	9,749,105	3.7
2001	158,810	0.5	569,384	0.9	9,809,501	0.6
2002	158,902	0.1	574,116	0.8	10,014,936	2.1

* 2000 chained dollar series are calculated as the product of the chain-type quantity index and the 2000 current-dollar value of the corresponding series, divided by 100. The system for these calculations was converted from SIC Codes to the NAICS system for years 1998 and later and therefore prior year figures are not included.

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

The table below shows the contribution to Connecticut's Gross State Product of the manufacturing and non-manufacturing sectors in the State's economy. The table shows that, in 2002, Connecticut's production concentrated in two areas: finance, insurance and real estate (FIRE) and manufacturing. Production in these two industries accounted for 42.1% of total production in Connecticut compared to 33.4% for the nation and was little changed from 42.6% in 1998. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and this concentration has changed little in recent years.

The output contribution of manufacturing, however, has been declining over time as the contributions of FIRE and services have been rapidly increasing. The share of production from the manufacturing sector decreased, caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which includes industries in information, professional and technical services, health care and education, FIRE and other services, have increased to 62.8% of the total GSP in 2002 from 61.0% in 1998. During this period, the shift toward services in Connecticut has been occurring at a slightly slower rate than the rate for the nation as a whole. The share of service production increased 2.1 percentage points (3.6%) in Connecticut versus 2.5 percentage points (5.2%) for the nation. The increasing share of service production may help smooth the business cycle, reducing the span and depth of recessions and prolonging the length of expansions. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and somewhat less vulnerable to foreign competition. Therefore, this shift to the service sectors may serve to smooth output fluctuations.

TABLE B-7
Gross State Product by Industry in Connecticut
(In Millions of Dollars*)

<u>Sector</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Manufacturing	\$21,401	\$20,360	\$20,832	\$21,313	\$20,807
Construction ^(a)	4,469	4,760	5,115	5,389	5,355
Agriculture ^(b)	319	328	365	358	327
Utilities ^(c)	10,352	11,110	11,261	11,348	11,219
Wholesale Trade	8,507	8,686	8,669	8,936	9,079
Retail Trade	8,740	9,293	10,229	9,979	11,004
Finance ^(d)	39,656	41,567	46,451	47,532	48,925
Services ^(e)	37,372	39,348	41,377	43,145	43,937
Government	<u>12,416</u>	<u>12,799</u>	<u>13,689</u>	<u>14,411</u>	<u>15,091</u>
Total GSP	\$143,232	\$148,251	\$157,988	\$162,411	\$165,744

Note—Columns may not add due to rounding.

(a) Includes mining.

(b) Includes forestry and fisheries.

(c) Includes transportation, communications, electric, gas and sanitary services.

(d) Includes finance, insurance and real estate.

(e) Covers a variety of activities, including professional, business and personal services.

* The system for these calculations was converted from SIC Codes to the NAICS system for years 1998 and later and therefore prior year figures are not included.

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

Employment

Non-agricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid workers, farm and household domestic workers. The following table compares non-agricultural establishment employment for Connecticut, New England and the United States between 1994 and 2003. In Connecticut, approximately 55% of total personal income is derived from wages and salaries earned by workers classified in the non-agricultural employment sector. Therefore the non-agricultural employment figure is a valuable indicator of economic activity. Connecticut's nonagricultural employment reached its decade-long high in the first quarter of 1989 with 1,676,740 persons employed, but began declining with the onset of the recession in the early 1990s. It was not until 1994 that the State's economy started to gain momentum, adding tens of thousands of new workers. In the first quarter of 2000, nonagricultural employment surpassed the previous peak with a total employment of 1,686,330. Total nonagricultural employment declined in 2001 as the economy softened beginning with the fourth quarter of 2000.

TABLE B-8
Non-agricultural Employment^(a)
(In Thousands)

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Employment</u>	<u>Percent Growth</u>	<u>Employment</u>	<u>Percent Growth</u>	<u>Employment</u>	<u>Percent Growth</u>
1994	1,543.7	0.82	6,200.0	1.97	114,282	3.11
1995	1,561.6	1.16	6,326.6	2.04	117,306	2.65
1996	1,583.6	1.41	6,431.8	1.66	119,699	2.04
1997	1,612.5	1.82	6,575.2	2.23	122,767	2.56
1998	1,643.5	1.92	6,723.5	2.26	125,934	2.58
1999	1,669.2	1.56	6,855.1	1.96	128,992	2.43
2000	1,693.2	1.44	7,017.1	2.36	131,791	2.17
2001	1,681.2	(0.71)	7,026.4	0.13	131,837	0.03
2002	1,665.0	(0.96)	6,918.1	(1.54)	130,343	(1.13)
2003	1,643.5	(1.29)	6,835.4	(1.20)	129,937	(0.31)

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

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

Composition of Employment. The following table shows the distribution of non-agricultural employment in Connecticut and the United States in 2003. The table shows that Connecticut has a larger share of employment in services, manufacturing and finance than the nation as a whole.

TABLE B-9
Connecticut Non-agricultural Employment, 2003
(In Thousands)

	<u>Connecticut</u>		<u>United States</u>	
	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Services ^(a)	647.5	39.40	50,091	38.55
Trade ^(b)	305.3	18.58	25,283	19.46
Manufacturing	199.5	12.14	14,524	11.18
Government	246.3	14.99	21,574	16.60
Finance ^(c)	143.3	8.72	7,974	6.14
Utilities ^(d)	39.5	2.40	3,198	2.46
Construction ^(e)	<u>62.1</u>	<u>3.79</u>	<u>7,293</u>	<u>5.61</u>
	1,643.5	100.00	129,937	100.00

-
- (a) Covers a considerable variety of activities, including professional, business and personal services.
 - (b) Includes wholesale and retail trade, transportation, communication, electricity and gas.
 - (c) Includes finance, insurance, and real estate.
 - (d) Includes publishing, broadcasting, telecommunications, internet providers and data processing.
 - (e) Includes mining.

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

Recent trends in the State's non-agricultural employment are reflected in the following table. Throughout the last four decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar 2003, approximately 88% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

TABLE B-10

**Connecticut Non-agricultural Employment
(Annual Averages In Thousands)**

<u>Year</u>	<u>Manufacturing</u>	<u>Trade</u> ^(a)	<u>Services</u> ^(b)	<u>Government</u>	<u>Finance</u> ^(c)	<u>Information</u> ^(d)	<u>Construction</u> ^(e)	<u>Total Non-agricultural Employment</u> ^(f)
1994	253.43	290.71	556.39	217.17	135.63	40.38	49.97	1,543.68
1995	248.51	294.84	572.37	220.84	132.38	41.49	51.16	1,561.59
1996	245.33	299.12	591.32	222.80	128.58	43.28	53.20	1,583.63
1997	245.38	302.53	607.73	225.72	130.12	44.49	56.54	1,612.51
1998	247.87	308.59	618.60	227.83	136.98	44.28	59.32	1,643.47
1999	240.24	312.18	634.48	235.14	140.83	44.67	61.64	1,669.18
2000	235.71	317.50	643.31	241.88	143.05	46.42	65.37	1,693.24
2001	226.71	312.18	644.11	244.47	142.95	44.68	66.09	1,681.19
2002	211.18	309.25	647.39	249.30	142.63	41.02	64.18	1,664.95
2003	199.53	305.30	647.45	246.24	143.33	39.52	62.13	1,643.50

(a) Includes wholesale and retail trade, transportation, communication, electricity and gas.

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

(c) Includes finance, insurance and real estate.

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

(e) Includes mining.

(f) Totals may not equal sum of individual categories due to rounding.

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

Manufacturing

The manufacturing industry, despite its continuing downward employment trend over the past five decades, has traditionally served as an economic base industry and has been of prime economic importance to Connecticut. Based on the level of personal income derived from this sector, Connecticut ranks seventeenth in the nation for its dependency on manufacturing in fiscal 2003. Manufacturing has traditionally been of prime economic importance to Connecticut but has continued to trend down during the last decade. The following table provides a ten-year historical picture of manufacturing employment in Connecticut, the New England region and the United States. This downward movement in employment levels is also reflected in the New England region and the nation. The transformation in the State's manufacturing base confirms that the State's employment share in the manufacturing sector is converging to the national average. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar 2003, approximately 12% of the State's workforce, versus 11% for the nation, was employed in the manufacturing industry, down from roughly 50% in the early 1950s.

TABLE B-11

**Manufacturing Employment
(In Thousands)**

Calendar Year	Connecticut		New England		United States	
	Number	% Growth	Number	% Growth	Number	% Growth
1994	253.4	(3.10)	972.6	(1.14)	17,024	1.47
1995	248.5	(1.93)	967.8	(0.49)	17,244	1.29
1996	245.3	(1.29)	961.4	(0.66)	17,236	(0.05)
1997	245.4	0.04	965.1	0.38	17,418	1.06
1998	247.9	1.02	970.1	0.52	17,560	0.82
1999	240.2	(3.11)	944.8	(2.61)	17,323	(1.35)
2000	235.7	(1.87)	943.2	(0.17)	17,266	(0.33)
2001	226.7	(3.82)	900.7	(4.51)	16,441	(4.78)
2002	211.2	(6.84)	815.8	(9.43)	15,257	(7.20)
2003	199.5	(5.54)	766.1	(6.09)	14,524	(4.80)

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

Connecticut has a diverse manufacturing sector, with the construction of transportation equipment (primarily aircraft engines and submarines) being the dominant industry. The State is also a leading producer of military and civilian helicopters. Employment in the transportation equipment sector is followed by fabricated metals, computer and electronics, and machinery for the total number employed in 2003.

TABLE B-12
Manufacturing Employment
By Industry
(In Thousands)

<u>Calendar Year</u>	<u>Transportation Equipment</u>	<u>Fabricated Metals</u>	<u>Computer & Electronics</u>	<u>Machinery</u>	<u>Other^(a)</u>	<u>Total Manufacturing Employment</u>
1994	59.94	49.19	36.45	24.98	82.87	253.43
1995	55.50	50.20	35.95	24.84	82.02	248.51
1996	53.66	50.71	35.82	24.71	80.43	245.33
1997	51.49	50.70	37.20	25.46	80.53	245.38
1998	52.27	51.86	37.61	25.42	80.71	247.87
1999	49.86	50.27	35.34	23.98	80.79	240.24
2000	46.92	49.75	35.41	23.72	79.91	235.71
2001	46.86	46.99	33.68	22.41	76.77	226.71
2002	45.33	43.21	29.25	20.27	73.12	211.18
2003	43.33	41.10	26.54	18.54	70.02	199.53

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

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

During the past ten years, Connecticut's manufacturing employment was at its highest in 1994 at 253,430 workers. Since that year, employment in manufacturing was on a downward trend with only a slight increase in 1997 and 1998. A number of factors, such as heightened foreign competition, outsourcing to offshore locations, and improved productivity played a significant role in affecting the overall level of manufacturing employment. Total manufacturing jobs in Connecticut continued to decline to a recent low of 199,530 in 2003, after a rebound to 247,870 in 1998. The total number of manufacturing jobs dropped 53,900, or 21.3% for the ten year period since 1994.

Exports. In Connecticut, the export sector of manufacturing has assumed an important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at \$8.1 billion in 2003, accounting for 4.8% of Gross State Product. From 1999 to 2003, the State's export of goods grew at an average annual rate of 3.2%. The following table shows the growth in exports of manufacturing products.

TABLE B-13
Exports Originating in Connecticut
(In Millions)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>% of 2003 Total</u>	<u>Average % Growth 1999-2003</u>
A. Manufacturing Products							
Transportation Equipment	\$2,599.0	\$3,168.5	\$3,988.3	\$4,098.7	\$3,298.1	40.5%	7.8%
Computer & Electronics	877.6	904.5	804.4	760.0	789.5	9.7	(2.4)
Machinery, Except Electronics	755.7	1,005.2	898.0	669.8	784.4	9.6	3.5
Fabricated Metal Production	328.5	369.8	391.5	427.4	440.5	5.4	7.7
Chemicals	547.7	612.8	567.3	499.9	749.0	9.2	10.6
Misc. Manufacturing	581.5	395.1	430.4	393.6	486.4	6.0	(2.0)
Electrical Equipment	242.9	292.9	259.8	316.3	336.1	4.1	9.3
Plastics & Rubber	153.1	144.5	152.0	141.2	137.6	1.7	(2.5)
Paper	139.6	150.8	139.5	174.9	188.6	2.3	8.4
Primary Metal Mfg.	191.1	247.0	210.1	167.6	203.1	2.5	3.8
Others	814.5	755.7	769.1	664.0	723.1	8.9	(2.6)
Total	\$7,231.2	\$8,046.8	\$8,610.4	\$8,313.4	\$8,136.4	100.0%	3.2%
% Growth	(0.9%)	11.3%	7.0%	(3.4%)	(2.1%)		
B. Gross State Product^(a)	\$148,251	\$157,988	\$162,411	\$165,744	\$168,751		
Mfg Exports as a % of GSP	4.9%	5.1%	5.3%	5.0%	4.8%		

(a) In millions.

(b) Gross State Product for 2003 is estimated by the Office of Policy and Management and is assumed to grow at the same rate as income derived from wages and salary, which is estimated by the United States Department of Commerce, Bureau of Economic Analysis.

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

Defense Industry. One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. Nonetheless, this sector's significance in the State's economy has declined considerably since the early 1980s. Connecticut has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In federal fiscal year 2003, Connecticut received \$8.1 billion of prime contract awards. These total awards accounted for 4.2% of national total awards and ranked 5th in total defense dollars awarded and 2nd in per capita dollars awarded among the 50 states. In fiscal year 2003, Connecticut had \$2,315 in per capita defense awards, compared to the national average of \$658. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut based firms have increased to 3.6% of Gross State Product in fiscal year 2003, up from 2.5% of Gross State Product in fiscal year 1994. Recent increases were primarily due to the procurement of helicopters and submarines.

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

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

TABLE B-14
Defense Contract Awards

<u>Federal Fiscal Year</u>	<u>Connecticut Total Contract Award (Thousands)</u>	<u>Connecticut Rank Among States Total Awards</u>	<u>% Change from Prior Year</u>	
			<u>Connecticut</u>	<u>U.S.</u>
1993-94	\$2,450,069	14th	(15.4)	(3.4)
1994-95	\$2,718,021	12th	10.9	(1.2)
1995-96	\$2,638,260	13th	(2.9)	0.4
1996-97	\$2,535,981	13th	(3.9)	(2.6)
1997-98	\$3,408,719	9th	34.4	2.7
1998-99	\$3,169,394	12th	(7.0)	5.0
1999-00	\$2,177,462	17th	(31.3)	7.3
2000-01	\$4,269,536	10th	96.1	9.7
2001-02	\$5,638,582	9th	32.1	17.4
2002-03	\$8,064,809	5th	43.0	20.5

SOURCE: United States Department of Defense

Non-manufacturing. The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 88% by 2003. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 153,800 jobs created in this sector, an increase of 11.9%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1994.

The table below provides a ten year profile of non-manufacturing employment in Connecticut, New England and the United States.

TABLE B-15
Non-manufacturing Employment
(In Thousands)

Calendar Year	Connecticut		New England		United States	
	Number	% Growth	Number	% Growth	Number	% Growth
1994	1,290.2	1.62	5,227.4	2.57	97,258	3.40
1995	1,313.1	1.77	5,358.8	2.51	100,062	2.88
1996	1,338.3	1.92	5,470.4	2.08	102,462	2.40
1997	1,367.1	2.15	5,610.2	2.56	105,349	2.82
1998	1,395.6	2.08	5,753.3	2.55	108,363	2.86
1999	1,428.9	2.39	5,910.3	2.73	111,668	3.05
2000	1,457.5	2.00	6,073.9	2.77	114,526	2.56
2001	1,454.5	(0.21)	6,125.7	0.85	115,396	0.76
2002	1,453.8	(0.05)	6,102.2	(0.38)	115,086	(0.27)
2003	1,444.0	(0.67)	6,069.3	(0.54)	115,413	0.28

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

Services, retail and wholesale trade, state and local government, as well as finance, insurance and real estate (FIRE) collectively comprise approximately 90% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 1994, 2001, 2002 and 2003 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the fiscal year and over the decade are also provided. Between 1994 and 2003, service industry employment expanded by 91,060 workers, adding more than one out of every two jobs statewide, which registered an increase of 153,730 jobs. State and local governments expanded by 32,310 jobs. The increase in this line item over the ten-year period can be attributed to the Federal Government's decision to categorize all workers employed on Indian Reservations as state and local government employees. There are approximately 22,500 employees working at the State's two tribal casinos.

TABLE B-16
Connecticut Non-manufacturing Employment By Industry
(In Thousands)

<u>Industry</u>	<u>Calendar 1994</u>	<u>Calendar 2001</u>	<u>Calendar 2002</u>	<u>Calendar 2003</u>	<u>Percent Change 2002-03</u>	<u>Percent Change 1994-03</u>
Construction ^(a)	49.97	66.09	64.18	62.13	(3.19)	24.33
Information	40.38	44.68	41.02	39.52	(3.66)	(2.13)
Transportation, Warehousing & Utilities	49.30	50.26	48.95	48.56	(0.80)	(1.50)
Wholesale Trade	62.53	67.39	66.03	65.47	(0.85)	4.70
Retail Trade	178.88	194.53	194.27	191.27	(1.54)	6.93
Finance, Insurance & Real Estate Services ^(b)	135.63	142.95	142.63	143.33	0.49	5.68
Services ^(b)	556.39	644.11	647.39	647.45	0.01	16.37
Federal Government	24.16	21.61	21.23	20.93	(1.41)	(13.37)
State and Local Government	<u>193.00</u>	<u>222.86</u>	<u>228.07</u>	<u>225.31</u>	<u>(1.21)</u>	<u>16.74</u>
Total Non-manufacturing Employment ^(c)	1,290.24	1,454.48	1,453.77	1,443.97	(0.67)	11.91

(a) Includes mining.

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

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

SOURCE: Connecticut State Labor Department

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

The following table shows the major group in each SIC code as well as the State's retail trade history for the past five fiscal years. It demonstrates the fluctuating pattern of retail sales in Connecticut. Connecticut retail trade in fiscal 2003 totaled \$45.2 billion, an increase of 2.8% from fiscal 2002. This increase reflects the sales improvement in those industries such as general merchandise, hardware stores and food products.

TABLE B-17
Retail Trade In Connecticut
(In Millions)

	<u>Fiscal</u> <u>Year</u> <u>1999</u>	<u>Fiscal</u> <u>Year</u> <u>2000</u>	<u>Fiscal</u> <u>Year</u> <u>2001</u>	<u>Fiscal</u> <u>Year</u> <u>2002</u>	<u>Fiscal</u> <u>Year</u> <u>2003</u>	<u>% Of</u> <u>Fiscal Year</u> <u>2003 Total</u>	<u>Average %</u> <u>Growth</u> <u>Fiscal Year</u> <u>1999-2003</u>
SIC52 Hardware Stores	\$2,320	\$2,418	\$2,376	\$2,751	\$2,736	6.1%	4.4%
SIC53 General Merchandise	3,742	3,744	3,024	4,002	4,191	9.3	4.5
SIC54 Food Products	6,922	7,139	7,521	8,127	8,142	18.0	4.2
SIC55 Automotive Products	7,963	8,712	8,531	8,605	8,688	19.2	2.3
SIC56 Apparel & Accessory	2,047	2,195	2,237	2,274	2,105	4.7	0.8
SIC57 Furniture & Appliances	4,011	4,299	3,971	3,629	3,518	7.8	(3.0)
SIC58 Eating & Drinking	2,966	3,148	3,327	3,374	3,461	7.7	3.9
SIC59 Misc. Shopping Stores	<u>9,865</u>	<u>10,975</u>	<u>11,247</u>	<u>11,161</u>	<u>12,329</u>	<u>27.3</u>	5.9
Total^(a)	\$39,836	\$42,630	\$42,234	\$43,924	\$45,169	100.0%	3.2%
% Change from Previous Year	5.1	7.0	(0.9)	4.0	2.8		
Durables (SIC 52,55,57)	\$14,294	\$15,429	\$14,878	\$14,986	\$14,941	33.1%	1.2
% Change from Previous Year	5.9	7.9	(3.6)	(0.7)	(0.3)		
Non Durables (all other SICs)	\$25,542	\$27,201	\$27,356	\$28,939	\$30,228	66.9%	4.3
% Change from Previous Year	4.7	6.5	0.6	5.8	4.5		

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

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. Unemployment rates tend to be high during economic slowdowns and low when the economy is expanding. The rate is widely utilized as a proxy for consumer confidence. In general, when the unemployment rate is high consumer spending is lower and vice versa.

After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State rose to a high of 5.7% in 1996, which was higher than the New England average of 4.8% and the national average of 5.4%. Through calendar 2000, Connecticut's unemployment rate generally declined and mostly remained below the New England and the national average. Connecticut's unemployment rate of 4.7% for the first six months of 2004 is below the New England and national average of 4.9% and 5.6%, respectively, for the same period.

The following table compares the unemployment rate averages of Connecticut, New England and the United States between 1994 and the first half of 2004.

TABLE B-18
Unemployment Rate

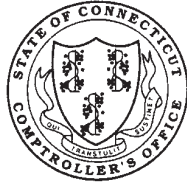
<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
1994	5.6	5.9	6.1
1995	5.5	5.4	5.6
1996	5.7	4.8	5.4
1997	5.1	4.4	4.9
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.2	2.8	4.0
2001	3.3	3.7	4.8
2002	4.3	4.8	5.8
2003	5.5	5.4	6.0
2004 ^(a)	4.7	4.9	5.6

(a) Reflects average for the first six months.

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

APPENDIX III-C

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NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 23, 2005

The Honorable Denise Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying general purpose financial statements of Connecticut for the fiscal year ending June 30, 2004. The statements are prepared by my office in conformance with generally accepted accounting principles.

Sincerely,

A handwritten signature in black ink that reads "Nancy Wyman". The signature is fluid and cursive, with a large initial "N" and "W".

Nancy Wyman
State Comptroller

MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the state's financial position, the financial statements and footnotes should be viewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide:

Assets of the state's governmental activities were \$5.5 billion less than liabilities, a deterioration in financial position of \$0.2 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by \$3.7 billion, which are by and large unchanged from that of the prior year. In terms of the total, net assets declined from negative \$1.6 billion to a negative \$1.8 billion, a decrease in total net assets of \$0.2 billion.

As noted above, the governmental portion of state liabilities exceeded state governmental assets by \$5.5 billion as of June 30, 2004. Of this amount, the unrestricted net asset portion was a negative \$10.2 billion. One reason for the negative balance is the state's reliance on issuing bonds to fund certain operating grants. General Obligation bonds outstanding as of June 30, 2004 that related to municipal school construction, and other operating grants and loans totaled \$3.1 billion. Additionally, long-term obligations such as net pension, compensated absences and worker's compensation obligations of \$4.2 billion, with no offsetting assets, further contributed to the state's negative net assets.

