NEW ISSUE - BOOK ENTRY ONLY

In the opinion of Bond Counsel and Co-Bond Counsel, based on existing statutes and court decisions and assuming continuing compliance by the State of Connecticut with its covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, interest on the 2003 Series 1 and 2 Bonds is not includable in the gross income of the owners thereof for purposes of Federal income taxation and will not be treated as a preference item for purposes of computing the Federal alternative minimum tax for individuals and corporations. Interest on the 2003 Series 1 and 2 Bonds may be included in the calculation of certain taxes, including the Federal alternative minimum tax on corporations, as described under "Tax Exemption" herein. In the opinion of Bond Counsel and Co-Bond Counsel, under existing statutes, interest on the 2003 Series 1 and 2 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. For a discussion of the inclusion of interest income on the 2003 Series 1 and 2 Bonds in the definition of "gross income" for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes and other Federal and State tax consequences of ownership or disposition of the 2003 Series 1 and 2 Bonds, see "Tax Exemption" herein.

$421,980,000
State of Connecticut

$220,385,000 Second Lien
Special Tax Obligation Refunding Bonds,
Transportation Infrastructure Purposes
(Variable Rate Demand)
2003 Series 1

$201,595,000 Second Lien
Special Tax Obligation Refunding Bonds,
Transportation Infrastructure Purposes
(Variable Rate Demand)
2003 Series 2

Dated: Date of Delivery **Due: February 1, 2022**

The 2003 Series 1 Bonds (the "2003 Series 1 Bonds") and the 2003 Series 2 Bonds (the "2003 Series 2 Bonds"; together with the 2003 Series 1 Bonds, the "2003 Series 1 and 2 Bonds") are issuable only as fully registered bonds, without coupons, and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), New York, N.Y. DTC will act as securities depository for the 2003 Series 1 and 2 Bonds. Purchases of the 2003 Series 1 and 2 Bonds will be made in book-entry form, and purchasers will not receive certificates representing their interest in the 2003 Series 1 and 2 Bonds. So long as Cede & Co. is the Bondowner, as nominee for DTC, reference herein to the Bondowner or owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the 2003 Series 1 and 2 Bonds. See "Book-Entry Only System" herein.

Principal of and interest on the 2003 Series 1 and 2 Bonds will be paid directly to DTC by U.S. Bank National Association, Hartford, Connecticut as Fiscal Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. Disbursement of such payments to the Direct Participants (as defined herein) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct and Indirect Participants (as defined herein), as more fully described herein.

The 2003 Series 1 and 2 Bonds will be issued as separate series of multi-modal bonds, initially bearing interest in the Weekly Mode (as defined herein) until such date, if any, as the State elects to change from the Weekly Mode to another interest rate mode with respect to all or any authorized portion of the 2003 Series 1 and 2 Bonds as provided in the Third Supplemental Indenture (as defined below). The initial interest rate on the 2003 Series 1 and 2 Bonds will be determined by Lehman Brothers Inc. (the "Remarketing Agent") and will be effective on the date of delivery. Thereafter, while in the Weekly Mode, the Weekly Rate (as defined herein) generally will be determined by the Remarketing Agent on each Tuesday and will be effective on the following Wednesday. While in the Weekly Mode, interest on the 2003 Series 1 and 2 Bonds will be payable on the first Business Day (as defined herein) of each calendar month, commencing February 3, 2003. The manner and frequency of determining the interest rate, the interest payment dates and related matters with respect to any 2003 Series 1 and 2 Bonds will change if the State elects to change from the Weekly Mode to another interest rate mode in connection with such bonds. Any such change in interest rate mode will only occur after notice and will require the mandatory tender for purchase of the affected 2003 Series 1 and 2 Bonds, as provided in the Third Supplemental Indenture. The 2003 Series 1 and 2 Bonds are also subject to mandatory tender for purchase in certain other circumstances and to optional tender for purchase, optional redemption and mandatory sinking fund redemption as set forth in the Third Supplemental Indenture.

The scheduled payment of principal of and interest on the 2003 Series 1 and 2 Bonds when due will be insured by a financial guaranty insurance policy to be issued by AMBAC ASSURANCE CORPORATION simultaneously with the delivery of the 2003 Series 1 and 2 Bonds.

Ambac

The State will enter into a Standby Bond Purchase Agreement dated as of January 1, 2003 (the "Series 1 Standby Bond Purchase Agreement") with WestLB AG ("WestLB"), acting through its New York Branch, with respect to the 2003 Series 1 Bonds. The Series 1 Standby Bond Purchase Agreement is a liquidity facility that requires WestLB to purchase the 2003 Series 1 Bonds tendered or deemed tendered to the extent not remarketed, subject to the provisions therefor set forth in the Series 1 Standby Bond Purchase Agreement. The Series 1 Standby Bond Purchase Agreement is scheduled to expire on the fifth anniversary of the closing date, provided that the obligation of WestLB to purchase the 2003 Series 1 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events. See the section herein entitled "Standby Bond Purchase Agreements" and Appendix F attached hereto. WestLB is not providing credit support for the 2003 Series 1 Bonds.

The State will enter into a Standby Bond Purchase Agreement dated as of January 1, 2003 (the "Series 2 Standby Bond Purchase Agreement") with Dexia Crédit Local ("Dexia"), acting through its New York Agency, Bayerische Landesbank ("Bayerische"), acting through its New York Branch, and Dexia, as administrative agent with respect to the 2003 Series 2 Bonds. The Series 2 Standby Bond Purchase Agreement is a liquidity facility that requires Dexia and Bayerische (collectively the "Series 2 Banks"), acting through Dexia as administrative agent (the "Administrative Agent"), on a several not joint, equal and pro-rata basis to purchase the 2003 Series 2 Bonds tendered or deemed tendered to the extent not remarketed, subject to the provisions therefor set forth in the Series 2 Standby Bond Purchase Agreement. The Series 2 Standby Bond Purchase Agreement is scheduled to expire on the fifth anniversary of the closing date, provided that the obligation of the Series 2 Banks to purchase the 2003 Series 2 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events. See the section herein entitled "Standby Bond Purchase Agreements" and Appendix F attached hereto. The Series 2 Banks are not providing credit support for the 2003 Series 2 Bonds.

The 2003 Series 1 Bonds and 2003 Series 2 Bonds are the third and fourth series of Second Lien Bonds (as defined herein), respectively, and will be issued on a parity with the first, second and any future series of Second Lien Bonds issued by the State for the Infrastructure Program (as defined herein) under a Second Lien Indenture (as defined herein) which includes a specific Supplemental Indenture between the State and the Trustee (as defined herein) for the 2003 Series 1 and 2 Bonds (the "Third Supplemental Indenture"). Second Lien Bonds, including the 2003 Series 1 and 2 Bonds, are special obligations of the State payable solely from the taxes and other revenues of the State pledged therefor. All Second Lien Bonds, including the 2003 Series 1 and 2 Bonds, are junior in right of payment to the Senior Bonds (as defined herein) issued for the Infrastructure Program pursuant to the Senior Indenture (as defined herein) and any other obligation on a parity with Senior Bonds as provided in the Senior Indenture. Neither Senior Bonds nor Second Lien Bonds (collectively, the "Bonds") shall be payable from nor charged upon any funds other than such pledged revenues, nor shall the State or any political subdivision thereof be subject to any liability thereon except to the extent of such pledged revenues. The issuance of the Bonds pursuant to the Indentures (as defined herein) does not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation (except for taxes included in such pledged revenues) whatever therefor or to make any additional appropriations for their payment.

Price: 100%

The 2003 Series 1 and 2 Bonds are offered, when, as and if issued and received by the Underwriter, subject to the approval of legality by Updike, Kelly & Spellacy, P.C., Hartford, Connecticut, Bond Counsel, and Lewis & Munday, A Professional Corporation, Detroit, Michigan, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriter by its counsel, Squire, Sanders & Dempsey L.L.P., New York, New York. It is expected that the 2003 Series 1 and 2 Bonds in definitive form will be available for delivery through DTC on or about January 23, 2003.

Treasurer of the State of Connecticut

Lehman Brothers

January 15, 2003

No dealer, broker or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State of Connecticut or the Underwriter. This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, any securities other than the securities offered hereby or any offer or solicitation of the securities offered hereby to any person in any jurisdiction where such offer or solicitation would be unlawful. The delivery of this Official Statement at any time does not imply that the information herein is correct as of any time subsequent to its date.

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

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Financial Advisors
Public Resources Advisory Group
A.C. Advisory, Inc.

$421,980,000
State of Connecticut

$220,385,000 Second Lien
Special Tax Obligation Refunding Bonds,
Transportation Infrastructure Purposes
(Variable Rate Demand)
2003 Series 1

$201,595,000 Second Lien
Special Tax Obligation Refunding Bonds,
Transportation Infrastructure Purposes
(Variable Rate Demand)
2003 Series 2

INTRODUCTION

This Official Statement (including the cover page and appendices) provides certain information in connection with the issuance by the State of Connecticut (the "State") of its $220,385,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes (Variable Rate Demand), 2003 Series 1 (the "2003 Series 1 Bonds") and its $201,595,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes (Variable Rate Demand), 2003 Series 2 (the "2003 Series 2 Bonds") (collectively, the 2003 Series 1 Bonds and the 2003 Series 2 Bonds shall be referred to herein as the "2003 Series 1 and 2 Bonds"). The 2003 Series 1 and 2 Bonds are being issued to advance refund certain outstanding Senior Bonds (as defined below).

The State provides capital funding for its Transportation Infrastructure Program (the "Infrastructure Program") by issuing senior and second lien special tax obligation bonds (the "Bonds") pursuant to Public Act No. 84-254 of the General Assembly of the State of Connecticut, February Session of 1984, as amended, and other public and special acts adopted by the General Assembly (the "Act"). The Bonds are payable solely from the taxes and other revenues of the State pledged therefor, including revenues pledged therefor which are credited to the Special Transportation Fund pursuant to the Act, and are issued either as senior bonds pursuant to the Senior Indenture, as defined below (the "Senior Bonds"), or as second lien bonds pursuant to the Second Lien Indenture, as defined below (the "Second Lien Bonds"), such as the 2003 Series 1 and 2 Bonds.

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

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

Senior Bonds are issued under the Indenture of Trust, dated as of September 15, 1984, between the State and The Connecticut National Bank, the initial trustee, as amended by the Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1, dated as of December 9, 1994, and as supplemented by the First through the Thirty-Second Supplemental Indentures to provide for the issuance of 35 series of Senior Bonds (collectively, the "Senior Indenture"). The thirty-fifth series of Senior Bonds ("Senior Bonds, 2002 Series B") was delivered on November 26, 2002, in the aggregate principal amount of $215,000,000. U.S. Bank National Association, Hartford, Connecticut is the successor trustee (the "Trustee") under the Senior Indenture.

Second Lien Bonds are issued under the Indenture of Trust, dated as of December 1, 1990, between the State and The Connecticut National Bank, the initial trustee, as amended by the Second Lien Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1, dated as of December 9, 1994, and as supplemented by the First Supplemental Indenture and Second Supplemental Indenture (collectively, with the Third Supplemental Indenture defined below, the "Second Lien Indenture"). The first series of Second Lien Bonds was issued in 1990 (the "1990 Series 1 Bonds") and the second series of Second Lien Bonds was issued in 2000 (the "2000 Series 1 Bonds"). The 2003 Series 1 and 2 Bonds will be the third series and fourth series, respectively, of Second Lien Bonds issued under the Second Lien Indenture. The particular terms of the 2003 Series 1 and 2 Bonds are set forth in the Third Supplemental Indenture of Trust dated as of January 1, 2003 (the "Third Supplemental Indenture") among the State, U.S. Bank National Association, Hartford, Connecticut, the successor trustee (the "Trustee") under the Second Lien Indenture, and U.S. Bank National Association, Hartford, Connecticut, the fiscal agent for the 2003 Series 1 and 2 Bonds (the "Fiscal Agent").

Although the 1990 Series 1 Bonds were issued as variable rate bonds, they are the subject of Qualified Swaps which synthetically provide the practical effect of fixed rate bonds. As variable rate bonds, the 2000 Series 1 Bonds served to vary the debt structure of the Special Transportation Fund. The State has not entered into a Qualified Swap with respect to the 2000 Series 1 Bonds. Although the 2003 Series 1 and 2 Bonds are being issued as variable rate bonds, the State expects to enter into Qualified Swaps which synthetically will provide the practical effect of fixed rate bonds.

The Senior Indenture and the Second Lien Indenture are collectively referred to herein as the "Indentures" and are individually referred to without distinction as the "Indenture."

The scheduled payment of principal of and interest on the 2003 Series 1 and 2 Bonds when due will be insured under a financial guaranty insurance policy to be issued simultaneously with the delivery of the 2003 Series 1 and 2 Bonds by Ambac Assurance Corporation (and its successors, if any, the "Bond Insurer"). See the section below entitled "Bond Insurance" and the specimen form of the bond insurance policy in Appendix G attached hereto.

The State will enter into a Standby Bond Purchase Agreement dated as of January 1, 2003 (the "Series 1 Standby Bond Purchase Agreement") with WestLB AG ("WestLB") acting through its New York Branch, with respect to the 2003 Series 1 Bonds and a Standby Bond Purchase Agreement dated as of January 1, 2003 (the "Series 2 Standby Bond Purchase Agreement") with Dexia Crédit Local ("Dexia"), acting through its New York Agency, Bayerische Landesbank ("Bayerische"), acting through its New York Branch, and Dexia, as administrative agent (the "Administrative Agent"), with respect to the 2003 Series 2 Bonds. Dexia acting as a bank and not as Administrative Agent, Bayerische and WestLB shall be referred to herein collectively as the "Initial Liquidity Providers", and the Series 1 Standby Bond Purchase Agreement and the Series 2 Standby Bond Purchase Agreement shall be referred to herein collectively as the "Standby Bond Purchase Agreements." The Series 1 Standby Bond Purchase Agreement is a liquidity facility that requires WestLB (the "Series 1 Bank") to purchase the 2003 Series 1 Bonds tendered or deemed tendered to the extent not remarketed, subject to the provisions therefor set forth in the Series 1 Standby Bond Purchase Agreement. The Series 1 Standby Bond Purchase Agreement is scheduled to expire on the fifth anniversary of the delivery date of the 2003 Series 1 Bonds provided that the obligation of the Series 1 Bank to purchase 2003 Series 1 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events. The Series 2 Standby Bond Purchase Agreement is a liquidity facility that requires Dexia, acting as a bank and not as Administrative Agent, and Bayerische (collectively the "Series 2 Banks"; together with the Series 1 Bank, the "Banks"), acting through the Administrative Agent, on a several not joint, equal and pro-rata basis, to purchase the 2003 Series 2 Bonds tendered or deemed tendered to the extent not remarketed, subject to the provisions therefor set forth in the Series 2 Standby Bond Purchase Agreement. The Series 2 Standby Bond Purchase Agreement is scheduled to expire on the fifth anniversary of the delivery date of the 2003 Series 2 Bonds, provided that the obligation of the Series 2 Banks to purchase 2003 Series 2 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events. Although the Standby Bond Purchase Agreements are Credit Facilities under the Second Lien Indenture, the Initial Liquidity Providers are not providing credit support for principal and interest on the 2003 Series 1 and 2 Bonds. The State may not replace the municipal bond insurance policy issued by the Bond Insurer, or amend in any material adverse respect the municipal bond insurance policy, without the consent of the Initial Liquidity Providers, nor may the State replace the Standby Bond Purchase Agreements issued by the Initial Liquidity Providers, or amend in any material adverse respect the Standby Bond Purchase Agreements, without the consent of the Bond Insurer. Except as otherwise described under "Standby Bond Purchase Agreements" below, the terms and provisions of each Standby Bond Purchase Agreement are substantially the same. See the section below entitled "Standby Bond Purchase Agreements" and certain information concerning the Initial Liquidity Providers in Appendix F attached hereto.

Unless the context otherwise indicates, references in this Official Statement to the "2003 Series 1 and 2 Bonds" apply to the 2003 Series 1 Bonds and the 2003 Series 2 Bonds independently. The payment of purchase price of the 2003 Series 1 Bonds and the 2003 Series 2 Bonds is secured by separate Initial Liquidity Facilities with different Initial Liquidity Providers. Actions may be taken, or determinations made, with respect to one series that are not taken or made with respect to the other. Immediate Termination Events and the times for delivery of bonds are different for each series. See "Standby Bond Purchase Agreements" and "The 2003 Series 1 Bonds and 2003 Series 2 Bonds – Delivery and Payment for Tendered Bonds."

There follows in this Official Statement a description of the Infrastructure Program, the nature of the obligation and the security for Bonds, the terms of the 2003 Series 1 and 2 Bonds, the establishment and maintenance of the Special Transportation Fund, including the transportation related revenues of the State to be credited to the Special Transportation Fund and the method of accounting therefor, and the Department of Transportation (the "Department"), which is charged with the management of the Infrastructure Program. Also included are summaries of certain provisions of the Indentures.

All references herein to the Act and the Indentures are qualified in their entirety by reference to the complete text of the Act and the respective Indenture, copies of which are available from the State, and all references to the 2003 Series 1 and 2 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Second Lien Indenture.

THE TRANSPORTATION INFRASTRUCTURE PROGRAM

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

The cost of the Infrastructure Program for State fiscal years 1985-2006, which is to be met from federal, State, and local funds, is currently estimated at $15.8 billion. The State's share of such cost, estimated at $5.9 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of special tax obligation bonds. The portion of State program costs not financed by the 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 1985-2006 to be financed by Bonds is currently estimated at $5.3 billion. The issuance of such special tax obligation bonds has eliminated the need for the authorization of additional general obligation bonds of the State for transportation purposes. Special tax obligation bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

During fiscal years 1985-2003, $13.7 billion of the total Infrastructure Program was approved. The remaining $2.1 billion is required for fiscal years 2004-2006. The $2.1 billion is comprised of $517.9 million from the anticipated issuance of new special tax obligation bonds, $38.4 million in anticipated revenues, and $1.59 billion in anticipated federal funds.

The aggregate of motor fuels taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, Oil Companies Tax Payments (as hereinafter defined), Sales Tax - DMV Payments (as hereinafter defined), motor vehicle related fines, penalties and other charges and other transportation related revenue sources, including enacted adjustments in all the foregoing sources, are intended to cover the cost of the State's share of the Infrastructure Program, including debt service requirements. After providing for debt service requirements, the balance of the receipts from such revenue sources may be applied to the payment of general obligation bonds of the State issued or previously authorized and to be issued for transportation purposes and for the payment of annually budgeted expenses of the Department and the Department of Motor Vehicles (the "DMV").

The State has established 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 Bonds. See "The Operations of the Special Transportation Fund." In addition, the State has established an Infrastructure Improvement Fund to account for the net proceeds of bonds and bond anticipation notes (the "Notes") issued under public and special acts adopted annually by the General Assembly authorizing such bonds. The 2003 Series 1 and 2 Bonds are neither payable from nor secured by the Infrastructure Improvement Fund.

NATURE OF OBLIGATION

Legal Authority - State Bond Commission

The State issues the Bonds pursuant to the Act, the Indentures and special legislation enacted annually authorizing additional Bonds. Under the terms and provisions of the Act, the State Bond Commission (established pursuant to Section 3-20 of the General Statutes of Connecticut, as amended) is empowered to authorize special tax obligation bonds of the State for transportation infrastructure projects and uses, subject to the annual legislative authorizations (the "Special Acts"). The Act also authorizes the issuance of special tax obligation bonds to refund outstanding special tax obligation bonds and authorizes the execution of the Indentures as contracts of the State with the holders of the Bonds. The Act expressly provides that holders of Bonds may sue the State upon such express contract in the Connecticut Superior Court for the Judicial District of Hartford.

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

Source of Payment

Special Transportation Fund

The Bonds are special obligations of the State and are payable solely from the revenues of the State pledged therefor as provided in the Act (the "Pledged Revenues") and other receipts, funds or moneys pledged therefor pursuant to the Act and the Indentures. Pursuant to the Act and under the Indentures, all Pledged Revenues received or collected are promptly credited to the Special Transportation Fund established pursuant to Public Act 83-30 of the June 1983 Special Session of the General Assembly, as amended. Pledged Revenues consist of taxes, fees, charges and other receipts of the State credited to the Special Transportation Fund. These include motor fuels taxes; motor vehicle receipts; motor vehicle related licenses, permits and fees; Oil Companies Tax Payments (as hereinafter defined), Sales Tax - DMV Payments (as hereinafter defined); motor vehicle related fines, penalties and other charges more particularly defined in the Act, including enacted adjustments in all of the foregoing sources; and certain transportation related federal revenues of the State credited to the Special Transportation Fund.[1] Other receipts, funds or moneys pledged under the Indentures include investment earnings and moneys in the funds and accounts established thereunder, subject to the application thereof as provided for in the Indentures.

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

[1] Certain transportation related federal revenues, presently consisting of Federal Transit Administration ("FTA") operating assistance grants, are not subject to the lien in favor of the Bonds until such revenues are credited to the Special Transportation Fund and are available for payment of debt service on Bonds and Notes and program expenses. See "Description of Revenue Sources of the Special Transportation Fund-Other Revenues."

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

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

Effective October 1, 2001, Connecticut adopted changes to Article 9 of the Uniform Commercial Code which governs the creation and perfection of security interests in collateral. As part of the legislation which makes such changes to Article 9, the State has opted to continue to exclude the applicability of Article 9 of the Uniform Commercial Code to transfers by a government or government subdivision or agency of the State. Accordingly, the changes to Article 9 of the Uniform Commercial Code as adopted in Connecticut do not change the pledges, liens and security interests granted by the State to secure the Bonds, as described above.

Agreements of the State

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

The Second Lien Bonds are secured by a separate Reserve Account established under the Second Lien Indenture, and the Senior Bonds are secured by a separate Reserve Account established under the Senior Indenture. The Senior Reserve Account is not available to pay debt service on Second Lien Bonds, and the Second Lien Reserve Account is not available to pay debt service on Senior Bonds. Nevertheless, under the terms of the Indentures, the required funding for both Reserve Accounts is required to be determined in the aggregate pursuant to the definition of the "Debt Service Reserve Requirement" set forth in the Second Lien Indenture. Pursuant to such aggregate funding computation, after the issuance of the 2003 Series 1 and 2 Bonds an amount approximating $19,900,000 will be released from the Senior Lien Reserve Account due to the refunding of the Refunded Bonds (identified under "The 2003 Series 1 Bonds and 2003 Series 2 Bonds – Plan of Refunding"). Approximately $2,600,000 of such $19,900,000 amount will be paid to the Special Transportation Fund and an amount approximating $17,300,000 will be added to the Second Lien Reserve Account, and the total amount therein will secure the 1990 Series 1 Bonds, the 2000 Series 1 Bonds and the 2003 Series 1 and 2 Bonds on a parity basis under the Second Lien Indenture. The actual amount deposited in the Second Lien Reserve Account at the time of issuance of the 2003 Series 1 and 2 Bonds will be based upon the synthetic interest rate(s) borne by the 2003 Series 1 or 2 Bonds after giving effect to the Qualified Swaps expected to be entered into by the State.