Fund Level:

Total Governmental fund assets exceeded liabilities resulting in a fund balance of \$1.9 billion, all of which was reserved leaving a net unreserved fund balance of just under zero. The portion of unreserved undesignated fund balance that pertains to the General Fund was a negative \$0.9 billion at June 30, 2004.

Total Enterprise Fund assets exceeded liabilities resulting in net assets of \$3.7 billion, substantially all of which was restricted or invested in capital assets.

Debt Issued and Outstanding:

Long-term bonded debt of governmental activities totaled \$12.9 billion (see Note 16). In addition, \$0.3 billion in Economic Recovery Notes was outstanding on June 30, 2004. Other long-term liabilities totaled \$4.2 billion.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

There are three major parts to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE STATEMENTS (Reporting the State as a Whole)

Governments have traditionally focused their reporting on groupings of funds rather than on the government taken as a whole. The GASB 34 financial reporting model, upon which this report is based, retains this traditional focus on funds and adds an additional focus on the overall government's financial position and operations.

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the state as a whole and its activities. These statements help to demonstrate how the state's financial position as a whole changed due to the year's operating activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

The Statement of Net Assets presents all of the state's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the state's financial position is improving or not.

The Statement of Activities presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in future fiscal year cash flows (e.g., earned but unused vacation time).

Both statements report three activities:

- *Governmental Activities* - Most of the state's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The legislature, the judiciary, and the general operations of the executive departments fall within the governmental activities.
- *Business-type Activities* – These activities are primarily funded by charges to external parties for the cost of goods and services provided. These activities are generally reported in Enterprise Funds in the fund level statements. The operations of Bradley International Airport, the Connecticut Lottery Corporation and Employment Security, are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the state is financially accountable. More information on discretely presented component units can be found in Note 1 of the Notes to Financial Statement section.

Financial reporting for governmental activities traditionally has focused on changes in current spendable resources rather than on changes in total resources. This traditional focus has been retained for purposes of fund reporting. However, as governmental activities are included with other activities in the government-wide financial statement format, the focus for these activities shifts to changes in total resources. In other words, all activities reported in government-wide financial statements are reported in a manner similar to private-sector accounting. To increase the readers understanding, a summary reconciliation of the difference between the governmental fund financial statements and the government-wide financial statements is provided as part of the basic financial statements.

FUND LEVEL STATEMENTS

Fund financial statements focus on individual parts of the state's operations in more detail than the government-wide statements. Funds are accounting devices that governments use to keep track of specific sources of funding and spending for particular purposes. The state of Connecticut is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that state activities meet the criteria for using these funds, and “combining statements” for its component units.

As a practical matter, governments have traditionally been combining similar individual funds into groupings or "fund types" (i.e., general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust & agency funds). In the past, it was these fund types, rather than individual funds, that have been the focus of the combined financial statements presented in financial reports. Under the GASB 34 financial reporting model, as presented here, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

Major Governmental Fund Financial Statements:

Governmental fund reporting focuses primarily on the sources uses and balances of current financial resources and often has a budgetary orientation. The state's major government funds include the General Fund, the Transportation Fund and the Debt Service Fund.

General Fund. The General Fund functions as the chief operating fund for the state government. All of the state's activities are reported in the General Fund unless there is a compelling reason to report them elsewhere.

Transportation Fund. The Transportation Fund is a special revenue fund that accounts for motor vehicle taxes, receipts and transportation related federal revenues collected for payment of debt service requirements and budgeted expenditures of the Department of Transportation and the Department of Motor Vehicles. The Department of Transportation is responsible for all aspects of the planning, development, maintenance and improvement of the state transportation system.

Debt Service Fund. The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, Special Tax obligation principal and interest.

Changes in budgetary reporting. Traditionally, governments have included a budget-to-actual comparison as one of their basic financial statements. The final amended budget has provided the budgetary amounts used for this presentation. The GASB 34 financial reporting model brought three important changes to traditional practice.

- Budgetary comparisons present the original budget in addition to the final amended budget.
- In the past budgetary comparisons were presented by fund type (e.g., total budgeted special revenue funds). The GASB 34 financial reporting model requires a budgetary comparison for the General Fund and individual major special-revenue funds.
- Governments are permitted to present the budgetary comparison as a basic financial statement if they wish to do so, thereby retaining it within the scope of the independent audit. The state of Connecticut has elected to do so even though it is only required to present non-audited budgetary comparison statements as “required supplementary information”.

Major Proprietary Fund Financial Statements:

Proprietary funds (enterprise and internal service) are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting where all assets and liabilities are reported on the balance sheet. Revenues are recorded when earned and expenses are recorded when incurred. In accordance with the requirements of the GASB 34 reporting model utilized in preparation of this report:

- Proprietary fund reporting distinguish current assets and liabilities from non-current assets and liabilities.
- Traditionally, the equity of proprietary funds was divided between "contributed capital" and "retained earnings." Under the GASB 34 reporting model, such a distinction is no longer made. Three classifications are used under the GASB 34 reporting model to classify equity for proprietary funds and for the government-wide financial statements. These three classifications are 1) "invested in capital assets net of related debt," 2) "restricted" (distinguishing between major categories of restrictions) and 3) "unrestricted."

Enterprise funds report activities that provide goods or services to the general public. An example is the Connecticut Lottery. Internal service funds report activities that provide supplies and services to the state’s other programs and activities. An example is the state’s motor fleet operations. Internal service funds are reported as governmental activities on the government-wide statements

Fiduciary Fund Financial Statements:

The fiduciary fund category includes pension (and other employee benefit) trust funds, investment-trust fund, private-purpose-trust fund and agency funds. These fund types should be used to report resources held and administered by the state when it is acting in a fiduciary

capacity for individuals, private organizations or other governments. Some of the important changes to traditional reporting include the following:

Limitation on the use of fiduciary funds. The use of fiduciary funds has been limited to accounting for resources that are not available to support a government's operations and programs. This limitation resulted in the non-fiduciary reclassification of numerous expendable and non-expendable trust funds reported in the *Comprehensive Annual Financial Report* prior to Fiscal Year 2002.

Changes in fiduciary funds. The distinction between expendable and non-expendable trust funds has been eliminated. Instead, some expendable trust funds have been reclassified and are now reported as special revenue funds while others have been replaced by the "private-purpose" trust fund. This fund type is used to report all trust arrangements under which principal and income are to be used to benefit individuals, private organizations or other governments. Non-expendable or endowment-like arrangements available to support the operations or programs of the government (e.g., cemetery perpetual care funds) are accounted for in a governmental fund type, newly created by GASB statement 34, called "permanent funds."

Component Unit Combining Statements:

The same GASB 34 reporting rules regarding the determination of major funds are applied to the states component units. The Component units of the State of Connecticut are:

Connecticut Housing Finance Authority. Classified as the State's major component unit, the CHFA is a public instrumentality and political subdivision created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families.

Connecticut Development Authority. CDA's purpose is to stimulate commercial development.

Connecticut Resources Recovery Authority. CRRRA's purpose is solid waste management.

Connecticut Higher Education Supplemental Loan Authority. CHESLA's purpose is to provide resources for student loans.

Connecticut Health and Educational Facilities Authority. CHEFA's purpose is to provide resources for financing major projects for health and educational institutions.

Connecticut Innovations, Incorporated. CI's purpose is to stimulate application of new technology.

Capital City Economic Development Authority. CCEDA's purpose is to stimulate economic development in the city of Hartford.

FINANCIAL SECTION CONTENTS OTHER THAN FINANCIAL STATEMENTS

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Required supplementary information. The RSI provides additional information regarding the States progress on funding its obligation to provide pension benefits to its employees.

Combining Financial Statements. Combining statements for non-major funds are not required to be presented or audited under generally accepted accounting principals. Nevertheless, Connecticut presents these statements as supplementary information, in the optional part of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following table was derived from the government-wide Statement of Net Assets. The state's combined net assets declined \$0.2 billion over the course of Fiscal Year 2004 operations. The net assets of governmental activities decreased by the same \$0.2 billion, while net assets from business-type activities remained by and large unchanged from the prior year.

**State Of Connecticut's Net Assets
(in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
ASSETS:						
Current and Other Assets	\$ 3,915.3	\$ 3,142.0	\$ 3,575.4	\$ 3,515.9	\$ 7,490.7	\$ 6,657.9
Capital Assets	9,545.7	9,531.9	2,857.0	2,621.5	12,402.7	12,153.4
Total Assets	13,461.0	12,673.9	6,432.4	6,137.4	19,893.4	18,811.3
LIABILITES:						
Current Liabilities	2,924.4	2,345.6	606.9	549.8	3,531.3	2,895.4
Long-term Liabilities	16,043.0	15,638.3	2,165.6	1,964.3	18,208.6	17,602.6
Total Liabilities	18,967.4	17,983.9	2,772.5	2,514.1	21,739.9	20,498.0
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	3,166.7	2,622.4	2,209.5	2,093.9	5,376.2	4,716.3
Restricted	1,567.7	1,245.3	1,409.9	1,402.1	2,977.6	2,647.4
Unrestricted	(10,240.8)	(9,177.7)	40.5	127.3	(10,200.3)	(9,050.4)
Total Net Assets	\$ (5,506.4)	\$ (5,310.0)	\$ 3,659.9	\$ 3,623.3	\$ (1,846.5)	\$ (1,686.7)

Connecticut

The following condensed financial information was derived from the government-wide Statement of Activities and reflects the nature of the state's change in net assets throughout Fiscal Year 2004.

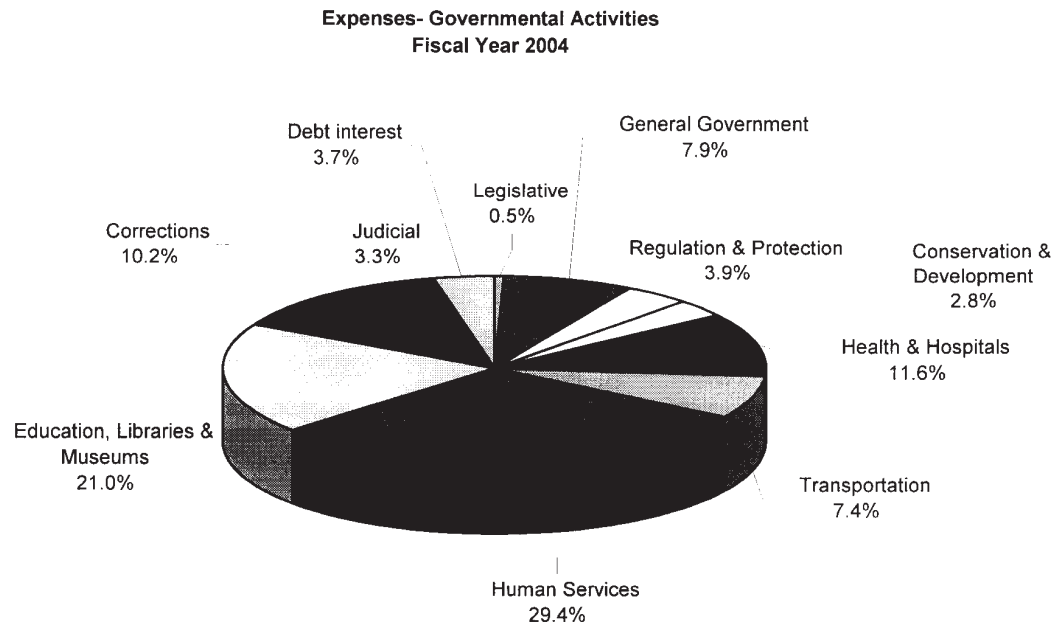
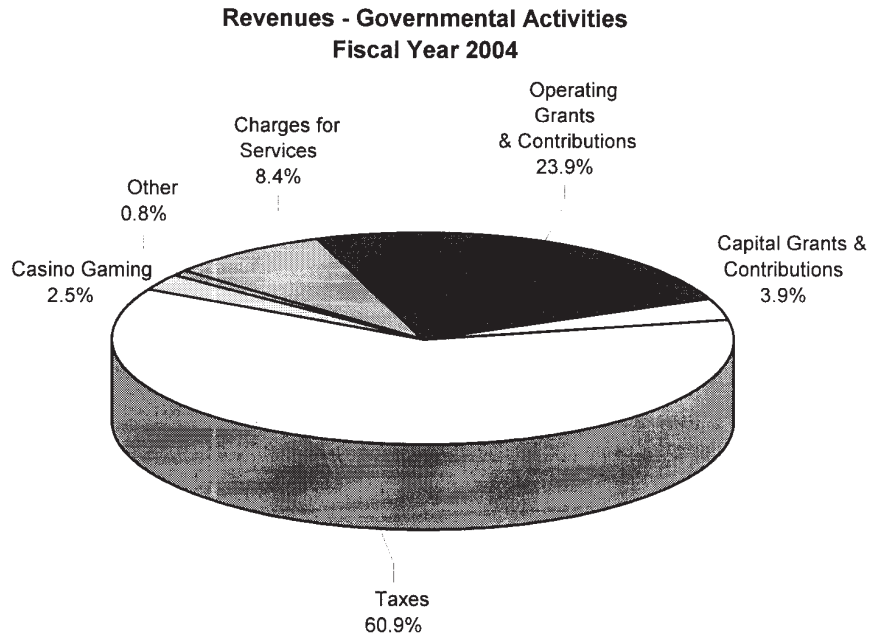
**State of Connecticut's Changes in Net Assets
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
REVENUES						
Program Revenues						
Charges for Services	1,344.4	1,072.9	\$ 2,936.0	\$ 2,594.8	\$ 4,280.4	\$ 3,667.7
Operating Grants and Contributions	3,859.3	3,489.2	227.7	456.2	4,087.0	3,945.5
Capital Grants and Contributions	537.8	562.6	9.3	10.2	547.1	572.8
General Revenues						
Taxes	9,758.8	8,644.7	-	-	9,758.8	8,644.7
Casino Gaming Payments	402.7	387.3	-	-	402.7	387.3
Other	133.9	435.8	90.5	111.3	224.4	547.1
Total Revenues	16,036.9	14,592.5	3,263.5	3,172.5	19,300.4	17,765.1
EXPENSES						
Legislative	72.6	80.2	-	-	72.6	80.2
General Government	1,242.1	1,145.6	-	-	1,242.1	1,145.6
Regulation and Protection	593.1	574.7	-	-	593.1	574.7
Conservation and Development	468.9	410.2	-	-	468.9	410.2
Health and Hospitals	1,767.5	1,711.1	-	-	1,767.5	1,711.1
Transportation	1,162.3	941.3	-	-	1,162.3	941.3
Human Services	4,600.1	4,138.9	-	-	4,600.1	4,138.9
Education, Libraries and Museums	3,035.7	3,090.6	-	-	3,035.7	3,090.6
Corrections	1,587.6	1,450.4	-	-	1,587.6	1,450.4
Judicial	522.9	555.8	-	-	522.9	555.8
Interest and Fiscal Charges	576.8	595.9	-	-	576.8	595.9
University of Connecticut	-	-	1,254.4	1,187.7	1,254.4	1,187.7
State Universities	-	-	469.7	463.3	469.7	463.3
Bradley International Airport	-	-	59.3	54.3	59.3	54.3
CT Lottery Corporation	-	-	656.7	643.2	656.7	643.2
Employment Security	-	-	811.5	963.2	811.5	963.2
Clean Water	-	-	24.8	29.4	24.8	29.4
Other	-	-	361.4	364.6	361.4	364.6
Total Expenses	15,629.6	14,694.7	3,637.8	3,705.8	19,267.4	18,400.5
Excess (Deficiency) Before Transfers, Special and Extraordinary Items	407.3	(102.2)	(374.3)	(533.3)	33.0	(635.5)
Transfers	(417.1)	(640.2)	417.1	640.3	-	0.1
Special and Extraordinary Items	(186.6)	-	(6.2)	(6.5)	(192.8)	(6.5)
Increase (Decrease) in Net Assets	(196.4)	(742.4)	36.6	100.5	(159.8)	(641.9)
Net Assets (Deficit) - Beginning (Restated)	(5,310.0)	(4,567.6)	3,623.3	3,522.8	(1,686.7)	(1,044.8)
Net Assets (Deficit) - Ending	(5,506.4)	(5,310.0)	\$ 3,659.9	\$ 3,623.3	(1,846.5)	\$ (1,686.7)

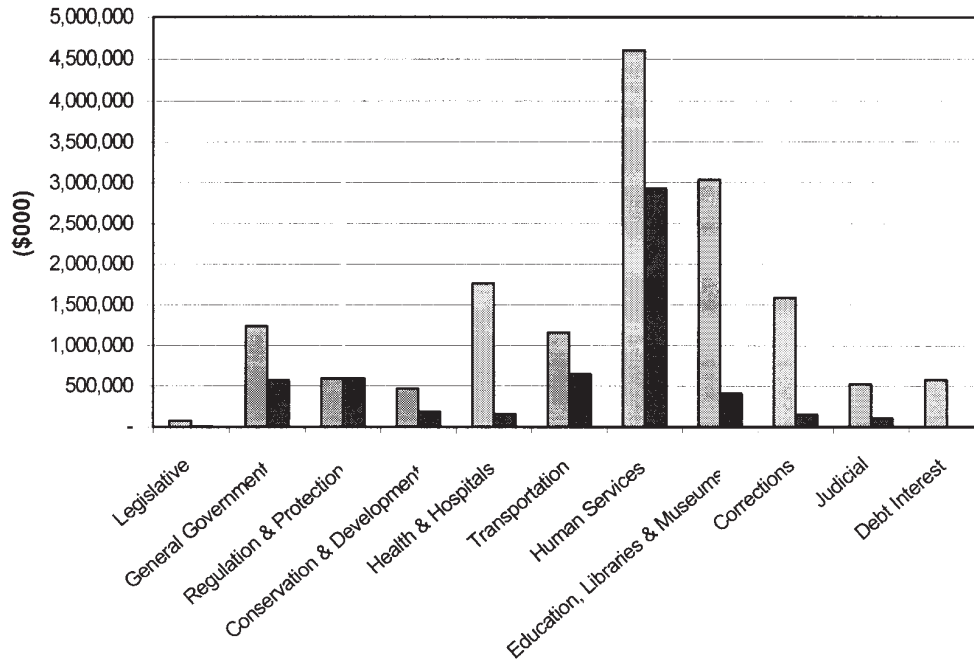
Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are activities that are both unusual in nature and infrequent

GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2004.



Expenses and Program Revenues - Governmental Activities
Fiscal Year 2004



Within governmental activities, Fiscal Year 2004 program expenses were \$9.9 billion higher than program revenues. However, this excess of expenses over related program revenue was offset by general revenue in the amount of \$9.7 billion, resulting in a decrease in net assets of \$0.2 billion for the year. Had a transfer of loans to component units of \$0.2 billion (a Special Item) not occurred, there would have been almost no change in net assets for the year.

During the fiscal year 2004, budget projections indicated that budgeted revenues would exceed the budgeted level of expenditures (on a modified cash basis of accounting) producing an operating surplus in the General Fund. As a result, legislation was enacted (Public Act 04-216) to restore funding for various program activities that had been cut as part of the state's Fiscal Year 2003 deficit mitigation efforts. The restored funding totaled \$112.4 million in Fiscal Year 2004. In addition, \$125.3 million of the Fiscal Year 2004 General Fund operating surplus was reserved to support Fiscal Year 2005 anticipated spending requirements.

Business-type activities achieved a near breakeven point on operations for fiscal year 2004. Expenses of the Higher Education institutions, which include the University of Connecticut, the State University System and Connecticut Community Colleges, accounted for 61.7 percent of business-type expenses and 44.2 percent of program revenues. Program revenues exceeded expenses in the Connecticut Lottery Corporation by \$0.2 billion.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The state completed Fiscal Year 2004 with a balance of \$1.9 billion in its governmental funds. The unreserved balances totaling a deficit of \$44.7 million is net of a \$0.9 billion short fall in the general fund unreserved balance. Governmental fund expenditures exceeded fund revenues by \$0.5 billion before other financing activities and special items totaling \$0.9 billion. As a result fund balance for all governmental funds increased by \$0.4 billion in fiscal year 2004.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2004, the General Fund had a negative fund balance of \$0.2 billion of which a negative \$0.9 billion was unreserved. The excess of general fund revenues over expenditures totaled \$0.7 billion. Net other financing uses totaling \$0.5 billion included a transfer of \$0.3 billion to establish a new special revenue fund, the Restricted Grants & Accounts fund. This resulted in an increase in fund balance of \$0.2 billion for the fiscal year. Tax increases and other revenue enhancements enacted by the legislature and signed by the governor during Fiscal Year 2003 (Public Acts 03-2 and 03-1 of the June Special Session) generated over \$800 million in additional Fiscal Year 2004 revenue, and spending reductions implemented in fiscal year 2003 and continued and annualized into fiscal year 2004 were projected to save over \$300 million (the estimates are on a budgetary basis or modified cash basis of accounting). These actions helped avert a large General Fund operating deficit in Fiscal Year 2004 and to ultimately generate a General Fund surplus .

Transportation Fund

The Transportation Fund ended Fiscal Year 2004 with a fund balance of \$0.2 billion of which \$0.1 billion was unreserved. Fund balance was reduced by \$2.0 million through Fiscal Year 2004 operations.

Other Funds

The other funds category includes the state's special revenue, capital projects and permanent funds. These funds had a fund balance of \$1.3 billion on June 30, 2004 of which \$0.7 billion was unreserved. In fiscal 2004 the Clean Energy fund, which in prior years was combined with the CT Innovations, Inc. component unit, was presented as part of the environmental fund, a special revenue fund of the state.

In Fiscal Year 2004, expenditures exceeded revenues by \$1.2 billion in the other funds category. Bonds issued in the amount of \$1.3 billion provided an offset to this deficit. The state has a long history of utilizing bond proceeds to offset operating deficits within these funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

The State of Connecticut's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$12.4 billion (net of accumulated depreciation). The total of capital assets for governmental activities remained largely unchanged from the prior year while the increase for business-type activities was 9.0%. Depreciation charges for the fiscal year totaled \$0.8 billion.