So long as Second Lien Bonds, including the 2003 Series 1 and 2 Bonds, are outstanding under the Second Lien Indenture, the State is obligated pursuant to the Second Lien Indenture to provide Pledged Revenues, in each fiscal year, after deducting payments out of Pledged Revenues for reserves required under the Indentures and computed as of the final business day of such fiscal year, in an amount equal to at least two (2) times the aggregate Principal and Interest Requirements on all Bonds and Notes outstanding in such fiscal year. For this purpose, Principal and Interest Requirements on Senior Bonds and Senior Notes issued under the Senior Indenture are calculated differently from Principal and Interest Requirements on Second Lien Bonds and Second Lien Notes issued under the Second Lien Indenture. See the sections below entitled "Summary of Certain Provisions of the Second Lien Indenture" and "Summary of Certain Provisions of the Senior Indenture."

In the event the State does not meet the foregoing coverage requirement, such a failure does not constitute an event of default under the Second Lien Indenture unless within one year after written notice from the Trustee of such failure, the State shall not enact legislation such that the conditions contained in the Second Lien Indenture would be satisfied if Additional Bonds were then to be issued. See the section below entitled "Summary of Certain Provisions of Second Lien Indenture-Events of Default" for a more detailed description.

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

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

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

Flow of Funds under the Indentures

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

Thereafter, after satisfaction of the monthly payments required to meet Debt Service Requirements for the Senior Bonds and Senior Notes as set forth in the Senior Indenture and any other transfers required to meet any other Senior Obligations, the State shall withdraw from the moneys held by it to the credit of the Special Transportation Fund, and deposit to the credit of the following accounts or subaccounts held by the Trustee under the Second Lien Indenture for the benefit of the owners of Second Lien Bonds and Notes and other Second Lien Obligations, the following sums:

(a) to the credit of the Bond Service Sub-Account, Note Repayment Account and Redemption Sub-Account, respectively, such amounts thereof, if any (or the entire sum so withdrawn if less than the required amount, in which case such sum shall be allocated among the purposes set forth in this subparagraph on a pro rata basis), as, may be required (i) to pay Debt Service Requirements (other than Amortization Requirements) with respect to Second Lien Bonds, and any amounts owing under any Qualified Swap and any reimbursement agreement entered into with respect to a Credit Facility providing for payment of principal, purchase price or interest on Second Lien Bonds, (ii) to make the amount then held to the credit of the Note Repayment Account held for payment of interest equal to the unpaid interest payable on Second Lien Notes and interest payable pursuant to any reimbursement agreement entered into with respect to a Credit Facility providing for payment of the principal of Second Lien Notes, and (iii) to make the amount then held to the credit of the Redemption Sub-Account equal to the aggregate Amortization Requirements, if any; and

(b) to the credit of the Reserve Account for the Second Lien Bonds, from time to time, but at least monthly, out of any balance remaining after making the deposits under (a) above (or the entire balance if less than the required amount), the lesser of: (i) the amount, if any, necessary to maintain such Reserve Account at the Second Lien Debt Service Reserve Requirement or (ii) one-twelfth ($1/12^{th}$) of the Second Lien Debt Service Reserve Requirement, or (iii) if a shortfall arises because of an increase in the Second Lien Debt Service Reserve Requirement arising out of a reestablishment of Principal and Interest Requirements in respect of a series of Second Lien Bonds bearing interest at a variable rate, one-twelfth of such increase.

Unless an earlier time is specified in the supplemental indenture, any Credit Facility reimbursement agreement or any Qualified Swap entered into with respect to a series of Second Lien Bonds, the deposits described under (a) above shall be made at the time such funds are required to be applied by the Trustee to the purposes specified. No such earlier deposits will be made for the 2003 Series 1 and 2 Bonds.

Following the transfers described above for the benefit of the holders of any Senior Obligations or Second Lien Obligations, the Pledged Revenues of the Special Transportation Fund may be applied, subject to appropriation and allotment, to payment of the debt service on general obligation bonds of the State issued for transportation purposes and to the payment of State budget appropriations for the Department and the DMV.

If at any time any amounts required to be paid to the Trustee under the Senior Indenture have not been so paid, no payments shall be made from the Special Transportation Fund except with respect to Senior Bonds and Senior Notes, and the Trustee shall be entitled to notify the Treasurer that such amounts are accrued and unpaid, whereupon any Pledged Revenues received by the State and credited to the Special Transportation Fund are required by the Act and the Senior Indenture to be paid by the Treasurer forthwith to the Trustee, and shall not be diverted to any other purpose, until such accrued and unpaid amounts have been paid in full. *In such event, payment of Debt Service Requirements on Second Lien Bonds, including principal of and interest on the 2003 Series 1 and 2 Bonds, could be prevented or delayed.*

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

Refunding Bonds

Refunding Bonds are authorized under the Act and the Indentures to be issued by the State having equal rank and on a parity, respectively, with the Senior Bonds or the Second Lien Bonds, as the case may be, heretofore issued. Refunding Bonds may be issued at any time and from time to time, in such amounts as the State Bond Commission may deem necessary for the purpose of refunding the principal of the Bonds to be refunded, any unpaid interest thereon to the date of redemption thereof, any premium necessary to be paid in connection therewith, and the costs and expenses of issuing such Refunding Bonds. Refunding Bonds shall be issued under and pursuant to a supplemental indenture (or supplemental indentures). The 2003 Series 1 and 2 Bonds are being issued as Refunding Bonds under the Act and the Second Lien Indenture.

Additional Bonds

Additional Bonds may be issued by the State under the Senior Indenture having equal rank and on a parity with the Senior Bonds heretofore issued for the Infrastructure Program. Additional Bonds may also be issued by the State under the Second Lien Indenture having equal rank and on a parity with the Second Lien Bonds heretofore issued for the Infrastructure Program. The Public and Special Acts provide for the issuance of Bonds for the Infrastructure Program in principal amounts not exceeding in the aggregate $5,320,314,104 of which $323,663,352 will be authorized and unissued after the issuance of the 2003 Series 1 and 2 Bonds. Of such $323,663,352 unissued amount, $308,663,352 has been authorized by the State Bond Commission. As indicated above, the 2003 Series 1 and 2 Bonds are issued as Refunding Bonds and do not constitute Additional Bonds. It is anticipated that Additional Bonds will be authorized by public and special acts annually in an amount necessary to finance and to complete the Infrastructure Program..

Subject to such statutory authorization, issuance of Additional Bonds requires compliance with the conditions contained in the respective Indenture. In addition, the Second Lien Indenture provides that the State may not issue Senior Bonds under the Senior Indenture unless such Senior Bonds could have been issued under the Second Lien Indenture. The Second Lien Indenture provides that Additional Second Lien Bonds for the Infrastructure Program shall be issued under and pursuant to a supplemental indenture (or supplemental indentures) and subject to compliance with the following conditions (the "Additional Second Lien Bonds Test"):

> (1) Pledged Revenues and other receipts, funds or moneys pledged under the Second Lien Indenture, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged thereunder for reserves required by the Senior Indenture or the Second Lien Indenture, actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months were equal to at least two (2) times the aggregate Principal and Interest Requirements

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

(2) Pledged Revenues and other receipts, funds or moneys pledged under the Second Lien Indenture, after deducting, for the applicable period, payments out of such Pledged Revenues and other receipts, funds or moneys pledged thereunder for reserves required by the Senior Indenture or the Second Lien Indenture, actually paid into the Special Transportation Fund for any period of twelve (12) consecutive calendar months of the immediately preceding eighteen (18) calendar months are equal to at least two (2) times the aggregate Principal and Interest Requirements on Senior Bonds, Principal and Interest Requirements on Second Lien Bonds and Interest Requirements on Second Lien Notes, with respect to all Senior Bonds, Second Lien Bonds and Second Lien Notes then outstanding and the Second Lien Bonds to be issued, for the current and each succeeding State fiscal year, after adjusting such Pledged Revenues and other receipts, funds or moneys pledged thereunder only to reflect any increase(s) or decrease(s) in taxes, fees or charges enacted to be in effect for such current or such succeeding fiscal year, and the Secretary of the Office of Policy and Management of the State shall deliver to the Trustee a certificate demonstrating such coverage; and

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

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

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

Qualified Swaps

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

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

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

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

Effective upon the delivery of the 2003 Series 1 and 2 Bonds, the State has entered into three Qualified Swaps as to all of the 2003 Series 1 and 2 Bonds which will provide the practical effect of issuing fixed rate bonds.

Bond Anticipation Notes and Subordinated Indebtedness

Bond Anticipation Notes

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

The Second Lien Indenture permits Second Lien Notes to be issued in anticipation of Senior Bonds and Second Lien Bonds, and provides that no Second Lien Notes shall be issued (i) unless the Senior Bonds or Second Lien Bonds in anticipation of which they are to be issued have been duly authorized in accordance with the Act and the Second Lien Indenture, and (ii) if the aggregate principal amount of all Second Lien Notes then outstanding and to be issued under the Second Lien Indenture exceeds $50,000,000, unless, as of the date of issuance of such Second Lien Notes, the State could have issued under the terms of the Second Lien Indenture an equivalent aggregate principal amount of serial Second Lien Bonds, maturing in equal annual installments of principal and interest, the last installment of which shall mature not later than thirty years after such date, and bearing interest at such rate as the State shall determine in its best judgment to be equivalent to the average interest rate which would have been paid had such Second Lien Bonds been issued at such time.

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

The Second Lien Indenture provides that any obligation of the State to pay the unrefunded principal of Second Lien Notes, including for this purpose any obligation of the State under a reimbursement agreement entered into in connection with a credit facility providing for payment of the unrefunded principal of Second Lien Notes, shall be subordinate to any obligation of the State to pay the principal and interest with respect to the Senior Bonds or Second Lien Bonds or interest with respect to Second Lien Notes.

Subordinated Indebtedness

Nothing in either Indenture prohibits the State (i) from issuing other indebtedness for any use or purpose of the State payable as to principal and interest from the Special Transportation Fund subject and subordinate to the deposits and credits required to be made to the separate Note Repayment Account and Debt Service Account for the Senior Bonds and the separate Note Repayment Account and Debt Service Account for the Second Lien Bonds, or (ii) from securing other indebtedness and the payment thereof by a call upon the Pledged Revenues and a lien on and pledge of the Special Transportation Fund junior and inferior to the call on the Pledged Revenues and to the lien on and pledge of the Special Transportation Fund created in the respective Indenture for the payment and security of the Senior Bonds and the Second Lien Bonds, respectively.

State General Taxing Power Not Pledged

Pursuant to the Act, the Bonds shall be special obligations of the State and shall not be payable from nor charged upon any funds other than the Pledged Revenues or other receipts, funds or moneys pledged therefor as provided in the Act, nor shall the State or any political subdivision thereof be subject to any liability thereon, except to the extent of the Pledged Revenues and such other receipts, funds or moneys pledged therefor. The issuance of the Bonds under the Act and the Indentures shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor (except for taxes included in the Pledged Revenues), or to make any additional appropriation for their payment. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property of the State or of any political subdivision thereof, other than the Pledged Revenues and other receipts, funds or moneys pledged therefor. The Bonds shall not be subject to any statutory limitation on the indebtedness of the State and, when issued, shall not be included in computing the aggregate indebtedness of the State with respect to and to the extent of any such limitation.

THE 2003 SERIES 1 BONDS AND 2003 SERIES 2 BONDS

Unless the context otherwise indicates, references in the following descriptions to the "2003 Series 1 and 2 Bonds" apply to the 2003 Series 1 Bonds and the 2003 Series 2 Bonds independently. The payment of the purchase price of the 2003 Series 1 Bonds and the 2003 Series 2 Bonds is secured by separate Initial Liquidity Facilities with different Initial Liquidity Providers. Actions may be taken, or determinations made, with respect to one series that are not taken or made with respect to the other. Immediate Termination Events under each Standby Bond Purchase Agreement are different. References below to the "Standby Bond Purchase Agreement" and to the "Bank" should be read as referring, as applicable, to the Series 1 Standby Bond Purchase Agreement and the Series 1 Bank or to the Series 2 Standby Bond Purchase Agreement and the Series 2 Banks. Except as otherwise described under "Standby Bond Purchase Agreements" below, the terms and provisions of each Standby Bond Purchase Agreement are substantially the same.

Purpose of the 2003 Series 1 and 2 Bonds - The Public and Special Acts

Under the terms and provisions of the Public and Special Acts, the General Assembly has empowered the State Bond Commission to authorize the issuance of not exceeding $5,320,314,104 special tax obligation bonds, in one or more series, to fund, together with anticipated federal grants, a portion of the costs of various purposes of the Infrastructure Program. The 2003 Series 1 and 2 Bonds are issued as Refunding Bonds and are not issued as Additional Bonds under the authorized but unissued balance for special tax obligation bonds of $323,663,352 remaining under the Public and Special Acts. It is expected that in each year special legislation will empower the State Bond Commission to authorize additional special tax obligation bonds to finance the Infrastructure Program.

On September 27, 2002, the State Bond Commission authorized the issuance and sale by the Treasurer of the 2003 Series 1 and 2 Bonds to refund certain outstanding Senior Bonds as well as the execution of the Third Supplemental Indenture by the Governor, the Treasurer or her Deputy, and the Comptroller, the Official Statement, a Continuing Disclosure Agreement, an Escrow Agreement, various other agreements as described herein and a Certificate of Determination executed by the Treasurer or her Deputy and filed with the Secretary of State Bond Commission.

Description of the 2003 Series 1 and 2 Bonds

General. The 2003 Series 1 Bonds will be issued as multi-modal bonds in the principal amount of $220,385,000 and the 2003 Series 2 Bonds will be issued as multi-modal bonds in the principal amount of $201,595,000. The 2003 Series 1 and 2 Bonds will initially bear interest in the Weekly Mode as described below (the "Weekly Mode") until such date, if any, as the State elects to change from the Weekly Mode to another interest rate mode with respect to all or any authorized portion of the 2003 Series 1 and 2 Bonds as provided in the Third Supplemental Indenture. The 2003 Series 1 and 2 Bonds will be dated the date of original delivery thereof, will mature on February 1, 2022 and will be subject to optional and mandatory tender for purchase and optional redemption and mandatory sinking fund redemption prior to maturity as set forth below. The principal, purchase price or redemption price of the 2003 Series 1 and 2 Bonds is payable to Beneficial Owners by DTC Participants (as defined below) through the facilities of The Depository Trust Company ("DTC"), New York, New York, while the 2003 Series 1 and 2 Bonds are in the book-entry only system described below. Otherwise, the principal, purchase price or redemption price of the 2003 Series 1 and 2 Bonds is payable at the office of U.S. Bank National Association, Hartford, Connecticut, as fiscal agent (the "Fiscal Agent"). Purchases of the 2003 Series 1 and 2 Bonds while in the Weekly Mode may be made only in book-entry form in denominations of $100,000 or any multiple of $5,000 in excess thereof.

At the option of the State, 2003 Series 1 and 2 Bonds in the Weekly Mode may be changed to any other interest rate mode available under the Third Supplemental Indenture, including the Commercial Paper Mode, Daily Mode, Term Mode or Fixed Rate Mode (each, as defined in the Third Supplemental Indenture). 2003 Series 1 and 2 Bonds in the Daily Mode, Weekly Mode, Commercial Paper Mode, Term Mode or Fixed Rate Mode will bear interest for different interest periods depending on which interest rate mode is chosen by the State. The rate of interest to be borne by 2003 Series 1 and 2 Bonds during any particular interest period will be determined by Lehman Brothers Inc., as Remarketing Agent (the "Remarketing Agent") under the Remarketing Agreement dated as of January 1, 2003 by and between the Remarketing Agent and the State. Depending on which mode or modes are then in effect for 2003 Series 1 and 2 Bonds, the dates interest rates are effective, the dates on which notices of tender are required to be given, the dates on which such 2003 Series 1 and 2 Bonds are to be tendered, the dates for notices of conversion to another mode and provisions for mandatory purchase applicable to such 2003 Series 1 and 2 Bonds will vary. Converted 2003 Series 1 and 2 Bonds will be subject to mandatory tender for purchase as described below under the heading "Mandatory Tender for Purchase Upon Mode Change Date."

This Official Statement describes only the terms and provisions applicable to the 2003 Series 1 and 2 Bonds while in the Weekly Mode. The State will prepare and distribute a supplement to this Official Statement in connection with any change from the Weekly Mode to another interest rate mode with respect to any affected 2003 Series 1 and 2 Bonds, and such supplement will set forth the terms and provisions applicable to the 2003 Series 1 and 2 Bonds in the new mode to which such 2003 Series 1 and 2 Bonds will be converted.

Interest. The 2003 Series 1 and 2 Bonds will bear interest initially at the Weekly Rate as described below (the "Weekly Rate") determined by the Remarketing Agent, effective to and including the Tuesday which next follows the date the 2003 Series 1 and 2 Bonds are issued. Thereafter, while in the Weekly Mode, the Weekly Rate generally will be determined by the Remarketing Agent on each Tuesday and will be effective on the following Wednesday. While in the Weekly Mode, interest on the 2003 Series 1 and 2 Bonds will be payable on the first Business Day of each calendar month, commencing February 3, 2003, and the record date for such 2003 Series 1 and 2 Bonds will be the day (which need not be a Business Day) immediately before such interest payment date. As used in this Official Statement, "Business Day" shall mean a day on which the Trustee, any Paying Agent, the Fiscal Agent, the Remarketing Agent, the Banks or banks or trust companies in New York, New York, are not authorized or required to remain closed and on which the New York Stock Exchange is not closed. Interest on 2003 Series 1 and 2 Bonds in a Weekly Mode will be computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed.

Principal of and interest on the 2003 Series 1 and 2 Bonds will be paid directly to The Depository Trust Company ("DTC") by the Fiscal Agent so long as DTC or its nominee, Cede & Co., is the Bondowner. See the section below entitled "Book-Entry-Only System" herein.

Weekly Rate Determination. For 2003 Series 1 and 2 Bonds in the Weekly Mode, the Weekly Rate shall be determined each week by the Remarketing Agent, by 4:00 p.m., New York City Time, on each Tuesday following the date of issuance of the 2003 Series 1 and 2 Bonds or, if Tuesday is not a Business Day, the next succeeding Wednesday, or if such succeeding Wednesday is not a Business Day, then the Monday immediately preceding such Tuesday (the "Rate Determination Date"). The interest rate for any 2003 Series 1 and 2 Bonds in the Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent as the minimum rate of interest which, in the opinion of the Remarketing Agent under the existing market conditions, would result in the sale of such 2003 Series 1 and 2 Bonds on the Rate Determination Date at a price equal to the principal amount thereof, plus accrued and unpaid interest, if any. Telephonic notice of each Weekly Rate will be given by the Remarketing Agent to any holder requesting such rate after 4:00 p.m. on each Rate Determination Date. If the Remarketing Agent fails to determine a Weekly Rate, 2003 Series 1 and 2 Bonds in the Weekly Mode will bear interest during each subsequent weekly interest period at the BMA Municipal Swap Index in effect on the Rate Determination Date for such weekly interest period. No Weekly Rate on 2003 Series 1 and 2 Bonds may exceed 9% per annum, the stated maximum rate.

Optional Tender for Purchase at Election of Holder. At the election of a holder, 2003 Series 1 and 2 Bonds in the Weekly Mode may be tendered for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date, payable in immediately available funds upon irrevocable written or telephonic notice (promptly confirmed in writing) of tender to the Remarketing Agent and Fiscal Agent not later than 4:00 p.m., New York City Time, on a Business Day not fewer than seven days prior to the purchase date specified by the owner in such notice. The purchase date may be any Business Day while the 2003 Series 1 and 2 Bonds are in the Weekly Mode. Tender notices in connection therewith shall specify the principal amount, which shall be an authorized denomination, and CUSIP number of each 2003 Series 1 and 2 Bond to be tendered and otherwise identify each tendered 2003 Series 1 and 2 Bond to the satisfaction of the Fiscal Agent. As noted below under "Book-Entry Bonds," for so long as the 2003 Series 1 and 2 Bonds are registered in the name of Cede & Co., as nominee for DTC, the procedures for tender of 2003 Series 1 and 2 Bonds will be governed by the operational procedures of DTC. Such optional tender for purchase right will be suspended or terminated if there is an immediate termination of the Standby Bond Purchase Agreement upon the occurrence of certain events as described below under the heading "Risk of Immediate Termination of Standby Bond Purchase Agreement" and in the section below entitled "Standby Bond Purchase Agreements." For information concerning the delivery and payment for optionally tendered 2003 Series 1 and 2 Bonds, see below under the heading "Delivery and Payment for Tendered Bonds". *It should be noted that the times by which Series 1 and Series 2 Bonds must be delivered to the Fiscal Agent differ according to the series.*

Mandatory Tender for Purchase Upon Mode Change Date. 2003 Series 1 and 2 Bonds to be converted from the Weekly Mode to another interest rate mode are subject to mandatory tender for purchase on the mode change date, which shall be a Business Day, at a purchase price equal to 100% of the principal amount of the affected 2003 Series 1 and 2 Bonds, plus accrued interest thereon. Whenever a mode change is to be effective for less than all outstanding 2003 Series 1 and 2 Bonds, the 2003 Series 1 and 2 Bonds to be converted to the new mode shall be selected by the Fiscal Agent in any manner deemed to be in the best interests of the State, provided, however, that 2003 Series 1 and 2 Bonds registered to the Initial Liquidity Provider and representing unpaid reimbursement owed to the Initial Liquidity Provider following any call on the Standby Bond Purchase Agreement ("Bank Bonds") shall, at the direction of the Initial Liquidity Provider, be selected for conversion ahead of any other 2003 Series 1 and 2 Bonds.

The Fiscal Agent shall give written notice of such mandatory purchase to the holders of the 2003 Series 1 and 2 Bonds no less than 15 days prior to the mandatory purchase date setting forth, among other things: (a) the mandatory purchase date; (b) the purchase price; (c) identification of the 2003 Series 1 and 2 Bonds to be purchased; (d) that in order to receive the purchase price thereof, the holder is required to transfer its 2003 Series 1 and 2 Bonds subject to mandatory tender to the Fiscal Agent with all necessary endorsements on or before noon on the mandatory purchase date; and (e) that interest on the 2003 Series 1 and 2 Bonds subject to mandatory purchase shall cease to accrue from and after the mandatory purchase date. For information concerning the delivery and payment for 2003 Series 1 and 2 Bonds subject to mandatory tender, see below under the heading "Delivery and Payment for Tendered Bonds". *It should be noted that the times by which Series 1 and Series 2 Bonds must be delivered to the Fiscal Agent differ according to the series.*

Standby Bond Purchase Agreements. *In the following descriptions, it should be noted that each Liquidity Facility is applicable to a separate series of the 2003 Series 1 and 2 Bonds. Except as other described under "Standby Bond Purchase Agreements" below, the terms and provisions of each Standby Bond Purchase Agreement are substantially the same. Actions may be taken, or determinations made, with respect to one series that are not necessarily taken or made with respect to the other. Immediate Termination Events under each Standby Bond Purchase Agreement are different. Furthermore, the purchase obligations of the Series 2 Banks are separate and not joint. If a Series 2 Bank fails to purchase its pro rata portion of the 2003 Series 2 Bonds, the other Series 2 Bank will not be obligated to purchase the unpurchased 2003 Series 2 Bonds.*

The Standby Bond Purchase Agreements are liquidity facilities under which the Initial Liquidity Providers agree to purchase their portion of the respective series of any unremarketed tendered or deemed tendered 2003 Series 1 and 2 Bonds in the Weekly Mode from time to time at a purchase price not to exceed the principal amount thereof plus accrued interest thereon (not in excess of 35 days of interest thereon at an interest rate not exceeding 9% per annum), subject to the terms and provisions set forth in the Standby Bond Purchase Agreements. Bonds of the respective series of the 2003 Series 1 and 2 Bonds purchased by an Initial Liquidity Provider pursuant to the particular Standby Bond Purchase Agreement shall remain outstanding and continue to accrue interest and become payable under the Second Lien Indenture as Bank Bonds. The Standby Bond Purchase Agreements are scheduled to expire on the fifth anniversary of the delivery date of the 2003 Series 1 and 2 Bonds, provided that the obligation of the Initial Liquidity Providers to purchase the 2003 Series 1 and 2 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events. Although the Standby Bond Purchase Agreements are Credit Facilities as defined under the Second Lien Indenture, the Initial Liquidity Providers are not providing credit support for the 2003 Series 1 and 2 Bonds.

The Third Supplemental Indenture provides that, to the extent necessary, on each purchase date for the 2003 Series 1 Bonds or the 2003 Series 2 Bonds the Fiscal Agent is required to draw on the appropriate Standby Bond Purchase Agreement, in accordance with its terms and to the extent of the availability of amounts thereunder, in sufficient time to have amounts available to the credit of the Remarketing Fund (established under the Third Supplemental Indenture) on the day of the draw.

The State may replace a Standby Bond Purchase Agreement with a new Liquidity Facility, as defined in the Third Supplemental Indenture, upon satisfaction of the requirements under the Third Supplemental Indenture, including, among others, (i) delivery to the Fiscal Agent of an opinion of Bond Counsel to the effect that the acceptance of such new Liquidity Facility is authorized or permitted under the Third Supplemental Indenture and will not adversely affect the tax exemption of the interest on the particular series of 2003 Series 1 and 2 Bonds, (ii) consent of the Bond Insurer and (iii) confirmation from each rating agency then rating the affected 2003 Series 1 Bonds or 2003 Series 2 Bonds, that the delivery of such Liquidity Facility will not result in the reduction or withdrawal of its rating on such 2003 Series 1 and 2 Bonds.

See the section below entitled "Standby Bond Purchase Agreements" for a summary of certain provisions of the Standby Bond Purchase Agreements and Appendix F for certain information concerning the Initial Liquidity Providers. All information concerning the Initial Liquidity Providers has been provided by the Initial Liquidity Providers, and the State is not responsible for its accuracy or completeness.

Mandatory Tender for Purchase Upon Substitution of New Provider of Liquidity Facility. The Third Supplemental Indenture provides that the State will notify the Fiscal Agent at least 35 days in advance of any surrender, cancellation, termination, amendment or modification of any Liquidity Facility, and that the Fiscal Agent shall promptly give such notice to the Holders of 2003 Series 1 and 2 Bonds subject to such Liquidity Facility. Such notice is in addition to the notice of mandatory purchase mentioned below.

Affected 2003 Series 1 and 2 Bonds shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date, on the date that a conforming alternate Liquidity Facility is to be substituted for the Standby Bond Purchase Agreement, which date of substitution and mandatory purchase shall be a Business Day which is at least five (5) days prior to the sooner of (i) the effective date of such alternate Liquidity Facility and (ii) the expiration date of the Standby Bond Purchase Agreement. Notice of such mandatory purchase shall be given by the Fiscal Agent to the affected holders no less than fifteen (15) days prior to the mandatory purchase date.

Mandatory Tender for Purchase If No Substitution for Standby Bond Purchase Agreement. Affected 2003 Series 1 and 2 Bonds shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date, in the event that on the last Business Day which is at least five (5) days prior to the expiration date of the Standby Bond Purchase Agreement, a conforming alternate Liquidity Facility has not been substituted for the Standby Bond Purchase Agreement. Notice of such mandatory purchase shall be given by the Fiscal Agent to the holders of affected 2003 Series 1 Bonds or 2003 Series 2 Bonds on the last Business Day which is at least fifteen (15) days prior to the expiration date of the respective Standby Bond Purchase Agreement in the event that on or before the 20th day before such expiration, a conforming alternate Liquidity Facility or commitment therefor has not been provided to and accepted by the Fiscal Agent.

Risk of Immediate Termination of Standby Bond Purchase Agreement. *Although the purchase obligations of the Series 2 Banks are several and not joint, certain actions such as termination will be joint decisions if, as anticipated, each such Bank maintains its equal, pro-rata purchase obligation. As a consequence, references below to an "Initial Liquidity Provider" with respect to the 2003 Series 2 Bonds should be read as referring to both Series 2 Banks. The Series 2 Standby Bond Purchase Agreement does not permit termination by only one Series 2 Bank.*

The obligation of an Initial Liquidity Provider to purchase 2003 Series 1 Bonds or 2003 Series 2 Bonds under its respective Standby Bond Purchase Agreement will be terminated prior to the stated expiration date, immediately and without notice, upon the occurrence of an Immediate Termination Event (the Immediate Termination Events and the Notice Termination Events under each of the Standby Bond Purchase Agreements are described below under "Standby Bond Purchase Agreements" in the summary of the particular Standby Bond Purchase Agreement). In the event of such immediate termination of such Initial Liquidity Provider's obligation to purchase the particular series of 2003 Series 1 and 2 Bonds, the affected series will **NOT** be subject to optional or mandatory tender for purchase, the Remarketing Agent will cease to remarket such series, and to determine the Weekly Rate therefor, and such series will thereafter bear interest at the BMA Municipal Swap Index (and if the BMA Municipal Swap Index ceases to be published, at a new third-party index selected in good faith by the State that has the described composition and methodology of the BMA Municipal Swap Index to the extent there is such an index that is readily available to the Remarketing Agent) plus two percent (2%). As soon as practicable, the Fiscal Agent shall give notice to the holders of the Bonds of the affected series of 2003 Series 1 and 2 Bonds of an Immediate Termination Event. See the section below entitled "Standby Bond Purchase Agreements" for a description of such Immediate Termination Events and the consequences of such immediate termination to the holders of 2003 Series 1 and 2 Bonds.

Mandatory Tender for Purchase Due to Downgrading of the Bond Insurer. Affected 2003 Series 1 Bonds or 2003 Series 2 Bonds are subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the mandatory purchase date in the case of a downgrade of the rating of the financial strength of the Bond Insurer. See the section below entitled "Standby Bond Purchase Agreements" and the summary of the particular Standby Bond Purchase Agreement for a description of its termination events and the consequences thereof.

Delivery and Payment for Tendered Bonds. The Fiscal Agent will purchase any 2003 Series 1 and 2 Bonds properly tendered for purchase in accordance with the provisions of the Third Supplemental Indenture to the extent of available funds. Delivery to the Fiscal Agent of 2003 Series 1 and 2 Bonds to be tendered for purchase, upon both optional and mandatory tender, together with wire payment instructions satisfactory to the Fiscal Agent, is required to be made by the times, New York City Time, set forth below with respect to the particular series of 2003 Series 1 and 2 Bonds on the Business Day which is the purchase date in order for tendering holders to be paid in immediately available funds by close of business on such day.

Series	**Time**
1	12:00 p.m.
2	1:00 p.m.

If the 2003 Series 1 and 2 Bonds are delivered after the above times, payment will be made by close of business on the next Business Day without any additional accrued interest. 2003 Series 1 and 2 Bonds which are required to be tendered for purchase, upon both optional and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such 2003 Series 1 and 2 Bonds are presented for payment, and holders shall have no further rights with respect to such 2003 Series 1 and 2 Bonds other than the right to receive payment of the purchase price upon surrender of the 2003 Series 1 and 2 Bonds.

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket 2003 Series 1 and 2 Bonds properly tendered for purchase; provided, however, that if requested to do so by the Initial Liquidity Providers, the Remarketing Agent will remarket Bank Bonds before remarketing any 2003 Series 1 and 2 Bonds which are not Bank Bonds.

Book-Entry Bonds. For so long as the 2003 Series 1 and 2 Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of holders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of 2003 Series 1 and 2 Bonds by giving notice of its election to tender 2003 Series 1 and 2 Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender 2003 Series 1 and 2 Bonds directly to the Fiscal 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 2003 Series 1 and 2 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 2003 Series 1 and 2 Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of 2003 Series 1 and 2 Bonds shall be given to DTC only, and neither the State, the Fiscal 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 2003 Series 1 and 2 Bonds.

For so long as the 2003 Series 1 and 2 Bonds are registered in the name of Cede & Co., as nominee for DTC, (1) delivery of 2003 Series 1 and 2 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 Fiscal Agent of a beneficial interest in such 2003 Series 1 and 2 Bonds or portions thereof required to be tendered for purchase on that date, and (2) payment of the purchase price of such 2003 Series 1 and 2 Bonds 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 the section below entitled "Book-Entry-Only System."

Optional Redemption. 2003 Series 1 and 2 Bonds in the Weekly Mode are subject to optional redemption prior to maturity at the election of the State, in whole on any Business Day or in part on the first Business Day of any calendar month, at a redemption price equal to 100% of the principal amount of 2003 Series 1 and 2 Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium.

Mandatory Sinking Fund Redemption. The 2003 Series 1 Bonds are subject to mandatory sinking fund redemption on February 1 in the years and principal amounts shown below, at a redemption price equal to 100% of the principal amount of the 2003 Series 1 Bonds to be redeemed, plus accrued interest thereon to the redemption date:

Year	Principal Amount	Year	Principal Amount
2004	$1,540,000	2014	$30,890,000
2005	1,600,000	2015	32,255,000
2006	1,650,000	2016	33,125,000
2007	1,715,000	2017	29,145,000
2008	1,775,000	2018	24,080,000
2009	1,835,000	2019	16,120,000
2010	1,905,000	2020	9,125,000
2011	1,975,000	2021	6,410,000
2012	4,785,000	2022*	800,000
2013	19,655,000		

* Final Maturity

The State is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the 2003 Series 1 Bonds by the principal amount of any 2003 Series 1 Bonds previously purchased or optionally redeemed by the State. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other 2003 Series 1 Bonds.

The 2003 Series 2 Bonds are subject to mandatory sinking fund redemption on February 1 in the years and principal amounts shown below, at a redemption price equal to 100% of the principal amount of the 2003 Series 2 Bonds to be redeemed, plus accrued interest thereon to the redemption date:

Year	Principal Amount	Year	Principal Amount
2004	$1,380,000	2014	$28,290,000
2005	1,425,000	2015	29,540,000
2006	1,485,000	2016	30,360,000
2007	1,535,000	2017	26,715,000
2008	1,590,000	2018	22,065,000
2009	1,650,000	2019	14,780,000
2010	1,705,000	2020	8,370,000
2011	1,765,000	2021	5,880,000
2012	4,340,000	2022*	735,000
2013	17,985,000		

* Final Maturity

The State is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the 2003 Series 2 Bonds by the principal amount of any 2003 Series 2 Bonds previously purchased or optionally redeemed by the State. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other 2003 Series 2 Bonds.

Notice of Redemption. Notice of redemption shall be mailed not less than thirty (30) nor more than sixty (60) days prior to the redemption date, by registered mail, to the registered owner of such 2003 Series 1 and 2 Bonds at the address as it appears on the books of registry or at such address as such owner may have filed with the registrar for that purpose. So long as Cede & Co., as nominee of DTC, is the registered owner of the 2003 Series 1 and 2 Bonds, all notices of redemption will be sent only to DTC, and delivery of such notices of redemption to DTC's Participants and Indirect Participants and Beneficial Owners of 2003 Series 1 and 2 Bonds will be governed by the customary practices and procedures of DTC and said Participants and Indirect Participants. 2003 Series 1 and 2 Bonds called for redemption shall, on the redemption date designated in the notice of redemption, become due and payable only if moneys for the payment of such 2003 Series 1 and 2 Bonds called for redemption, including the interest to accrue to the redemption date on such 2003 Series 1 and 2 Bonds, are held for the purpose of payment by the Trustee or Fiscal Agent.

Selection for Redemption. In the event that less than all of the 2003 Series 1 and 2 Bonds of a single maturity are to be redeemed, and so long as the book-entry-only system remains in effect for such 2003 Series 1 and 2 Bonds, the particular 2003 Series 1 and 2 Bonds or portion of any such 2003 Series 1 and 2 Bonds to be redeemed will be selected by DTC in such manner as DTC shall determine, provided that Bank Bonds shall be redeemed first. If the book-entry-only system no longer remains in effect for the 2003 Series 1 and 2 Bonds, selection for redemption of less than all of the 2003 Series 1 and 2 Bonds will be made by the Fiscal Agent by lot or in such other manner as it shall deem fair, provided that Bank Bonds shall be redeemed first. In no event will any 2003 Series 1 and 2 Bonds be outstanding in a principal amount that is not an authorized denomination.

Plan of Refunding

The 2003 Series 1 and 2 Bonds are being issued to advance refund the maturities and principal amounts of outstanding Senior Bonds (the "Refunded Bonds") on the dates and at the redemption prices as follows:

Series	Maturity Date	Principal Amount	Coupon	Call Date	Call Price
1993 C	10/1/2013	$13,400,000	5.000 %	10/1/2003	101.50%
1996 B	10/1/2014	11,120,000	5.500	10/1/2006	101.00
1996 B	10/1/2015	11,740,000	5.375	10/1/2006	101.00
1996 B	10/1/2016	12,390,000	5.375	10/1/2006	101.00
1997 A	11/1/2013	9,705,000	5.000	11/1/2007	101.00
1997 A	11/1/2014	10,200,000	5.000	11/1/2007	101.00
1997 A	11/1/2015	10,725,000	5.000	11/1/2007	101.00
1997 A	11/1/2016	11,275,000	5.000	11/1/2007	101.00
1997 A	11/1/2017	11,855,000	5.000	11/1/2007	101.00
1998 B	11/1/2014	14,735,000	5.250	11/1/2008	101.00
1998 B	11/1/2015	15,510,000	5.250	11/1/2008	101.00
1998 B	11/1/2016	16,325,000	4.750	11/1/2008	101.00
1998 B	11/1/2017	17,100,000	4.750	11/1/2008	101.00
1998 B	11/1/2018	17,910,000	4.750	11/1/2008	101.00
1999 A	12/1/2012	3,865,000	5.125	12/1/2009	101.00
1999 A	12/1/2012	5,010,000	5.625	12/1/2009	101.00
1999 A	12/1/2013	7,855,000	5.625	12/1/2009	101.00
1999 A	12/1/2013	1,495,000	5.250	12/1/2009	101.00
1999 A	12/1/2014	8,920,000	5.750	12/1/2009	101.00
1999 A	12/1/2014	950,000	5.375	12/1/2009	101.00
1999 A	12/1/2015	7,685,000	5.750	12/1/2009	101.00
1999 A	12/1/2015	2,750,000	5.500	12/1/2009	101.00
1999 A	12/1/2016	1,325,000	5.500	12/1/2009	101.00
1999 A	12/1/2016	9,705,000	5.750	12/1/2009	101.00
1999 A	12/1/2017	8,970,000	6.000	12/1/2009	101.00
1999 A	12/1/2017	2,690,000	5.500	12/1/2009	101.00
1999 A	12/1/2018	2,490,000	5.625	12/1/2009	101.00
1999 A	12/1/2018	9,855,000	6.000	12/1/2009	101.00
1999 A	12/1/2019	13,080,000	5.625	12/1/2009	101.00
2000 A	9/1/2013	1,585,000	5.125	9/1/2010	101.00
2000 A	9/1/2013	7,480,000	5.500	9/1/2010	101.00
2000 A	9/1/2014	6,040,000	5.625	9/1/2010	101.00
2000 A	9/1/2014	3,585,000	5.125	9/1/2010	101.00
2001 A	10/1/2014	5,505,000	5.375	10/1/2011	100.00
2001 A	10/1/2015	3,515,000	4.500	10/1/2011	100.00
2001 A	10/1/2015	6,770,000	5.375	10/1/2011	100.00
2001 A	10/1/2016	1,290,000	4.600	10/1/2011	100.00
2001 A	10/1/2016	9,545,000	5.375	10/1/2011	100.00
2001 A	10/1/2017	1,360,000	4.750	10/1/2011	100.00
2001 A	10/1/2017	10,065,000	5.375	10/1/2011	100.00
2001 A	10/1/2018	1,460,000	4.800	10/1/2011	100.00
2001 A	10/1/2018	10,585,000	5.375	10/1/2011	100.00
2001 A*	10/1/2021	40,035,000	5.000	10/1/2011	100.00
TOTAL		$379,455,000			

* Term Bonds

Upon delivery of the 2003 Series 1 and 2 Bonds, proceeds will be placed in escrow with U.S. Bank National Association (the "Escrow Holder"), under an Escrow Agreement (the "Escrow Agreement") to be dated as of January 1, 2003 between the Escrow Holder and the State. The Escrow Holder will deposit in an irrevocable trust fund called the Escrow Deposit Fund the net proceeds of the 2003 Series 1 and 2 Bonds and monies from the Bond Service Sub-Account of the Debt Service Account allocable to the Refunded Bonds, and will use such proceeds to purchase direct obligations of, or obligations guaranteed by, the United States of America (the "Government Obligations"), the principal of and interest on which, when due, along with any uninvested cash amounts, will provide amounts sufficient to meet principal and interest payments and redemption prices on the Refunded Bonds on the dates such payments are due. All investment income on and maturing principal of the Government Obligations held in the Escrow Deposit Fund and needed to pay the principal and premium of and interest on the Refunded Bonds will be irrevocably deposited by the State for payment of the Refunded Bonds.

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

Sources and Uses of Funds

The proceeds to be derived from the sale of the 2003 Series 1 and 2 Bonds are estimated to be applied as follows:

Sources

Principal Amount of 2003 Series 1 Bonds	$220,385,000
Principal Amount of 2003 Series 2 Bonds	$201,595,000
Senior Debt Service Account Release	$3,673,365
Total	$425,653,365

Uses

Deposit into Escrow Deposit Fund	$423,022,825
Estimated Costs of Issuance	$751,257
Bond Insurance Premium	$1,271,796
Underwriting Discount	$607,487
Total	$425,653,365

See "Agreements of the State" for a discussion of the deposit of funds to the Second Lien Reserve Account and the release of funds from the Senior Lien Reserve Account as the result of the issuance of the 2003 Series 1 and 2 Bonds and the refunding of the Refunded Bonds.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2003 Series 1 and 2 Bonds, Ambac Assurance Corporation ("Ambac Assurance") will issue its Municipal Bond Insurance Policy for the 2003 Series 1 and 2 Bonds (the "Obligations"). The Policy guarantees the scheduled payment of principal of and interest on the Obligations when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Obligations effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee or Paying Agent. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Obligations become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Obligations, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Obligations on the originally scheduled interest and principal payments dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Obligations, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee or Paying Agent has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United Sates Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Obligations to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Obligations to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation, and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the Connecticut Insurance Guaranty Association.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately **$5,802,000,000** (unaudited) and statutory capital of approximately **$3,564,000,000** (unaudited) as of **September 30, 2002**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations.

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;

2) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;

3) The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;

4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;

5) The Company's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;

6) The Company's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002;

7) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002;

8) The Company's Current Report on Form 8-K dated October 16, 2002 and filed on October 17, 2002;

9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2002 and filed on November 14, 2002; and

10) The Company's Current Report on Form 8-K dated November 18, 2002 and filed on November 20, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "**Available Information**."

STANDBY BOND PURCHASE AGREEMENTS

The following is a summary of certain provisions of the Standby Bond Purchase Agreements between the State and the Initial Liquidity Providers. The following summary does not purport to be a full and complete statement of the provisions of the Standby Bond Purchase Agreements, which should be read in their entirety for a complete understanding of their terms and provisions. Except as otherwise described below, the terms and provisions of each Standby Bond Purchase Agreement are substantially the same. Copies of the Standby Bond Purchase Agreements may be obtained from the State or the Trustee. For certain information provided by the Initial Liquidity Providers regarding their corporate organization and financial condition, see Appendix F attached hereto. Unless the context otherwise indicates, references in the following descriptions to the "2003 Series 1 and 2 Bonds" apply to the 2003 Series 1 Bonds and the 2003 Series 2 Bonds independently. The payment of the purchase price of the 2003 Series 1 Bonds and the 2003 Series 2 Bonds is secured by separate Initial Liquidity Facilities with different Initial Liquidity Providers. Actions may be taken, or determinations made, with respect to one series that are not taken or made with respect to the other. Immediate Termination Events under each Standby Bond Purchase Agreement are different.

Series 1 Standby Bond Purchase Agreement

Under the Series 1 Standby Bond Purchase Agreement, the Series 1 Bank will agree, upon appropriate notice from the Fiscal Agent as provided in the Series 1 Standby Bond Purchase Agreement, to purchase any unremarketed tendered or deemed tendered 2003 Series 1 Bonds in the Weekly Mode from time to time at a purchase price not to exceed the principal amount thereof plus accrued interest thereon (not in excess of 35 days of interest thereon at an interest rate not exceeding 9% per annum), subject to the terms and provisions set forth in the Series 1 Standby Bond Purchase Agreement. 2003 Series 1 Bonds purchased by the Series 1 Bank pursuant to the Series 1 Standby Bond Purchase Agreement shall remain outstanding and continue to accrue interest and become payable under the Second Lien Indenture as Bank Bonds. The Series 1 Standby Bond Purchase Agreement is scheduled to expire on the fifth anniversary of the delivery date of the 2003 Series 1 Bonds, provided that the obligation of the Series 1 Bank to purchase 2003 Series 1 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events, as described below. Although the Series 1 Standby Bond Purchase Agreement is a Credit Facility as defined under the Second Lien Indenture, it is a liquidity facility only, and the Series 1 Bank is not providing credit support for the 2003 Series 1 Bonds. The enforceability of the Series 1 Standby Bond Purchase Agreement may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or similar laws affecting the enforcement of creditors' rights in general, principles of law and equity relating to fraud and general principles of equity.

Immediate Termination of Standby Bond Purchase Agreement. Upon the occurrence of certain events of immediate termination as described below (each, an "Immediate Termination Event"), the Series 1 Bank's obligation to purchase the 2003 Series 1 Bonds tendered or deemed tendered but not remarketed will be immediately terminated without notice or demand. Upon such immediate termination of the Series 1 Standby Bond Purchase Agreement, the 2003 Series 1 Bonds will NOT be subject to optional or mandatory tender for purchase, the Remarketing Agent will cease to remarket the 2003 Series 1 Bonds and to determine the Weekly Rate therefor, and the 2003 Series 1 Bonds will thereafter bear interest at the BMA Municipal Swap Index (and if the BMA Municipal Swap Index ceases to be published, at a new third-party index selected in good faith by the State that has the described composition and methodology of the BMA Municipal Swap Index to the extent there is such an index that is readily available to the Remarketing Agent) plus two percent (2%) (the "Alternative Weekly Rate"). The Fiscal Agent must give notice to the holders of 2003 Series 1 Bonds after becoming aware of such immediate termination of the Series 1 Standby Bond Purchase Agreement.