**State of Connecticut's Capital Assets
(Net of Depreciation, in Millions)**

	2004	2003	2004	2003*	2004	2003
Land	\$ 935.0	\$ 911.8	\$ 51.9	\$ 44.8	\$ 986.9	\$ 956.6
Buildings	1,036.3	879.9	1,916.1	1,706.1	2,952.4	2,586.0
Improvements Other than Buildings	133.9	63.2	245.5	230.0	379.4	293.2
Equipment	381.8	458.4	350.0	355.5	731.8	813.9
Infrastructure	5,396.0	5,481.8	-	-	5,396.0	5,481.8
Construction in Progress	1,662.8	1,736.9	293.4	285.1	1,956.2	2,022.0
Total	<u>\$ 9,545.8</u>	<u>\$ 9,532.0</u>	<u>\$ 2,856.9</u>	<u>\$ 2,621.5</u>	<u>\$ 12,402.7</u>	<u>\$ 12,153.5</u>

* totals differ with that of the prior year due to the implementation of GASB 39 (see Note 21)

Additional information on the State of Connecticut's capital assets can be found in Note 10 of this report.

Long-term Debt.

The state, pursuant to various public and special acts, has authorized a variety of types of debt which fall into the following categories: direct general obligation debt, which is payable from the state's general fund; special tax obligation debt, which is payable from the debt service fund and revenue debt, which is payable from specified revenues of enterprise funds.

**State of Connecticut's Outstanding Debt
General Obligation and Revenue Bonds (in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 9,606.6	\$ 9,216.4	\$ -	\$ -	\$ 9,606.6	\$ 9,216.4
Transportation Related Bonds	3,153.9	3,205.8	-	-	3,153.9	3,205.8
Revenue Bonds	-	-	1,713.8	1,547.5	1,713.8	1,547.5
Total	<u>\$ 12,760.5</u>	<u>\$ 12,422.2</u>	<u>\$ 1,713.8</u>	<u>\$ 1,547.5</u>	<u>\$ 14,474.3</u>	<u>\$ 13,969.7</u>

In Fiscal Year 2004 the state increased outstanding bonds by \$0.5 billion. For the year, outstanding debt in governmental activities increased by 2.7 percent and for business-type activities the increase was 10.8 percent. It should also be noted that the state also issued \$97.7 million in economic recovery notes (see note 17). The state's General Obligation bonds are rated Aa3, AA and AA by Moodys, Standard and Poors and Fitch respectively. Special Tax Obligation bonds are rated A1, AA-, AA- by Moodys, Standard and Poors and Fitch respectively.

Section 3-21 of the Connecticut General Statutes provides that the total amount of bonds, notes or other evidences of indebtedness payable from general fund tax receipts authorized by the General Assembly but have not been issued and the total amount of such indebtedness which has been issued and remains outstanding shall not exceed 1.6 times the total estimated general fund tax receipts of the state for the current fiscal year. In computing the indebtedness at any time, revenue anticipation notes, refunded indebtedness, bond anticipation notes, tax increment financing, budget deficit bonding, revenue bonding, balances in debt retirement funds and other indebtedness pursuant to certain provisions of the General Statutes shall be excluded from the calculation.

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.

*Basic
Financial
Statements*

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Statement of Net Assets

June 30, 2004

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 1,041,388	\$ 436,936	\$ 1,478,324	\$ 139,538
Deposits with U.S. Treasury	-	477,197	477,197	-
Investments	106,120	171,156	277,276	233,307
Receivables, (Net of Allowances)	1,927,577	559,784	2,487,361	63,626
Due from Component Units	1,484	-	1,484	-
Due from Primary Government	-	-	-	22,179
Inventories	55,174	8,637	63,811	-
Restricted Assets	-	12,334	12,334	1,308,138
Internal Balances	(134,416)	134,416	-	-
Other Current Assets	16,185	7,413	23,598	7,135
Total Current Assets	<u>3,013,512</u>	<u>1,807,873</u>	<u>4,821,385</u>	<u>1,773,923</u>
Noncurrent Assets:				
Cash and Cash Equivalents	-	102,145	102,145	-
Due From Component Units	10,606	-	10,606	-
Investments	-	367,558	367,558	68,794
Loans, (Net of Allowances)	208,875	549,380	758,255	137,447
Restricted Assets	634,597	540,904	1,175,501	3,318,946
Capital Assets, (Net of Accumulated Depreciation)	9,545,745	2,856,957	12,402,702	227,926
Other Noncurrent Assets	47,658	207,572	255,230	32,068
Total Noncurrent Assets	<u>10,447,481</u>	<u>4,624,516</u>	<u>15,071,997</u>	<u>3,785,181</u>
Total Assets	<u>13,460,993</u>	<u>6,432,389</u>	<u>19,893,382</u>	<u>5,559,104</u>
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	599,666	192,507	792,173	74,983
Due to Component Units	22,179	-	22,179	-
Due to Primary Government	-	-	-	1,484
Due to Other Governments	125,106	-	125,106	-
Current Portion of Long-Term Obligations	1,328,704	171,112	1,499,816	167,885
Amount Held for Institutions	-	-	-	431,010
Deferred Revenue	10,325	142,314	152,639	36
Medicaid Liability	561,118	-	561,118	-
Liability for Escheated Property	77,106	-	77,106	-
Other Current Liabilities	200,255	100,935	301,190	-
Total Current Liabilities	<u>2,924,459</u>	<u>606,868</u>	<u>3,531,327</u>	<u>675,398</u>
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	16,042,966	2,165,604	18,208,570	3,565,108
Total Noncurrent Liabilities	<u>16,042,966</u>	<u>2,165,604</u>	<u>18,208,570</u>	<u>3,565,108</u>
Total Liabilities	<u>18,967,425</u>	<u>2,772,472</u>	<u>21,739,897</u>	<u>4,240,506</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,166,710	2,209,541	5,376,251	42,867
Restricted For:				
Statutory Budget Reserve Requirements	302,155	-	302,155	-
Transportation	102,077	-	102,077	-
Debt Service	605,123	68,094	673,217	-
Capital Projects	216,068	68,507	284,575	-
Unemployment Compensation	-	635,902	635,902	-
Clean Water Projects	-	449,055	449,055	-
Bond Indenture Requirements	-	-	-	684,009
Permanent Investments or Endowments:				
Expendable	4,471	-	4,471	77,929
Nonexpendable	88,820	11,499	100,319	174,761
Other Purposes	248,977	176,858	425,835	95,016
Unrestricted (Deficit)	<u>(10,240,833)</u>	<u>40,461</u>	<u>(10,200,372)</u>	<u>244,016</u>
Total Net Assets (Deficit)	<u>\$ (5,506,432)</u>	<u>\$ 3,659,917</u>	<u>\$ (1,846,515)</u>	<u>\$ 1,318,598</u>

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

Statement of Activities

For The Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services, Fees, Fines, and Forfeitures</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Legislative	\$ 72,566	\$ 2,367	\$ 21	\$ -
General Government	1,242,144	392,396	182,910	-
Regulation and Protection	593,129	486,918	107,298	-
Conservation and Development	468,936	105,631	75,963	-
Health and Hospitals	1,767,467	32,440	117,589	-
Transportation	1,162,242	108,937	-	537,754
Human Services	4,600,127	83,252	2,847,794	-
Education, Libraries, and Museums	3,035,681	11,244	396,196	-
Corrections	1,587,618	22,544	126,571	-
Judicial	522,879	98,713	4,946	-
Interest and Fiscal Charges	576,814	-	-	-
Total Governmental Activities	15,629,603	1,344,442	3,859,288	537,754
Business-Type Activities:				
University of Connecticut	1,254,402	677,819	149,998	8,243
State Universities	469,712	282,447	31,908	-
Bradley International Airport	59,338	51,157	-	1,096
Connecticut Lottery Corporation	656,716	907,866	-	-
Employment Security	811,483	778,797	-	-
Clean Water	24,759	16,518	1,991	-
Other	361,367	221,351	43,777	-
Total Business-Type Activities	3,637,777	2,935,955	227,674	9,339
Total Primary Government	\$ 19,267,380	\$ 4,280,397	\$ 4,086,962	\$ 547,093
Component Units				
Connecticut Housing Finance Authority (12-31-03)	\$ 207,982	\$ 182,868	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	4,184	4,253	-	-
Other	240,922	231,826	4,929	4,995
Total Component Units	\$ 453,088	\$ 418,947	\$ 4,929	\$ 4,995
General Revenues:				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel				
Other				
Casino Gaming Payments				
Tobacco Settlement				
Unrestricted Investment Earnings				
Contributions to Endowments				
Special Items:				
Statutory Payment from Component Units				
Transfer of Loans to Component Unit				
Statutory Payment to State				
Loss on Disposal of Assets				
Extraordinary Item-Loss on Early Retirement of Debt				
Transfers-Internal Activities				
Total General Revenues, Contributions, Special Items, Extraordinary Item, and Transfers				
Change in Net Assets				
Net Assets (Deficit)- Beginning (as restated)				
Net Assets (Deficit)- Ending				

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

Connecticut

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (70,178)	\$ -	\$ (70,178)	\$ -
(666,838)	-	(666,838)	-
1,087	-	1,087	-
(287,342)	-	(287,342)	-
(1,617,438)	-	(1,617,438)	-
(515,551)	-	(515,551)	-
(1,669,081)	-	(1,669,081)	-
(2,628,241)	-	(2,628,241)	-
(1,438,503)	-	(1,438,503)	-
(419,220)	-	(419,220)	-
(576,814)	-	(576,814)	-
<u>(9,888,119)</u>	<u>-</u>	<u>(9,888,119)</u>	<u>-</u>
-	(418,342)	(418,342)	-
-	(155,357)	(155,357)	-
-	(7,085)	(7,085)	-
-	251,150	251,150	-
-	(32,686)	(32,686)	-
-	(6,250)	(6,250)	-
-	(96,239)	(96,239)	-
-	<u>(464,809)</u>	<u>(464,809)</u>	<u>-</u>
<u>(9,888,119)</u>	<u>(464,809)</u>	<u>(10,352,928)</u>	<u>-</u>
-	-	-	(25,114)
-	-	-	69
-	-	-	828
-	-	-	<u>(24,217)</u>
4,409,277	-	4,409,277	-
473,505	-	473,505	-
3,061,404	-	3,061,404	-
1,274,150	-	1,274,150	-
470,010	-	470,010	-
70,412	-	70,412	-
402,733	-	402,733	-
116,578	-	116,578	-
17,321	90,486	107,807	25,137
-	-	-	41,339
17,500	-	17,500	-
(204,117)	-	(204,117)	-
-	-	-	(15,000)
-	(4,190)	(4,190)	-
-	(1,983)	(1,983)	-
<u>(417,062)</u>	<u>417,062</u>	<u>-</u>	<u>-</u>
<u>9,691,711</u>	<u>501,375</u>	<u>10,193,086</u>	<u>51,476</u>
(196,408)	36,566	(159,842)	27,259
<u>(5,310,024)</u>	<u>3,623,351</u>	<u>(1,686,673)</u>	<u>1,291,339</u>
<u>\$ (5,506,432)</u>	<u>\$ 3,659,917</u>	<u>\$ (1,846,515)</u>	<u>\$ 1,318,598</u>

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Governmental Fund Financial Statements

Major Funds

General Fund:

This fund is the State's general operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

Debt Service Fund:

This fund is used to account for the accumulation of resources for and the payment of, principal and interest on special tax obligation bonds of the Transportation fund.

Transportation Fund:

to account for motor vehicle taxes, receipts and transportation related federal revenues collected for the purposes of payment of debt service requirements and budgeted appropriations made to the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the state.

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type beginning on page 90.

Balance Sheet**Governmental Funds**

June 30, 2004

(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Cash Equivalents	\$ -	\$ -	\$ 124,036	\$ 903,117	\$ 1,027,153
Investments	-	-	-	106,120	106,120
Securities Lending Collateral	-	-	-	15,346	15,346
Receivables:					
Taxes, Net of Allowances	830,383	-	45,443	-	875,826
Accounts, Net of Allowances	186,653	-	10,922	50,329	247,904
Loans, Net of Allowances	-	-	-	208,875	208,875
From Other Governments	590,687	-	-	154,534	745,221
Interest	-	4,487	170	-	4,657
Other	-	-	-	70	70
Due from Other Funds	18,741	1,083	5,964	225,973	251,761
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	12,090	-	-	-	12,090
Inventories	37,478	-	13,069	-	50,547
Restricted Assets	-	634,596	-	-	634,596
Total Assets	<u>\$ 1,680,732</u>	<u>\$ 640,166</u>	<u>\$ 199,604</u>	<u>\$ 1,664,364</u>	<u>\$ 4,184,866</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	\$ 277,979	\$ -	\$ 22,484	\$ 173,856	\$ 474,319
Due to Other Funds	249,715	4,487	534	98,680	353,416
Due to Component Units	-	-	-	22,179	22,179
Due to Other Governments	122,053	-	-	3,053	125,106
Deferred Revenue	392,102	-	10,339	34,493	436,934
Medicaid Liability	561,118	-	-	-	561,118
Liability For Escheated Property	77,106	-	-	-	77,106
Securities Lending Obligation	-	-	-	15,346	15,346
Other Liabilities	180,712	-	-	2,709	183,421
Total Liabilities	<u>1,860,785</u>	<u>4,487</u>	<u>33,357</u>	<u>350,316</u>	<u>2,248,945</u>
Fund Balances					
Reserved For:					
Petty Cash	996	-	-	-	996
Inventories	37,478	-	13,069	-	50,547
Loans	16,790	-	-	208,875	225,665
Continuing Appropriations	212,862	-	34,166	-	247,028
Debt Service	-	635,679	-	-	635,679
Restricted Purposes	-	-	-	368,218	368,218
Statutory Surplus - FYE '05	150,300	-	-	-	150,300
Transfer to Budget Reserve Fund	302,155	-	-	-	302,155
Unreserved Reported In:					
General Fund	(900,634)	-	-	-	(900,634)
Transportation Fund	-	-	119,012	-	119,012
Special Revenue Funds	-	-	-	514,174	514,174
Capital Project Funds	-	-	-	222,781	222,781
Total Fund Balances	<u>(180,053)</u>	<u>635,679</u>	<u>166,247</u>	<u>1,314,048</u>	<u>1,935,921</u>
Total Liabilities and Fund Balances	<u>\$ 1,680,732</u>	<u>\$ 640,166</u>	<u>\$ 199,604</u>	<u>\$ 1,664,364</u>	<u>\$ 4,184,866</u>

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

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2004

(Expressed in Thousands)

Total Fund Balance - Governmental Funds	\$	1,935,921
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Net assets reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Buildings	2,756,263	
Equipment	1,063,910	
Infrastructure	11,290,148	
Other Capital Assets	1,251,685	
Accumulated Depreciation	(6,857,939)	9,504,067

Debt issue costs are recorded as expenditures in the funds. However, these costs are deferred (reported as other assets) and amortized over the life of the bonds in the Statement of Net Assets.		45,890
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Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		426,738
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		29,816
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 16).

Net Pension Obligation	(3,440,354)	
Worker's Compensation	(276,681)	
Capital Leases	(54,168)	
Compensated Absences	(365,559)	
Claims and Judgments	(13,183)	(4,149,945)

Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement (Note 16).

Economic Recovery Note	(273,215)	
Bonds Payable	(12,760,560)	
Unamortized Premiums	(457,490)	
Less: Deferred Loss on Refundings	276,124	
Accrued Interest Payable	(83,778)	(13,298,919)

Net Assets of Governmental Activities	\$	(5,506,432)
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The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 9,198,784	\$ -	\$ 535,469	\$ 25,413	\$ 9,759,666
Assessments	-	-	-	25,827	25,827
Licenses, Permits and Fees	153,737	-	310,811	50,892	515,440
Tobacco Settlement	-	-	-	116,578	116,578
Intergovernmental	2,827,287	-	-	1,559,316	4,386,603
Charges for Services	39,714	-	55,054	3,440	98,208
Fines, Forfeits and Rents	107,843	-	27,138	3,638	138,619
Casino Gaming Payments	402,733	-	-	-	402,733
Investment Earnings	233	12,304	2,534	11,432	26,503
Miscellaneous	135,523	-	5,786	405,932	547,241
Total Revenues	<u>12,865,854</u>	<u>12,304</u>	<u>936,792</u>	<u>2,202,468</u>	<u>16,017,418</u>
Expenditures					
Current:					
Legislative	65,721	-	-	2,138	67,859
General Government	784,356	-	1,582	422,210	1,208,148
Regulation and Protection	276,359	-	68,935	218,507	563,801
Conservation and Development	130,394	-	-	324,084	454,478
Health and Hospitals	1,447,129	-	-	281,638	1,728,767
Transportation	6,709	-	437,683	82,897	527,289
Human Services	4,197,093	-	-	325,610	4,522,703
Education, Libraries, and Museums	2,104,304	-	-	859,791	2,964,095
Corrections	1,499,870	-	-	39,133	1,539,003
Judicial	485,123	-	-	26,423	511,546
Capital Projects	-	-	-	779,276	779,276
Debt Service:					
Principal Retirement	724,973	236,300	4,035	5	965,313
Interest and Fiscal Charges	398,406	179,030	13,125	56,601	647,162
Total Expenditures	<u>12,120,437</u>	<u>415,330</u>	<u>525,360</u>	<u>3,418,313</u>	<u>16,479,440</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>745,417</u>	<u>(403,026)</u>	<u>411,432</u>	<u>(1,215,845)</u>	<u>(462,022)</u>
Other Financing Sources (Uses)					
Bonds/Notes Issued	97,700	-	-	1,297,845	1,395,545
Premiums on Bonds Issued	-	200,328	-	68,730	269,058
Transfers In	607,456	428,328	26,906	617,446	1,680,136
Transfers Out	(1,241,981)	(26,605)	(440,789)	(389,528)	(2,098,903)
Refunding Bonds Issued	-	1,961,040	-	-	1,961,040
Payment to Refunded Bond Escrow Agent	-	(2,146,469)	-	-	(2,146,469)
Capital Lease Obligations	-	-	406	-	406
Total Other Financing Sources (Uses)	<u>(536,825)</u>	<u>416,622</u>	<u>(413,477)</u>	<u>1,594,493</u>	<u>1,060,813</u>
Special Item-Statutory Payment from Component Units	17,500	-	-	-	17,500
Special Item-Transfer of Loans to Component Unit	-	-	-	(204,117)	(204,117)
Net Change in Fund Balances	<u>226,092</u>	<u>13,596</u>	<u>(2,045)</u>	<u>174,531</u>	<u>412,174</u>
Fund Balances - Beginning (as restated)	(401,499)	622,083	168,303	1,139,517	1,528,404
Changes in Reserves for Inventories	(4,646)	-	(11)	-	(4,657)
Fund Balances - Ending	<u>\$ (180,053)</u>	<u>\$ 635,679</u>	<u>\$ 166,247</u>	<u>\$ 1,314,048</u>	<u>\$ 1,935,921</u>

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

June 30, 2004

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		\$ 412,174
Amounts reported for governmental activities in the Statement of Activities are different because:		
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long term-liabilities in the Statement of Net Assets. Bond proceeds were received this year from:		
Bonds Issued	(1,395,545)	
Refunding Bonds Issued	(1,961,040)	
Premium on Bonds Issued	<u>(269,058)</u>	(3,625,643)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Long-term debt repayments this year consisted of:		
Principal Retirement	965,313	
Payments to Refunded Bond Escrow Agent (\$25,100 reported in debt service)	2,171,568	
Capital Lease Payments	<u>14,227</u>	3,151,108
Capital outlays are reported as expenditures in the governmental funds. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	677,059	
Depreciation Expense	<u>(641,993)</u>	35,066
Some capital assets acquired this year were financed with capital leases. The amount financed by leases is reported in the governmental funds as a source of financing, but lease obligations are reported as long-term liabilities on the Statement of Net Assets.		(406)
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which consumption exceeded purchases of inventories.		(4,657)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Accrued Interest	5,510	
Decrease in Interest Accreted on Capital Appreciation Debt	8,835	
Amortization of Bond Premium	26,234	
Amortization of Loss on Debt Refundings	(16,865)	
Increase in Compensated Absences Liability	(23,210)	
Increase in Workers Compensation Liability	(11,036)	
Increase in Claims and Judgments Liability	(5,571)	
Increase in Net Pension Obligation	<u>(183,757)</u>	(199,860)
Because some revenues will not be collected for several months after the state's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.		17,853
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with the governmental activities.		(3,577)
Debt issue costs are recorded as expenditures in the governmental funds. However, these costs are amortized over the life of the bonds in the Statement of Activities. In the current year, these amounts are:		
Debt Issue Costs Payments	24,356	
Amortization of Debt Issue Costs	<u>(2,822)</u>	21,534
Change in Net Assets of Governmental Activities		<u>\$ (196,408)</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual - Non-GAAP Budgetary Basis

General and Transportation Funds

For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	General Fund			Variance with Final Budget positive (negative)
	Budget		Actual	
	Original	Final		
Revenues				
Budgeted:				
Taxes, Net of Refunds	\$ 8,624,000	\$ 9,121,600	\$ 9,182,555	\$ 60,955
Operating Transfers In	380,600	401,300	401,277	(23)
Casino Gaming Payments	410,000	402,700	402,733	33
Licenses, Permits, and Fees	149,500	149,800	154,593	4,793
Other	238,800	268,900	271,744	2,844
Federal Grants	2,527,000	2,539,800	2,564,105	24,305
Transfer to the Resources of the General Fund	207,700	-	232,305	232,305
Refunds of Payments	(500)	(600)	(574)	26
Operating Transfers Out	(85,000)	(3,000)	(85,000)	(82,000)
Transfer out- Transportation Strategy Board	-	-	-	-
Total Revenues	<u>12,452,100</u>	<u>12,880,500</u>	<u>13,123,738</u>	<u>243,238</u>
Expenditures				
Budgeted:				
Legislative	62,033	66,284	57,221	9,063
General Government	436,640	444,573	394,193	50,380
Regulation and Protection	217,255	217,790	198,945	18,845
Conservation and Development	72,474	99,486	81,580	17,906
Health and Hospitals	1,259,016	1,377,476	1,206,855	170,621
Transportation	8,953	7,613	5,931	1,682
Human Services	3,779,660	3,875,193	3,776,416	98,777
Education, Libraries, and Museums	2,834,745	2,860,859	2,789,367	71,492
Corrections	1,172,902	1,200,187	1,165,656	34,531
Judicial	390,253	390,824	368,327	22,497
Non Functional	2,564,981	2,615,747	2,502,332	113,415
Total Expenditures	<u>12,798,912</u>	<u>13,156,032</u>	<u>12,546,823</u>	<u>609,209</u>
Appropriations Lapsed	260,311	285,300	-	(285,300)
Excess (Deficiency) of Revenues Over Expenditures	<u>(86,501)</u>	<u>9,768</u>	<u>576,915</u>	<u>567,147</u>
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	86,647	86,647	86,647	-
Appropriations Continued to Fiscal Year 2004-2005	-	-	(212,862)	(212,862)
Miscellaneous Adjustments	-	105,881	1,755	(104,126)
Total Other Financing Sources (Uses)	<u>86,647</u>	<u>192,528</u>	<u>(124,460)</u>	<u>(316,988)</u>
Net Change in Fund Balance	<u>\$ 146</u>	<u>\$ 202,296</u>	<u>452,455</u>	<u>\$ 250,159</u>
Budgetary Fund Balances (deficit) - July 1			792,654	
Changes in Reserves			(578,796)	
Budgetary Fund Balances - June 30			<u>\$ 666,313</u>	

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

Connecticut

Transportation Fund

<u>Budget</u>		<u>Actual</u>	Variance with Final Budget positive (negative)
<u>Original</u>	<u>Final</u>		
\$ 535,400	\$ 538,500	\$ 535,298	\$ (3,202)
-	-	-	-
-	-	-	-
353,400	370,900	374,233	3,333
30,700	27,800	28,254	454
3,300	-	-	-
-	-	-	-
(2,800)	(2,500)	(2,507)	(7)
(8,500)	(8,500)	(8,500)	-
(10,000)	(23,000)	(22,850)	150
<u>901,500</u>	<u>903,200</u>	<u>903,928</u>	<u>728</u>
-	-	-	-
2,250	2,250	1,589	661
55,932	56,406	48,690	7,716
-	-	-	-
-	-	-	-
361,462	361,613	340,996	20,617
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>519,852</u>	<u>519,226</u>	<u>502,032</u>	<u>17,194</u>
939,496	939,495	893,307	46,188
<u>22,064</u>	<u>10,675</u>	<u>-</u>	<u>(10,675)</u>
<u>(15,932)</u>	<u>(25,620)</u>	<u>10,621</u>	<u>36,241</u>
19,866	19,866	19,866	-
-	-	(34,166)	(34,166)
-	-	4	4
<u>19,866</u>	<u>19,866</u>	<u>(14,296)</u>	<u>(34,162)</u>
<u>\$ 3,934</u>	<u>\$ (5,754)</u>	<u>(3,675)</u>	<u>\$ 2,079</u>
		356,314	
		(189,200)	
		<u>\$ 163,439</u>	

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Proprietary Fund Financial Statements

Major Funds

UConn:

This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

State Universities:

This fund is used to account for the operations of the State University System which consist of four universities: Central, Eastern, Southern, and Western.