Upon any such immediate termination of liquidity support under the Series 1 Standby Bond Purchase Agreement, no funds will be available to pay the purchase price of tendered 2003 Series 1 Bonds except in connection with any mandatory tender for purchase of 2003 Series 1 Bonds associated with: (1) the provision, at the discretion of the State, of a conforming Credit Facility to replace the Series 1 Standby Bond Purchase Agreement or (2) the conversion, at the discretion of the State, of 2003 Series 1 Bonds to a Fixed Rate or Rates. Until the earlier to occur of maturity, provision of any such replacement Credit Facility or conversion to a Fixed Rate or Rates, the 2003 Series 1 Bonds will continue to bear interest at the Alternative Weekly Rate.

Each of the following events shall constitute an Immediate Termination Event under the Series 1 Standby Bond Purchase Agreement:

(1) A Bond Insurer Event of Insolvency (as defined below) shall have occurred;

(2) The Bond Insurer shall fail, wholly or partially, to make a payment of principal or interest as required under the Policy;

(3) The Bond Insurer by official action shall repudiate its obligations under the Policy with respect to payment of principal of and interest on the 2003 Series 1 Bonds or the Bond Insurer shall initiate any legal proceedings to seek an adjudication that the Policy, with respect to the payment of principal of or interest on the 2003 Series 1 Bonds, is not valid and binding on the Bond Insurer;

(4) Any governmental authority or court with jurisdiction to rule on the validity of the Policy shall announce, find or rule that such Policy is not valid and binding on the Bond Insurer, and such announcement, finding or ruling shall be final or non-appealable;

(5) Another person is substituted for the Bond Insurer as insurer of the 2003 Series 1 Bonds, or the Policy is surrendered, canceled, or terminated, or amended or modified in any material adverse respect related to its commitment to guarantee the payment of principal of and interest on the Series 1 Bank Bonds, without the Series 1 Bank's prior written consent;

(6) The Bond Insurer shall fail, wholly or partially, to make any payment required under any other municipal bond insurance policy issued by it excepting, however, certain circumstances where the obligation of the Bond Insurer to pay is being contested by the Bond Insurer in good faith by appropriate proceedings and such failure is not attributable to the financial condition of the Bond Insurer; or

(7) Each of Moody's, S&P and Fitch shall downgrade the rating of the financial strength of the Bond Insurer to below, respectively, "Baa3", "BBB-" and "BBB-".

Bond Insurer Event of Insolvency means the occurrence and continuance of one or more of the following events:

(a) the issuance, under the laws of the State of New York (or other jurisdiction of domicile of the Bond Insurer), of an order of rehabilitation, liquidation, supervision or dissolution of the Bond Insurer;

(b) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including without limitation the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property;

(c) the consent of the Bond Insurer to any relief referred to in the preceding clause in an involuntary case or other proceeding commenced against it or the commencement against the Bond Insurer of an involuntary case or other proceeding seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including without limitation the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property, if such case or proceeding shall continue undismissed or unstayed and in effect for a period of 60 consecutive days or an order for relief shall be entered or a receiver, supervisor or similar official shall be appointed in any involuntary case against the Bond Insurer under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect;

(d) the making by the Bond Insurer of an assignment for the benefit of creditors;

(e) the failure of the Bond Insurer generally to pay its debts as they become due after any applicable grace period or the admission of the same by the Bond Insurer; or

(f) the initiation by the Bond Insurer of any actions to authorize any of the foregoing.

Consequences Following Immediate Termination Events. Upon the occurrence of an Immediate Termination Event:

(1) The obligation of the Series 1 Bank to purchase tendered 2003 Series 1 Bonds shall immediately terminate without notice to or demand upon any person, and thereafter the Series 1 Bank shall be under no obligation to purchase any tendered 2003 Series 1 Bonds; and

(2) Promptly upon the occurrence of an Immediate Termination Event, the Series 1 Bank shall give written notice of the same to the State, the Trustee, the Fiscal Agent and the Remarketing Agent, *but* the Series 1 Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice, and such failure shall in no way affect the termination of the obligation of the Series 1 Bank to purchase tendered 2003 Series 1 Bonds pursuant to the Series 1 Standby Bond Purchase Agreement.

Upon receipt of written notice of an Immediate Termination Event from the Series 1 Bank, the Fiscal Agent shall notify all holders of 2003 Series 1 Bonds of the termination of the obligation of the Series 1 Bank to purchase tendered 2003 Series 1 Bonds.

Termination of Series 1 Standby Bond Purchase Agreement With Notice and Mandatory Tender. Each of the following events shall constitute a Notice Termination Event under the Series 1 Standby Bond Purchase Agreement (a "Notice Termination Event"):

The rating of the Bond Insurer's financial strength shall be downgraded by any two of Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings to or below A2, A and A, respectively, or

The State fails to pay any commitment fee to the Series 1 Bank and it remains unpaid for 90 days after the Series 1 Bank gives written notice to the Bond Insurer, the State and the Fiscal Agent.

If a Notice Termination Event occurs:

(a) The Series 1 Bank may terminate its commitment to purchase tendered 2003 Series 1 Bonds by giving written notice of the occurrence of such Notice Termination Event (the "Notice of Termination") to the State, the Trustee, the Fiscal Agent and the Remarketing Agent and shall specify a purchase date for the mandatory tender of 2003 Series 1 Bonds in respect of such Notice of Termination Event on or before a date specified in such Notice of Termination, which mandatory purchase date shall be a date that is at least fifteen (15) days after the date such Notice is effective; and

(b) The obligation of the Series 1 Bank to purchase tendered 2003 Series 1 Bonds shall terminate upon the purchase by the Series 1 Bank of all tendered 2003 Series 1 Bonds tendered or deemed tendered pursuant to the mandatory tender for purchase following receipt of the Notice of Termination, and thereafter the Series 1 Bank shall be under no obligation to purchase any tendered 2003 Series 1 Bonds.

Events of Default. Each of the following events shall constitute an Event of Default ("Event of Default") under the Series 1 Standby Bond Purchase Agreement unless waived by the Series 1 Bank:

(1) the Series 1 Bank shall not be paid any amount due thereunder within five Business Days after notice to the State that same is due and payable and unpaid;

(2) the State shall fail to repurchase Series 1 Bank Bonds on any date such purchase is required under the Series 1 Standby Bond Purchase Agreement;

(3) the State shall fail to perform or observe certain covenants with respect to compliance with required Pledged Revenues coverage, maintenance of the Reserve Account for the Second Lien Bonds and the issuance of

Senior Obligations and Second Lien Obligations contained in the Series 1 Standby Bond Purchase Agreement;

(4) the State shall fail to perform any covenant or agreement contained in the Series 1 Standby Bond Purchase Agreement (other than those covered by paragraph (1), (2) or (3) above) for 60 days after written notice thereof has been given to the State by the Series 1 Bank, *provided* that if such failure cannot be remedied within 60 days, the Series 1 Bank shall not unreasonably withhold or delay its consent to extending such time so long as the State has demonstrated to the satisfaction of the Series 1 Bank that the State is pursuing corrective actions with all due diligence;

(5) the State shall fail to pay any principal (including redemption premium, if any) of or interest on Senior Obligation or any Second Lien Obligation as and when the same shall become due, whether at stated maturity, upon redemption or acceleration or otherwise, *except* as occasioned by a failure of any provider of a credit or liquidity facility or swap agreement counterparty to perform it obligations thereunder;

(6) an event of default (other than as covered by paragraph (5) above) under any of the 2003 Series 1 Bonds, the Second Lien Indenture, the Tax Regulatory Agreement for the 2003 Series 1 Bonds and the Remarketing Agreement (collectively, the "Related Documents") shall have occurred and be continuing;

(7) any warranty, representation or other written statement made by or on behalf of the State contained in the Series 1 Standby Bond Purchase Agreement, or in any of the Related Documents, or in any instrument furnished in compliance with or in reference to any of the foregoing, is incorrect in any material respect on any date as of which made; or

(8) any provision of the Series 1 Standby Bond Purchase Agreement shall at any time for any reason cease to be valid and binding on the State, or shall be declared null and void, or the validity or enforceability thereof shall be contested by the State or by any other governmental agency or authority or the State shall deny that it has any or further liability or obligation under the Series 1 Standby Bond Purchase Agreement.

Bank Remedies Following Events of Default. Whenever an Event of Default under the Series 1 Standby Bond Purchase Agreement shall have occurred and be continuing, the Series 1 Bank may exercise all or any of its rights and remedies as it may have under law and equity to protect and enforce its rights thereunder. The termination of the Series 1 Standby Bond Purchase Agreement is not a remedy for an Event of Default thereunder.

In addition whenever an event of default shall have occurred and be continuing under the Second Lien Indenture, if the Series 1 Bank owns Series 1 Bank Bonds, the Series 1 Bank may exercise such rights as it may have as a holder of Series 1 Bank Bonds.

Series 2 Standby Bond Purchase Agreement

Under the Series 2 Standby Bond Purchase Agreement, the Series 2 Banks will agree, severally and not jointly, upon appropriate notice from the Administrative Agent (who has received the appropriate notice from the Fiscal Agent) as provided in the Series 2 Standby Bond Purchase Agreement, to purchase their respective equal, pro-rata portions of any unremarketed tendered or deemed tendered 2003 Series 2 Bonds in the Weekly Mode from time to time at a purchase price not to exceed the principal amount thereof plus accrued interest thereon (not in excess of 35 days of interest thereon at an interest rate not exceeding 9% per annum), subject to the terms and provisions set forth in the Series 2 Standby Bond Purchase Agreement. 2003 Series 2 Bonds purchased by the Series 2 Banks pursuant to the Series 2 Standby Bond Purchase Agreement shall remain outstanding and continue to accrue interest and become payable under the Second Lien Indenture as Bank Bonds. The Series 2 Standby Bond Purchase Agreement is scheduled to expire on the fifth anniversary of the delivery date of the 2003 Series 2 Bonds, provided that the obligations of the Series 2 Banks to purchase 2003 Series 2 Bonds will terminate earlier (in some cases without notice) upon the occurrence of certain events, as described below. Although the Series 2 Standby Bond Purchase Agreement is a Credit Facility as defined under the Second Lien Indenture, it is a liquidity facility only, and the Series 2 Banks are not providing credit support for the 2003 Series 2 Bonds. The enforceability of the Series 2 Standby Bond Purchase Agreement may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or similar laws affecting the enforcement of creditors' rights in general, principles of law and equity relating to fraud and general principles of equity.

Immediate Termination of Standby Bond Purchase Agreement. Upon the occurrence of certain events of immediate termination as described below (each, an "Immediate Termination Event"), the Series 2 Banks' obligation to purchase the 2003 Series 2 Bonds tendered or deemed tendered but not remarketed will be immediately terminated without notice or demand. Upon such immediate termination of the Series 2 Standby Bond Purchase Agreement, the 2003 Series 2 Bonds will NOT be subject to optional or mandatory tender for purchase, the Remarketing Agent will cease to remarket the 2003 Series 2 Bonds and to determine the Weekly Rate therefor, and the 2003 Series 2 Bonds will thereafter bear interest at the BMA Municipal Swap Index (and if the BMA Municipal Swap Index ceases to be published, at a new third-party index selected in good faith by the State that has the described composition and methodology of the BMA Municipal Swap Index to the extent there is such an index that is readily available to the Remarketing Agent) plus two percent (2%) (the "Alternative Weekly Rate"). The Fiscal Agent must give notice to the holders of 2003 Series 2 Bonds after becoming aware of such immediate termination of the Series 2 Standby Bond Purchase Agreement.

Upon any such immediate termination of liquidity support under the Series 2 Standby Bond Purchase Agreement, no funds will be available to pay the purchase price of tendered 2003 Series 2 Bonds except in connection with any mandatory tender for purchase of 2003 Series 2 Bonds associated with: (1) the provision, at the discretion of the State, of a conforming Credit Facility to replace the Series 2 Standby Bond Purchase Agreement or (2) the conversion, at the discretion of the State, of 2003 Series 2 Bonds to a Fixed Rate or Rates. Until the earlier to occur of maturity, provision of any such replacement Credit Facility or conversion to a Fixed Rate or Rates, the 2003 Series 2 Bonds will continue to bear interest at the Alternative Weekly Rate.

Each of the following events shall constitute an Immediate Termination Event under the Series 2 Standby Bond Purchase Agreement:

(1) A Bond Insurer Event of Insolvency (as defined below) shall have occurred;

(2) The Bond Insurer shall fail, wholly or partially, to make a payment of principal or interest as required under the Policy;

(3) The Bond Insurer by official action shall repudiate its obligations under the Policy with respect to payment of principal of and interest on the 2003 Series 2 Bonds or the Bond Insurer shall initiate any legal proceedings to seek an adjudication that the Policy, with respect to the payment of principal of or interest on the 2003 Series 2 Bonds, is not valid and binding on the Bond Insurer;

(4) Any governmental authority or court with jurisdiction to rule on the validity of the Policy shall announce, find or rule that such Policy is not valid and binding on the Bond Insurer, and such announcement, finding or ruling shall be final or non-appealable;

(5) Another person is substituted for the Bond Insurer as insurer of the 2003 Series 2 Bonds, or the Policy is surrendered, canceled, or terminated, or amended or modified in any material adverse respect related to its commitment to guarantee the payment of principal of and interest on the Series 2 Bank Bonds, without the Series 2 Banks' prior written consent determined as provided in the Series 2 Standby Bond Purchase Agreement; or

(6) The Bond Insurer shall fail, wholly or partially, to make any payment required under any other municipal bond insurance policy issued by it excepting, however, certain circumstances where the obligation of the Bond Insurer to pay is being contested by the Bond Insurer in good faith by appropriate proceedings and such failure is not attributable to the financial condition of the Bond Insurer.

Bond Insurer Event of Insolvency means the occurrence and continuance of one or more of the following events:

(a) the issuance, under the laws of the State of Wisconsin (or other jurisdiction of domicile of the Bond Insurer), of an order of rehabilitation, liquidation, supervision or dissolution of the Bond Insurer;

(b) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including without limitation the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property;

(c) the consent of the Bond Insurer to any relief referred to in the preceding clause in an involuntary case or other proceeding commenced against it or the commencement against the Bond Insurer of an involuntary case or other proceeding seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including without limitation the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property, if such case or proceeding shall continue undismissed or unstayed and in effect for a period of 60 consecutive days or an order for relief shall be entered or a receiver, supervisor or similar official shall be appointed in any involuntary case against the Bond Insurer under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect;

(d) the making by the Bond Insurer of an assignment for the benefit of creditors;

(e) the failure of the Bond Insurer generally to pay its debts as they become due after any applicable grace period or the admission of the same by the Bond Insurer; or

(f) the initiation by the Bond Insurer of any actions to authorize any of the foregoing.

Remedies For Immediate Termination Events. Upon the occurrence of an Immediate Termination Event:

(1) The obligations of the Series 2 Banks to purchase tendered 2003 Series 2 Bonds shall immediately terminate without notice to or demand upon any person, and thereafter the Series 2 Banks shall be under no obligation to purchase any tendered 2003 Series 2 Bonds; and

(2) Promptly upon the occurrence of an Immediate Termination Event, the Administrative Agent at the request of the "Required Series 2 Banks" (both Series 2 Banks if both Series 2 Banks maintain their respective equal, pro-rata purchase obligation; otherwise the Series 2 Bank owning a majority of Series 2 Bank Bonds) shall give written notice of the same to the State, the Trustee, the Fiscal Agent and the Remarketing Agent, *but* the Series 2 Banks shall incur no liability or responsibility whatsoever by reason of their failure to give such notice, and such failure shall in no way affect the termination of the obligation of the Series 2 Banks to purchase tendered 2003 Series 2 Bonds pursuant to the Series 2 Standby Bond Purchase Agreement.

Upon receipt of written notice of an Immediate Termination Event from the Administrative Agent, the Fiscal Agent shall notify all holders of 2003 Series 2 Bonds of the termination of the obligation of the Series 2 Banks to purchase tendered 2003 Series 2 Bonds.

Termination of Series 2 Standby Bond Purchase Agreement With Notice and Mandatory Tender. If the rating of the Bond Insurer's financial strength shall be downgraded by any two of Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings to or below A2, A and A, respectively (a "Notice Termination Event"), then:

(1) The Required Series 2 Banks may terminate the Series 2 Banks' commitment to purchase tendered 2003 Series 2 Bonds by giving written notice of the occurrence of such Notice Termination Event (the "Notice of Termination") to the State, the Trustee, the Fiscal Agent and the Remarketing Agent and shall specify a purchase date for the mandatory tender of 2003 Series 2 Bonds in respect of such Notice of Termination Event on or before a date specified in such Notice of Termination, which mandatory purchase date shall be a date that is at least fifteen (15) days after the date such Notice is effective; and

(2) The obligations of the Series 2 Banks to purchase tendered 2003 Series 2 Bonds shall terminate upon the purchase by the Series 2 Banks of all tendered 2003 Series 2 Bonds tendered or deemed tendered pursuant to the mandatory tender for purchase following receipt of the Notice of Termination, and thereafter the Series 2 Banks shall be under no obligation to purchase any tendered 2003 Series 2 Bonds.

Events of Default. Each of the following events shall constitute an Event of Default ("Event of Default") under the Series 2 Standby Bond Purchase Agreement unless waived by the Required Series 2 Banks:

(1) the Series 2 Banks shall not be paid any amount due thereunder within five Business Days after notice to the State that same is due and payable and unpaid;

(2) the State shall fail to repurchase Series 2 Bank Bonds on any date such purchase is required under the Series 2 Standby Bond Purchase Agreement;

(3) the State shall fail to perform or observe certain covenants with respect to compliance with required Pledged Revenues coverage, maintenance of the Reserve Account for the Second Lien Bonds and the issuance of Senior Obligations and Second Lien Obligations contained in the Series 2 Standby Bond Purchase Agreement;

(4) the State shall fail to perform any covenant or agreement contained in the Series 2 Standby Bond Purchase Agreement (other than those covered by paragraph (1), (2) or (3) above) for 60 days after written notice thereof has been given to the State by the Administrative Agent on behalf of the Required Series 2 Banks, *provided* that if such failure cannot be remedied within 60 days, the Required Series 2 Banks shall not unreasonably withhold or delay its consent to extending such time so long as the State has demonstrated to the satisfaction of the Required Series 2 Banks that the State is pursuing corrective actions with all due diligence;

(5) the State shall fail to pay any principal (including redemption premium, if any) of or interest on Senior Obligation or any Second Lien Obligation as and when the same shall become due, whether at stated maturity, upon redemption or acceleration or otherwise, *except* as occasioned by a failure of any provider of a credit or liquidity facility or swap agreement counterparty to perform it obligations thereunder;

(6) an event of default (other than as covered by paragraph (5) above) under any of the 2003 Series 2 Bonds, the Second Lien Indenture, the Tax Regulatory Agreement for the 2003 Series 2 Bonds and the Remarketing Agreement (collectively, the "Related Documents") shall have occurred and be continuing;

(7) any warranty, representation or other written statement made by or on behalf of the State contained in the Series 2 Standby Bond Purchase Agreement, or in any of the Related Documents, or in any instrument furnished in compliance with or in reference to any of the foregoing, is incorrect in any material respect on any date as of which made; or

(8) any provision of the Series 2 Standby Bond Purchase Agreement shall at any time for any reason cease to be valid and binding on the State, or shall be declared null and void, or the validity or enforceability thereof shall be contested by the State or by any other governmental agency or authority or the State shall deny that it has any or further liability or obligation under the Series 2 Standby Bond Purchase Agreement.

Remedies for Events of Default. Whenever an Event of Default under the Series 2 Standby Bond Purchase Agreement shall have occurred and be continuing, the Administrative Agent on behalf of the Required Series 2 Banks may exercise all or any of rights and remedies of the Series 2 Banks as they may have under law and equity to protect and enforce their rights thereunder. The termination of the Series 2 Standby Bond Purchase Agreement is not a remedy for an Event of Default thereunder.

In addition whenever an event of default shall have occurred and be continuing under the Second Lien Indenture, if either Series 2 Bank owns Series 2 Bank Bonds, it may exercise such rights as it may have as a holder of Series 2 Bonds.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2003 Series 1 and 2 Bonds (such 2003 Series 1 and 2 Bonds being referred to in this section as the "Securities"). The Securities will be issued as fully-registered bonds, without coupons, registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond Security certificate will be issued for each series and maturity of the Securities in the aggregate principal amount of such series and 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 the Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Principal, premium, if any, and interest payments on the Securities 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments 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 Securities purchased or tendered, through its Participant, to the Fiscal Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Fiscal Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Fiscal Agent's DTC account.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. Neither the State, the Trustee nor any Underwriter has any responsibility or obligation to DTC's Participants or Indirect Participants or Beneficial Owners with respect to (1) the accuracy of any records maintained by DTC or its Participants or Indirect Participants, (2) the payments by DTC or its Participants or Indirect Participants with respect to the principal of or premium, if any, or interest on the 2003 Series 1 and 2 Bonds, (3) any notice which is permitted or required to be given to Bondowners, (4) any consent given by DTC or other action taken by DTC on behalf of Cede & Co. as Bondowner or (5) the selection by DTC or any of its Participants or any Indirect Participants or any Beneficial Owners to receive payment in the event of a partial redemption of the 2003 Series 1 and 2 Bonds.

For so long as Cede & Co. is the registered owner of the 2003 Series 1 and 2 Bonds, all references herein to the owner or owners of the 2003 Series 1 and 2 Bonds shall mean Cede & Co. and shall not mean any Beneficial Owner or Beneficial Owners of the 2003 Series 1 and 2 Bonds nor any DTC Participant or Indirect Participant, unless specific exception has been expressed herein.

TOTAL BONDS OUTSTANDING

The following table sets forth all Bonds outstanding as of the delivery of the 2003 Series 1 and 2 Bonds.

Series	Amount Originally Issued	Original Issuance Amount Outstanding	Dated Date	True Interest Cost
Senior Bonds:				
1988 Series B(1)	$74,998,187	$3,417,825	June 1, 1988(2)	7.328%
1990 Series A(1)	250,000,000	43,985,000	May 15, 1990	7.155%
1991 Series B(1)	266,000,000	77,655,000	September 15, 1991	6.553%
1992 Series A (Refunding)(1)(3)	125,715,000	24,710,000	January 1, 1992	6.098%
1992 Series B(1)	275,000,000	116,290,000	September 1, 1992	6.056%
1993 Series A (Refunding)(3)	560,750,000	461,490,000	March 1, 1993	5.338%
1993 Series B (Refunding)(3)	254,770,000	102,365,000	September 1, 1993	4.444%
1993 Series C(1)	175,000,000	8,475,000	September 15, 1993	4.882%
1994 Series A(1)	150,000,000	14,035,000	March 1, 1994	5.521%
1994 Series B(1)	200,000,000	8,925,000	September 15, 1994	6.031%
1995 Series A(1)	125,000,000	16,750,000	May 15, 1995	5.508%
1995 Series B(1)	175,000,000	15,545,000	September 1, 1995	5.432%
1995 Series C (Refunding)(3)	160,630,000	37,205,000	September 1, 1995	4.660%
1996 Series A(1)	150,000,000	19,460,000	June 1, 1996	5.705%
1996 Series B(1)	150,000,000	26,310,000	October 1, 1996	5.493%
1996 Series C (Refunding)(3)	79,795,000	79,490,000	October 1, 1996	5.246%
1997 Series A(1)	150,000,000	58,625,000	October 15, 1997	5.098%
1997 Series B (Refunding)(3)	65,415,000	55,525,000	October 15, 1997	4.711%
1998 Series A (Refunding)(3)	197,500,000	196,695,000	April 15, 1998	4.831%
1998 Series B(1)	225,000,000	110,825,000	September 15, 1998	4.686%
1999 Series A(1)	150,000,000	44,995,000	November 15, 1999	5.461%
2000 Series A(1)	125,000,000	92,810,000	July 15, 2000	5.042%
2001 Series A(1)	175,000,000	75,530,000	September 15, 2001	4.706%
2001 Series B (Refunding)(3)	533,335,000	533,335,000	September 15, 2001	4.086%
2002 Series A	112,000,000	112,000,000	May 1, 2002	4.741%
2002 Series B	215,000,000	215,000,000	November 1, 2002	4.230%
SUB-TOTAL		$2,551,447,825		
Second Lien Bonds:				
1990 Series 1	$250,000,000	$142,900,000	December 19, 1990	Variable(4)
2000 Series 1	100,000,000	100,000,000	September 15, 2000	Variable(4)
2003 Series 1 (Refunding)(3)	220,385,000	220,385,000	January 23, 2003	Variable(4)
2003 Series 2 (Refunding)(3)	201,595,000	201,595,000	January 23, 2003	Variable(4)
TOTAL		$3,216,327,825		

(1) Certain maturities of Bonds in this series have been refunded or defeased.
(2) June 15, 1988 with respect to Capital Appreciation Bonds.
(3) Refunding Bonds do not constitute Additional Bonds.
(4) The State entered into Qualified Swaps (see definition in "Summary of Certain Provisions of the Second Lien Indenture") at the time the 1990 Series 1 Bonds were issued and effective upon delivery of the 2003 Series 1 and 2 Bonds. Pursuant to the Second Lien Indenture, Principal and Interest Requirements on Second Lien Bonds with respect to the 1990 Series 1 Bonds and the 2003 Series 1 and 2 Bonds are calculated based on the fixed interest rates payable by the State in connection with the Qualified Swaps.

SOURCE: Office of the State Treasurer

DEBT SERVICE ON OUTSTANDING BONDS

The following schedule sets forth the debt service payments to be made in each State fiscal year on the $3,216,327,825 Bonds issued and outstanding as of the date of delivery of the 2003 Series 1 and 2 Bonds, excluding principal and interest on previously refunded Bonds and interest on any Capital Appreciation Bonds (prior to the year of maturity of such bonds). The anticipated issuance of Additional Bonds to finance the Infrastructure Program for State fiscal years 2004-2006 is reflected in Tables 7 and 8.

Fiscal Year	Outstanding Senior Bonds			Outstanding Second Lien Bonds(a)			
Ending June 30th	Principal	Interest(b)	Subtotal(d)	Principal	Interest(c)	Subtotal(d)	Total Debt Service(d)
2003(e)	$30,210,000	$63,419,813	$93,629,813	-	$10,475,345	$10,475,345	$104,105,158
2004	219,380,000	125,893,401	345,273,401	16,920,000	26,089,603	43,009,603	388,283,004
2005	215,935,000	114,742,129	330,677,129	18,025,000	25,156,664	43,181,664	373,858,793
2006	238,910,000	103,672,625	342,582,625	19,135,000	24,162,907	43,297,907	385,880,532
2007	225,418,825	97,573,402	322,992,227	20,350,000	23,104,824	43,454,824	366,447,051
2008	232,004,000	86,311,090	318,315,090	21,665,000	21,976,575	43,641,575	361,956,665
2009	227,810,000	70,842,433	298,652,433	22,985,000	19,283,232	42,268,232	340,920,665
2010	223,245,000	55,728,546	278,973,546	24,410,000	20,991,226	45,401,226	324,374,772
2011	193,140,000	45,172,925	238,312,925	25,940,000	18,139,754	44,079,754	282,392,679
2012	186,455,000	34,693,529	221,148,529	9,125,000	17,427,657	26,552,657	247,701,186
2013	185,305,000	24,433,255	209,738,255	37,640,000	16,815,192	54,455,192	264,193,447
2014	109,470,000	16,423,776	125,893,776	62,525,000	15,228,835	77,753,835	203,647,611
2015	71,215,000	11,682,267	82,897,267	65,240,000	13,100,729	78,340,729	161,237,996
2016	42,845,000	8,704,324	51,549,324	77,305,000	10,545,510	87,850,510	139,399,834
2017	18,320,000	7,113,055	25,433,055	70,335,000	7,897,985	78,232,985	103,666,040
2018	19,260,000	6,169,943	25,429,943	61,285,000	5,494,224	66,779,224	92,209,167
2019	20,260,000	5,170,261	25,430,261	46,730,000	3,439,675	50,169,675	75,599,936
2020	21,340,000	4,092,883	25,432,883	34,085,000	1,832,731	35,917,731	61,350,614
2021	22,470,000	2,961,960	25,431,960	29,645,000	521,860	30,166,860	55,598,820
2022	23,630,000	1,803,983	25,433,983	1,535,000	33,642	1,568,642	27,002,625
2023	24,825,000	607,421	25,432,421	-	-	-	25,432,421
Total(d)	$2,551,447,825	$887,213,021	$3,438,660,846	$664,880,000	$281,718,170	$946,598,170	$4,385,259,016

(a) Outstanding Senior and Second Lien Bonds, as of the date of delivery of the 2003 Series 1 and 2 Bonds (debt service on the refunded bonds is not included).

(b) Does not reflect accretion of interest on the 1988 Series B Capital Appreciation Bonds, prior to the year of maturity of such bonds. The 1988 Series B Capital Appreciation Bonds mature in the years 2007-2008.

(c) The State entered into Qualified Swaps at the time the 1990 Series 1 Bonds were delivered and effective upon delivery of the 2003 Series 1 and 2 Bonds. Pursuant to the Second Lien Indenture, Principal and Interest Requirements on the 1990 Series 1 Bonds and 2003 Series 1 and 2 Bonds are calculated based on the fixed interest rates payable by the State in connection with the Qualified Swaps. Interest on the 1990 Series 1 Bonds and the 2003 Series 1 and 2 Bonds for purposes of this table is also calculated based on such fixed interest rates. Interest on the 2000 Series 1 Bonds for the purpose of this table is calculated based on projecting a 3.50% per annum interest rate during Fiscal Year 2003 and a 4.50% per annum interest rate for the remaining life of the issue. The actual rate of interest borne by the 2000 Series 1 Bonds over the life of the issue may be materially different from such projected interest rate.

(d) Principal and Interest may not add to Totals due to rounding.

(e) Reflects principal and interest payments on all Outstanding Bonds as of the date of delivery of the 2003 Series 1 and 2 Bonds to the end of the current fiscal year.

SOURCE: Office of the State Treasurer

Accreted Interest on Outstanding Capital Appreciation Bonds

The following schedule sets forth the annual and cumulative accreted interest on outstanding capital appreciation bonds as of July 1, 2002. These Senior Bonds mature in fiscal years 2007 and 2008, and the cumulative accreted values are adjusted for such maturities. Amounts sufficient to pay the capital appreciation bonds are required to be deposited in the Bond Service Sub-Account during the 12-month period prior to their maturity.

Interest Accreted During Fiscal Year Ended June 30	Annual Total	Cumulative Accreted Value
2003.	$780,591	$7,243,318
2004.	$842,259	$8,085,577
2005.	$908,800	$8,994,377
2006.	$980,598	$9,497,794
2007.	$1,058,068	$4,818,869
2008.	$549,131	$0

SOURCE: Office of the State Treasurer

THE OPERATIONS OF THE SPECIAL TRANSPORTATION FUND

Introduction

Pledged Revenues, which are credited to the Special Transportation Fund, consist of (i) the Motor Fuels Tax (which includes the gasoline tax and the special fuels tax, which formerly were levied as separate taxes, and the motor carrier road tax); (ii) Motor Vehicle Receipts (e.g., fee for registration of motor vehicles); (iii) License, Permit and Fee ("LPF") Revenue (e.g., fee for license to sell or repair motor vehicles); (iv) specific amounts of the Petroleum Products Gross Earnings Tax beginning in fiscal year 1998-99 (such tax is commonly, and hereinafter, referred to as the "Oil Companies Tax" and such payments are hereinafter referred to as the "Oil Companies Tax Payments." See "Oil Companies Tax Payments" for a more detailed discussion); (v) specific amounts of the tax imposed on casual sales of motor vehicles, vessels, snowmobiles and aircraft pursuant to Section 12-431 of the Connecticut General Statutes attributable to motor vehicles beginning for the fiscal year ending June 30, 2000 and all of such tax for the fiscal year beginning July 1, 2000 (such tax hereinafter referred to as the "Sales Tax - DMV" and such payments are hereinafter referred to as the "Sales Tax - DMV Payments." See "Sales Tax - DMV Payments" for a more detailed discussion); (vi) moneys received by the State from the Federal Transit Administration ("FTA"), pursuant to Section 9 of the Urban Mass Transportation Act of 1964 (the lien which secures payment of the Bonds does not extend to these transportation related federal revenues until such revenues are credited to the Special Transportation Fund and are available for payment of debt service on Bonds and Notes and program expenses); and (vii) other receipts, funds, and moneys credited to the Special Transportation Fund. See "Description of Revenue Sources of the Special Transportation Fund" for a more detailed discussion of these revenues. Other receipts, funds or moneys pledged under the Indentures include investment earnings and moneys in the funds and accounts established thereunder, subject to the application thereof as permitted by the Indentures.

The following table displays a ten-year history of collections, as well as the projected collections, which include the tax, fee and charge adjustments enacted as shown on Table 2, for the Motor Fuels Tax, Motor Vehicle Receipts, and LPF Revenue:

TABLE 1
Historical Collections(a)
(In Millions $)

State Fiscal Year Ending June 30	Motor Fuels Tax	Motor Vehicle Receipts	LPF Revenue
1993....................	397.8	167.6	75.3
1994....................	435.7	174.2	79.9
1995....................	468.6	172.8	87.8
1996....................	504.7	172.8	86.5
1997....................	550.6	175.9	88.3
1998....................	530.6	186.0	107.9
1999....................	499.9	187.0	112.9
2000....................	506.4	190.3	112.6
2001....................	417.5	196.3	115.2
2002....................	430.3	200.7	130.7

Projected Collections at Current Rates(b)
(In Millions $)

State Fiscal Year Ending June 30	Motor Fuels Tax	Motor Vehicle Receipts	LPF Revenue
2003..................	462.5	203.6	135.4
2004..................	466.5	210.0	138.7
2005..................	471.1	213.0	140.6
2006..................	475.8	209.4	142.5

(a) Prior to refunds of taxes. For a discussion of the specific sources of collections and the underlying taxes, fees and charges, see "Description of Revenue Sources of the Special Transportation Fund."
(b) Prior to refunds of taxes. For a discussion of the assumptions and enacted tax, fee and charge adjustments underlying these projections, see "Discussion of Projected Pledged Revenues."
SOURCE: Office of Policy and Management

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

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

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

Discussion of Projected Pledged Revenues

The projections of Pledged Revenues provided herein reflect the adjusted taxes, fees and charges enacted in the Act and which have or will become effective during State fiscal years 1997-2006. The following table summarizes the tax, fee and charge adjustments in three categories of revenues which have been enacted in the Act, and which have been or will be credited to the Special Transportation Fund:

TABLE 2
Summary of Enacted Tax and Fee Adjustments

	State Fiscal Year Ended June 30(a)									
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Motor Fuels Tax (Adjustments per gallon)(b)	3¢	(3¢)	(4¢)	0¢	(7¢)	0¢	0¢	0¢	0¢	0¢
Motor Vehicle Receipts (% Increase)	0	0	0	0	0	0	0	0	0	0
LPF Revenue (% Increase)	0	0	0	0	0	0	0	0	0	0

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(a) Except as noted in footnote (b), each tax, fee or charge adjustment is effective on the first day (July 1) of each State fiscal year; all modifications through July 1, 2000 are still in effect.

(b) The Motor Fuels Tax adjustments for fiscal years 1997-2001 are effective as follows: July 1, 1996, 1¢; October 1, 1996, 1¢; January 1, 1997, 1¢; July 1, 1997, -3¢; July 1, 1998, -4¢; July 1, 2000, -7¢. The Motor Fuels Tax on diesel fuels was increased from 18¢ to 26¢ effective on August 1, 2002.

SOURCE: Office of Policy and Management

In making the projections of the Motor Fuels Tax provided herein for fiscal years 2003-2006 (the "Projection Period"), the State considered a variety of sources of economic data, including economic forecasts prepared by the State and outside economic forecasting services. The projections of the Motor Fuels Tax are based on estimates of a variety of economic variables for the State and the nation as a whole, including real disposable income, employment and size of the fleet of commercial and passenger vehicles.

Other important variables used to determine the projections of the Motor Fuels Tax include the anticipated price of motor fuels, the fuel efficiency of commercial and passenger vehicle fleets, and economic activity as expressed by the United States index of industrial production. These variables are expected to have an overall favorable impact on motor fuel consumption.

The Motor Fuels Tax is projected to grow at the rate of 1.3% in 2003, 0.8% in 2004, and 1.0% for the balance of the Projection Period. Motor Vehicle Receipts and LPF Revenue, aside from the effect of enacted tax and fee adjustments and after the effect of the enacted biennial budget, are projected to grow at the rate of 1.5% per year during the Projection Period. FTA grants and interest income are projected as set forth in footnotes (f) and (g) to Table 3.

While the State believes that the assumptions which underlie its projections are appropriate, actual achievement of amounts projected may be affected by less favorable economic conditions than those assumed, and is dependent upon the occurrence of future events. For example, political unrest or war in oil producing regions could substantially reduce petroleum supplies and increase prices. Thus, actual results achieved may vary from the projections and such variations may be materially adverse. The accompanying projected financial information from 2003 to 2006 was prepared by the State and was not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants for the preparation and presentation of prospective financial information (the AICPA Audit and Accounting Guide for Prospective Financial Information). The prospective financial information is based on assumptions which the State believes to be reasonable; however, there is no assurance that the prospective financial information will prove to be accurate. There will usually be differences between forecasted or projected results and actual results, and those differences may be material. Neither the Special Transportation Fund's independent auditors, nor any other independent accountants, have compiled or examined the prospective financial information. As such, no opinion or any other form of assurance has been expressed thereon and no responsibility for such prospective financial information has been assumed by the Special Transportation Fund's independent auditors.

Historical collections, enacted tax, fee and charge adjustments and economic projections provide the basis for the projections of the major categories of Pledged Revenues that are to be credited to the Special Transportation Fund. The following table summarizes the level of revenue that each category of Pledged Revenues and other receipts is projected to produce through State fiscal year 2006, based upon enacted rates.

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

	Fiscal Year Ending June 30			
	2003	**2004**	**2005**	**2006**
Motor Fuels Tax(a)	462.5	466.5	471.1	475.8
Sales Tax - DMV Payments(b)	64.1	67.1	70.8	74.7
Oil Companies Tax Payments(c)	20.0	21.0	21.0	21.0
Motor Vehicle Receipts(d)	203.6	210.0	213.0	209.4
LPF Revenue(e)	135.4	138.7	140.6	142.5
FTA Grants(f)	3.3	3.0	3.0	3.0
Interest Income(g)	31.5	32.9	32.9	32.9
Transfers to Other Funds(h)	(8.5)	(9.5)	(9.5)	(9.5)
TOTAL	911.9	929.7	942.9	949.8
Refunds of Taxes(i)	(11.2)	(11.5)	(11.8)	(12.0)
TOTAL NET PLEDGED REVENUES	900.7	918.2	931.1	937.8

(a) Pursuant to Section 71 of Public Act 02-01 of the May Special Session, the Motor Fuel Tax rate on diesel is increased by 8 cents from 18 cents per gallon to 26 cents per gallon effective 8/1/02.

(b) Pursuant to Section 12 of Public Act 00-170, the Commissioner of Motor Vehicles shall deposit all funds from the tax imposed under Section 12-431 of the General Statutes attributable to motor vehicles to the Special Transportation Fund.

(c) Pursuant to Section 11 of Public Act 00-170, $46 million from the tax collected on Gross Earnings from the sale of petroleum products attributable to the sale of motor vehicle fuel will be transferred annually to the Special Transportation Fund effective 7/1/00. However, Section 73 of Public Act 02-01 of the May Special Session reduced the Petroleum Tax transfer to the Special Transportation Fund from $46 million to $20 million effective 9/30/02 and then increases the transfer to $21 million effective 9/30/03 and thereafter.

(d) Pursuant to Sections 74-78 of Public Act 01-06 of the June Special Session and Sections 47 & 51 of Public Act 01-09 of the June Special Session, effective 7/1/01, the renewal period for an operator's license will transition from four years to six years. During the four year transition period, a one-time $20.0 million revenue benefit will be realized.

(e) Pursuant to Section 79 of Public Act 01-06 of the June Special Session effective 7/1/01, the Federal Clean Air Act Fee on registration renewals is increased from $4 to $10 and applied to new registrations as well. Effective with the fee increase, 57.5% of the revenue collected will be deposited into the Special Transportation Fund. Moreover, pursuant to Sections 42 & 43 of Public Act 01-09 of the June Special Session, effective 7/1/02, a new $40 "Exempt Emission Sticker Fee" for new, exempt motor vehicles is imposed and the revenue from the fee is deposited into the Special Transportation Fund. Finally, due to the expected increase in emission testing compliance, it is anticipated that Emission Late Fee revenues, which is deposited into the Special Transportation Fund, will decline beginning in fiscal 2003.

(f) The State has projected that annual FTA grants received by the State will remain stable during the Projected Period. The lien which secures payment of the Bonds does not extend to these transportation related federal revenues until such revenues are credited to the Special Transportation Fund. See "Description of Revenue Sources of the Special Transportation Fund-Other Revenues."

(g) Amounts recorded as interest represent (i) expected investment earnings on the following amounts: (A) Bond proceeds held in the Infrastructure Improvement Fund and not applied for program costs or temporarily utilized for other State purposes, (B) amounts expected to be held by the Trustee in the Debt Service Account under the Senior Indenture and the trustee in the Debt Service Account under the Second Lien Indenture, and (C) balances in the Special Transportation Fund plus (ii) expected investment earnings on amounts held in the Reserve Account under the Senior Indenture and the Reserve Account under the Second Lien Indenture, plus (iii) accrued interest expected to be received upon the delivery of each series of Bonds.

(h) Pursuant to Section 13 of Special Act 99-1 of the June Special Session, $2 million annually will be deposited into the State's Conservation Fund. Pursuant to Section 37 of Public Act 00-170, an additional $1 million will be added to the annual transfer beginning on 7/1/00. However, Section 72 of Public Act 02-01 of the May Special Session directed that the transfer to the State's Conservation Fund be reduced by $1 million for one year, fiscal 2003. Finally, pursuant to Section 44 of Public Act 01-09 of the June Special Session, effective 7/1/01, an additional $6.5 million will be transferred annually from the Special Transportation Fund to the Emission Enterprise Fund.

(i) Represents refunds for Motor Fuel Taxes and Motor Carrier Road Taxes when an overpayment of tax liability has been made. Pursuant to Section 9 & 10 of Public Act 01-06 of the June Special Session, effective 7/1/01, Refunds of Payments in the Special Transportation Fund will be funded with revenue similar to Refunds of Taxes.

SOURCE: Office of Policy and Management

Description of Revenue Sources of the Special Transportation Fund

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

Motor Fuels Tax

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

TABLE 4
Ten-Year History of Motor Fuels Tax Collections

	State Fiscal Year Ended June 30									
Totals	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Amount collected (millions $)............	397.8	435.7	468.6	504.7	550.6	530.6	499.9	506.4	417.5	430.3
Unit total (millions $)(a)	15.487	15.746	15.997	15.807	15.753	16.095	16.870	17.123	17.586	18.047
Unit percentage growth (%)	1.24	1.67	1.59	(1.19)	(0.35)	2.17	4.82	1.50	2.70	2.62
Gasoline Tax										
Amount collected (millions $)............	357.6	391.0	421.8	460.5	504.5	481.9	448.6	453.1	362.4	376.6
Unit total (millions $)(a)	13.253	13.261	13.397	13.353	13.193	13.385	14.019	14.158	14.497	15.063
Unit percentage growth (%)	1.76	0.06	1.03	(0.33)	(1.20)	1.46	4.74	1.00	2.40	3.91
Special Fuels Tax										
Amount collected (millions $)............	30.2	34.7	36.2	36.2	37.6	39.6	41.8	43.6	45.1	45.2
Unit total (millions $)(a)	1.678	1.928	2.011	2.010	2.090	2.199	2.322	2.422	2.506	2.512
Unit percentage growth (%)	(0.24)	14.90	4.31	(0.05)	3.98	5.22	5.60	4.31	3.40	0.24
Motor Carrier Road Tax										
Amount collected (millions $)............	10.0	10.0	10.6	8.0	8.5	9.2	9.5	9.8	10.0	8.5
Unit total (millions $)(a)	0.556	0.557	0.589	0.444	0.470	0.511	0.529	0.543	0.556	0.472
Unit percentage growth (%)	(6.08)	0.18	5.75	(24.62)	5.86	8.72	3.53	2.65	2.04	(15.11)

(a) The unit total represents millions of dollars of revenue collected per penny of tax.
SOURCE: Office of Policy and Management

The motor fuel tax rate on gasoline is 25¢ per gallon, on gasohol is 24¢ per gallon, and on diesel fuel is 26¢ per gallon.

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

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

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

Motor Vehicle Receipts

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

TABLE 5
Ten-Year History of Motor Vehicle Receipts

	State Fiscal Year Ending									
	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Total Collections (millions $)	167.6	174.2	172.8	172.8	175.9	186.0	187.0	190.3	196.3	200.7
Adjustments (millions $)(a)	(73.0)	(75.8)	(74.3)	(74.4)	(74.7)	(76.8)	(76.9)	(77.1)	(77.0)	(80.9)
Total Normalized Collections (millions $)(b)	94.6	98.4	98.5	98.4	101.2	109.2	110.1	113.2	119.3	119.8
Percent Change In Normalized Collections (%)	(0.4)	4.0	0.1	(0.1)	2.9	7.8	0.9	2.8	5.4	0.5

(a) Adjusted for: (1) the 25% increase in motor vehicle receipts effective July 1, 1984 and adjusted for the 24% increase in motor vehicle receipts effective July 1, 1986; (2) fee increases effective July 1, 1991 under Public Act 91-13 of the June Special Session; (3) the 12.9% increase in motor vehicle receipts effective July 1, 1992; (4) the elimination of the additional vanity plate renewal fees of $30 effective July 1, 1994 under Public Act 93 - 74; (5) the transfer of safety plate fees from the General Fund effective July 1, 1995; (6) the collection of truck registration fees under the International Registration Plan commencing fiscal year 1997-98; and (7) extends license duration from 4 years to 6 years.