Bradley International Airport:

The airport is owned by the State of Connecticut and is operated by the Bureau of Aeronautics of the State of Connecticut, Department of Transportation. In 1982, the State issued the Airport, 1982 series, Revenue Bonds in the aggregate principal amount of \$100,000,000. The bonds were refunded in 1992 with the issuance of \$94,065,000 in refunding bonds. The refunding bonds are secured by and payable solely from the gross operating revenues generated by the State from the operations of the Airport and other receipts, funds or monies pledged in the Indenture.

The Connecticut Lottery Corporation:

The Connecticut Lottery Corporation, a public instrumentality and political subdivision of the State of Connecticut was created on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery.

Employment Security:

to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Clean Water:

to account for resources used to provide loans to municipalities to finance waste water treatment projects.

Nonmajor Funds

Nonmajor proprietary funds are presented, by fund type beginning on page 112.

Statement of Net Assets

Proprietary Funds

June 30, 2004

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 247,584	\$ 69,179	\$ 19,637	\$ 23,802
Deposits with U.S. Treasury	-	-	-	-
Investments	587	122,849	-	47,720
Receivables:				
Accounts, Net of Allowances	91,409	96,211	4,927	9,799
Loans, Net of Allowances	2,229	1,425	-	-
Interest	-	-	-	14,263
From Other Governments	-	1,874	1,163	-
Due from Other Funds	50,204	36,683	-	-
Inventories	7,641	-	-	-
Restricted Assets	157	-	12,177	-
Other Current Assets	2,296	1,195	690	1,977
Total Current Assets	<u>402,107</u>	<u>329,416</u>	<u>38,594</u>	<u>97,561</u>
Noncurrent Assets:				
Cash and Cash Equivalents	1,450	100,695	-	-
Investments	11,514	-	-	334,568
Loans, Net of Allowances	10,083	10,243	-	-
Restricted Assets	25,925	-	129,105	-
Capital Assets, Net of Accumulated Depreciation	1,624,428	595,865	312,335	2,484
Other Noncurrent Assets	9,498	2,600	6,236	4,713
Total Noncurrent Assets	<u>1,682,898</u>	<u>709,403</u>	<u>447,676</u>	<u>341,765</u>
Total Assets	<u>2,085,005</u>	<u>1,038,819</u>	<u>486,270</u>	<u>439,326</u>
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	95,653	33,846	9,075	11,785
Due to Other Funds	8,908	1,636	2,071	-
Current Portion of Long-Term Obligations	45,971	16,372	8,780	50,661
Deferred Revenue	36,732	101,371	656	438
Other Current Liabilities	23,707	18,505	3,397	38,671
Total Current Liabilities	<u>210,971</u>	<u>171,730</u>	<u>23,979</u>	<u>101,555</u>
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	287,359	356,468	242,514	334,568
Total Noncurrent Liabilities	<u>287,359</u>	<u>356,468</u>	<u>242,514</u>	<u>334,568</u>
Total Liabilities	<u>498,330</u>	<u>528,198</u>	<u>266,493</u>	<u>436,123</u>
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,372,885	462,358	103,800	2,484
Restricted For:				
Debt Service	10,794	-	35,241	-
Unemployment Compensation	-	-	-	-
Clean Water Projects	-	-	-	-
Capital Projects	21,743	-	46,764	-
Nonexpendable Purposes	10,962	517	-	-
Other Purposes	19,648	27,340	22,868	3,203
Unrestricted	150,643	20,406	11,104	(2,484)
Total Net Assets	<u>\$ 1,586,675</u>	<u>\$ 510,621</u>	<u>\$ 219,777</u>	<u>\$ 3,203</u>

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

Connecticut

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
\$ -	\$ 2,966	\$ 73,768	\$ 436,936	\$ 14,235
477,197	-	-	477,197	-
-	-	-	171,156	-
155,490	-	26,317	384,153	10,581
-	136,926	3,773	144,353	-
-	6,705	436	21,404	-
6,428	409	-	9,874	-
1,474	-	63,357	151,718	5,874
-	-	996	8,637	4,627
-	-	-	12,334	-
-	-	1,255	7,413	839
<u>640,589</u>	<u>147,006</u>	<u>169,902</u>	<u>1,825,175</u>	<u>36,156</u>
-	-	-	102,145	-
-	-	21,476	367,558	-
-	479,120	49,934	549,380	-
-	307,315	78,559	540,904	-
-	-	321,845	2,856,957	41,678
-	163,080	21,445	207,572	1,768
-	949,515	493,259	4,624,516	43,446
<u>640,589</u>	<u>1,096,521</u>	<u>663,161</u>	<u>6,449,691</u>	<u>79,602</u>
-	6,432	35,716	192,507	36,887
4,687	-	-	17,302	-
-	38,207	11,121	171,112	212
-	-	3,117	142,314	129
-	2,589	14,066	100,935	1,489
<u>4,687</u>	<u>47,228</u>	<u>64,020</u>	<u>624,170</u>	<u>38,717</u>
-	543,339	401,356	2,165,604	11,069
-	543,339	401,356	2,165,604	11,069
<u>4,687</u>	<u>590,567</u>	<u>465,376</u>	<u>2,789,774</u>	<u>49,786</u>
-	-	268,014	2,209,541	17,783
-	-	22,059	68,094	-
635,902	-	-	635,902	-
-	449,055	-	449,055	-
-	-	-	68,507	-
-	-	20	11,499	-
-	-	103,799	176,858	-
-	56,899	(196,107)	40,461	12,033
<u>\$ 635,902</u>	<u>\$ 505,954</u>	<u>\$ 197,785</u>	<u>\$ 3,659,917</u>	<u>\$ 29,816</u>

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For The Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Operating Revenues				
Charges for Sales and Services	\$ 585,961	\$ 161,814	\$ 37,587	\$ 907,656
Assessments	-	-	-	-
Intergovernmental	160,962	30,545	-	-
Private Gifts and Grants	31,809	1,363	-	-
Interest on Loans	-	-	-	-
Other	49,085	73,282	-	192
Total Operating Revenues	<u>827,817</u>	<u>267,004</u>	<u>37,587</u>	<u>907,848</u>
Operating Expenses				
Cost of Sales and Services	157,333	-	-	611,844
Salaries, Wages and Administrative	798,488	287,956	29,464	11,881
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	89,684	37,549	16,477	458
Other	188,337	144,207	-	3,126
Total Operating Expenses	<u>1,233,842</u>	<u>469,712</u>	<u>45,941</u>	<u>627,309</u>
Operating Income (Loss)	<u>(406,025)</u>	<u>(202,708)</u>	<u>(8,354)</u>	<u>280,539</u>
Nonoperating Revenue (Expenses)				
Interest and Investment Income	4,513	5,023	3,705	29,758
Interest and Fiscal Charges	(10,198)	-	(13,397)	(29,407)
Other	(10,362)	47,351	13,570	18
Total Nonoperating Revenues (Expenses)	<u>(16,047)</u>	<u>52,374</u>	<u>3,878</u>	<u>369</u>
Income (Loss) Before Capital Contributions, Grants, Special Item, Extraordinary Item and Transfers	<u>(422,072)</u>	<u>(150,334)</u>	<u>(4,476)</u>	<u>280,908</u>
Capital Contributions	8,243	-	1,096	-
Federal Grants	-	-	-	-
Special Item-Loss on Disposal of Capital Assets	(4,190)	-	-	-
Extraordinary Item-Loss on Early Retirement of Debt	-	-	-	-
Transfers In	479,467	206,705	8,695	-
Transfers Out	-	-	-	(280,763)
Change in Net Assets	61,448	56,371	5,315	145
Total Net Assets - Beginning (as restated)	<u>1,525,227</u>	<u>454,250</u>	<u>214,462</u>	<u>3,058</u>
Total Net Assets - Ending	<u>\$ 1,586,675</u>	<u>\$ 510,621</u>	<u>\$ 219,777</u>	<u>\$ 3,203</u>

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

Connecticut

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Totals	Internal Service Funds
\$ -	\$ -	\$ 83,199	\$ 1,776,217	\$ 86,811
628,026	-	93,965	721,991	-
150,771	-	36,944	379,222	-
-	-	935	34,107	-
-	12,268	1,216	13,484	-
-	-	41,799	164,358	1,026
<u>778,797</u>	<u>12,268</u>	<u>258,058</u>	<u>3,089,379</u>	<u>87,837</u>
-	-	7,077	776,254	36,042
-	604	279,701	1,408,094	33,835
811,483	-	-	811,483	-
-	-	36,496	36,496	-
-	-	14,721	158,889	20,248
-	-	12,610	348,280	1,300
<u>811,483</u>	<u>604</u>	<u>350,605</u>	<u>3,539,496</u>	<u>91,425</u>
<u>(32,686)</u>	<u>11,664</u>	<u>(92,547)</u>	<u>(450,117)</u>	<u>(3,588)</u>
25,451	18,829	3,207	90,486	62
-	(24,155)	(10,762)	(87,919)	(51)
-	4,250	1,172	55,999	-
<u>25,451</u>	<u>(1,076)</u>	<u>(6,383)</u>	<u>58,566</u>	<u>11</u>
<u>(7,235)</u>	<u>10,588</u>	<u>(98,930)</u>	<u>(391,551)</u>	<u>(3,577)</u>
-	-	-	9,339	-
-	1,991	5,898	7,889	-
-	-	-	(4,190)	-
-	-	(1,983)	(1,983)	-
-	10,282	208,384	913,533	-
<u>(3,262)</u>	<u>(659)</u>	<u>(211,787)</u>	<u>(496,471)</u>	<u>-</u>
<u>(10,497)</u>	<u>22,202</u>	<u>(98,418)</u>	<u>36,566</u>	<u>(3,577)</u>
<u>646,399</u>	<u>483,752</u>	<u>296,203</u>	<u>3,623,351</u>	<u>33,393</u>
<u>\$ 635,902</u>	<u>\$ 505,954</u>	<u>\$ 197,785</u>	<u>\$ 3,659,917</u>	<u>\$ 29,816</u>

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	Uconn	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities				
Receipts from Customers	\$ 597,353	\$ 256,882	\$ 37,255	\$ 907,015
Payments to Suppliers	(341,499)	(32,796)	(18,316)	(20,917)
Payments to Employees	(741,620)	(278,039)	(10,855)	(10,090)
Other Receipts (Payments)	247,666	(107,232)	-	(595,347)
Net Cash Provided by (Used in) Operating Activities	(238,100)	(161,185)	8,084	280,661
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(51,090)
Interest on Bonds and Annuities Payable	-	-	-	(31,207)
Transfers In	327,745	189,417	8,695	-
Transfers Out	-	-	-	(280,763)
Other Receipts (Payments)	7,987	47,524	-	-
Net Cash Flows from Noncapital Financing Activities	335,732	236,941	8,695	(363,060)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(212,734)	(124,022)	(28,481)	(1,549)
Proceeds from Capital Debt	123,410	117,731	-	-
Principal Paid on Capital Debt	(51,795)	(68,312)	(6,140)	-
Interest Paid on Capital Debt	(35,293)	-	(13,783)	-
Transfer In	71,317	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	15,289	2,840	-
Other Receipts (Payments)	34,112	231	11,051	-
Net Cash Flows from Capital and Related Financing Activities	(70,983)	(59,083)	(34,513)	(1,549)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	62	70,849	50,559
Purchase of Investment Securities	(27,563)	(23,778)	-	-
Interest on Investments	4,249	4,987	4,658	31,557
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	-	40	-	-
Net Cash Flows from Investing Activities	(23,314)	(18,689)	75,507	82,116
Net Increase (Decrease) in Cash and Cash Equivalents	3,335	(2,016)	57,773	(1,832)
Cash and Cash Equivalents - Beginning of Year	271,127	171,890	85,473	25,634
Cash and Cash Equivalents - End of Year	\$ 274,462	\$ 169,874	\$ 143,246	\$ 23,802
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	\$ (406,025)	\$ (202,708)	\$ (8,354)	\$ 280,539
Adjustments not Affecting Cash:				
Depreciation and Amortization	89,684	37,549	16,476	458
Others	47,295	300	-	51
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	8,625	(14,266)	(653)	(285)
(Increase) Decrease in Due from Other Funds	1,515	(2,999)	-	-
(Increase) Decrease in Inventories and Other Assets	547	13,574	-	(19)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	19,501	7,311	615	(83)
Increase (Decrease) in Due to Other Funds	758	54	-	-
Total Adjustments	167,925	41,523	16,438	122
Net Cash Provided by (Used In) Operating Activities	\$ (238,100)	\$ (161,185)	\$ 8,084	\$ 280,661
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	\$ 247,584	\$ 69,179	\$ 19,637	
Cash and Cash Equivalents - Noncurrent	1,450	100,695	-	
Cash and Cash Equivalents - Restricted	25,428	-	123,609	
	\$ 274,462	\$ 169,874	\$ 143,246	

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

Connecticut

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other	Totals	Internal Service Funds
\$ 761,758	\$ 50,278	\$ 182,525	\$ 2,793,066	\$ 74,114
-	-	(59,302)	(472,830)	(34,915)
-	(602)	(215,791)	(1,256,997)	(33,818)
(807,963)	(48,665)	(1,330)	(1,312,871)	-
(46,205)	1,011	(93,898)	(249,632)	5,381
-	314,609	245,982	560,591	-
-	(36,723)	(58,207)	(146,020)	-
-	(22,717)	(8,414)	(62,338)	-
-	9,623	168,885	704,365	-
(3,262)	-	(211,787)	(495,812)	-
-	(271,441)	(3,997)	(219,927)	-
(3,262)	(6,649)	132,462	340,859	-
-	-	(7,101)	(373,887)	(1,321)
-	-	-	241,141	-
-	-	-	(126,247)	-
-	-	(3,582)	(52,658)	-
-	-	40,425	111,742	-
-	1,714	5,011	6,725	-
-	-	-	18,129	-
-	-	(6,461)	38,933	-
-	1,714	28,292	(136,122)	(1,321)
-	-	-	121,470	-
-	-	(40,095)	(91,436)	-
25,451	19,130	3,195	93,227	62
-	-	2,788	2,788	-
24,016	(12,684)	(12,839)	(1,467)	-
49,467	6,446	(46,951)	124,582	62
-	2,522	19,905	79,687	4,122
-	444	62,641	617,209	10,113
\$ -	\$ 2,966	\$ 82,546	\$ 696,896	\$ 14,235
\$ (32,686)	\$ 11,664	\$ (92,547)	\$ (450,117)	\$ (3,588)
-	-	14,729	158,896	20,248
-	-	(23,492)	24,154	-
(15,667)	(10,653)	(17,743)	(50,642)	2,866
3,252	-	-	1,768	(1,093)
-	-	15,266	29,368	95
-	-	9,889	37,233	1,687
(1,104)	-	-	(292)	(14,834)
(13,519)	(10,653)	(1,351)	200,485	8,969
\$ (46,205)	\$ 1,011	\$ (93,898)	\$ (249,632)	\$ 5,381

\$ -
-
8,778
\$ 8,778

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Fiduciary Fund Financial Statements

Investment Trust Fund

External Investment Pool:

to account for the portion of the Short-Term Investment Fund that belongs to participants that are not part of the State's financial reporting entity.

Private Purpose Trust Fund

Escheat Securities:

to account for securities that are held by the State Treasurer for individuals under escheat laws of the State.

Individual fund descriptions and financial statements begin on the following pages:

Pension (and Other Employee Benefit) Trust Funds, page 120

Agency Funds, page 126

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private- Purpose Trust Fund Escheat Securities	Agency Funds	Total
Assets					
Cash and Cash Equivalents	\$ 6,088	\$ -	\$ -	\$ 163,141	\$ 169,229
Receivables:					
Accounts, Net of Allowances	12,475	-	-	2,478	14,953
From Other Funds	8,108	-	-	4,675	12,783
Interest	382	871	-	63	1,316
Investments	20,099,983	791,474	-	-	20,891,457
Inventories	-	-	-	440	440
Securities Lending Collateral	2,107,047	-	-	-	2,107,047
Other Assets	5,107	6	104,272	525,322	634,707
Total Assets	<u>22,239,190</u>	<u>792,351</u>	<u>104,272</u>	<u>\$ 696,119</u>	<u>23,831,932</u>
Liabilities					
Accounts Payable and Accrued Liabilities	-	758	-	1,523	2,281
Securities Lending Obligation	2,107,047	-	-	-	2,107,047
Due to Other Funds	51,418	-	-	-	51,418
Other Liabilities	-	-	-	2,751	2,751
Funds Held for Others	-	90	-	691,845	691,935
Total Liabilities	<u>2,158,465</u>	<u>848</u>	<u>-</u>	<u>\$ 696,119</u>	<u>2,855,432</u>
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	20,047,047	-	-		20,047,047
Other Employee Benefits	33,678	-	-		33,678
Individuals, Organizations, and Other Governments	-	791,503	104,272		895,775
Total Net Assets	<u>\$ 20,080,725</u>	<u>\$ 791,503</u>	<u>\$ 104,272</u>		<u>\$ 20,976,500</u>

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

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	<u>Pension & Other Employee Benefit Trust Funds</u>	<u>Investment Trust Fund External Investment Pool</u>	<u>Private- Purpose Trust Fund Escheat Securities</u>	<u>Total</u>
Additions				
Contributions:				
Plan Members	\$ 308,193	\$ -	\$ -	\$ 308,193
State	679,485	-	-	679,485
Municipalities	17,290	-	-	17,290
Total Contributions	1,004,968	-	-	1,004,968
Investment Income	2,777,351	14,854	-	2,792,205
Less: Investment Expense	(65,717)	(368)	-	(66,085)
Net Investment Income	2,711,634	14,486	-	2,726,120
Escheat Securities Received	-	-	69,718	69,718
Transfers In	1,705	-	-	1,705
Other	53	-	9,027	9,080
Total Additions	3,718,360	14,486	78,745	3,811,591
Deductions				
Administrative Expense	1,608	-	-	1,608
Benefit Payments and Refunds	1,880,051	-	-	1,880,051
Escheat Securities Returned or Sold	-	-	9,041	9,041
Pool's Share Transactions	-	257,544	-	257,544
Distributions to Pool Participants	-	14,486	-	14,486
Other	4,066	-	-	4,066
Total Deductions	1,885,725	272,030	9,041	2,166,796
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,832,635	-	-	1,832,635
Individuals, Organizations, and Other Governments	-	(257,544)	69,704	(187,840)
Net Assets - Beginning	18,248,090	1,049,047	34,568	19,331,705
Net Assets - Ending	\$ 20,080,725	\$ 791,503	\$ 104,272	\$ 20,976,500

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

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Component Unit Financial Statements

Major Component Units

Connecticut Housing Finance Authority:

The Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families throughout the State.

Connecticut Health and Educational Facilities Authority:

The Connecticut Health and Educational Facilities Authority is a public instrumentality and political subdivision of the State. The Authority was created to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Nonmajor

The nonmajor component units are presented beginning on page 130.

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Statement of Net Assets Component Units

June 30, 2004

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-03)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 20,045	\$ 119,493	\$ 139,538
Investments	-	159	233,148	233,307
Receivables:				
Accounts, Net of Allowances	-	345	32,361	32,706
Loans, Net of Allowances	-	-	29,878	29,878
Other	-	-	1,042	1,042
Due from Primary Government	-	-	22,179	22,179
Restricted Assets	812,442	433,266	62,430	1,308,138
Other Current Assets	-	139	6,996	7,135
Total Current Assets	<u>812,442</u>	<u>453,954</u>	<u>507,527</u>	<u>1,773,923</u>
Noncurrent Assets:				
Investments	-	-	68,794	68,794
Loans, Net of Allowances	-	-	137,447	137,447
Restricted Assets	3,222,000	-	96,946	3,318,946
Capital Assets, Net of Accumulated Depreciation	3,438	187	224,301	227,926
Other Noncurrent Assets	-	-	32,068	32,068
Total Noncurrent Assets	<u>3,225,438</u>	<u>187</u>	<u>559,556</u>	<u>3,785,181</u>
Total Assets	<u>4,037,880</u>	<u>454,141</u>	<u>1,067,083</u>	<u>5,559,104</u>
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	35,742	592	38,649	74,983
Current Portion of Long-Term Obligations	137,335	-	30,550	167,885
Amount Held for Institutions	-	431,010	-	431,010
Due to Primary Government	-	-	1,484	1,484
Deferred Revenue	-	-	36	36
Total Current Liabilities	<u>173,077</u>	<u>431,602</u>	<u>70,719</u>	<u>675,398</u>
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,177,356	2,250	385,502	3,565,108
Total Noncurrent Liabilities	<u>3,177,356</u>	<u>2,250</u>	<u>385,502</u>	<u>3,565,108</u>
Total Liabilities	<u>3,350,433</u>	<u>433,852</u>	<u>456,221</u>	<u>4,240,506</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,438	187	39,242	42,867
Restricted:				
Bond Indentures	684,009	-	-	684,009
Expendable Endowments	-	-	77,929	77,929
Nonexpendable Endowments	-	-	174,761	174,761
Other Purposes	-	-	95,016	95,016
Unrestricted	<u>-</u>	<u>20,102</u>	<u>223,914</u>	<u>244,016</u>
Total Net Assets	<u>\$ 687,447</u>	<u>\$ 20,289</u>	<u>\$ 610,862</u>	<u>\$ 1,318,598</u>

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

Statement of Activities

Component Units

For The Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Connecticut Housing Finance Authority (12/31/03)	\$ 207,982	\$ 182,868	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	4,184	4,253	-	-
Other Component Units	<u>240,922</u>	<u>231,826</u>	<u>4,929</u>	<u>4,995</u>
Total Component Units	<u>\$ 453,088</u>	<u>\$ 418,947</u>	<u>\$ 4,929</u>	<u>\$ 4,995</u>

General Revenues:

Investment Income (Loss)

Contributions to Endowments

Special Item:

Statutory Payment to State

Total General Revenues,

Contributions, and Special Item

Change in Net Assets

Net Assets - Beginning (as restated)

Net Assets - Ending

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

Connecticut

**Net (Expense) Revenue and
Changes in Net Assets**

Connecticut Housing Finance Authority (12-31-03)	Connecticut Health & Educational Facilities Authority	Other Component Units	Totals
\$ (25,114)	\$ -	\$ -	\$ (25,114)
-	69	-	69
-	-	828	828
<u>(25,114)</u>	<u>69</u>	<u>828</u>	<u>(24,217)</u>
25,342	245	(450)	25,137
-	-	41,339	41,339
-	-	(15,000)	(15,000)
<u>25,342</u>	<u>245</u>	<u>25,889</u>	<u>51,476</u>
228	314	26,717	27,259
<u>687,219</u>	<u>19,975</u>	<u>584,145</u>	<u>1,291,339</u>
<u>\$ 687,447</u>	<u>\$ 20,289</u>	<u>\$ 610,862</u>	<u>\$ 1,318,598</u>

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Notes to the Financial Statements

June 30, 2004

Note 1 Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements of the State of Connecticut have been prepared in conformity with generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board, except for the financial statements of the University of Connecticut Foundation, Incorporated (a component unit). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

b. Reporting Entity

For financial reporting purposes, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, departments, bureaus, commissions, and component units that are considered an integral part of the State's legal entity. Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) the State is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. The State also includes a nongovernmental nonprofit corporation as a component unit because it would be misleading to exclude the corporation from the reporting entity. Component units are reported in the financial statements in a separate column (discrete presentation), or as part of the primary government (blending presentation).

Discretely Presented Component Units

Discretely presented component units include legally separate organizations for which the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's debt or provides funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). In addition, a nongovernmental nonprofit corporation is included as a discretely presented component unit because of the nature and significance of its relationship with the State are such that it would be misleading to exclude the corporation from the State's reporting entity. The following organizations are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the primary government:

Connecticut Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond, Umbrella, and Insurance programs as well as other economic development programs.

Connecticut Housing Finance Authority

The Authority is a public instrumentality and political subdivision of the State. It was created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development, and construction of housing for low and moderate-income families and persons throughout the State. The Authority's fiscal year is for the period ending on December 31, 2003.

Connecticut Resources Recovery Authority

The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority

The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated

The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut; to attract and service large conventions, tradeshows, exhibitions, conferences, and local consumer shows, exhibitions and events; to encourage the diversification of the state economy; to strengthen Hartford's role as the region's major business and industry employment center and seat of government; to encourage residential housing development in downtown Hartford; and to construct, operate, maintain and market a convention center project in Hartford.

University of Connecticut Foundation, Incorporated

The University of Connecticut Foundation, Incorporated is a nongovernmental nonprofit corporation created exclusively to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut, a major Enterprise fund.

Financial statements for the major component units are included in the accompanying financial statements after the fund

financial statements. Audited financial statements issued separately by each component unit can be obtained from their respective administrative offices.

Blended Component Units

Connecticut Lottery Corporation

The Connecticut Lottery Corporation is a legally separate organization for which the State appoints a voting majority of the Corporation's governing board and which provides a significant amount of revenues to the State. The corporation is reported as part of the primary government's business-type activities in the government-wide financial statements and as a major Enterprise fund in the fund financial statements.

c. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between the governmental and business-type activities of the primary government by using separate columns and rows. Governmental activities are generally financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.
2. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated to the various functions or segments. Program revenues include a) fees, fines, and charges paid by the recipients of goods or services offered by the functions or segments and b) grants and contributions that are restricted to meeting the operational or capital needs of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund - This is the State's primary operating fund. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State (e.g., health, social assistance, education, etc.).

Debt Service - This fund is used to account for the resources accumulated and payments made for principal and interest on special tax obligation bonds of the Transportation fund.

Transportation - This fund is used to account for motor vehicle taxes, receipts, and transportation related federal revenues collected for the purpose of payment of transportation related bonds and budgeted appropriations of the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State.

The State reports the following major enterprise funds:

University of Connecticut - This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

State Universities - This fund is used to account for the operations of the State University System which consists of four universities: Central, Eastern, Southern, and Western.

Bradley International Airport - This fund is used to account for the financial activities of the Bradley International Airport, which is owned and operated by the State.

Connecticut Lottery Corporation - This fund is used to account for the financial activities of the State's lottery. The Corporation was created in 1996 for the purpose of generating revenues for the State's General Fund.

Employment Security - This fund is used to account for unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Clean Water - This fund is used to account for resources used to provide loans to municipalities to finance waste water treatment facilities.

In addition, the State reports the following fund types:

Internal Service Funds - These funds account for goods and services provided to other agencies of the State on a cost-reimbursement basis. These goods and services include prisoner-built office furnishings, information services support, telecommunications, printing, and other services.

Pension (and Other Employee Benefits) Trust Funds - These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, a defined contribution plan, and other employee benefits plans. These plans are discussed more fully in Notes 11 and 12.

Investment Trust Fund - This fund accounts for the external portion of the State's Short-Term Investment Fund, an investment pool managed by the State Treasurer.

Private-Purpose Trust Fund - This fund accounts for escheat securities held in trust for individuals by the State Treasurer.

Agency Funds - These funds account for deposits, investments, and other assets held by the State as an agent for inmates and patients of State institutions, insurance companies, municipalities, and private organizations.

d. Measurement Focus and Basis of Accounting Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Taxes and casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred. Grants and similar items are recognized as revenues in the period when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State's enterprise and internal service funds are charges to customers for sales and services, assessments, and intergovernmental revenues. Operating expenses for enterprise and internal service funds include salaries, wages, and administrative expenses, unemployment compensation, claims paid, and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not

conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. This option is followed by the following component units of the State: the Connecticut Development Authority and the Connecticut Health and Educational Facilities Authority.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Sales and use taxes, personal income taxes, public service corporation taxes, special fuel taxes, federal grants, and casino gaming payments are considered to be susceptible to accrual. Licenses, permits, and fees are not considered to be susceptible to accrual and are recognized as revenues when the cash is collected. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general-long term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources, as they are needed.

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended

by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carry forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for the General and Transportation funds. During the 2004 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

f. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund ("STIF") and the Tax Exempt Proceeds Fund, Inc. ("TEPF"). TEPF is a short-term, tax-

exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund's share price.

Investments (see Note 4)

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds' current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

The fair value of other investments is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water and Drinking Water funds (Enterprise funds) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer's securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. These investments are held by the Combined Investment Funds and are reported at fair value in each fund's statement of net assets.

Inventories

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

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

Collections of historical documents, rare books and manuscripts, guns, paintings, and other items are not capitalized. These collections are held by the State Library for public exhibition, education, or research; and are kept protected, cared for, and preserved indefinitely. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are also not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements Other than Buildings	10-20
Machinery and Equipment	5-30
Infrastructure	20-28

Securities Lending Transactions (see Note 4)

Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

Deferred Revenues

In the government-wide and fund financial statements, this liability represents resources that have been received, but not yet earned. In the fund financial statements, this liability also represents revenues considered measurable but not available during the current period.

Long-term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations include compensated absences, workers' compensation claims, capital leases, claims and judgements, annuities payable, and the net pension obligation.

In the fund financial statements, governmental fund types recognize bond premiums and bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Capital Appreciation Bonds

Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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

Pursuant to Public Act No. 03-02 the General Assembly enacted an Early Retirement Incentive Program in order to mitigate the deficit of the General Fund. Under the provisions of this program any employee participating in the program shall be eligible for payment of accrued sick days and for the balance of unused vacation leave in accordance with the existing rules as stated above, with the exception of one modification. The modification provides that the balance of any compensated absences shall be paid in three equal installments beginning in fiscal year ending June 30, 2006. The State may, at its option, make the payment in one installment on or before July, 2005 if the amount of the payment is less than \$2,000.

g. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

h. Interest Rate Swap Agreements

The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 17).

i. Interfund Activities

In the fund financial statements, interfund activities are reported as follows:

Interfund receivables/payables - The current portion of interfund loans outstanding at the end of the fiscal year is reported as due from/to other funds; the noncurrent portion as advances to/from other funds. All other outstanding balances between funds are reported as due from/to other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Interfund services provided and used - Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. In the statement of activities, transactions between the primary government and its discretely presented component units are reported as revenues and expenses, unless they represent repayments of loans or similar activities.

Interfund transfers - Flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Interfund reimbursements - Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are not reported in the financial statements.

j. Food Stamps

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the governmental fund financial statements.

k. External Investment Pool

Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 Budgetary vs. GAAP Basis of Accounting

The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	<u>General Fund</u>	<u>Transportation Fund</u>
Net change in fund balances (budgetary basis)	\$ 452,455	\$ (3,675)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	117,916	3,801
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(166,581)	(1,408)
Salaries and Fringe Benefits Payable	(97,256)	(5,037)
Transfer of Restricted Resources	(304,357)	(10,026)
Proceeds of Economic Recovery Notes	97,700	-
Increases (decreases) in continuing appropriations	<u>126,215</u>	<u>14,300</u>
Net change in fund balances (GAAP basis)	<u>\$ 226,092</u>	<u>\$ (2,045)</u>

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).
3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

Note 3 Nonmajor Fund Deficits

The following funds have deficit balances at June 30, 2004, none of which constitutes a violation of statutory provisions (amounts in thousands).

Special Revenue Fund

Consumer Counsel and Public Utility Control	\$ 2,237
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Enterprise

Second Injury & Compensation Assurance	\$ 11,896
Bradley Parking Garage	\$ 8,624
Rate Reduction Bond Operations	\$ 194,336

Note 4 Cash Deposits and Investments

In this note, the State's deposits and investments are classified in categories of "custodial credit risk." This is the risk that the State will not be able to (a) recover deposits if the depository bank fails or (b) recover the value of investments or collateral securities that are in the custody of an outside party if the counterparty to the investment or deposit transaction fails. Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low. The level of potential custodial credit risk is higher for those deposits or investments classified in category 2 and highest for those in category 3.

Cash Deposits (amounts in million)

At June 30, 2004, the reported amount of the State's deposits was \$13.0 for the Primary Government and Fiduciary Funds (pooled deposits) and \$16.5 for the Component Units. The corresponding bank balance for such deposits was \$176.1 for the Primary Government and Fiduciary Funds and \$18.7 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds \$91.3 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and \$84.8 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, \$6.3 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and \$12.4 was uninsured and uncollateralized (Category 3).

Category 3 deposits include some deposits that are collateralized as required by state statute. Under the statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. However, the collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund ("STIF") and seven Combined Investment Funds (the "CIFS"), including one international investment fund.

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF's investments are reported at amortized cost (which approximates fair value) in the fund's statement of net assets and are disclosed in this note.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State's financial reporting entity) is reported as an investment trust fund (External Investment Pool fund) in the fiduciary fund financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not reported in the financial statements. Instead, each fund's investment in the internal portion of STIF is reported as "cash equivalents" in the government-wide and fund financial statements.

The CIFS are open-ended, unitized portfolios in which the State pension trust and permanent funds are eligible to invest. The State pension trust and permanent funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in common stock, commercial equity real estate, foreign companies stocks and bonds, commercial and residential mortgages, foreign governments' obligations, mortgage-backed securities, and venture capital partnerships. CIFS' investments are reported at fair value in each fund's statement of net assets and are disclosed in this note.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the financial statements. Instead, each fund's equity in the CIFS is reported as investments in the government-wide and fund financial statements. Complete financial information about STIF and the CIFS can be obtained from financial statements issued by the State Treasurer.

As of June 30, 2004, investments consisted of the following (amounts in thousands):

	Primary Government		Component Units	Fiduciary Funds
	Governmental Activities	Business-Type Activities		
Equity in CIFS	\$ 88,820	\$ 587	\$ -	\$ 20,099,983
Other Investments	17,300	170,569	233,307	791,474
Total Investments-Current	\$ 106,120	\$ 171,156	\$ 233,307	\$ 20,891,457
Other Investments-Noncurrent	\$ -	\$ 367,558	\$ 68,794	\$ -
Other Investments-Restricted	\$ 509,641	\$ 325,561	\$ 1,131,807	\$ -

The following investment schedules disclose the reported amount and fair value of the State's investment in total and by investment type as of June 30, 2004. Further, the reported amounts of these investments are classified according to the following categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

**Investments-Primary Government and Fiduciary Funds
Short-Term Investment Fund
(amounts in thousands)**

Investment Type	Reported Amount	Fair Value
	Category 1	
Certificates of Deposit	\$ 819,000	\$ 819,000
Commercial Paper	1,773,914	1,773,851
Corporate Notes	393,002	393,363
Bankers' Acceptances	24,899	24,863
Money Market Funds	117,506	117,506
Federal Agency Securities	10,000	9,994
Extendable Commercial Notes	490,792	490,811
Repurchase Agreements	200,000	200,000
Total Investments	\$ 3,829,113	\$ 3,829,388

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**Investments-Primary Government and Fiduciary Funds
Combined Investment Funds
(amounts in thousands)**

Investment Type	Reported Amount (Fair Value)		Total
	Category 1	Category 3	
Certificates of Deposit-Negotiable	\$ -	\$ 449,490	\$ 449,490
Asset Backed Securities	573,352	-	573,352
U.S. Government and Agency Securities:			
Not on Securities Loan	1,360,258	-	1,360,258
On Securities Loan for Securities or Letter of Credit Collateral	-	54,528	54,528
Mortgage Backed Securities	538,702	-	538,702
Corporate Debt	2,745,364	1,669,430	4,414,794
Convertible Securities	34,989	-	34,989
U. S. Corporate Stock:			-
Not on Securities Loan	7,336,000	-	7,336,000
On Securities Loan for Securities or Letter of Credit Collateral	-	12,501	12,501
International Equity Securities:			
Not on Securities Loan	3,150,791	-	3,150,791
On Securities Loan for Securities or Letter of Credit Collateral	-	1,476	1,476
Preferred Stock	75,269	-	75,269
	<u>\$ 15,814,725</u>	<u>\$ 2,187,425</u>	18,002,150

Investments not categorized
because they are not evidenced by securities
that exist in physical or book entry form.

Real Estate Investment Trusts	76,727
Mutual Funds	179,393
Limited Liability Corporations	22,948
Trusts	46,404
Limited Partnerships	1,836,286
Annuities	1,314
Securities Held by Brokers-Dealers under Security Loans for Cash Collateral:	
U.S. Government and Agency Securities	916,311
U. S. Corporate Stock	436,761
International Equity Securities	533,527
Domestic Fixed Securities	178,874
International Fixed Securities	1,038
	<u>\$ 22,231,733</u>

The pension trust funds own approximately 100 percent of the investments that are in categories 1 and 3.

The CIFS account for the purchase and sale of investments using "trade date" accounting -- investments are increased or decreased on the date the purchase or sales order is made although the investments are not received or delivered until a later date (settlement date). Thus, the above schedule was prepared taking into account unsettled sales and purchases of investments. This means that investments under unsettled sales are included in the schedule, because the investments are still subject to custodial credit risk that could result in losses prior to settlement. Conversely, investments under unsettled purchases are excluded from the schedule, because the investments are still in the hands of the dealers.

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Other Investments-Primary Government (amounts in thousands)

Investment Type	Reported Amount (Fair Value)		
	Category 1	Category 3	Total
Collateralized Investment Agreements	\$ 271,378	\$ -	\$ 271,378
State/Municipal Bonds	33,739	-	33,739
U.S. Government & Agency Securities	405,573	115,963	521,536
Mortgage Backed Securities	-	6,886	6,886
Other	9,452	-	9,452
	<u>\$ 720,142</u>	<u>\$ 122,849</u>	<u>842,991</u>

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Annuity Contracts	382,288
Guaranteed Investment Contracts	158,640
Tax Exempt Proceeds Fund	46,294
Other	6,710
Total Investments	<u>\$ 1,436,923</u>

The Transportation fund owns approximately 53 percent and the State Universities own 100 percent of the investments in Category 1 and 3, respectively.

Other Investments-Component Units (amounts in thousands)

Investment Type	Reported Amount (Fair Value)			
	Category 1	Category 2	Category 3	Total
U.S. Government & Agency Securities	\$ 733	\$ -	\$ 1,788	\$ 2,521
Common Stock	69,956	1,034	-	70,990
Repurchase Agreements	65,091	-	-	65,091
Collateralized Investment Agreements	1,953	-	1,636	3,589
Mortgage Backed Securities and Obligations	602,438	-	-	602,438
Corporate Debt	45,551	44,561	-	90,112
Other	21,775	-	-	21,775
	<u>\$ 807,497</u>	<u>\$ 45,595</u>	<u>\$ 3,424</u>	<u>856,516</u>

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Guaranteed Investment Contracts	88,447
Fidelity Funds	306,079
Investment Agreements	17,713
Mutual Funds	71,816
Limited Partnerships	6,688
Other	86,649
Total Investments	<u>\$ 1,433,908</u>

CHFA owns approximately 92 percent and 48 percent of the investments that are in categories 1 and 3, respectively.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State statute to lend its securities through a lending agent to authorized broker-dealers and banks for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

During the year, the funds' lending agent lent securities similar to the types on loan at year-end and received cash (United States and foreign currency), U.S. Government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The funds' lending agent did not have the ability to pledge or sell collateral securities delivered absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was

located in the United States or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105 percent of the market value of the loaned securities. The funds did not impose any restrictions during the fiscal year on the amount of loans that the lending agent made on their behalf and the lending agent indemnified the funds by agreeing to purchase replacement securities, or return the cash collateral thereof in the event any borrowers failed to return the loaned securities or pay distributions thereon. At year-end, the funds had no credit exposure to the borrowers, because the amounts the funds owed the borrowers exceeded the amounts the borrowers owed the funds.

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All securities loans can be terminated on demand by either the funds or the borrowers. Cash collateral is invested by the funds' lending agent, and the average duration of the investments can not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. At year-end, the average duration of the collateral investments was 63 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables

As of June 30, 2004, receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	\$ 933,848	\$ -	\$ -
Accounts	1,193,281	467,546	32,854
Loans-Current Portion	-	144,354	32,478
Other Governments	745,221	10,323	-
Interest	4,657	21,404	-
Other	43,388	-	1,042
Total Receivables	2,920,395	643,627	66,374
Allowance for Uncollectibles	(992,818)	(83,843)	(2,748)
Receivables, net	\$ 1,927,577	\$ 559,784	\$ 63,626

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2004 (amounts in thousands):

	Governmental Activities		
	General	Transportation	Total
	Fund	Fund	
Sales and Use	\$ 431,331	\$ -	\$ 431,331
Income Taxes	188,837	-	188,837
Corporations	87,590	-	87,590
Casoline and Special Fuel	-	45,636	45,636
Various Other	180,454	-	180,454
Total Taxes Receivable	888,212	45,636	933,848
Allowance for Uncollectibles	(57,829)	(193)	(58,022)
Taxes Receivable, net	\$ 830,383	\$ 45,443	\$ 875,826

Note 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2004, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash Equivalents	Investments	Loans, Net of Allowances	Other	Total Restricted Assets
Governmental Activities:					
Debt Service	\$ 124,955	\$ 509,641	\$ -	\$ -	\$ 634,596
Total-Governmental Activities	\$ 124,955	\$ 509,641	\$ -	\$ -	\$ 634,596
Business-Type Activities:					
Bradley International Airport	\$ 123,609	\$ 15,136	\$ -	\$ 2,537	\$ 141,282
Uconn	25,428	654	-	-	26,082
Clean Water	50,852	256,463	-	-	307,315
Other Proprietary	25,251	53,308	-	-	78,559
Total-Business-Type Activities	\$ 225,140	\$ 325,561	\$ -	\$ 2,537	\$ 553,238
Component Units:					
CHFA	\$ 682,518	\$ 710,628	\$ 2,543,494	\$ 97,802	\$ 4,034,442
CHEFA	38,675	394,393	-	198	433,266
Other Component Units	132,443	26,786	-	147	159,376
Total-Component Units	\$ 853,636	\$ 1,131,807	\$ 2,543,494	\$ 98,147	\$ 4,627,084

Note 7 Loans Receivable

Loans receivable (noncurrent portion) for the primary government and its component units, as of June 30, 2004, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Industrial	\$ -	\$ -	\$ 76,792
Housing	2,555	-	-
Clean Water	42,912	479,120	-
Education	-	28,509	71,502
Other	164,985	49,222	-
Total Loans	210,452	556,851	148,294
Allowance for Uncollectibles	(1,577)	(7,471)	(10,847)
Loans Receivable, Net	\$ 208,875	\$ 549,380	\$ 137,447

The Clean Water fund loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both.

The industrial loan program consists of loans made by the Connecticut Development Authority to finance the purchase of land, buildings, and equipment by qualified applicants and to finance other economic development programs of the Authority. These loans are collateralized by assets acquired from the proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 1.39 percent to 11.15 percent. As of June 30, 2004, loans in the amount of \$12.0 million (including loans of \$6.4 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of \$6.4 million at year-end. Thus, the State is contingently liable in the event of any defaulted loans that could not be paid out of the assets of the insurance fund.