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

SOURCE: Office of Policy and Management

License, Permit and Fee Revenue

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

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

	State Fiscal Year Ending June 30									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Motor vehicle fines, penalties and surcharges	22.4	22.1	23.2	25.9	26.1	28.3	27.6	30.8	28.4	31.5
Filing and reproduction fees	13.0	16.5	17.2	17.4	18.4	18.9	19.5	20.9	20.7	22.0
Motor carrier registration fee	5.6	6.1	7.0	10.2	0.3	0.3	0.3	0.3	0.3	0.3
Motor carrier permits	4.4	3.4	3.7	3.7	3.7	3.7	3.7	3.8	3.5	3.2
Operator license examination fee	4.0	4.2	3.7	3.9	4.9	4.9	5.6	5.8	5.8	6.0
Vehicle inspection fee	3.5	4.6	5.1	5.2	5.8	6.2	6.8	3.0	3.1	3.6
Other(a)	22.4	23.0	27.9	29.3	29.1	45.6	49.4	48.0	53.4	64.1
Total	75.3	79.9	87.8	86.5	88.3	107.9	112.9	112.6	115.2	130.7

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

SOURCE: Office of Policy and Management

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

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

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

Beginning in State fiscal year 1985, the Act began crediting to the Special Transportation Fund three other types of LPF Revenue: (i) fees for documents and services provided under C.G.S. Section 14-192(a); (ii) royalty payments for retail sales of gasoline pursuant to C.G.S. Section 13a-80; and (iii) gasoline handling charges which the Department receives from other State agencies for handling motor fuel consumed by State vehicles. All other LPF Revenue was credited to the Special Transportation Fund starting in fiscal year 1986. Commencing on July 1, 1997, per Section 2 of Public Act 97-309, transportation related revenue such as the sale of commercial information by the Department of Motor Vehicles and from other user fees and licenses previously deposited in the General Fund, will now be credited to the Special Transportation Fund as LPF Revenue.

Oil Companies Tax Payments

Section 5 of Public Act 97-309 provided that beginning in fiscal year 1998-99, $20 million in Oil Companies Tax revenue received from the tax imposed on the gross earnings from the sale of petroleum products attributable to sales of motor vehicle fuel was to be deposited by the Commissioner of Revenue Services into the Special Transportation Fund over four equal installments. In each fiscal year thereafter, $36 million was earmarked for the Special Transportation Fund. Section 11 of Public Act 00-170 amended Section 5 of Public Act 97-309 and provides that beginning in fiscal year 2000-01 and each fiscal year thereafter, $46 million in Oil Companies Tax revenue received from such tax will be deposited into the Special Transportation Fund over four equal installments. Commencing on September 30, 2002, per Section 73 of Public Act 02-01of the May Special Session, the Oil Companies Tax transfer to the Special Transportation Fund is reduced from $46 million to $20 million. Beginning on September 30, 2003, $21 million in Oil

Companies Tax revenue will be deposited thereafter over four equal installments. Through fiscal year 1997-98, revenue from the Oil Companies Tax was deposited exclusively in either the General Fund or the Underground Storage Tank (UST) Petroleum Clean Up Account pursuant to Section 22a-449b of the C.G.S.

The Oil Companies Tax is levied, pursuant to Section 12-587 of the C.G.S., at a rate of 5% of the gross earnings from the sale of petroleum products in the State. The principal petroleum product subject to the tax is motor vehicle fuel, but the gross earnings tax is also levied on the sale of aviation fuel, kerosene, diesel fuel, crude oil, and derivatives of petroleum such as paint, fertilizers and asphalt. In the most recently completed 2001-2002 fiscal year, the Oil Companies Tax generated gross collections of $94.3 million. The Office of Policy and Management estimates that for the 2002-2003 fiscal year, the Oil Companies Tax will generate gross collections of approximately $105.5 million. It is assumed that the tax revenue received by the Commissioner of Revenue Services on the gross earnings from the sales of petroleum products attributable to sales of motor vehicle fuel will be sufficient to enable the Commissioner to make all required payments to the Special Transportation Fund when due.

Sales Tax - DMV Payments

Section 2 of Public Act 98-128 required that the Commissioner of Motor Vehicles deposit into the Special Transportation Fund funds received by the State from the tax imposed on casual sales of motor vehicles, vessels, snowmobiles and aircraft pursuant to Section 12-431 of the Connecticut General Statutes attributable to motor vehicles in accordance with the following schedule: (1) $10,000,000 of the amount received by the State for the fiscal year ending June 30, 2000; (2) $20,000,000 of the amount received by the State for the fiscal year ending June 30, 2001; (3) $30,000,000 of the amount received by the State for the fiscal year ending June 30, 2002; and (4) $40,000,000 of the amount received by the State for the fiscal year ending June 30, 2003, and each fiscal year thereafter.

Section 12 of Public Act 00-170 amended Section 2 of Public Act 98-128 and provides that beginning in fiscal year 2000-01 and each fiscal year thereafter, the Commissioner of Motor Vehicles deposit into the Special Transportation Fund all funds received by the State from such tax.

Other Revenues

In addition to the above categories of transportation related revenues, moneys received as operating assistance grants from FTA and interest earnings also are credited to the Special Transportation Fund.

The State applies for the FTA grant at the beginning of each federal government fiscal year in October. The FTA operating assistance grant is included in Pledged Revenues upon receipt and is generally available for payment of debt service or program expenses. Such grant is treated by the State as a reimbursement for mass transit operating expenses previously budgeted and generally paid from other available State cash. (See also footnote (e) to Table 3.)

Interest earnings accruing on the funds and accounts created under the Indenture are to be credited to the Special Transportation Fund, with the exception of interest earnings accruing on amounts in the Note Repayment Account. The State expects to invest available amounts credited to the Special Transportation Fund from time to time in the Short Term Investment Fund of the State and other permitted investments. See "Appendix A-Cash Management and Investment Procedures."

Debt Service Coverage

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

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

	State Fiscal Year Ending June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Actual and Projected Pledged Revenues(a)	854.2	859.1	855.8	905.4	871.8	896.9	900.7	918.2	931.1	937.8
2. Principal and Interest Requirements for the 1984-2002B Senior Bonds(b)	289.3	318.0	306.0	321.1	339.8	349.3	356.7	351.4	345.6	335.2
3. Actual and Projected Principal and Interest Coverage for the 1984-2002B Senior Bonds(c)	3.0x	2.7x	2.8x	2.8x	2.6x	2.6x	2.5x	2.6x	2.7x	2.8x
4. Principal and Interest Requirements on the Outstanding Second Lien Bonds(d)	22.3	22.3	22.4	21.4	23.4	23.2	31.4	44.5	44.6	44.8
5. Actual and Projected Principal and Interest Coverage for All Outstanding Senior Bonds and Outstanding Second Lien Bonds(e)	2.7x	2.5x	2.6x	2.6x	2.4x	2.4x	2.3x	2.3x	2.4x	2.5x
6. Projected Principal and Interest Requirements for Additional Bonds(f)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.1	28.2	46.3
7. Actual and Projected Aggregate Debt Service Coverage for all Bonds(g)	2.7x	2.5x	2.6x	2.6x	2.4x	2.4x	2.3x	2.3x	2.2x	2.2x

(a) For a discussion of the assumptions and enacted tax, fee, and charge adjustments underlying these projections, see "Discussion of Projected Pledged Revenues."
(b) Reflects actual Principal and Interest Requirements on the Senior Bonds as paid to the Trustee on a one-sixth interest and one-twelfth principal monthly deposit basis. Does not reflect accretion of interest on the 1988 Series B Capital Appreciation Bonds or the 1989 Series B Capital Appreciation Bonds prior to the year of maturity of such bonds.
(c) Line 1 divided by Line 2.
(d) Reflects actual Principal and Interest Requirements on the Second Lien Bonds, 1990 Series 1 and 2003 Series 1 and 2 assuming the continuation of Qualified Swaps. Includes debt service on the Second Lien Bonds, 2000 Series 1 calculated at a projected interest rate of 3.5% per annum for fiscal year 2003 and 4.5% thereafter. Does not include letter of credit or remarketing fees, but it does include an additional $1.5 million per year basis risk assumption.
(e) Line 1 divided by the sum of Lines 2 and 4.
(f) Assumes issuance of Additional Bonds (whether under the Senior Indenture or the Second Lien Indenture), authorized and to be authorized by Special Acts, with level debt service, a twenty year final maturity and in the principal amounts and at the average net interest costs listed below for each of the following State fiscal years: 2004 - $100 million at 6.0% and $100 million at 6.5%; and 2005-2006 - $200 million each year at 6.5%. See "The Department of Transportation—Implementation of and Funding for the Infrastructure Program." Includes debt service on 2000 Series 1 Bonds calculated at a projected interest rate of 3.5% per annum for fiscal year 2003 and 4.5% thereafter. Assumes no issuance of Notes.
(g) Line 1 divided by the sum of Lines 2, 4 and 6.
SOURCE: Office of Policy and Management

Expenses of the Special Transportation Fund

Moneys in the Special Transportation Fund not held by the Trustee or otherwise required to pay principal and interest on the Senior Bonds and interest on the Senior Notes may be used to pay (i) principal on Senior Notes, (ii) amounts required to be deposited with the Trustee under the Second Lien Indenture, (iii) debt service on transportation related general obligation bonds of the State, and (iv) the operating expenses of the Department, including both the annual budgeted expenses of the Department and the portion of the costs of the Infrastructure Program not financed by the Bonds but paid from current operations, and operating expenses of the Department of Motor Vehicles. See "The Transportation Infrastructure Program." The Special Transportation Fund appropriations included in the budget for the 2001-2002 and 2002-2003 fiscal years are set forth in Appendix B.

Under the provisions of Section 3 of PA 97-309, for fiscal years 1998-2000, the State Treasurer was required to use any year-end balance in the Special Transportation Fund that exceeded $20 million dollars to decrease outstanding indebtedness or to pay debt service requirements of the State. In September 1997 the Treasurer's Office used $84,855,654 from the Special Transportation Fund to cash defease $80,810,000 of the 1991 Series A and 1991 Series B special tax obligation bonds. In May 1998 the Treasurer's Office used $9,765,296 of the remaining surplus in the Special Transportation Fund from fiscal year 1997 to pay debt service on Bonds in fiscal year 1999. In December 1999, the Treasurer's Office used

$81.8 million of the combined surplus from fiscal years 1998 and 1999 to cash defease $84.9 million in special tax obligation bonds, including some of the capital appreciation bonds. In June 2000, the Treasurer's Office directed that the remaining surplus in the Special Transportation Fund from fiscal year 1999 of $1,530,937.48 be used to pay debt service on Bonds in fiscal year 2001. Section 13 of PA 00-170 repealed the provision that required balances in excess of $20 million to be directed toward debt reduction or for the payment of debt service requirements on special tax obligation bonds, thereby allowing surplus balances to be carried forward as had been the practice prior to PA 97-309.

The Special Transportation Fund budget includes unallocated lapses to recognize that not all budget expenditures will be fully expended and will lapse for budget purposes. The unallocated lapse is reduced in a corresponding amount as agency lapses are identified within specific accounts.

2003 Proposed Legislative Changes

As part of his plan to address the budget shortfall in the General Fund for fiscal year ending June 30, 2003, the Governor called a Special Session of the General Assembly. The General Assembly convened in Special Session on December 18, 2002 and recessed shortly thereafter without taking any action relating to the budget shortfall. It is expected that the General Assembly will consider these matters during the Regular Session, which started on January 8, 2003. The Governor's plan to balance the projected deficit in the State's General Fund, as submitted to the General Assembly, includes proposed changes that would affect revenues and expenses of the Special Transportation Fund.

Regarding revenue changes, the Governor's plan proposed suspending the $20 million transfer in oil companies taxes that are scheduled to be transferred from the General Fund to the Special Transportation Fund in fiscal year 2003. In addition, the Governor's plan included a reduction in the Town Aid Road grant amount from $25 million to $12.5 million in fiscal year 2003. The savings of $12.5 million are to be transferred to the resources of the General Fund. It is uncertain whether these or other changes affecting the Special Transportation Fund will be enacted.

Summary of the Governor's Proposed Legislative Changes
(In Millions of Dollars)

	State Fiscal Year Ending June 30			
	2003	2004	2005	2006
Revenue Changes				
Oil Companies Taxes – Suspend Transfer	(20.0)	---	---	---
Transfers – General Fund	(12.5)	---	--	---
Total	(32.5)	---	---	---
Expenditure Changes				
Town Aid Road	(12.5)	---	---	---
Total	(12.5)	---	---	---
Net Impact on Special Transportation Fund	(20.0)	---	---	---

Other Actions Undertaken by the Governor

On the expenditure side, the Governor has instituted allotment rescissions that total $2.9 million for the fiscal year ending June 30, 2003. These rescissions affect the Department of Transportation and the Department of Motor Vehicles. In addition, to address the General Fund budget shortfall, the Governor began meeting with the State Employee Bargaining Agent Coalition (SEBAC) in order to obtain certain concessions from the unions. When these talks broke off, a layoff plan was implemented in order to achieve needed savings. The layoffs have affected the agencies funded through the Special Transportation Fund and could have an estimated annual impact of $10 million in savings in fiscal year 2004.

Table 8 does not reflect the enactment of any of the Governor's recommended legislative changes or other actions undertaken by the Governor as described above.

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

	State Fiscal Year Ending June 30									
	1997(a)	1998(a)	1999(a)	2000(a)	2001(a)	2002(a)	2003(b)	2004	2005	2006
Actual and Projected Revenues										
Motor Fuels Tax, Motor Vehicle Receipts, Licenses, Permits, Fees(c)	814.8	824.5	799.9	809.3	729.0	761.7	801.5	815.2	824.7	827.7
Sales Tax – DMV Payments(d)	-	-	-	10.0	60.1	65.2	64.1	67.1	70.8	74.7
Oil Companies Tax Payments(d)	-	-	20.0	36.0	46.0	46.0	20.0	21.0	21.0	21.0
Federal Transit Administration (FTA) Grants(d)	3.6	3.1	3.1	3.0	3.3	3.3	3.3	3.0	3.0	3.0
Interest Income(d)	42.0	35.4	38.5	37.7	43.9	40.5	31.5	32.9	32.9	32.9
Transfers - Other Funds	(0.2)	(0.2)	(0.5)	(2.0)	(3.0)	(9.5)	(8.5)	(9.5)	(9.5)	(9.5)
Release from Reserve Account(e)	-	3.0	-	16.8	-	-	-	-	-	-
Total	860.2	865.8	861.0	910.8	879.3	907.2	911.9	929.7	942.9	949.8
Refund of Taxes	(6.0)	(6.7)	(5.2)	(5.4)	(7.5)	(10.3)	(11.2)	(11.5)	(11.8)	(12.0)
Total Net Revenues	854.2	859.1	855.8	905.4	871.8	896.9	900.7	918.2	931.1	937.8
Actual and Projected Debt Service and Expenditures										
Debt Service Requirements on the Bonds(f)	313.6	341.1	319.6	344.3	366.1	374.9	392.4	412.2	424.5	432.4
Debt Service on Transportation Related General Obligation Bonds(g)	45.0	46.4	44.8	31.4	29.2	21.1	17.3	13.8	4.5	4.6
DOT Budgeted Expenses(h)	269.5	271.4	289.3	306.2	296.8	303.4	347.5	331.5	340.8	349.7
DMV Budgeted Expenses(i)	43.4	43.6	57.9	49.1	49.6	51.5	54.7	58.1	59.7	60.2
Other Budget Expenses(j)	79.2	59.6	71.8	43.9	68.6	76.0	85.4	88.2	91.3	94.5
Program Costs Paid from Current Operations(k)	18.8	19.6	20.5	60.3	16.0	16.0	16.0	16.4	16.9	17.3
Highway Patrol Budgeted Expenses(l)	41.8	46.0	-	-	-	-	-	-	-	-
Estimated Unallocated Lapses(m)	-	-	-	-	-	-	(12.7)	(12.4)	(12.3)	(12.1)
Total	811.3	827.7	803.9	835.2	826.3	842.9	900.6	907.8	925.4	946.6
Excess (Deficiency)	42.9	31.4	51.9	70.2	45.5	54.0	0.1	10.4	5.7	(8.8)
Cumulative Excess (Deficiency)	114.6	51.4	71.9	90.2	135.7	189.7	189.8	200.2	205.9	197.1
Year End Adjustments(n)										
Transfer to Debt Service Escrow Account	(84.9)	-	-	-	-	-	-	-	-	-
Reserve for Debt Service Reduction	(9.7)	(31.4)	(51.9)	-	-	-	-	-	-	-
Post Closing Balance	20.0	20.0	20.0	90.2	135.7	189.7	189.8	200.2	205.9	197.1

(a) Actual per Comptroller's September 1997 through 2002 Reports, presented in a format to conform to budgetary categories.
(b) Per the Comptroller's monthly report for the period ending November 30, 2002. The line items for Debt Service Requirements and Estimated Unallocated Lapses have been adjusted to reflect the issuance of the 2003 Series 1 and 2 Bonds.
(c) Motor Fuels Taxes, Motor Vehicle Receipts, and LPF Revenue. For a discussion of the assumptions and enacted tax, fee and charge increases underlying these revenue projections, see "Discussion of Projected Pledged Revenues."
(d) See footnotes to Table 3.
(e) The amount in fiscal year 1998 reflects the $84.9 million defeasance of certain maturities of the 1991 Series A and 1991 Series B Bonds. The amount in fiscal year 2000 reflects the release from the Reserve Account under the Senior Indenture resulting from the 1999 cash defeasance of special tax obligations bonds.
(f) These figures represent Principal and Interest Requirements on special tax obligation bonds, and letter of credit fees and remarketing fees for such Bonds, and include the Bonds listed in the table under "Debt Service On Outstanding Bonds" excluding Principal and Interest Requirements on the Refunded Bonds after the date of such refunding as adjusted for the carryforward of 1998 appropriated debt service into 1999 in the amount of $15 million. These figures do not reflect accretion of interest on the portion of the 1988 Series B Bonds issued as Capital Appreciation Bonds or on the portion of the 1989 Series B Bonds issued as Capital Appreciation Bonds prior to the year of maturity of such bonds. Interest on 2000 Series 1 Bonds is calculated based on a projected rate of 3.5% for fiscal year 2003 and 4.5% thereafter. The figures also reflect the issuance of additional bonds with level debt service and a twenty year final maturity in the principal amount and at the average net interest costs listed below for each of the following State fiscal years: 2004 - $100 million at 6.0% and $100 million at 6.5%; and 2005-2006 - $200 million each year at 6.5%. See "The Department of Transportation-Implementation of and Funding for the Infrastructure Program." Includes actual and estimated rebate liability on the Bonds under the Internal Revenue Code. Assumes no issuances of Notes.

(g) Represents payment of that portion of debt service on outstanding general obligation bonds which bears the same ratio to all such debt services as the sum of the amount of bond authorization allocated to the Department by the State Bond Commission in each year that such bonds were issued bears to the total amount of general obligation bonds authorized by the State Bond Commission during all such years.
(h) The major components of the Department's annual budgeted and projected expenses are payments for (i) the rail and bus subsidy; (ii) State highway maintenance costs; (iii) aid to towns for local highway and repair maintenance in fiscal years 1997-2000 and 2003; (iv) salaries, data processing and other general administrative costs, aeronautics and waterways operations. Certain contingent liabilities arising from defective highway lawsuits are not included in the projected amounts of annual budgeted expenses. See "Litigation." Fiscal year 1999 expenses include a one-time charge of $3.9 million for the payment of DOT settlement litigation costs.
(i) 1999 expenses include a one-time charge of $12.9 million for the issuance of reflectorized license plates, includes increases due to legislative changes which become effective in fiscal year 2004.
(j) Represents the cost of fringe benefits, pension costs and salary adjustments for DMV and the Department, and for Highway Patrol in fiscal years 1997 through 1999. Also, savings from the 1997 Early Retirement Incentive Program (ERIP) in the amount of $10.4 million in fiscal year 1998, and $8.3 million each year thereafter. Includes $6.3 million for the 27th payroll expenses in fiscal year 2000 and includes $1.9 million transferred to various agencies for non-transportation purposes.
(k) Fiscal Year 2000 expenses include a one-time charge of $35.0 million for the purchase of new rail cars for the New Haven Line service.
(l) Represents the operating expenses of the highway patrol, for fiscal years 1997 through 1998.
(m) The Special Transportation Fund budget includes amounts for unallocated lapses to recognize that not all budget expenditures will be fully expended and will lapse for budget purposes. The unallocated lapse is reduced in a corresponding amount as agency lapses are identified within specific accounts.
(n) Section 3 of PA 97-309 requires the State Treasurer to use any year-end balance in the Special Transportation Fund that exceeds $20 million dollars to decrease outstanding indebtedness or to pay debt service requirements of the State. In September 1997 the Treasurer's Office used $84,855,654 from the Special Transportation Fund to cash defease $80,810,000 of the 1991 Series A and 1991 Series B special tax obligation bonds. In May 1998 the Treasurer's Office used $9,765,296 of the remaining surplus in the Special Transportation Fund from fiscal year 1997 to pay debt service on Bonds in fiscal year 1999. In December 1999, the Treasurer's Office used $81.8 million of the combined surplus from fiscal years 1998 and 1999 to cash defease $84.9 million in special tax obligation bonds, including some of the capital appreciation bonds. In June 2000, the Treasurer's Office directed that the remaining surplus in the Special Transportation Fund from fiscal year 1999 of $1,530,937.48 be used to pay debt service on Bonds in fiscal year 2001. Section 13 of PA 00-170 repeals the provision that required balances in excess of $20 million to be directed toward debt reduction or for the payment of debt service requirements on special tax obligation bonds, thereby allowing surplus balances to be carried forward as had been the practice prior to PA 97-309.

SOURCES: Office of Policy and Management and Department of Transportation

THE TRANSPORTATION STRATEGY BOARD

The Transportation Strategy Board ("TSB") was established under Public Act 01-5 of the 2001 June Special Session to propose a transportation strategy, an implementation cost estimate and funding approaches to the Governor and the General Assembly. The initial transportation strategy was presented on January 15, 2002. The Act also required that the first revised strategy be submitted by December 15, 2002. Implementation of the Board's December 2002 recommendations requires actions by the General Assembly and the Governor. The TSB consists of fifteen members and five working groups. The TSB's five strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement of goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the state economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system. The General Assembly authorized approximately $17 million from General Fund appropriated surplus and $27 million in Special Transportation Fund bond authorizations to implement the projects included in Section 16 of Public Act 01-5. On January 6, 2003, the TSB presented its recommendations to the Governor and the General Assembly. The TSB recommended that transportation investments for fiscal year 2004 through fiscal year 2013 be increased over current levels by $4.854 billion for capital investments, $631 million for operating expenses and $16 million for transportation studies. It recommended that these increased expenditures be financed by increasing the State sales tax by 0.5 percent, from the current 6.0 percent to 6.5 percent, effective July 1, 2003, and increasing the State motor fuel tax by 3 cents each July first for the next five years; thereby, increasing the rate from the current 25 cents per gallon to 40 cents per gallon on July 1, 2007. The Governor and the General Assembly will consider these recommendations during the current legislative session.

THE DEPARTMENT OF TRANSPORTATION

The State Transportation System

The State's transportation system includes approximately 20,040 miles of improved roads (of which approximately 3,732 are maintained by the Department); 5,436 state and local bridges; Bradley International Airport, which is New England's second largest airport, and five other State-owned airports together with numerous municipally and privately owned airports; rail commuter service between New Haven and New York City and related points, provided by Metro-North Commuter Railroad Company which operates 263 trains daily; Shore Line East Rail Commuter Service between New London and New Haven and on to Stamford, which operates 22 trains daily; and publicly and privately owned bus systems which operate 1,103 vehicles.