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Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2004, accounts payable and accrued liabilities consisted of the following:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Interest</u>	<u>Other</u>	<u>Total Payables & Accrued Liabilities</u>
Governmental Activities:					
General	\$ 133,436	\$ 144,502	\$ -	\$ 41	\$ 277,979
Transportation	12,683	7,960	-	1,841	22,484
Other Governmental	115,254	15,139	258	43,205	173,856
Internal Service	34,538	2,270	-	79	36,887
Reconciling amount from fund financial statements to government-wide financial statements	-	-	83,778	4,682	88,460
Total-Governmental Activities	<u>\$ 295,911</u>	<u>\$ 169,871</u>	<u>\$ 84,036</u>	<u>\$ 49,848</u>	<u>\$ 599,666</u>
Business-Type Activities:					
University of Connecticut	\$ 49,185	\$ 46,468	\$ -	\$ -	\$ 95,653
State Universities	6,471	25,135	2,240	-	33,846
Other Proprietary	39,944	13,004	10,060	-	63,008
Total-Business-Type Activities	<u>\$ 95,600</u>	<u>\$ 84,607</u>	<u>\$ 12,300</u>	<u>\$ -</u>	<u>\$ 192,507</u>

Note 10 Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets not being Depreciated:				
Land	\$ 911,754	\$ 28,160	\$ 4,955	\$ 934,959
Construction in Progress-Infrastructure	1,276,607	383,532	324,706	1,335,433
Construction in Progress	460,271	92,400	225,317	327,354
Total Capital Assets not being Depreciated	2,648,632	504,092	554,978	2,597,746
Other Capital Assets:				
Buildings	2,539,216	225,317	7,483	2,757,050
Improvements Other than Buildings	311,390	90,954	275	402,069
Equipment	1,353,217	85,772	211,481	1,227,508
Infrastructure	9,217,408	324,706	-	9,542,114
Total Other Capital Assets at Historical Cost	13,421,231	726,749	219,239	13,928,741
Less: Accumulated Depreciation For:				
Buildings	1,659,297	68,926	7,483	1,720,740
Improvements Other than Buildings	248,218	20,283	275	268,226
Equipment	894,755	162,390	211,481	845,664
Infrastructure	3,735,656	410,456	-	4,146,112
Total Accumulated Depreciation	6,537,926	662,055 *	219,239	6,980,742
Other Capital Assets, Net	6,883,305	64,694	-	6,947,999
Governmental Activities, Capital Assets, Net	<u>\$ 9,531,937</u>	<u>\$ 568,786</u>	<u>\$ 554,978</u>	<u>\$ 9,545,745</u>

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	\$ 4,902
General Government	19,555
Regulation and Protection	30,426
Conservation and Development	10,504
Health and Hospitals	12,079
Transportation	481,186
Human Services	3,009
Education, Libraries and Museums	32,739
Corrections	33,175
Judicial	14,417
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	20,063
Total Depreciation Expense	<u>\$ 662,055</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	\$ 44,774	\$ 7,345	\$ 210	\$ 51,909
Construction in Progress	285,139	185,980	177,695	293,424
Total Capital Assets not being Depreciated	329,913	184,156	177,905	345,333
Capital Assets being Depreciated:				
Buildings	2,400,582	293,755	9,323	2,685,014
Improvements Other Than Buildings	361,994	32,362	1,156	393,200
Equipment	718,721	68,905	37,851	749,775
Total Other Capital Assets at Historical Cost	3,481,297	395,022	48,330	3,827,989
Less: Accumulated Depreciation For:				
Buildings	694,516	79,484	5,278	768,722
Improvements Other Than Buildings	131,946	15,809	100	147,655
Equipment	363,210	56,275	19,497	399,988
Total Accumulated Depreciation	1,189,672	151,568	24,875	1,316,365
Other Capital Assets, Net	2,291,625	243,454	23,455	2,511,624
Business-Type Activities, Capital Assets, Net	<u>\$ 2,621,538</u>	<u>\$ 427,610</u>	<u>\$ 201,360</u>	<u>\$ 2,856,957</u>

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2004:

Land	\$	27,774
Buildings		197,211
Improvements other than Buildings		1,591
Machinery and Equipment		237,181
Construction in Progress		501
Total Capital Assets		464,258
Accumulated Depreciation		(236,332)
Capital Assets, net	\$	<u>227,926</u>

Note 11 State Retirement Systems

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS)-consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for SERS, TRS, and JRS are presented in Note No. 13.

Plan Descriptions, Funding Policy, and Annual Pension Cost and Net Pension Obligation

Membership of each plan consisted of the following at the date of the latest actuarial evaluation:

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>
	<u>6/30/2004</u>	<u>6/30/2004</u>	<u>6/30/2004</u>
Retirees and beneficiaries receiving benefits	36,749	24,297	217
Terminated plan members entitled to but not yet receiving benefits	1,744	1,250	3
Active plan members	<u>47,926</u>	<u>49,946</u>	<u>220</u>
Total	<u>86,419</u>	<u>75,493</u>	<u>440</u>

State Employees' Retirement System

Plan Description

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B and Hazardous Duty members are required to contribute 2 percent and 4 percent respectively, of their salary up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier IIA members are required to contribute 2 percent and hazardous duty members are required to contribute 5 percent. The State is required to contribute at an actuarially

determined rate. Administrative costs of the plan are funded by the State.

Teachers Retirement System

Plan Description

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. For fiscal year 2004, the annual required contribution (ARC) was \$270.5 million; however, the State contributed \$185.3 million to the plan, reflecting a reduction of \$85.2 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

Judicial Retirement System

Plan Description

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information

The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>
Annual required contribution	\$ 470,333	\$ 270,544	\$ 11,598
Interest on net pension obligation	176,941	99,866	4
Adjustment to annual required contribution	<u>(113,083)</u>	<u>(65,167)</u>	<u>(2)</u>
Annual pension cost	534,191	305,243	11,600
Contributions made	<u>470,333</u>	<u>185,348</u>	<u>11,598</u>
Increase (decrease) in net pension obligation	63,858	119,895	2
Net pension obligation beginning of year	<u>2,081,663</u>	<u>1,174,895</u>	<u>41</u>
Net pension obligation end of year	\$ <u>2,145,521</u>	\$ <u>1,294,790</u>	\$ <u>43</u>

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Three-year trend information is as follows (amounts in thousands):

	<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
SERS	2002	\$ 479,501	86.7%	\$ 2,017,588
	2003	485,527	86.8%	2,081,663
	2004	534,191	88.0%	2,145,521
TRS	2002	\$ 246,404	83.0%	\$ 1,099,721
	2003	254,996	70.6%	1,174,893
	2004	305,243	60.7%	1,294,790
JRS	2002	\$ 9,599	100%	\$ 40
	2003	10,127	100%	41
	2004	11,600	100%	43

Defined Contribution Plan

The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary.

Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 13.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	<u>CMERS 6/30/2003</u>	<u>CPJERS 12/31/2002</u>
Retirees and beneficiaries receiving benefits	4,743	226
Terminated plan members entitled to but not receiving benefits	419	34
Active plan members	<u>8,420</u>	<u>371</u>
Total	<u>13,582</u>	<u>631</u>
Number of participating employers	164	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System

Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

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Note 13 Pension Trust Funds Financial Statements

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds. (see Note No. 4)

Statement of Fiduciary Net Assets (000's)							
	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Assets							
Cash and Cash Equivalents	\$ -	\$ -	\$ 106	\$ 250	\$ -	\$ 80	\$ 436
Receivables:							
Accounts, Net of Allowances	2,380	7,286	8	2,796	5	-	12,475
From Other Funds	-	1,641	-	-	-	-	1,641
Interest	138	209	4	25	4	-	380
Investments	7,709,616	10,860,276	140,387	1,303,833	67,072	716	20,081,900
Securities Lending Collateral	813,091	1,127,976	15,704	141,090	7,145	94	2,105,100
Total Assets	<u>8,525,225</u>	<u>11,997,388</u>	<u>156,209</u>	<u>1,447,994</u>	<u>74,226</u>	<u>890</u>	<u>22,201,932</u>
Liabilities							
Securities Lending Obligation	813,091	1,127,976	15,704	141,090	7,145	94	2,105,100
Due to Other Funds	32,151	17,609	-	-	25	-	49,785
Total Liabilities	<u>845,242</u>	<u>1,145,585</u>	<u>15,704</u>	<u>141,090</u>	<u>7,170</u>	<u>94</u>	<u>2,154,885</u>
Net Assets							
Held in Trust For Employee							
Pension Benefits	7,679,983	10,851,803	140,505	1,306,904	67,056	796	20,047,047
Total Net Assets	<u>\$ 7,679,983</u>	<u>\$ 10,851,803</u>	<u>\$ 140,505</u>	<u>\$ 1,306,904</u>	<u>\$ 67,056</u>	<u>\$ 796</u>	<u>\$ 20,047,047</u>

Statement of Changes in Fiduciary Net Assets (000's)							
	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Additions							
Contributions:							
Plan Members	\$ 47,632	\$ 210,227	\$ 1,367	\$ 12,009	\$ 269	\$ 26	\$ 271,530
State	470,333	185,348	11,598	-	-	-	667,279
Municipalities	-	1,019	-	16,271	-	-	17,290
Total Contributions	<u>517,965</u>	<u>396,594</u>	<u>12,965</u>	<u>28,280</u>	<u>269</u>	<u>26</u>	<u>956,099</u>
Investment Income	1,060,852	1,518,735	17,055	170,045	9,002	81	2,775,770
Less: Investment Expenses	(25,103)	(35,937)	(403)	(4,024)	(213)	(2)	(65,682)
Net Investment Income	<u>1,035,749</u>	<u>1,482,798</u>	<u>16,652</u>	<u>166,021</u>	<u>8,789</u>	<u>79</u>	<u>2,710,088</u>
Transfers In	-	-	-	-	1,705	-	1,705
Other	-	51	-	-	2	-	53
Total Additions	<u>1,553,714</u>	<u>1,879,443</u>	<u>29,617</u>	<u>194,301</u>	<u>10,765</u>	<u>105</u>	<u>3,667,945</u>
Deductions							
Administrative Expense	-	-	7	9	-	-	16
Benefit Payments and Refunds	868,165	879,797	14,346	64,709	2,241	3	1,829,261
Other	2,009	-	-	-	1,967	13	3,989
Total Deductions	<u>870,174</u>	<u>879,797</u>	<u>14,353</u>	<u>64,718</u>	<u>4,208</u>	<u>16</u>	<u>1,833,266</u>
Changes in Net Assets	683,540	999,646	15,264	129,583	6,557	89	1,834,679
Net Assets Held in Trust For							
Employee Pension Benefits:							
Beginning of Year	6,996,443	9,852,157	125,241	1,177,321	60,499	707	18,212,368
End of Year	<u>\$ 7,679,983</u>	<u>\$ 10,851,803</u>	<u>\$ 140,505</u>	<u>\$ 1,306,904</u>	<u>\$ 67,056</u>	<u>\$ 796</u>	<u>\$ 20,047,047</u>

Note 14 Postemployment Benefits

In addition to the pension benefits described in Note 11, the State provides postretirement health care and life insurance benefits, in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all employees who retire from the State.

As of June 30, 2004, 36,141 retirees of the State Employees Retirement System meet those eligibility requirements. When employees retire, the State may pay up to 100 percent of their health care insurance premium cost (including dependent's coverage) based on the plan chosen by the employee. In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance,

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continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: (a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than \$7,500 (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest \$100. The State finances the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. During the year ended June 30, 2004, \$325.6 million was paid in postretirement benefits.

Note 15 Capital and Operating Leases

a. State as Lessor

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2005	\$	30,126
2006		25,261
2007		27,101
2008		27,616
2009		27,909
Thereafter		<u>22,345</u>
Total	\$	<u>160,358</u>

Contingent revenues for the year ended June 30, 2004, were \$2.4 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2004, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2005	\$ 26,583	\$ 7,086
2006	17,903	6,350
2007	12,638	6,054
2008	9,287	5,669
2009	915	5,350
2010-2014	19,073	27,357
2015-2019	-	6,156
2020-2024	-	6,142
2025-2029	-	6,110
2030-2034	-	<u>2,432</u>
Total minimum lease payments	\$ <u>86,399</u>	78,706
Less: Amount representing interest costs		<u>24,538</u>
Present value of minimum lease payments		\$ <u>54,168</u>

Minimum capital lease payments were discounted using an interest rate of approximately 6 percent.

Rental and lease payments for equipment charged to expenditures during the year ended June 30, 2004, totaled \$11.1 million.

Note 16 Long-Term Debt

a) The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2004, (amounts in thousands):

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Governmental Activities					
Bonds:					
General Obligation	\$ 9,216,354	\$ 2,720,294	\$ 2,330,037	\$ 9,606,611	\$ 743,236
Transportation	<u>3,205,815</u>	<u>539,534</u>	<u>591,400</u>	<u>3,153,949</u>	<u>240,065</u>
	12,422,169	3,259,828	2,921,437	12,760,560	983,301
Plus/(Less) premiums and deferred amounts	<u>105,119</u>	<u>104,044</u>	<u>27,796</u>	<u>181,367</u>	<u>-</u>
Total Bonds	<u>12,527,288</u>	<u>3,363,872</u>	<u>2,949,233</u>	<u>12,941,927</u>	<u>983,301</u>
Economic Recovery Notes	<u>219,235</u>	<u>97,700</u>	<u>43,720</u>	<u>273,215</u>	<u>240,065</u>
Other Liabilities:					
Net Pension Obligation	3,256,597	851,036	667,279	3,440,354	-
Compensated Absences	347,933	28,447	5,464	370,916	14,682
Workers' Compensation	265,645	86,184	75,148	276,681	74,926
Capital Leases	67,988	407	14,227	54,168	9,768
Claims and Judgements	7,612	8,818	3,247	13,183	5,962
Contracts Payable	<u>7,186</u>	<u>-</u>	<u>5,960</u>	<u>1,226</u>	<u>-</u>
Total Other Liabilities	<u>3,952,961</u>	<u>974,892</u>	<u>771,325</u>	<u>4,156,528</u>	<u>105,338</u>
Governmental Activities Long-Term Liabilities	\$ <u>16,699,484</u>	\$ <u>4,436,464</u>	\$ <u>3,764,278</u>	\$ <u>17,371,670</u>	\$ <u>1,328,704</u>
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	\$ 1,547,526	\$ 610,904	\$ 444,625	\$ 1,713,805	\$ 76,321
Plus/(Less) premiums, discounts and deferred amounts	<u>5,717</u>	<u>30,663</u>	<u>31</u>	<u>36,349</u>	<u>-</u>
Total Revenue Bonds	<u>1,553,243</u>	<u>641,567</u>	<u>444,656</u>	<u>1,750,154</u>	<u>76,321</u>
Lottery Prizes	435,185	-	49,956	385,229	50,661
Compensated Absences	87,456	18,515	1,742	104,229	25,246
Other	<u>48,565</u>	<u>55,798</u>	<u>7,259</u>	<u>97,104</u>	<u>18,884</u>
Total Other Liabilities	<u>571,206</u>	<u>74,313</u>	<u>58,957</u>	<u>586,562</u>	<u>94,791</u>
Business-Type Long-Term Liabilities	\$ <u>2,124,449</u>	\$ <u>715,880</u>	\$ <u>503,613</u>	\$ <u>2,336,716</u>	\$ <u>171,112</u>

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b) As of June 30, 2004, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2004	Amounts due within year
Bonds Payable	\$ 3,567,717	\$ 146,263
Escrow Deposits	115,071	19,325
Closure of Landfills	27,149	1,433
State Loan	12,090	1,484
Deferred Revenue	6,524	834
Other	5,926	30
Total	\$ 3,734,477	\$ 169,369

Note 17 Long-Term Notes and Bonded Debt

a. Economic Recovery Notes

In December 2002, \$219.2 million of General Obligation Economic Recovery Notes were issued to fund the deficit for the 2001-2002 fiscal year.

Economic recovery notes outstanding at June 30 were \$273.2 million. These notes mature on various dates through 2008 and bear interest rates from 2.0% to 4.0%.

Future amounts needed to pay principal and interest on economic recovery notes outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 63,655	\$ 8,929	\$ 72,584
2006	63,470	6,548	70,018
2007	63,270	4,247	67,517
2008	63,270	2,017	65,287
2009	19,550	664	20,214
Total	\$ 273,215	\$ 22,405	\$ 295,620

b. Primary Government – Governmental Activities

General Obligation Bonds

General Obligation bonds are those bonds that are paid out of the revenues of the General fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but unissued at June 30, 2004, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2004-2023	2-8%	\$ 2,183,763	\$ 220,557
School Construction	2004-2022	2-7.441%	1,559,412	75,951
Municipal & Other				
Grants & Loans	2004-2022	2-8.4%	1,580,427	582,200
Elderly Housing	2005-2018	4.25-7.026%	9,605	-
Elimination of Water Pollution	2004-2023	3-7.525%	267,667	252,010
General Obligation Refunding	2004-2020	2-6.14%	3,346,721	-
Miscellaneous	2004-2031	2.5-6.75%	140,125	7,737
			9,087,720	\$ 1,138,455
Accretion-Various Capital Appreciation Bonds			518,891	-
Total			\$ 9,606,611	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 743,236	\$ 489,901	\$ 1,233,137
2006	705,308	462,784	1,168,092
2007	694,952	439,494	1,134,446
2008	699,003	415,578	1,114,581
2009	663,763	425,085	1,088,848
2010-2014	2,844,095	1,293,580	4,137,675
2015-2019	1,851,761	454,597	2,306,358
2020-2024	872,082	99,193	971,275
2025-2029	11,325	2,172	13,497
2030-2034	2,195	109	2,304
Total	\$ 9,087,720	\$ 4,082,493	\$ 13,170,213

Transportation Related Bonds

Transportation related bonds include special tax obligation bonds and general obligation bonds that are paid out of revenues pledged or earned in the Transportation Fund. The revenue pledged or earned in the Transportation Fund to pay special tax obligation bonds is transferred to the debt service fund for retirement of principal and interest.

Transportation related bonds outstanding and bonds authorized but unissued at June 30, 2004, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways Infrastructure	2017	4.25-5.50%	\$ 2,653	\$ 4,066
Improvements	2004-2024	2.5-8.0%	3,142,057	432,863
General Obligation				
Other	2008	7.513-7.525%	344	-
			3,145,054	\$ 436,929
Accretion-Various Capital Appreciation Bonds			8,895	-
Total			\$ 3,153,949	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 240,065	\$ 145,706	\$ 385,771
2006	265,635	133,849	399,484
2007	253,218	127,854	381,072
2008	261,693	115,882	377,575
2009	259,643	97,836	357,479
2010-2014	1,093,255	299,826	1,393,081
2015-2019	546,145	104,179	650,324
2020-2024	225,400	22,195	247,595
Total	\$ 3,145,054	\$ 1,047,327	\$ 4,192,381

Variable-Rate Demand Bonds

As of June 30, 2004, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

Bond Type	Outstanding	Issuance	Maturity
	Principal	Year	Year
Special Tax Obligation	\$ 128,900	1990	2010
General Obligation	99,235	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	419,060	2003	2022
Total	\$ 847,195		

The State entered into various Remarketing and Standby Bond Purchase agreements with certain brokerage firms and banks upon the issuance of the bonds.

The bonds were issued bearing a weekly interest rate, which is determined by the State's remarketing agents. The State has the option of changing at any time the weekly interest rate on the bonds to another interest rate, such as a flexible rate or a daily rate. Bonds bearing interest at the weekly rate are subject to purchase at the option of the bondholder at a purchase price equal to principal plus accrued interest, if any, on a minimum seven days' notice of tender to the State's agent. In addition, the bonds are subject to mandatory purchase upon (1) conversion from the weekly interest rate to another interest rate and (2) substitution or expiration of the Standby Bond Purchase agreements. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase by bondholders from time to time. The State is required to pay the Remarketing agents a quarterly fee of .05 percent per annum of the outstanding principal amount of the bonds.

Terms, fair values, and credit risk

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2004, are as follows. The notional amount of the swaps matches the principal amount of the associated debt. The State's swap agreements, except for the June 2001 swap, contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated debt. For the June 2001 swap, the swap agreement and associated debt are non-amortizing and mature on June, 2012.

Associated Bond Issue	Notional		Fixed Rate Paid	Variable Rate Received	SWAP		
	Amounts (000's)	Effective Date			Fair Values (000's)	Termination Date	Counterparty Credit Rating
1990 STO	\$ 77,400	12/19/1990	5.746%	65% of LIBOR (1)	\$ (8,159)	12/1/2010	Aaa/AAA/AAA
1990 STO	51,500	12/19/1990	5.709%	65% of LIBOR (1)	(5,346)	12/1/2010	A3/BBB
2001 GO	20,000	6/28/2001	4.330%	CPI (3) plus 1.43%	(483)	6/15/2012	Aa3/A+/AA-
2003 STO	119,530	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	429	2/1/2022	Aa1/AA-/AA
2003 STO	99,315	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	397	2/1/2022	Aa1/AA/AA+
2003 STO	200,215	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	914	2/1/2022	Aa2/AA+/AA+
Total	\$ 567,960				\$ (12,248)		

(1) London Interbank Offered Rate
 (2) The Bond Market Association Municipal Swap Index.
 (3) Consumer Price Index

Fair value

As of June 30, 2004, the 2003 swaps had a positive fair value because interest rates have increased since January 2003; the 1990 swaps had a negative fair value because

The Standby Bond Purchase agreements require the banks to purchase any unremarketed bonds bearing the weekly interest rate for a price not to exceed the amount of bond principal and accrued interest, if any. The State is required to pay the banks a quarterly fee ranging from .065 percent to .20 percent per annum of the outstanding principal amount of the bonds plus interest. These fees would be increased if the credit rating for the bond insurers was to be downgraded, suspended, or withdrawn.

The Standby Bond Purchase agreements expire as follows:

- 1990 STO expires in the year 2005 and could be extended for another five years,
- 1997 GO expires in the year 2004 and could be extended annually for another year,
- 2000 STO expires in the year 2014 and could be extended for another seven years,
- 2001 GO expires in the year 2008, and
- 2003 STO expires in the year 2008 and could be extended for another five years.

These agreements could be terminated at an earlier date if certain termination events described in the agreements were to occur.

Interest Rate Swaps

Objective of the swaps

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the State has entered six separate pay-fixed, receive-variable interest rate swaps at a cost less than what the State would have paid to issue fixed-rate debt. Two of the swaps were executed in December 1990, one was executed in June 2001 and the other three were executed in January 2003.

interest rates have declined since 1990. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the State's variable-rate bonds adjust to changing interest rates,

the bonds do not have corresponding fair value increases. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payment required under the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date each future net settlement on the swaps.

As of June 30, 2004, the State had a minor exposure to credit risk on the 2003 swaps, but it had no credit risk exposure on the other outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

The swap agreements contain varying collateral agreements with the counterparties. All three of the swap agreements executed in 2004 require collateralization of the fair value of the swap in cash or government securities should the counterparty's credit rating fall below Aa3 as issued by Moody's Investors Service or AA- as issued by Standard & Poor's Ratings or Fitch Ratings. One of the swaps executed in 1990 requires collateral of cash or securities if the counterparty credit rating falls below A1/A+. The other swap agreements do not have any provisions for posting of collateral. The State is not required to post collateral for any of the swaps.

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

All of the six swaps are executed with different counterparties. The largest, approximately 34 percent of the notional amount of swaps outstanding, is held with one counterparty, rated Aa2/AA+. One of the December 1990 swaps, approximately 10% of the notional amount of swaps outstanding, is held with the lowest rated counterparty, rated A3/BBB. All other swaps are held with separate counterparties who are rated Aa1/AA or better.

Easis Risk

The State's variable-rate bond coupon payments are equivalent to the BMA index rate, or the CPI plus 1.43% rate (2001 GO bonds only). For those swaps for which the State receives a variable-rate payment other than BMA or CPI, the State is exposed to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.06 percent, whereas 65 percent of LIBOR was 0.72 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal 2004, the state budgeted \$1,500,000 in basis risk for all six swap agreements.

Termination Risk

The State or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated

variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the State would be liable to the counterparty for a payment equal to the swap's fair value. Under the 2003 swap agreements, the State has up to 270 days to fund any required termination payment. Under the 1990 swap agreements, the State may fund any required termination payment over a five-year period.

Rollover Risk

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

Swap Payments and Associated Debt

Using rates as of June 30, 2004, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds		Interest Rate		Total
	Principal	Interest	SWAP, Net		
2005	\$ 18,025	\$ 6,628	\$ 15,759	\$	40,412
2006	19,135	6,429	14,907		40,471
2007	20,350	6,219	13,747		40,316
2008	21,665	5,994	12,427		40,086
2009	22,985	5,756	11,401		40,142
2010-2014	176,295	23,311	43,135		242,741
2015-2019	258,185	8,040	16,211		282,436
2020-2022	31,320	363	732		32,415
Total	\$ 567,960	\$ 62,740	\$ 128,319	\$	759,019

c. Primary Government – Business–Type Activities Revenue Bonds

Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds and component units.

Enterprise funds' revenue bonds outstanding at June 30, 2004, were as follows:

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2009-2030	2.1-7%	\$ 537,126
Bradley International Airport	2012-2031	3.25-7.65%	252,020
Second Injury	2011	4.5-5.25%	54,255
Clean Water	2006-2025	2-10%	560,176
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	53,800
Drinking Water	2022	4-5.5%	51,083
Rate Reduction Bonds	2004-2011	2.5-5%	205,345
Total Revenue Bonds			1,713,805
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(726)
Clean Water			21,371
Other			15,704
Revenue Bonds, net			\$ 1,750,154

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2004, the following bonds were outstanding:

- a) Airport Revenue Refunding Bonds in the amount of \$42.1 million. These bonds were issued in October, 1992, to redeem the 1982 revenue bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.
- b) Bradley International Airport Revenue Bonds in the amount of \$191.2 million and Bradley International Airport Refunding Bonds in the amount of \$18.7 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

In November 1996 and in October 2000, the State issued \$100 million and \$124.1 million of Second Injury Special Assessment Revenue Bonds, respectively. The bonds were issued to reduce long-term liabilities of the fund by settling claims on a one-time lump sum basis. Additionally, the bond indenture allows for the periodic issuance of subordinated bond anticipation notes (BANs) in the form of commercial paper.

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these 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 treatment projects.

Bradley Parking Garage bonds were issued in 2000 in the amount of \$53.8 million to build a parking garage at the airport.

In 2004, the State of Connecticut issued \$205.3 million of Special Obligation Rate Reduction Bonds. These bonds were issued to sustain for two years the funding of energy conservation and load management and renewable energy investment programs by providing money to the State's General Fund.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 118,043	\$ 89,385	\$ 207,428
2006	108,827	74,346	183,173
2007	102,776	67,657	170,433
2008	118,851	63,852	182,703
2009	173,863	95,024	268,887
2010-2014	402,595	205,784	608,379
2015-2019	270,088	134,546	404,634
2020-2024	226,750	74,118	300,868
2025-2029	149,654	29,315	178,969
2030-2034	42,358	2,856	45,214
Total	\$ 1,713,805	\$ 836,883	\$ 2,550,688

d. Component Units

Component units' revenue bonds outstanding at June 30, 2004, were as follows:

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2004-2019	4.75-8.75%	\$ 42,820
CT Housing Finance Authority	2003-2045	1.37-9.36%	3,199,620
CT Resources Recovery Authority	2004-2016	3.9-7.7%	205,409
Other:			
CT Higher Education			
Supplemental Loan Authority	2004-2021	4-7.5%	115,115
UConn Foundation	2029	3.6-5.375%	7,495
Total Revenue Bonds			3,570,459
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			(50)
CRRA			(2,797)
CHESLA			105
Revenue Bonds, net			\$ 3,567,717

Revenue bonds issued by the component units do not constitute a liability or debt of the State. The State is only contingently liable for those bonds as discussed below.

Connecticut Development Authority's revenue bonds are issued to finance such projects as the acquisition of land or the construction of buildings, and the purchase and installation of machinery, equipment, and pollution control facilities. The Authority finances these projects through its Self-Sustaining Bond Program and Umbrella Program. Under the Umbrella Program, bonds outstanding at June 30, 2004 were \$4.8 million. Assets totaling \$3.4 million are pledged under the terms of the bond resolution for the payment of principal and interest on these bonds until such time as it is determined that there are surplus funds as defined in the bond resolution. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had \$38.0 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2003, bonds outstanding under the bond resolution and the indenture were \$3,154.0 million and \$45.6 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year (\$261.5 million at 12/31/03) on all outstanding bonds. As of

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December 31, 2003, the Authority has entered into interest rate swap agreements for \$730.6 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swaps section of this note.

Connecticut Resources Recovery Authority's revenue bonds are issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the bond indentures.

Connecticut Higher Education Supplemental Loan Authority's revenue bonds are issued to provide loans to students, their parents, and institutions of higher education to assist in the financing of the cost of higher education. These loans are issued through the Authority's Bond fund. According to the bond resolutions, the Authority internally accounts for each bond issue in separate funds, and additionally, the Bond fund includes individual funds and accounts as defined by each bond resolution.

Each Authority has established special capital reserve funds that secure all the outstanding bonds of the Authority at year-end, except as discussed next. These funds are usually maintained at an amount equal to next year's bond debt service requirements. The State may be contingently liable to restore any deficiencies that may exist in the funds in any one year in the event that the Authority is unable to do so. For the Connecticut Resources Recovery Authority, the amount of bonds outstanding at year-end that were secured by the special capital reserve funds was \$178.7 million.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 260,926	\$ 259,257	\$ 520,183
2006	137,874	131,749	269,623
2007	132,622	126,007	258,629
2008	140,220	120,658	260,878
2009	32,353	12,648	45,001
2010-2014	698,959	508,555	1,207,514
2015-2019	647,372	370,498	1,017,870
2020-2024	568,016	247,041	815,057
2025-2029	534,767	135,863	670,630
2030-2034	360,290	53,728	414,018
2035-2039	40,470	7,548	48,018
2040-2044	15,335	2,474	17,809
2045-2049	1,255	63	1,318
Total	\$ 3,570,459	\$ 1,976,089	\$ 5,546,548

No-commitment debt

Under the Self-Sustaining Bond program, The Connecticut Development Authority issues revenue bonds to finance such projects as described previously in the component unit section of this note. These bonds are paid solely from payments received from participating companies (or from proceeds of the sale of the specific projects in the event of default) and do not constitute a debt or liability of the

Authority or the State. Thus, the balances are not included in the Authority's financial statements. Total bonds outstanding for the year ended June 30, 2004 were \$993.2 million.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2004 were \$203.9 million. Of this amount, \$61.5 million was secured by a special capital reserve fund.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2004, were \$4,666.7 million, of which \$374.4 million was secured by special capital reserve funds.

The State may be contingently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

d. Debt Refundings

During the year, the State issued \$1,967.5 million of general obligation and special tax obligation refunding bonds with an average interest rate of 4.35% to advance refund \$1,996.8 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.15%. The proceeds of the refunding bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased and the liability for those bonds have been removed from the statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by \$165 million. This amount is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by \$115.7 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$93.9 million. As of June 30, 2004, \$3,660.8 million of outstanding general obligation, special tax obligation, and revenue bonds are considered defeased.

Note 18 Risk Management

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

Risk of Loss	Risk Financed by	
	Purchase of Commercial Insurance	Self-Insurance
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than \$100 thousand.

When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is \$25 million, which is carried in a railroad liability policy.

The State records its risk management activities related to the medical malpractice risk in the University of Connecticut fund, an Enterprise fund. At year-end, liabilities for unpaid claims are recorded in the statement of net assets (government-wide and proprietary fund statements) when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liabilities are determined based on the ultimate cost of settling the claims, including an amount for claims that have been incurred but not reported and claim adjustment expenses. The liabilities are actuarially determined and the unpaid liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. In the General fund, the liability for unpaid claims is only recorded if the liability is due for payment at year-end. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the claims liabilities during the last two fiscal years were as follows (amounts in thousands):

	Governmental Activities Workers' Compensation	Business-Type Activities Medical Malpractice
Balance 6-30-02	\$ 245,183	\$ 9,355
Incurred claims	95,707	351
Paid claims	(75,245)	(1,206)
Balance 6-30-03	265,645	8,500
Incurred claims	86,184	6,227
Paid claims	(75,148)	(4,387)
Balance 6-30-04	\$ 276,681	\$ 10,340

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2004, were as follows (amounts in thousands):

Balance due from fund(s)	Balance due to fund(s)										
	General	Transportation	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	Total
General	\$ -	\$ -	\$ 173,401	\$ 40,039	\$ 14,663	\$ 10,115	\$ 1,474	\$ 5,340	\$ 4,683	\$ -	\$ 249,715
Transportation	-	-	-	-	-	-	-	534	-	-	534
Other Governmental	7,880	5,964	3,896	10,165	22,020	53,242	-	-	-	22,179	125,346
UConn	8,908	-	-	-	-	-	-	-	-	-	8,908
State Universities	1,636	-	-	-	-	-	-	-	-	-	1,636
Employment Security	-	-	4,687	-	-	-	-	-	-	-	4,687
Other Proprietary	317	-	1,754	-	-	-	-	-	-	-	2,071
Internal Services	4,700	-	-	-	-	-	-	-	-	-	4,700
Fiduciary	-	-	43,318	-	-	-	-	-	8,100	-	51,418
Component Units	12,090	-	-	-	-	-	-	-	-	-	12,090
Total	\$ 35,531	\$ 5,964	\$ 227,056	\$ 50,204	\$ 36,683	\$ 63,357	\$ 1,474	\$ 5,874	\$ 12,783	\$ 22,179	\$ 461,105

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end. \$173 million owed to other governmental funds by the General fund resulted from a loan made by governmental funds to eliminate a cash overdraft in the General fund.

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Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2004, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)								
	General	Debt Service	Transportation	Other Governmental	Uconn	State Universities	Other Proprietary	Fiduciary	Total
<u>Amount transferred from fund(s)</u>									
General	\$ -	\$ 13,665	\$ -	\$ 495,292	\$ 375,535	\$ 190,450	\$ 167,039	\$ -	\$ 1,241,981
Debt Service	-	-	25,430	1,175	-	-	-	-	26,605
Transportation	-	399,413	-	41,376	-	-	-	-	440,789
Other Governmental	132,693	15,250	1,476	71,784	103,932	16,255	46,433	1,705	389,528
Connecticut Lottery	280,763	-	-	-	-	-	-	-	280,763
Other Proprietary	194,000	-	-	7,819	-	-	13,889	-	215,708
Total	\$ 607,456	\$ 428,328	\$ 26,906	\$ 617,446	\$ 479,467	\$ 206,705	\$ 227,361	\$ 1,705	\$ 2,595,374

Transfers were made to (1) move revenues from the fund that budget or statute requires to collect them to the fund that budget or statute requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2004, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-03 Previously Reported	Fund Reclass	Correction of Reported Assets/ Liabilities	Balance 6-30-03 as Restated
Governmental Funds and Activities				
Major Funds:				
Transportation	\$ 158,277	\$ -	\$ 10,026	\$ 168,303
Nonmajor Funds:				
Environmental Programs	119,603	26,934	-	146,537
Total Governmental Funds	\$ 277,880	\$ 26,934	\$ 10,026	\$ 314,840
Net Assets of Governmental Activities	\$ (5,346,984)	\$ 26,934	\$ 10,026	\$ (5,310,024)
Proprietary Funds and Business-Type Activities				
Major Funds:				
Higher Education	\$ 2,535,973	\$ (2,535,973)	\$ -	\$ -
University of Connecticut	-	1,525,227	-	1,525,227
State Universities	-	464,000	(9,750)	454,250
Non-Major Funds:				
Community Technical Colleges	-	304,775	-	304,775
Total Proprietary Funds	\$ 2,535,973	\$ (241,971)	\$ (9,750)	\$ 2,284,252
Net Assets of Business-Type Activities	\$ 3,875,072	\$ (241,971)	\$ (9,750)	\$ 3,623,351
Component Units				
Connecticut Health & Educational Facilities Authority	\$ -	\$ 19,975	\$ -	\$ 19,975
Connecticut Resources Recovery Authority	117,489	(117,489)	-	-
Other Component Units				
Connecticut Resources Recovery Authority	-	117,489	-	117,489
Connecticut Health & Educational Facilities Authority	19,975	(19,975)	-	-
Connecticut Higher Education Supplemental Loan Authority	6,438	-	(1,220)	5,218
Connecticut Innovations, Incorporated	136,683	(31,900)	-	104,783
Uconn Foundation	-	241,971	(29,523)	212,448
Total Component Units	\$ 280,585	\$ 210,071	\$ (30,743)	\$ 459,913
Net Assets of Component Units	\$ 1,112,011	\$ 210,071	\$ (30,743)	\$ 1,291,339

During the year, the State implemented GASB Statement No.39, "Determining Whether Certain Organizations Are Component Units." This Statement requires the State to report certain organizations (mainly fund-raising foundations) as component units (discrete presentation). Thus, the State reclassified this year the University of Connecticut Foundation, Inc. as a discretely-presented component unit. In prior years, the Foundation was reported as a component unit of the Higher Education fund, an enterprise fund.

Also, the following reclassifications were made this year to improve financial reporting of enterprise funds and component units:

- 1) The University of Connecticut, the State Universities, and the Community/Technical colleges were reclassified as separate enterprise funds. In prior years, these funds were reported as part of the Higher Education fund, an enterprise fund.
- 2) The Clean Energy fund was reclassified as a special revenue fund. In prior years, this fund was reported as part of the Connecticut Innovations, Inc. fund, a component unit.

The beginning fund balance of the Transportation fund was adjusted to reflect a reduction of \$10 million to deferred revenue because revenue recognition requirements on related resources had been met in the prior year. For the University of Connecticut Foundation, Inc., the adjustment reflects a reduction of \$29.5 million to pledges receivable because such pledges should not be recognized as an asset until the resources are received by the Foundation.

Note 22 Related Organizations

Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 23 Commitments and Contingencies

A. Commitments

At June 30, 2004, the State, including its component units, had the following outstanding commitments:

- 1) Infrastructure (highways, roads, etc.) and other construction contracts and miscellaneous contracts with various vendors totaling approximately \$1,958.5 million of which \$1,395.0 million is expected to be reimbursed by federal grants or other payments.
- 2) School construction and alteration grants with various towns for \$2,900 million and interest costs of \$190 million for a total of \$3,090 million. Funding for these projects is expected to come from bond sales.

- 3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately \$553.4 million. Funding for these programs is expected to come from bond sales.
- 4) The State has authorized a loan to the Connecticut Resources Recovery Authority (a component unit) up to \$115 million to support the repayment of the Authority's debt for one of its facilities and to minimize the amount of tipping fee increases chargeable to the towns which use the facility. As of June 30, 2004, the Authority had drawn \$12.8 million on these funds.

B. Contingent Liabilities

The State entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

In 2002 the City of Waterbury issued \$97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 17 – Component Units.

C. Litigation

The State, its units and employees are parties to numerous legal proceedings, many of which normally occur in government operations. Most of these legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the State.

Note 24 Special and Extraordinary Items

Special items are significant transactions or other events within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Transfers to the General fund from the State's component units were as follows (amounts in million):

Connecticut Innovations, Incorporated	\$ 5.0
Connecticut Development Authority	\$10.0
Connecticut Housing Finance Authority	\$ 2.5

The State, also, transferred mortgage loans with a carrying amount of \$204 million from the Housing Programs fund, a special revenue fund, to the Connecticut Housing Finance Authority, a component unit. The loans were recorded by the Authority at a net realizable value of \$65 million. In exchange, the State received \$85 million in cash in the prior year.

Note 25 Subsequent Events

In July, the State issued \$72.5 million of parking and energy fee revenue bonds. The bonds are special obligations of the Capital City Economic Development Authority, a component unit. However, the State is contractually

obligated to pay annual debt service requirements on the bonds, such payment not to exceed \$6.7 million.

In November, \$200 million of special tax obligation bonds for transportation infrastructure programs and \$89.7 million special tax obligation refunding bonds were issued. These bonds will mature through July, 2024 and July, 2019 respectively and bear interest rates ranging from 2.125% to 5% and 3% to 5.25% respectively.

In December, \$300 million of general obligation bonds were issued. The bonds will mature in years 2005 through 2024 and bear interest rates ranging from 2.15% to 5%.

*Required
PERS
Supplementary
Information*

Required Supplementary Information

Schedules of Funding Progress

(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SERS						
6/30/1998	\$5,669.9	\$9,592.4	\$3,922.5	59.1%	\$2,339.0	167.7%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	\$7,196.0	\$11,512.1	\$4,316.1	62.5%	\$2,651.9	162.8%
6/30/2001	\$7,638.9	\$12,105.4	\$4,466.5	63.1%	\$2,784.5	160.4%
6/30/2002	\$7,893.7	\$12,806.1	\$4,912.4	61.6%	\$2,852.1	172.2%
6/30/2003	\$8,058.6	\$14,223.8	\$6,165.2	56.7%	\$2,654.3	232.3%
6/30/2004	\$8,238.3	\$15,128.5	\$6,890.2	54.5%	\$2,816.7	244.6%

*No actuarial valuations were performed as of June 30, 1999.

TRS						
6/30/1998	\$7,721.1	\$10,970.1	\$3,249.0	70.4%	\$2,298.9	141.3%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	\$9,605.9	\$11,797.6	\$2,191.7	81.4%	\$2,501.5	87.6%
6/30/2001 *	-	-	-	-	-	-
6/30/2002	\$10,387.3	\$13,679.9	\$3,292.6	75.9%	\$2,698.3	122.0%
6/30/2003 *	-	-	-	-	-	-
6/30/2004	\$9,846.7	\$15,070.5	\$5,223.8	65.3%	\$2,930.8	178.2%

*No actuarial valuations were performed as of June 30, 1999, 2001 and 2003

JRS						
6/30/1998	\$98.1	\$168.1	\$70.0	58.4%	\$21.2	330.2%
6/30/1999	\$110.7	\$172.5	\$61.8	64.2%	\$21.9	282.2%
6/30/2000	\$123.4	\$181.7	\$58.3	67.9%	\$24.1	241.9%
6/30/2001	\$133.1	\$193.8	\$60.7	68.7%	\$26.3	230.8%
6/30/2002	\$138.4	\$209.4	\$71.0	66.1%	\$28.9	245.7%
6/30/2003	\$142.8	\$211.1	\$68.3	67.6%	27.84	245.3%
6/30/2004	\$150.9	\$219.8	\$69.0	68.7%	28.90	238.8%

MERS						
6/30/1997	\$872.0	\$731.1	\$(140.9)	119.3%	\$246.0	(57.3)%
6/30/1998	\$980.4	\$814.1	\$(166.3)	120.4%	\$258.2	(64.4)%
6/30/1999	\$1,100.7	\$860.1	\$(240.6)	128.0%	\$269.4	(89.3)%
6/30/2000	\$1,251.6	\$1,153.2	\$(98.4)	108.5%	\$290.3	(33.9)%
6/30/2001	\$1,353.1	\$1,238.1	\$(115.0)	109.3%	\$311.2	(37.0)%
6/30/2002	\$1,403.4	\$1,319.7	\$(83.7)	106.3%	\$321.8	(26.0)%
7/1/2003	\$1,417.7	\$1,378.2	\$(39.5)	102.9%	\$326.4	(12.1)%

PJRS

For the Probate Judges Retirement System because the UAAL is zero, the actuarial cost method becomes the aggregate cost method and a schedule of funding progress is not required.

Required Supplementary Information
Schedules of Employer Contributions
 (Expressed in Millions)

Fiscal Year	<u>SERS</u>		<u>TRS</u>		<u>JRS</u>		<u>MERS</u>		<u>PJRS</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1998	\$567.6	59.0%	\$211.0	85.0%	\$9.3	100.0%	\$18.8	100.0%	\$0.25	100.0%
1999	\$315.6	100.0%	\$221.6	85.0%	\$9.3	100.0%	\$18.1	100.0%	\$0.32	100.0%
2000	\$342.8	100.0%	\$240.5	85.0%	\$9.3	100.0%	\$32.0	100.0%	\$-	-
2001	\$375.6	100.0%	\$252.5	85.0%	\$9.8	100.0%	\$15.5	100.0%	\$-	-
2002	\$415.5	100.0%	\$210.7	97.1%	\$9.6	100.0%	\$15.3	100.0%	\$-	-
2003	\$421.5	100.0%	\$221.2	81.3%	\$10.1	100.0%	\$16.0	100.0%	\$-	-
2004	\$470.3	100.0%	\$270.5	68.5%	\$11.6	100.0%	\$16.3	100.0%	\$-	-

Note: During the years 2000 thru 2004 the only contributions to the Probate Judges Retirement System were the required member contributions.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>	<u>MERS</u>	<u>PJRS</u>
Valuation date	6/30/2004	6/30/2004	6/30/2004	7/1/2003	12/31/2002
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	28 Years	8-27 Years	26 Years	3-21 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.5-5.0%	3%

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APPENDIX III-D



NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 24, 2005

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier

I have reviewed the accompanying balance sheets of the General Fund of the State of Connecticut for the fiscal years ending June 30, 2000-2004. This review also covered the accompanying statements of unappropriated surplus, revenues and expenditures for the years ended on those dates. The statements are based on the annual report of the Office of the State Comptroller, which is prepared in compliance with Section 3-115 of the General Statutes, as well as reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 2000-2003.

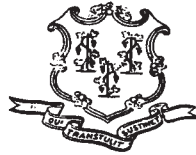
The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently and in accordance with the governing statutory requirements for all periods shown.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Wyman".