Organization and Responsibilities

The Department was established in 1969 and replaced the Connecticut Highway Department. The Department, as of October 1, 2002, had 3,458 employees. The Department's major responsibility is to provide transportation services and facilities to State residents.

The Department is headed by a Commissioner appointed by and directly responsible to the Governor. The Commissioner's office has 36 employees, who perform communications, management and legislative services, and other related functions of that office.

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

Mr. James F. Byrnes, Jr. has been serving as Acting Commissioner of the Department of Transportation since January 31, 2002. Prior to that time, Mr. Byrnes, a registered Professional Engineer, who began his career with the Department of Transportation in 1968, served in various executive positions including Planning Director, Deputy Commissioner of the Bureau of Public Transportation, Chief Engineer, and Bureau Chief of the Bureau of Engineering and Highway Operations.

Mr. James A. Adams was appointed Deputy Commissioner of the Department of Transportation on August 15, 1997, and previous to that served as Deputy Transportation Commissioner of the Bureau of Engineering and Highway Operations. Prior to joining the Department Mr. Adams served in various executive positions in the heavy and highway construction industry, and the building construction industry. As Deputy Commissioner of Transportation he is responsible for the operation of its five bureaus.

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

Bureau of Engineering and Highway Operations

The Bureau of Engineering and Highway Operations has 2,760 employees and is the Department's largest Bureau. Under the supervision of a Bureau Chief and the Chief Engineer, this Bureau is responsible for the design of new and improved facilities, the acquisition of rights-of-way, the construction and reconstruction of roads and bridges, the maintenance of State highways and bridges, and all Department research and materials testing.

Bureau of Finance and Administration

The Bureau of Administration has 392 employees. This Bureau provides administrative, service, personnel and support functions, which include budget preparation and control, auditing, purchasing, programming and control of the Department's capital program, external audit, information systems management and equal employment opportunity/affirmative action programs. This Bureau provides the administration and oversight of the Infrastructure Program.

Bureau of Policy and Planning

The Bureau of Policy and Planning has 115 employees and is responsible for coordination of transportation policy, strategic planning, monitoring federal and state laws and regulations, maintaining all transportation statistics and estimates, project planning and environmental analysis for all modes of State transportation supervised by the Department, and systems analysis. This Bureau has primary input in the determination of the major projects to be accomplished under the Infrastructure Program.

Other Bureaus

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

Implementation of and Funding for the Infrastructure Program

The Infrastructure Program began on July 1, 1984. In the first twelve years (State fiscal years 1985 through 1996) $8.8 billion was authorized, consisting of $3.6 billion in Bonds, $407 million in State appropriations, $4.7 billion in federal funds and $110 million in other resources.

The following is a brief description of the components of the Infrastructure Program for State fiscal years 1997 through 2006. The sources of funding for this period of the program are set forth in Table 9 below. Actual annual funding amounts for the Infrastructure Program components can be expected to vary from the projected amounts because a major portion of the program is dependent upon the availability of federal funds. The federal figures presented in Table 9 for 2001 through 2006 are projections based upon the federal Transportation Equity Act for the 21st Century (TEA-21).

Interstate

The Interstate program provides for the maintenance and enhancement of the State's portion of the nationwide system of interstate highways. The Interstate program is projected to cost approximately $1.0 billion of which $927 million is expected to be paid by federal funds and the remainder, or $115 million, is expected to be paid by State funds.

Intrastate

The Intrastate program provides for improvements to the State's primary and secondary roads. The costs of this program are estimated at $1.766 billion. A portion of the program is eligible for federal funding, which is currently projected at $1.441 billion. State funds are expected to pay for $325 million of the Intrastate program.

State Bridges

The State bridge restoration program includes the cost of rehabilitating, reconstructing, repairing, or replacing the bridges on the State highway system which have been identified as being in poor or fair condition and in need of repair. The State bridge restoration program is estimated to cost $901 million. The State's share of such costs is estimated to be $200 million, with the balance of $701 million to be met from federal funds.

Local Bridges

The State local bridge program will assist municipalities throughout the State in undertaking the rehabilitation, restoration, replacement and reconstruction of local bridges. To finance the local bridge program, the State has legislated a loan program and a grants-in-aid program that would provide an incentive to municipalities to complete repairs to their bridges. The loan program consists of a revolving fund established by the State for the purpose of providing below market rate loans to municipalities for up to 50% of the cost of the project. Loan repayments by municipalities will be returned to the revolving fund. None of the funds in the revolving fund will constitute security for the Bonds or be used to pay Debt Service Requirements on the Bonds or Notes. The grants-in-aid program provides grants to municipalities on the basis of their economic ability to pay. The grants are made on a sliding scale of 10% to 33% of project costs. The cost of this program is estimated to be $14 million. These are anticipated federal funds which will be used in combination with revolving fund resources to finance new local bridge projects.

Transit

The Transit capital program is composed of bus operations and commuter rail operations. The bus portion includes replacement of aged buses on all fixed-route systems, construction of new and rehabilitated bus maintenance and storage facilities, renovation and improvement of bus depots, and improvements within downtown areas to better accommodate bus service. The commuter rail portion of the Transit capital program is a continuation of the New Haven Line rail modernization program which was started in the early 1970's. The program costs reflect the cost sharing requirements between New York and Connecticut which resulted from arbitration rulings. The commuter rail program also includes investments in the Shore Line East passenger service. The total Transit capital program is estimated to cost $1.24 billion of which $864 million is estimated to be supported by federal funds, $340 million is estimated to be funded from State bond proceeds and $35.0 million from State appropriations.

Aviation

The Aviation program includes the costs of capital improvements to the major airport facilities in the State excluding Bradley International Airport. Capital projects have been scheduled for the five State-owned airports in Windham, Oxford, Groton, Danielson, and Hartford as well as improvements at municipal airports in New Haven, Meriden, Danbury, and Bridgeport. The Aviation program is estimated to cost $69.7 million and will require approximately $22 million in State funds.

Resurfacing

The Resurfacing program consists of resurfacing and restoring the State highway system. The Department currently anticipates resurfacing approximately 330 two-lane miles of highway per year. Over the period, the cost of the program is estimated to be $990 million, of which $490 million is expected to be paid from bond proceeds, $10 million from other Department budget appropriations, and $490 million from federal funds.

Department Facilities

This program includes the costs of renovating, repairing and expanding maintenance garages and other administrative facilities of the Department, and the costs of purchasing leased facilities. The total cost of this program is estimated at $51.8 million, which will be completely borne by the State because no federal funds are available.

Other

The Infrastructure Program also provides funding for STP/Urban Systems, Hazardous Waste, Special Projects and Waterways. The estimated cost of these programs is $646 million, of which $221 million is expected to be paid from bond proceeds and $425 million from federal funds.

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

The following table sets forth the actual and projected sources of funding, including legislative authorizations for Bonds, for various components of the Infrastructure Program over the ten-year period 1997-2006 and includes projections of amounts to be appropriated as current expenses of the Special Transportation Fund for such purposes:

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

	State Fiscal Year Ending June 30										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Interstate											
Bonds	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	115.0
Federal	84.3	70.6	79.2	78.3	103.5	103.5	103.5	103.5	103.5	97.0	926.9
											1,041.9
Intrastate											
Bonds	29.9	31.5	31.5	31.5	31.5	31.5	31.5	35.5	35.5	35.5	325.4
Federal	141.4	143.3	167.5	124.9	177.3	152.7	126.0	139.8	138.2	130.0	1,441.1
											1,766.5
State Bridges											
Bonds	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	200.0
Federal	55.4	22.6	51.7	47.8	66.9	97.2	74.0	71.9	138.2	75.0	700.7
											900.7
Local Bridges											
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations(a)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal	7.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.0
											14.0
Transit											
Bonds	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	340.0
Appropriations	0.0	0.0	0.0	35.0	0.0	0.0	0.0	0.0	0.0	0.0	35.0
Federal	73.2	56.0	68.4	106.8	97.9	92.7	94.3	134.3	57.6	82.6	863.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
											1,238.8
Aviation(b)											
Bonds	2.0	5.0	2.0	1.2	2.0	2.0	2.0	2.0	2.0	2.0	22.2
Federal	3.0	7.7	7.0	1.9	2.0	5.6	5.1	6.1	4.8	4.0	47.2
Other	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
											69.7
Resurfacing											
Bonds	49.0	48.9	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	489.9
Appropriations	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	10.0
Federal	36.0	50.8	71.3	44.7	44.9	58.7	49.0	54.1	36.0	45.0	490.5
											990.4
Dept. Facilities											
Bonds	7.0	0.0	0.0	6.4	6.4	6.4	6.4	6.4	6.4	6.4	51.8
Safety											
Appropriations	0.7	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	11.8
Federal	4.6	10.6	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	87.2
											99.0
STP/Urban Systems											
Bonds	12.0	12.0	12.0	12.0	12.0	12.0	12.0	8.0	8.0	8.0	108.0
Appropriations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal	54.3	42.8	39.8	48.0	48.0	48.0	48.0	32.0	32.0	32.0	424.9
Other(c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
											532.9
Other Road and Bridge											
Appropriations	7.5	7.2	8.0	9.4	9.8	9.8	9.8	10.2	10.6	11.0	93.3
Federal	5.2	4.8	11.2	11.2	11.6	13.9	15.1	13.9	15.1	15.1	117.1
											210.4
Hazardous Waste											
Bonds	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	60.0
Special Projects											
Bonds						12.0	15.0				27.0
Waterways											
Bonds	0.3	0.2	0.3	16.0	8.3	0.2	0.3	0.2	0.3	0.2	26.3
											26.3
Totals											
Bonds(d)	171.7	169.1	166.3	187.6	180.7	184.6	187.7	172.6	172.7	172.6	1,765.6
Appropriations	9.2	9.7	10.2	46.6	12.0	12.0	12.0	12.4	12.8	13.2	150.1
Federal	464.4	416.2	505.1	472.6	561.1	581.3	524.0	564.6	534.4	489.7	5,113.4
Other	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
											7,029.4
Issuance and Reserve	18.1	15.6	20.2	20.4	23.5	23.3	23.3	21.3	21.3	21.3	

* All line items in this Table captioned "Bonds" refer to legislative bond authorizations not bond issuances. Federal funding after September 30, 2002 is subject to Congressional action. For a discussion of the assumptions and enacted tax, fee and charge adjustments underlying these projections, see "Discussion of Projected Pledged Revenues."

(a) Deposits to the Local Bridge Revolving Fund.

(b) Excluding Bradley International Airport.

(c) Local funds.

(d) 1998 includes $39.9 million in previously authorized general obligation transportation related bond authority.

SOURCE: Department of Transportation

The following table sets forth the amount of special tax obligation bond proceeds used and projected to be required to finance capital program project commitments and the annual amount of special tax obligation bonds issued and estimated to be issued each year for Infrastructure Program expenditures and other expenses through fiscal year 2006.

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

	State Fiscal Year Ending June 30											
	1985-1996(a)	1997(a)	1998(a)	1999(a)	2000(a)	2001(a)	2002(a)	2003	2004	2005	2006	Total
Program Project Commitments	3,547.2(d)	171.7	129.2(e)	166.3	187.6	180.7	184.6	187.7	172.6	172.7	172.6	5,272.9
Issuance and Reserve Authority	420.8	18.1	15.6	20.2	20.4	23.5	23.3	23.3	21.3	21.3	21.3	629.1
Actual and Projected Annual Issuances(b)(c)	3,594.7	150.0	150.0	225.0	150.0	225.0	287.0	215.0	200.0	200.0	200.0	5,596.7

(a) Actual authorized program commitments and bonds issued.
(b) Actual and projected annual issuances of special tax obligation bonds do not include any special tax obligation bonds which have or may be issued to refund special tax obligation bonds or general obligation bonds of the State issued for transportation purposes.
(c) After 2006 additional special tax obligation bonds in an amount estimated at $305.3 million are expected to be issued to pay the balance of the costs of program commitments through 2006 and to fund reserves, if necessary.
(d) Does not include $21.1 million in previously authorized general obligation transportation related bond authority used in fiscal year 1996.
(e) Does not include $39.9 million in previously authorized general obligation transportation related bond authority.
SOURCES: Office of Policy and Management and Department of Transportation

The annual projected issuances of special tax obligation bonds for any future fiscal year may vary from amounts expected to be required to fund program project commitments in each fiscal year. This results primarily from estimates of the timing of the Department's capital cash flow needs and because a portion of the special tax obligation bond proceeds in each fiscal year are expected to fund Reserve Accounts and issuance costs.

Financial Controls

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

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

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

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

State Funds

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

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

If the project is to be designed by an outside consultant, the selection process is in accordance with statutory requirements, and the cost is negotiated by the Department. Proposed contracts are subject to review by the Office of Policy and Management and the Attorney General. In addition, proposed contracts for projects other than highways are subject to review by the State Properties Review Board. Except in emergencies, construction contracts above a certain size are awarded as a result of sealed bids. The Department is usually billed monthly by outside contractors and to insure proper progress of the project, Department liaisons make site checks. The Department's office of fiscal services must approve all outside bills and verify billed amounts against internal payment lists to insure that expenditures are within the amount of the contract. The Comptroller, after review and upon a warrant to the Treasurer, then disburses the appropriate funds.

Federal Funds

The Department expects to receive approximately $7.9 billion in federal funds with respect to the Infrastructure Program projects that have been approved by the State Bond Commission. An additional $272.5 million in federal funds is expected to be received for projects to be paid from approved State appropriations for the Department.

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

The Department also expects to receive project capital grants for the Infrastructure Program from the Federal Transit Administration (the “FTA”) and project capital grants for rail freight projects from the Federal Railroad Administration. As with FHWA grants, all capital FTA billing requests also are processed through the Concurrent Audit Billing System.

In addition to processing reimbursement requests, the billing system has built-in controls to assure compliance with federal cost limits and other federal requirements. The system also produces various reports, such as listings of all active projects and detailed summaries of expenditures.

The Division of Internal Audits of the Department regularly monitors the billing system to verify the validity of reimbursement requests. A primary purpose of the billing system audits is to maximize federal cost participation by identifying coding errors or other mistakes that misstate reimbursable costs and by insuring that corrective action is taken.

Only federal transportation related operating assistance grants (currently comprised only of FTA operating assistance grants) are credited to the Special Transportation Fund. Federal transportation related capital grants are credited to the Infrastructure Improvement Fund.

SUMMARY OF CERTAIN PROVISIONS OF THE SECOND LIEN INDENTURE

The following statements are summaries of certain provisions of the Second Lien Indenture, in addition to the terms and provisions described elsewhere in this Official Statement. All such summary statements do not purport to be complete and are subject to and qualified in their entirety by reference to the Second Lien Indenture.

Definitions

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

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

"Act" means collectively, Chapter 243 of the Connecticut General Statutes, Special Act No. 84-52 and any other action of the General Assembly of the State, authorizing Senior Bonds to be issued under the Senior Indenture or Second Lien Bonds to be issued under the Second Lien Indenture, as the same may be amended from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(v) the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a Credit Facility.

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

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

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

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

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

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

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

"Senior Bond" means any bond issued pursuant to the Senior Indenture.

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

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

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

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

Pledge of Trust Estate

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

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

Each Second Lien Bond shall be equally and ratably secured under the Second Lien Indenture by the assignments, pledges and charges made or created in the Second Lien Indenture of or on the properties of the Trust Estate for the payment and security of the Second Lien Bonds and amounts due in connection with any Credit Facility and any Qualified Swap and by a co-equal lien thereon, with respect to all other Second Lien Bonds. The pledges, liens, charges and assignments to the Trustee of the Trust Estate made in the Second Lien Indenture are to be valid and binding from the time of the delivery of and payment for the first series of Second Lien Bonds issued under the Second Lien Indenture and the moneys representing the Pledged Revenues and other receipts, funds or moneys so pledged received by the State are to be subject immediately to the lien of such pledge, upon receipt thereof by the State or the Trustee or a Paying Agent under the Second Lien Indenture without any physical delivery thereof or further act.

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

The Third Supplemental Indenture creates the 2003 Series 1 and 2 Trust Estate for the benefit of the holders of the 2003 Series 1 and 2 Bonds, comprised generally of the rights under any Financial Facility (including a Credit Facility or a Liquidity Facility, all as defined under the Third Supplemental Indenture) provided for the benefit of the 2003 Series 1 and 2

Bonds and any funds and accounts, including the amounts on deposit therein and any investments thereof, created under the Third Supplemental Indenture.

Funds and Accounts

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

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

(a) to the credit of the Bond Service Sub-Account, Note Repayment Account and Redemption Sub-Account, respectively, established under the Second Lien Indenture, such amounts thereof, if any (or the entire sum so withdrawn if less than the required amount, in which case such sum shall be allocated among the purposes set forth in this subparagraph on a pro rata basis), as, may be required (i) to pay Debt Service Requirements (other than Amortization Requirements) with respect to Second Lien Bonds, and any amounts owing under any Qualified Swap and any reimbursement agreement entered into with respect to a Credit Facility providing for payment of principal, purchase price or interest on Second Lien Bonds, (ii) to make the amount then held to the credit of the Note Repayment Account held for payment of interest equal to the unpaid interest payable on Second Lien Notes and interest payable pursuant to any reimbursement agreement entered into with respect to a Credit Facility providing for payment of the principal of Second Lien Notes, and (iii) to make the amount then held to the credit of the Redemption Sub-Account equal to the aggregate Amortization Requirements, if any; and

(b) to the credit of the Reserve Account for the Second Lien Bonds established under the Second Lien Indenture, from time to time, but at least monthly, out of any balance remaining after making the deposits under (a) above (or the entire balance if less than the required amount), the lesser of: (i) the amount, if any, necessary to maintain such Reserve Account at the Debt Service Reserve Requirement or (ii) one-twelfth of the Debt Service Reserve Requirement, or (iii) if a shortfall arises because of an increase in the Debt Service Reserve Requirement arising out of a reestablishment of Principal and Interest Requirements in respect of a series of Second Lien Bonds bearing interest at a variable rate, one-twelfth of such increase.

Unless an earlier time is specified in the supplemental indenture, any Credit Facility reimbursement agreement or any Qualified Swap entered into with respect to a series of Second Lien Bonds, the deposits described under (a) above shall be made at the time such funds are required to be applied by the Trustee to the purposes specified.

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

2. *Note Repayment Account.* Proceeds of Additional Bonds, proceeds of renewal or replacement Second Lien Notes issued pursuant to the Second Lien Indenture and deposits described above under the heading "Special Transportation Fund" shall be deposited by the Trustee to the credit of the Note Repayment Account established under the Second Lien Indenture in the amounts specified in Sections 2.4(a) and 2.2(c) of the Second Lien Indenture. Moneys held to the credit of the Note Repayment Account are to be used by the Trustee for the purpose of paying the interest on outstanding Second Lien Notes, interest pursuant to any reimbursement agreement entered into with respect to a credit facility for the payment of principal of Second Lien Notes, and principal on refunded Second Lien Notes. Upon such deposit to the credit of the Note Repayment Account of amounts to refund Second Lien Notes, the principal of Second Lien Notes in respect of which such deposit is made shall be deemed refunded, and until such a deposit is made to the credit of the Note Repayment Account in respect of a Second Lien Note the principal of such Second Lien Note shall be deemed for purposes of the Second Lien Indenture to be unrefunded. Any moneys remaining in the Note Repayment Account after the last maturity date of such outstanding Second Lien Notes in excess of the amount of principal due and payable thereon are to be transferred to the credit of the Special Transportation Fund. All proceeds realized from the investment of moneys held to the credit of the Note Repayment Account are to remain therein.

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

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

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

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

(2) Subject to the provisions of (3) below, the Trustee is to call for redemption on each interest payment date on which Second Lien Bonds are subject to redemption from moneys in the Debt Service Account such amount of Second Lien Bonds then subject to redemption as, with the redemption premium, if any, will exhaust the Redemption Sub-Account as nearly as may be; provided, however, that not less than $100,000 in principal amount of Second Lien Bonds are to be called for redemption at any one time. Such redemption is to be made pursuant to Article IV of the Second Lien Indenture. Not less than five days before the redemption date the Trustee shall withdraw from the Bond Service Sub-Account and from the Redemption Sub-Account and set aside in separate accounts on deposit with the Paying Agents the respective amounts required for paying the interest on the Second Lien Bonds so called for redemption and the principal of, and the premium on, such Second Lien Bonds.

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

the same date, in proportion (as nearly as practicable) to the principal amount of each series maturing on such date. If a Credit Facility shall have been drawn upon to make any of the payments called for in clauses (a), (b), (c) or (d), then the Trustee shall apply moneys in the Redemption Sub-Account to any reimbursement obligations under the Credit Facility arising thereby.

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

4. *Reserve Account.* Moneys held to the credit of the Reserve Account established under the Second Lien Indenture are to be used for the purpose of paying the principal and interest on the Second Lien Bonds and meeting the Amortization Requirements for any term bonds whenever and to the extent that the moneys held to the credit of the Bond Service Sub-Account and the Redemption Sub-Account, respectively, are insufficient for such purposes. Moneys held to the credit of the Reserve Account shall also be used for the purpose of making any reimbursement payment required pursuant to any bond of insurance or indemnity established under the Second Lien Indenture. To the extent that moneys held to the credit of the Reserve Account exceed the Debt Service Reserve Requirement, the Trustee shall withdraw such excess from the Reserve Account and deposit it with the State to the credit of the Special Transportation Fund. To the extent necessary to comply with Section 7.6 of the Second Lien Indenture, if at any time the moneys held for the credit of the Reserve Account (as calculated pursuant to the Second Lien Indenture) exceed 10% of the original proceeds of the Second Lien Bonds, then at the option of the State Treasurer either such excess is to be withdrawn by the Trustee from the Reserve Account and deposited to the credit of the Special Transportation Fund, or invested at restricted yield.

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

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

Application of Proceeds of Bonds and Notes

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

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

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

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

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

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

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

Issuance of Second Lien Notes and Application of Second Lien Note Proceeds. The Second Lien Indenture authorizes the issuance of one or more series of Second Lien Notes to provide temporary financing for transportation purposes pending the issuance of Second Lien Bonds. No Second Lien Notes shall be issued (i) unless the Second Lien Bonds in anticipation of which they are to be issued have been duly authorized in accordance with the Act and the Second Lien Indenture, and (ii) if the aggregate principal amount of all Second Lien Notes then outstanding and to be issued exceeds $50,000,000, unless, as of the date of issuance of such Second Lien Notes, the State could have issued under the terms of the Second Lien Indenture an equivalent aggregate principal amount of serial bonds, maturing in equal annual installments of principal and interest, the last installment of which shall be due not later than 30 years after such date, and bearing interest at such rate as the State shall determine in its best judgment to be equivalent to the average interest rate which would have been paid had such Second Lien Bonds been issued at such time.

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

(a) There will be deposited to the credit of the Note Repayment Account an amount sufficient, when adjusted for investment earnings as provided below, and taking into account any other funds available or to be available for such purpose, to pay when due, the principal of and the interest on all Second Lien Notes then outstanding which are to be renewed or refunded by the present issue. Any deposit made to the Note Repayment Account pursuant to this paragraph shall be adjusted to take into account the income, if any, which may be earned from investment of said deposit between the date of deposit and the maturity date of the Second Lien Notes then outstanding which are to be renewed or refunded.