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

CERTIFICATE OF AUDIT

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 2000, 2001, 2002 and 2003, and the related statements of revenues, expenditures, and changes in unappropriated surplus for the years ended on those dates as shown in Appendices III-D-4, III-D-5, III-D-6 and III-D-7. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above present only the General Fund and are not intended to present fairly the financial position and results of operations of the State of Connecticut in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund as of June 30, 2000, 2001, 2002 and 2003, and the results of its operations for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.

As discussed in the litigation section of the accompanying Annual Information Statement, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements. However, as indicated in that section, an adverse judgement in any one of these cases could have a material fiscal impact on the State.

Handwritten signature of Kevin P. Johnston in black ink.

Kevin P. Johnston
Auditor of Public Accounts

Handwritten signature of Robert G. Jaekle in black ink.

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2003
State Capitol
Hartford, Connecticut

GENERAL FUND^(a)

**Balance Sheet
As of June 30
(In Thousands)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Assets					
Cash and Short-Term Investments	\$ 150,871	\$ 178,428	\$ --	\$ --	\$ --
Accrued Taxes Receivable	667,036	751,329	731,462	759,320	811,239
Accrued Accounts Receivable	26,285	30,897	31,726	35,139	32,438
Federal and Other Grants Receivable and Unexpended	656,289	745,655	839,676	886,205	12,090
Investments	47,705	50,460	40,813	--	--
Due from Other Funds	<u>4,692</u>	<u>4,499</u>	<u>594,698</u>	<u>--</u>	<u>948</u>
Total Assets	<u>\$ 1,552,878</u>	<u>\$ 1,761,268</u>	<u>\$ 2,238,375</u>	<u>\$ 1,680,664</u>	<u>\$ 856,715</u>
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	\$ --	\$ --	\$ 1,071,882	\$ 553,657	\$ 189,765
Accounts Payable ^(b)	--	--	85,032	--	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	266,260	301,801	320,716	333,324	--
Due to Other Funds	<u>13,707</u>	<u>15,254</u>	<u>16,656</u>	<u>1,029</u>	<u>637</u>
Total Liabilities	<u>\$ 279,967</u>	<u>\$ 317,055</u>	<u>\$ 1,494,286</u>	<u>\$ 888,010</u>	<u>\$ 190,402</u>
Reserves					
Petty Cash Funds	\$ 1,092	\$ 1,043	\$ 1,031	\$ 991	\$ 996
Statutory Surplus Reserves	300,435	30,660	--	--	452,455
Appropriations Continued to Following Year	<u>971,384</u>	<u>1,412,510</u>	<u>965,446</u>	<u>888,278</u>	<u>212,862</u>
Total Reserves	\$ 1,272,911	\$ 1,444,213	\$ 966,477	\$ 889,269	\$ 666,313
Unappropriated Surplus (Deficit)	<u>0</u>	<u>0</u>	<u>(222,388)</u>	<u>(96,615)</u>	<u>0</u>
Total Liabilities, Reserves and Surplus	<u>\$ 1,552,878</u>	<u>\$ 1,761,268</u>	<u>\$ 2,238,375</u>	<u>\$ 1,680,664</u>	<u>\$ 856,715</u>

(a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Public Act No. 99-173 revised the accrual date for corporation business taxes to July 31st. Those taxes for which July collections are accrued include sales and use tax, personal income tax, corporation business tax, gross earnings taxes on utility and petroleum companies, hospital gross receipts tax, real property conveyance taxes, taxes on alcoholic beverages, cigarettes, gasoline and special motor fuels. Beginning in 2001, there is no longer a hospital gross receipts tax. Additionally, Indian gaming payments received through July 31 are accrued. Public Act 03-2 extended the date for corporation business tax accruals from July 31st to August 15th, expanded the categories of income tax subject to July 31st accruals, revised the accrual date for personal income tax to August 15, and added the real estate conveyance tax to the July 31st accrual.

(b) For fiscal year 2002, Public Act No. 02-1 of the May special session authorized certain fiscal year 2003 expenditures to be accrued to the prior fiscal year.

GENERAL FUND
Statement of Revenues, Expenditures and Changes in Unappropriated Surplus
Fiscal Year Ended June 30
(In Thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Unappropriated Surplus (Deficit), July 1	\$ - 0 -	\$ -0-	\$ - 0 -	\$ (222,388)	\$ (96,615)
Resources from Reserve for Debt					
Avoidance/ERN		265,474		222,388	96,615
Total Revenues (per Appendix III-D-6)	12,151,287 ^(a)	12,885,980 ^(c)	11,943,683 ^(e)	13,278,035 ^(h)	13,123,738 ⁽ⁱ⁾
Total Expenditures (per Appendix III-D-7)	12,138,545 ^(b)	12,783,210 ^(d)	13,285,284 ^(f)	13,465,043 ⁽ⁱ⁾	12,546,822
Operating Balance	12,742	368,244	(1,341,601)	(187,008)	576,916
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	289,764	(333,999)	543,806	81,977	(126,216)
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(34,960)	(30,660)	-0-	-0-	(302,155)
Reserve for Debt Retirement/Avoidance	(265,474)	-0-	-0-	-0-	(150,300)
Other Adjustments	<u>(2,072)</u>	<u>(3,585)</u>	<u>(19,291)</u>	<u>8,416</u>	<u>1,755</u>
Subtotal	-0-	-0-	(817,086)	(96,615)	-0-
Transferred from Budget Reserve Fund	<u>-0-</u>	<u>-0-</u>	<u>594,698</u>	<u>-0-</u>	<u>-0-</u>
Unappropriated Surplus (Deficit), June 30	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$(222,388)^(g)</u>	<u>\$(96,615)</u>	<u>\$ - 0 -</u>

(a) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of \$937,641.

(b) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of \$937,641 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$289,764.

(c) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of \$900,510.

(d) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of \$900,510 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$(333,999).

(e) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of \$1,098,258.

(f) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of \$1,098,258 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$543,806.

(g) Under the provisions of Special Act 02-1, Section 111, May 9, 2002 Special Session, the deficit of \$222.4 million is financed through the issuance of economic recovery notes (ERN).

(h) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of \$1,254,709.

(i) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of \$1,254,709 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$82,268.

(j) As of Fiscal Year 2003-04, Restricted Accounts in the Federal and Other Grants category have been segregated into a separate fund rather than being combined within the General Fund totals.

GENERAL FUND

Statement of Revenues Fiscal Year Ended June 30 (In Thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Taxes:					
Personal Income	\$ 4,238,228	\$ 4,744,233	\$4,265,912	\$4,263,070	\$4,943,430
Sales and Use	3,096,780	3,125,078	2,997,766	3,025,743	3,133,888
Corporations	587,756	550,509	380,985	507,975	518,009
Insurance Companies	201,225	191,107	217,371	239,358	233,412
Inheritance and Estate	228,072	252,802	153,092	184,320	147,614
Alcoholic Beverages	40,965	41,145	41,619	42,490	44,044
Cigarettes	122,045	119,476	160,904	256,052	279,572
Admissions, Dues, Cabaret	26,716	25,811	26,905	31,696	31,662
Oil Companies	54,285	64,497	24,309	117,451	106,894
Public Service Corporations	166,263	180,547	166,597	197,959	193,643
Real Estate Conveyance	114,565	112,282	120,717	149,317	176,743
Hospital Gross Receipts	69,180	--	--	--	--
Miscellaneous	40,227	35,088	26,267	33,731	34,822
Refunds of Taxes	(713,359)	(735,482)	(829,558)	(808,209)	(650,800)
R&D Credit Exchange	--	--	(21,933)	(11,148)	(10,378)
Other Revenue:					
Licenses, Permits, Fees	127,544	124,331	137,518	125,179	154,593
Sales of Commodities and Services	32,941	31,312	30,479	32,869	40,991
Transfer – Special Revenue	259,785	258,181	277,589	262,776	286,699
Investment Income	53,371	67,868	23,828	7,083	1,779
Transfers — To Other Funds	(180,000)	(85,400)	(147,685)	(93,009) ^(a)	(85,000)
Fines, Escheats and Rents	45,659	48,228	47,620	81,490	117,719
Miscellaneous	125,498	125,594	114,273	182,364	111,255
Refunds of Payments	--	--	(373)	(397)	(574)
Federal Grants	2,078,914	2,237,045	2,142,269	2,318,421	2,564,105
Indian Gaming Payments	318,986	332,418	368,954	387,256	402,733
Statutory Transfers From Other Funds	<u>78,000</u>	<u>138,800</u>	<u>120,000^(b)</u>	<u>489,486</u>	<u>346,883</u>
Total Unrestricted Revenue	11,213,646	11,985,470	10,845,425	12,023,326	13,123,738
Restricted Accounts and Federal and Other Grants	<u>937,641</u>	<u>900,510</u>	<u>1,098,258</u>	<u>1,254,709</u>	<u>0^(d)</u>
Total Revenues^(c)	<u>\$ 12,151,287</u>	<u>\$ 12,885,980</u>	<u>\$ 11,943,683</u>	<u>\$ 13,278,035</u>	<u>\$ 13,123,738</u>

(a) Transfer to Pequot/Mohegan Fund.

(b) Transfer from Tobacco Settlement Fund.

(c) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

(d) As of Fiscal Year 2003-04, Restricted Accounts in the Federal and Other Grants category have been segregated into a separate fund rather than being combined within the General Fund totals.

GENERAL FUND
Statement of Expenditures
Fiscal Year Ended June 30
(In Thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Legislative	\$ 54,541	\$ 55,406	\$ 58,095	\$ 57,340	\$ 57,221
General Government					
Executive	9,929	10,018	9,569	8,650	9,286
Financial Administration	495,118	438,800	451,738	346,282	321,723
Legal	<u>61,263</u>	<u>62,612</u>	<u>65,980</u>	<u>65,309</u>	<u>63,184</u>
Total General Government	<u>566,310</u>	<u>511,430</u>	<u>527,287</u>	<u>420,241</u>	<u>394,193</u>
Regulation and Protection of Persons and Property					
Public Safety	129,216	130,051	141,830	138,450	129,845
Regulative	<u>77,785</u>	<u>73,427</u>	<u>80,660</u>	<u>73,881</u>	<u>69,100</u>
Total Regulation and Protection	<u>207,001</u>	<u>203,478</u>	<u>222,490</u>	<u>212,331</u>	<u>198,945</u>
Conservation and Development					
Agriculture	10,026	10,500	11,015	10,521	9,435
Environment	45,621	47,668	42,716	40,837	34,648
Historical Sites, Commerce and Industry	<u>22,508</u>	<u>25,486</u>	<u>24,733</u>	<u>22,117</u>	<u>37,497</u>
Total Conservation and Development	<u>78,155</u>	<u>83,654</u>	<u>78,464</u>	<u>73,475</u>	<u>81,580</u>
Health and Hospitals					
Public Health	79,445	82,225	85,058	80,171	67,791
Mental Retardation	627,435	654,698	701,343	719,964	718,858
Mental Health	<u>298,353</u>	<u>355,438</u>	<u>411,934</u>	<u>422,843</u>	<u>420,206</u>
Total Health and Hospitals	<u>1,005,233</u>	<u>1,092,361</u>	<u>1,198,335</u>	<u>1,222,978</u>	<u>1,206,855</u>
Transportation	-	34,857	37,653	5,731	5,931
Human Services	<u>3,430,561</u>	<u>3,537,462</u>	<u>3,589,653</u>	<u>3,724,789</u>	<u>3,776,416</u>
Education, Libraries and Museums					
Department of Education	1,825,305	2,169,762	1,995,545	1,989,531	1,999,613
Education of the Blind and Deaf	16,052	16,757	15,978	14,864	14,887
University of Connecticut	260,972	271,378	265,854	265,450	263,748
Higher Education and the Arts	55,326	61,888	66,425	47,511	42,180
Libraries	14,326	14,800	17,439	13,126	10,204
Teachers Retirement	215,396	226,663	217,762	193,780	199,394
Community—Technical Colleges	115,432	115,587	129,262	126,664	123,302
State University	<u>134,709</u>	<u>130,556</u>	<u>139,276</u>	<u>138,125</u>	<u>136,039</u>
Total Education, Libraries and Museums	<u>2,637,518</u>	<u>3,007,391</u>	<u>2,847,541</u>	<u>2,789,051</u>	<u>2,789,367</u>
Corrections	<u>957,555</u>	<u>999,052</u>	<u>1,068,183</u>	<u>1,111,416</u>	<u>1,165,656</u>
Judicial	<u>309,319</u>	<u>338,568</u>	<u>376,813</u>	<u>368,143</u>	<u>368,326</u>
Non-Functional					
Debt Service	926,365	973,554	992,071	986,130	1,125,095
Miscellaneous	<u>1,028,346</u>	<u>1,045,487</u>	<u>1,190,441</u>	<u>1,238,708</u>	<u>1,377,237</u>
Total Non-Functional	<u>1,954,711</u>	<u>2,019,041</u>	<u>2,182,512</u>	<u>2,224,838</u>	<u>2,502,332</u>
Totals	<u>11,200,904</u>	<u>11,882,700</u>	<u>12,187,026</u>	<u>12,210,333</u>	<u>12,546,822</u>
Restricted Accounts and Federal and Other Grants	<u>937,641</u>	<u>900,510</u>	<u>1,098,258</u>	<u>1,254,709</u>	<u>0^(b)</u>
Total Expenditures^(a)	<u>\$ 12,138,545</u>	<u>\$ 12,783,210</u>	<u>\$ 13,285,284</u>	<u>\$ 13,465,043</u>	<u>\$ 12,546,822</u>

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

(b) In Fiscal Year 2003-04 Restricted Accounts in the Federal and Other Grants category were segregated in a separate fund rather than being combined within General Fund totals.

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GENERAL FUND REVENUES AND EXPENDITURES
REVISED ADOPTED BUDGET FOR FISCAL 2003-04 AND 2004-05
ESTIMATED BUDGET FOR FISCAL 2003-04 AND 2004-05

(In Millions)

	Revised Adopted Budget <u>2003-04</u> ^(h)	Estimated Final Budget <u>2003-04</u> ^(k)	Revised Adopted Budget <u>2004-05</u> ^(h)	Estimated Budget <u>2004-05</u> ⁽ⁿ⁾
Revenues				
<u>Taxes</u>				
Personal Income Tax	\$ 4,852.0	\$ 4,943.4	\$ 5,131.0	\$ 5,350.0
Sales & Use Corporation ^(a)	3,142.0 ⁽ⁱ⁾	3,133.9 ⁽ⁱ⁾	3,320.3 ⁽ⁱ⁾	3,278.8 ⁽ⁱ⁾
Public Service	497.7	518.0	501.7	570.3
Inheritance & Estate ^(b)	188.9	193.6	189.4	206.0
Insurance Companies	140.1	147.6	166.1	165.0
Cigarettes ^(c)	237.0	233.4	234.8	239.0
Real Estate Conveyance	274.0	279.6	266.0	267.6
Oil Companies	140.0	176.7	145.8	176.5
Alcoholic Beverages	92.0	106.9	89.6	137.4
Admissions and Dues	43.5	44.0	43.5	44.1
Miscellaneous	31.0	31.7	33.1	32.3
	<u>32.4</u>	<u>34.8</u>	<u>33.8</u>	<u>36.6</u>
Total Taxes	\$ 9,670.6	\$ 9,843.7	\$ 10,155.1	\$ 10,503.6
Less Refunds of Taxes	(726.0)	(650.8)	(700.0)	(720.0)
Less R&D Credit Exchange	(14.0)	(10.4)	(14.0)	(14.0)
Net Taxes	\$ 8,930.6	\$ 9,182.5	\$ 9,441.1	\$ 9,769.6
<u>Other Revenues</u>				
Transfers- Special Revenues	269.6	286.7	283.1	266.6
Indian Gaming Payments	405.0	402.7	430.0	420.0
Licenses, Permits, Fees	149.5	154.6	138.1	140.5
Sales of Commodities & Services	31.0	41.0	36.0	37.0
Rents, Fines & Escheats	107.3	117.7	144.5 ^(m)	180.0 ^(o)
Investment Income	7.5	1.8	15.3	12.0
Miscellaneous	118.0	111.3	105.0	111.8
Less Refunds of Payments	(0.5)	(0.6)	(0.5)	(0.6)
Total Other Revenue	\$ 1,087.4	\$ 1,115.2	\$ 1,151.5	\$ 1,167.3
<u>Other Sources</u>				
Federal Grants	2,538.7 ⁽ⁱ⁾	2,564.1 ⁽ⁱ⁾	2,469.6	2,497.2
Transfers to the Resources of the G.F. ^(d)	207.7	232.3	94.5	54.5 ^(p)
Transfers from Tobacco Settlement Funds	114.6	114.6	113.0	108.3
Transfers from Fiscal Year 2004 to Fiscal Year 2005	-	-	125.3	125.3
Transfers to Other Funds ^(e)	(85.0)	(85.0)	(85.0)	(85.0)
Total Other Sources	\$ 2,776.0	\$ 2,826.0	\$ 2,717.4	\$ 2,700.3
Total Unrestricted Revenues ^(f)	\$ 12,794.0	\$ 13,123.7	\$ 13,310.0	\$ 13,637.2

	Revised Adopted Budget 2003-04 ^(h)	Estimated Final Budget 2003-04 ^(k)	Revised Adopted Budget 2004-05 ^(h)	Estimated Budget 2004-05 ⁽ⁿ⁾
Appropriations/Expenditures				
Legislative	\$ 65.6	\$ 60.9	\$ 66.0	\$ 66.0
General Government	419.4	389.7	440.0	451.5
Regulation & Protection	213.1	200.4	209.4	215.9
Conservation & Development	89.6 ⁽ⁱ⁾	83.1 ⁽ⁱ⁾	91.4 ⁽ⁱ⁾	91.4 ⁽ⁱ⁾
Health & Hospitals	1,268.3	1,210.5	1,267.3	1,283.2
Human Services	3,860.8	3,833.9	3,916.6	3,921.0
Education, Libraries & Museums	2,851.9	2,814.8	2,901.5	2,903.4
Corrections	1,198.5	1,172.6	1,197.3	1,234.4
Judicial	390.3	370.3	399.5	400.4
Non- Functional				
Debt Service	1,136.2	1,127.5	1,311.2	1,311.2
Miscellaneous	1,425.5	1,409.2	1,535.9	1,535.9
Subtotal	<u>\$12,919.2</u>	<u>\$ 12,672.9</u>	<u>\$ 13,336.2</u>	<u>\$13,414.3</u>
Unallocated Lapse	(264.5)	-	(109.9)	(104.8)
Net Appropriations/Expenditures	<u>\$12,654.7</u>	<u>\$ 12,672.9</u>	<u>\$ 13,226.3</u>	<u>\$13,309.5</u>
Surplus (or Deficit) from				
Operations	139.3	450.8	83.7	327.7
Miscellaneous Adjustments	(14.0)	1.7	-	(12.3)
Reserve for Fiscal Year 2004-05	<u>(125.3)</u>	<u>(150.3)</u>	<u>-</u>	<u>-</u>
Balance^(g)	\$ 0.0	\$ 302.2^(l)	\$ 83.7	\$315.4

NOTE: Columns may not add due to rounding.

- (a) Per Public Act No. 03-1 and No. 03-6 includes a 25% corporate tax surcharge and an increase in the preference tax. These changes are expected to yield \$79.5 million in fiscal 2003-04 and \$63.5 million in fiscal 2004-05.
- (b) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act No. 01-1 of the November Special Session, Public Act No. 03-1 of the June Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to raise \$55 million in fiscal year 2004-05 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.
- (c) Per Public Act No. 03-2, the increase in Cigarette Tax from \$1.11 per pack to \$1.51 per pack effective March 15, 2003 is estimated to yield \$70.9 million in fiscal year 2003-04 and \$70.9 million in fiscal year 2004-05 in cigarette and sales taxes.
- (d) Per the adopted budget, funds being transferred in fiscal year 2003-04 include: \$144 million from a securitization of a portion of the Energy Conservation and Load Management Fund, \$25.0 million from a securitization of a portion of the Clean Energy Fund, \$17.5 million from quasi-public agencies, and approximately \$9 million from miscellaneous accounts. In fiscal year 2004-05, transfers include \$40 million from securitization of unclaimed property, \$25.0 million from a securitization of a portion of the Clean Energy Fund, \$17.5 million from quasi-public agencies, and approximately \$12 million from miscellaneous accounts.
- (e) Transfer to Mashantucket Pequot and Mohegan Fund for grants to towns.
- (f) Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants, which are not included in this Appendix. Expenditures of these grants are also not included; the amount of such expenditures is generally the same as the amount of grants received.
- (g) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to ten percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. When in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to the Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit.
- (h) Public Act No. 04-216 constitutes the revised biennial budget for fiscal years 2003-04 and 2004-05, with revisions by Public Act No. 04-253, Public Act No. 04-258, and Public Act No. 04-2 of the May Special Session. The act includes a total of \$234.9 million in additional appropriations to fiscal year 2003-04. These additional appropriations include \$90.5 million for deficiencies in fiscal year 2003-04, \$20.0 million for the incorporation

of the Commission on Arts, Tourism, Culture, History and Film into the General Fund, \$11.7 million for the TANF High Performance Bonus funding, \$0.3 million related to the State Marshals, and \$112.4 million for appropriations carried forward to fund fiscal year 2004-05 expenditures. The Act also transferred \$125.3 million to fiscal year 2004-05 revenue and provided \$259.1 additional appropriations for fiscal year 2004-05.

- (i) Public Act No. 04-216 incorporates the Commission on Arts, Tourism, Culture, History, and Film into the general fund beginning in fiscal year 2003-04.
- (j) Per the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (PL 108-27), the State will receive \$115.8 million of flexible grants and an estimated \$134.3 million due to a temporary increase in the federal medical assistance percentage (FMAP) for medical expenses in fiscal year 2003-04.
- (k) Per the Comptroller's annual report dated February 23, 2005 for the period ending June 30, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management.
- (l) Once the surplus is certified by the Comptroller, this surplus will be deposited into the Budget Reserve Fund and added to the balance in the Budget Reserve Fund.
- (m) Per Public Act No. 04-216, the one time sale of unclaimed property will raise revenue by \$50 million.
- (n) Per the Comptroller's monthly report dated February 1, 2005 for the period ending December 31, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management.
- (o) Per Public Act 04-216, the Treasurer's Office transferred to the State's General Fund a sum in excess of \$88 million, which exceeds the projected revenue by just over \$38 million.
- (p) Eliminates the securitization of unclaimed property revenue of \$40 million.

NOTE: The information in **Appendix III-E** of this **Annual Information Statement** contains only projections and no assurances can be given that subsequent projections will not result in changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

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