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

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

Depositories of Moneys/Investments

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

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

Investment Securities include (i) such obligations, securities and investments as are set forth in subsection (f) of Section 3-20 of the Connecticut General Statutes, as the same may be amended from time to time, and (ii) participation certificates in the short-term investment fund created and existing under Section 3-27a of the Connecticut General Statutes as amended.

Subordinate Obligations

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

Covenants

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

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

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

(3) *Prior Call on Pledged Revenues.* (a) Unless at such time any and all amounts required to be paid from the Special Transportation Fund to the Trustee, provider of a Credit Facility or Qualified Swap or any holder of Second Lien Bonds pursuant to the terms of the Second Lien Indenture shall have been made, the State will not make any payments from the Special Transportation Fund on account of any obligation whatsoever other than the Senior Bonds, Second Lien Bonds and Second Lien Notes, except from amounts held to the credit of the Special Transportation Fund which represent amounts borrowed by the Treasurer of the State in anticipation of revenues pursuant to Section 3-16 of the Connecticut General Statutes or from transportation related federal revenues of the State once such revenues are credited to the Special Transportation Fund. If at any time any such amounts required to be paid to the Trustee for the Second Lien Bonds have not been so paid, the Trustee is entitled to notify the Treasurer that such amounts are accrued and unpaid, whereupon any Pledged Revenues received by the State and credited to the Special Transportation Fund will be paid by the Treasurer forthwith to the trustee for the Senior Bonds to the extent of any moneys then owed in respect of Senior Bonds, and thereafter to the Trustee, and will not be diverted to any other purpose, until such accrued and unpaid amounts have been paid in full.

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

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

(5) *Books and Accounts; Audits.* To maintain and keep (or cause to be maintained and kept) proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Special Transportation

Fund and the Infrastructure Improvement Fund. Such accounts are to show the amount of Pledged Revenues available for the purposes of the Second Lien Indenture and the application of such Pledged Revenues and amounts in the Infrastructure Improvement Fund to the purposes specified in the Second Lien Indenture and the Act.

The State is to prepare balance sheets and statements of revenues, expenditures and changes in fund balances for each of the above specified funds and is to cause the Special Transportation Fund to be audited by the Accountant, with such restrictions on audit procedures performed by the Accountant with respect to operating expenses and program costs of the Department as the State may request, provided the State shall cause such operating expenses and program costs to be subject to the customary audit procedures of the State Auditor. Such Accountant is to be selected with special reference to his general knowledge, skill and experience in auditing books and accounts. Such audit is to be made annually and the audit report of the Accountant is to be delivered to the State within 120 days after the close of each Fiscal Year. A copy of each such annual audit is to be open for public inspection, and is to be mailed to any holder of Second Lien Bonds filing with the State Treasurer a request for the same. The Trustee is to cooperate fully with the Accountant in completing such audit, and is to make available all books and accounts in its possession pertaining to the Second Lien Bonds for this purpose.

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

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

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

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

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

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

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

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

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

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

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

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

Events of Default

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

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

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

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

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

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

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

Remedies for Defaults

Upon the happening and continuance of any of the Events of Default, and in addition to other remedies provided in the Second Lien Indenture, the Trustee, for and on behalf of the holders of the Second Lien Bonds (A) shall have the same rights under the Second Lien Indenture which are possessed by any of the holders of the Second Lien Bonds; (B) is authorized to proceed in its own name and as trustee of an express trust; (C) may and, upon the written request of the holders of not less than 10% in aggregate principal amount of the Second Lien Bonds then outstanding or the provider of a Credit Facility providing for the payment of the principal or purchase price of such aggregate principal amount of Second Lien Bonds, is required to pursue any available remedy by action at law or suit in equity to enforce the payment of the principal of interest and premium, if any, on the Second Lien Bonds; and (D) may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of the Second Lien Bonds allowed in any judicial proceeding relative to the State, or its creditors, its property, or the Second Lien Bonds.

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

Defeasance

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

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

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

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

Supplemental Indentures

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

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

SUMMARY OF CERTAIN PROVISIONS OF THE SENIOR INDENTURE

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

Definitions

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

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

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

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

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

"Debt Service Requirements" means for any period, the sum of (A) the principal and interest accruing during such period with respect to Senior Bonds, the interest accruing during such period with respect to Senior Notes and the unrefunded principal accruing during such period with respect to Senior Notes, (B) the purchase price of Senior Bonds and Senior Notes which are subject to purchase or redemption at the option of the holder of such Senior Bond or Senior Note, (C) the amounts, if any, required during such period to establish or maintain the funds or accounts existing under the Senior Indenture at the respective levels required to be established or maintained as provided in the Senior Indenture, (D) expenses of issuance and administration with respect to Senior Bonds and Senior

Notes, as determined by the State Treasurer, (E) the amounts, if any, becoming due and payable under a reimbursement agreement or similar agreement entered into pursuant to the proceedings authorizing the issuance of Senior Bonds or Senior Notes and (F) any other costs or expenses deemed by the State Treasurer to be necessary or proper to be paid in connection with the Senior Bonds and Senior Notes, including, without limitation, the cost of any credit facility, including but not limited to a letter of credit or policy of bond insurance, issued by a financial institution pursuant to an agreement approved by the proceedings authorizing the issuance of Senior Bonds or Senior Notes.

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

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

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

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

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

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

(i) the amount of interest accruing on all Senior Bonds of such series in such period; plus

(ii) the amount of principal accruing in such period with respect to all serial bonds of such series then outstanding, assuming the principal of any serial bond accrues ratably over the year preceding the maturity of such serial bond; plus

(iii) the Amortization Requirement accruing for the term bonds of such series for such period; plus

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

(v) the amount accruing with respect to principal and interest pursuant to any reimbursement agreement entered into with respect to a credit facility providing for payment of the principal of Senior Bonds.

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

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

"Senior Bond" means any bond issued pursuant to the Senior Indenture.

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

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

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

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

Pledge of Trust Estate

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

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

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

Funds and Accounts

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

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

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

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

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

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

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

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

Service Sub-Account and deposit said moneys to the credit of the Special Transportation Fund. Accrued interest deposited to the Bond Service Sub-Account on the sale of Senior Bonds may be used to pay costs of issuance of such Senior Bonds as directed by the Treasurer.

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

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

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

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

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

4. *Reserve Account.* Moneys held to the credit of the Reserve Account are to be used for the purpose of paying the principal and interest on the Senior Bonds and meeting the Amortization Requirements for any term bonds whenever and to the extent that the moneys held to the credit of the Bond Service Sub-Account and the Redemption Sub-Account, respectively, are insufficient for such purposes. To the extent that moneys held to the credit of the Reserve Account exceed the Debt Service Reserve Requirement, the Trustee shall withdraw such excess from the Reserve Account and deposit it with the State to the credit of the Special Transportation

Fund. To the extent necessary to comply with Section 7.6 of the Senior Indenture, if at any time the moneys held for the credit of the Reserve Account (as calculated pursuant to the Senior Indenture) exceed fifteen percent (15%) of the original proceeds of the Senior Bonds then outstanding, then at the option of the State Treasurer either such excess is to be withdrawn by the Trustee from the Reserve Account and deposited to the credit of the Special Transportation Fund, or invested at restricted yield.

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

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

Application of Proceeds of Bonds and Notes

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

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

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

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

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

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

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

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

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

(a) There will be deposited to the credit of the Note Repayment Account an amount sufficient, when adjusted for investment earnings as provided below, and taking into account any other funds available or to be available for such purpose, to pay when due, the principal of and the interest on all Senior Notes then outstanding which are to be renewed or refunded by the present issue. Any deposit made to the Note Repayment Account pursuant to this paragraph shall be adjusted to take into account the income, if any, which may be earned from investment of said deposit between the date of deposit and the maturity date of the Senior Notes then outstanding which are to be renewed or refunded.

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

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

Depositories of Moneys/Investments

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

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

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

Junior Lien Obligations

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

Covenants

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

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

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

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

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

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

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

The State is to prepare balance sheets and statements of revenues, expenditures and changes in fund balances for each of the above specified funds and is to cause the Special Transportation Fund to be audited by the Accountant, with such restrictions on audit procedures performed by the Accountant with respect to operating expenses and program costs of the Department as the State may request, provided the State shall cause such operating expenses and program costs to be subject to the customary audit procedures of the State Auditor. Such Accountant is to be selected with special reference to his general knowledge, skill and experience in auditing books and accounts. Such audit is to be made annually and the audit report of the Accountant is to be delivered to the State within one hundred twenty (120) days after the close of each Fiscal Year. A copy of each such annual audit is to be open for public inspection, and is to be mailed to any holder of Senior Bonds filing with the State Treasurer a request for the same. The Trustee is to cooperate fully with the Accountant in completing such audit, and is to make available all books and accounts in its possession pertaining to the Senior Bonds for this purpose.

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

(6) *Prosecution and Defense of Suits.* To defend, or cause to be defended, against every suit, action or proceeding at any time brought against any Bondholder by a person other than the State upon any claim arising out of the receipt, application or disbursement of any of the Pledged Revenues or any other moneys received, applied or disbursed under the Senior Indenture, or involving the rights of any Bondholder under the Senior Indenture and to indemnify and save harmless all Bondholders against any and

all liability claimed or asserted by any person whomsoever, arising out of such receipt, application or disbursement or involving the Pledged Revenues; provided, however, that any Bondholder at his election may appear in and defend any suit, action or proceeding. This covenant is to remain in full force and effect even though the Senior Bonds are no longer outstanding and all indebtedness and obligations secured by the Senior Indenture may have been fully paid and satisfied and the lien, pledge and charge of the Senior Indenture may have been released and discharged.

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

In addition, the State covenants:

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

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

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

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

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

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

Events of Default

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

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

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

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

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

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

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

Remedies for Defaults

Upon the happening and continuance of any of the Events of Default, and in addition to other remedies provided in the Senior Indenture, the Trustee, for and on behalf of the holders of the Senior Bonds (A) shall have the same rights under the Senior Indenture which are possessed by any of the holders of the Senior Bonds; (B) is authorized to proceed in its own name and as trustee of an express trust; (C) may and, upon the written request of the holders of not less than ten percent (10%) in aggregate principal amount of the Senior Bonds then outstanding, is required to pursue any available remedy by action at law or suit in equity to enforce the payment of the principal of interest and premium, if any, on the Senior Bonds; and (D) may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of the Senior Bonds allowed in any judicial proceeding relative to the State, or its creditors, its property, or the Senior Bonds.

Defeasance

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

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

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

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

Supplemental Indentures

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

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

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits relating to the operations of the Department. The Attorney General's office has reviewed the status of pending lawsuits in which a financial judgment adverse to the State would be payable from the Special Transportation Fund. Any amounts payable from such Fund to meet such financial judgments are subject to the prior lien of the Bondholders granted under the Act and the Indentures. It is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially adversely affect the financial condition of the Special Transportation Fund, except that in the cases described below under the headings “Eminent Domain Lawsuits” and “Defective Highway Lawsuits” adverse judgments in a number of such cases could, in the aggregate and in certain circumstances, have a significant fiscal impact. The fiscal impact of adverse judgments in the cases described below under the heading “Other Lawsuits” is not determinable at this time but might be significant. The cases described under “Other Lawsuits” generally do not include any individual case where the fiscal impact of an adverse judgment is expected to be less than $10 million.

Eminent Domain Lawsuits

There are 143 eminent domain appeals affecting real estate pending in the State courts. In each case there is the exposure to a monetary award in excess of the State's original condemnation amount. In budgeting and appropriating funds for the respective Department projects, the Department takes into account a reasonable exposure value.

Defective Highway Lawsuits

State statutes permit lawsuits against the Commissioner of Transportation for alleged highway defects. The State carries insurance for these matters, and for each pending lawsuit, defense counsel are retained by the insurance carrier providing coverage.

There are approximately 500 defective highway lawsuits presently pending in State courts. It is not possible to evaluate each individual case to determine if there is a real exposure over and above the insurance policy limits, nor can such an evaluation be made in the aggregate.

Other Lawsuits

With regard to any other pending litigation, the most notable matter involves the White Oak Corp., which has brought demands for arbitration against the State of Connecticut, Department of Transportation, pursuant to Section 4-61 of the Connecticut General Statutes, alleging breaches of contract in connection with both the Tomlinson Bridge construction project in New Haven and a separate construction project in Bridgeport. The two claims are both being arbitrated, and for the two claims together White Oak seeks approximately $150 million in damages. In addition, *George Campbell Painting Corp. v. State of Connecticut* is a matter in arbitration before the American Arbitration Association. The plaintiff is seeking approximately $50 million in damages for the alleged breach of contract in connection with the Gold Star Bridge project.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Continuing Disclosure Agreement

Although it is not required to do so under SEC Rule 15c2-12 (the "Rule"), the State will enter into a Continuing Disclosure Agreement with respect to the 2003 Series 1 and 2 Bonds, substantially in the form attached as Appendix E to this Official Statement (the "Continuing Disclosure Agreement"), to provide or cause to be provided, (i) annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the 2003 Series 1 and 2 Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information and operating data on or before the date specified in the Continuing Disclosure Agreement. The Underwriter's obligation to purchase the 2003 Series 1 and 2 Bonds shall be conditioned upon it receiving, at or prior to the delivery of the 2003 Series 1 and 2 Bonds, an executed copy of the Continuing Disclosure Agreement.

The State must undertake to provide the required annual financial information and operating data commencing with its fiscal year ending June 30, 2002. The State has never failed to comply in all material respects with any previous undertaking made by the State pursuant to the Rule relating to the issuance of Bonds.

Absence of Litigation

Upon delivery of the 2003 Series 1 and 2 Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the 2003 Series 1 and 2 Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened seeking to prohibit, restrain or enjoin the issuance, sale, execution or delivery of the 2003 Series 1 and 2 Bonds, or the levy or collection of the Pledged Revenues or other receipts, funds or monies pledged for the security of the 2003 Series 1 and 2 Bonds under the Act, the Special Acts and the Indentures, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the 2003 Series 1 and 2 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 2003 Series 1 and 2 Bonds. In addition, such certificate shall state that there is no controversy or litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could materially adversely affect the power of the State to levy, collect and enforce the collection of the Pledged Revenues and other receipts, funds or monies pledged for the security of the 2003 Series 1 and 2 Bonds under the Act, the Special Acts and the Indentures which has not been disclosed in this Official Statement.

Certain Legal Matters

Legal matters related to the authorization, issuance and delivery of the 2003 Series 1 and 2 Bonds are subject to the approval of Updike, Kelly & Spellacy, P.C., Hartford, Connecticut, Bond Counsel and Lewis & Munday, A Professional Corporation, Detroit, Michigan, Co-Bond Counsel. The opinions of Bond Counsel and Co-Bond Counsel will be attached to the Bonds in substantially the form included in this Official Statement as Appendix D. Certain legal matters will be passed upon for the Underwriter by its Counsel, Squire, Sanders & Dempsey L.L.P., New York, New York. Squire, Sanders & Dempsey L.L.P. also serves as one of the State's Bond Counsel in certain other transactions. Certain legal matters will be passed upon for the Series 1 Bank by its domestic counsel, Winston & Strawn, New York, New York, as special counsel, and by its German in-house counsel. Certain legal matters will be passed upon for the Series 2 Banks by King & Spalding, LLP, New York, New York, as special counsel, and by Dexia Credit Local's special French counsel, Jeantet & Associes, New York, New York, and by Bayerische Landesbank's German in-house counsel.

Certificate of State Officials

The purchasers of the 2003 Series 1 and 2 Bonds shall receive a certificate, dated the date of delivery of the 2003 Series 1 and 2 Bonds, of the State Treasurer, the Secretary of the Office of Policy and Management and the Commissioner of the Department of Transportation, or their duly authorized deputies, stating that the Official Statement, as of its date, and as of the date of the certificate, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that there has been no material adverse change (not in the ordinary course of the operations of the State) in the financial condition of the State from that set forth in or contemplated by the Official Statement.

LEGALITY FOR INVESTMENT

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

VERIFICATION OF MATHEMATICAL COMPUTATIONS

McGladrey & Pullen, LLP, independent certified public accountants, will deliver a report relating to (i) the accuracy of the mathematical computations regarding the adequacy of the maturing principal of and interest earned on the Government Obligations together with any monies which may be deposited by the State with the Escrow Holder to pay, when due, the principal, redemption price and interest on the Refunded Bonds, and (ii) the yield on the 2003 Series 1 and 2 Bonds and on certain investments considered by Bond Counsel and Co-Bond Counsel in their respective determination that the interest on the 2003 Series 1 and 2 Bonds is not included in gross income for Federal income tax purposes, as a condition to the delivery of the 2003 Series 1 and 2 Bonds. Such verification of the accuracy of the mathematical computations will be based upon information and assumptions supplied by the Underwriter of the 2003 Series 1 and 2 Bonds.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to delivery of the 2003 Series 1 and 2 Bonds in order that interest on the 2003 Series 1 and 2 Bonds not be includable in gross income of the owners thereof for Federal income tax purposes. Failure to comply with such continuing requirements may cause interest on the 2003 Series 1 and 2 Bonds to be includable in gross income for Federal income tax purposes retroactively to the date of their issuance irrespective of the date on which noncompliance occurs. The Tax Regulatory Agreement of the State which will be delivered concurrently with the delivery of the 2003 Series 1 and 2 Bonds will contain representations, covenants and procedures relating to compliance with such requirements of the Code. Pursuant to Section 13b-76 of the Connecticut General Statutes, the State agrees and covenants that it shall at all times perform all acts and things necessary or appropriate under any valid provision of law in order to ensure that interest on the 2003 Series 1 and 2 Bonds shall not be included in the gross income of the owners thereof for Federal income tax purposes under the Code.

In the opinion of Bond Counsel and Co-Bond Counsel, under existing law, interest on the 2003 Series 1 and 2 Bonds is not included in gross income of the owners thereof for Federal income tax purposes, and, under existing law, interest on the 2003 Series 1 and 2 Bonds is not treated as a preference item in calculating the Federal alternative minimum tax that may be imposed on individuals and corporations. Interest on the 2003 Series 1 and 2 Bonds, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the Federal alternative minimum tax imposed on such corporations. In rendering the foregoing opinions, Bond Counsel and Co-Bond Counsel have assumed compliance by the State with the Tax Regulatory Agreement. For other Federal tax information, see "Certain Additional Tax Information" herein.

Further, in the opinion of Bond Counsel and Co-Bond Counsel under existing statutes, interest on the 2003 Series 1 and 2 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. Owners of the 2003 Series 1 and 2 Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the 2003 Series 1 and 2 Bonds and the disposition of the 2003 Series 1 and 2 Bonds. Notwithstanding any past covenants of the State relating to the exclusion of interest on any previously issued special tax obligation bonds from gross income for purposes of the Corporation Business Tax imposed by Chapter 208 of the Connecticut General Statutes, Public Act 95-2 specifically requires the inclusion of interest on any State obligation, including the 2003 Series 1 and 2 Bonds, in gross income for purposes of the Corporation Business Tax.

Certain Additional Tax Information

The following is a brief discussion of certain Federal income tax matters under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular Beneficial Owners. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2003 Series 1 and 2 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the 2003 Series 1 and 2 Bonds is not treated as a preference item in calculating alternative minimum taxable income. The Code provides, however, that a portion of the adjusted current earnings of certain corporations not otherwise included in alternative minimum taxable income would be included for purposes of calculating the alternative minimum tax. The adjusted current earnings of a corporation includes the amount of any income accrued that is otherwise exempt from taxes, such as interest on the 2003 Series 1 and 2 Bonds.

Ownership of the 2003 Series 1 and 2 Bonds may result in collateral Federal income tax consequences to various categories of persons such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, and individuals otherwise eligible for the earned income credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. The foregoing is not intended to be an exhaustive list of potential tax consequences.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2003 Series 1 and 2 Bonds will not have an adverse effect on the tax-exempt status or market price of the 2003 Series 1 and 2 Bonds.

Bond Counsel and Co-Bond Counsel have not undertaken to advise in the future whether any events after the date of issuance of the 2003 Series 1 and 2 Bonds may affect the tax status of interest on the 2003 Series 1 and 2 Bonds. No assurance can be given that future legislation, or amendments to the State income tax law, if enacted into law, will not contain provisions which could, directly or indirectly, reduce the benefit of the exclusion of the interest on the 2003 Series 1 and 2 Bonds or any gain made on the sale or exchange thereof from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates.

Bond Counsel and Co-Bond Counsel express no opinion regarding any State or Federal tax consequences of ownership or disposition of the 2003 Series 1 and 2 Bonds not specifically described herein.

RATINGS

Moody’s Investors Service (“Moody’s”), Standard & Poor’s Ratings Services and Fitch Ratings will assign long-term ratings of “Aaa,” “AAA” and “AAA,” respectively, and short-term ratings of “VMIG1,” “A-1+” and “F-1+,” respectively, to the 2003 Series 1 and 2 Bonds, with the understanding that the Policy will be issued by Ambac Assurance Corporation and the Standby Bond Purchase Agreements will be entered into by the Initial Liquidity Providers upon delivery of the 2003 Series 1 and 2 Bonds. Moody’s Investors Service has assigned an underlying rating of “Aa3” to Second Lien Bonds which are issued without bond insurance or other credit enhancement. The Moody’s underlying rating carries a “negative” credit outlook as to such Second Lien Bonds issued without bond insurance or other credit enhancement. At present, all outstanding Second Lien Bonds have bond insurance or other credit enhancement securing the scheduled payment of principal and interest. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 99 Church Street, New York, New York 10007; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041; Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The above ratings are not recommendations to buy, sell or hold the 2003 Series 1 and 2 Bonds. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2003 Series 1 and 2 Bonds.

FINANCIAL ADVISORS

The State has appointed Public Resources Advisory Group and A.C. Advisory, Inc. to serve as co-financial advisors to assist it in the preparation and revision of the Infrastructure Program and in the issuance of the 2003 Series 1 and 2 Bonds.

UNDERWRITING

The Underwriter will agree to purchase the 2003 Series 1 and 2 Bonds at a purchase price of $421,372,513 which is the aggregate principal amount of the 2003 Series 1 and 2 Bonds (representing the aggregate principal amount of the 2003 Series 1 and 2 Bonds less the underwriter’s discount of $607,487). The Underwriter may offer and sell the 2003 Series 1 and 2 Bonds to dealers and others (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the 2003 Series 1 and 2 Bonds into investment trusts) at prices lower than the public offering price. Lehman Brothers Inc. will serve as Remarketing Agent for the 2003 Series 1 and 2 Bonds.

MISCELLANEOUS

The State has furnished the information in this Official Statement.

Information with respect to the Infrastructure Program may be obtained from James F. Byrnes, Jr., Acting Commissioner of the Department of Transportation of the State of Connecticut, located at 2800 Berlin Turnpike, Newington, Connecticut 06131-7546, (860) 594-3002. Copies of the Indentures and information with respect to the State may be obtained upon request from the office of the State Treasurer, Honorable, Denise L. Nappier, Treasurer, Attn.: Catherine Boone, Assistant Treasurer, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3127.

This Official Statement is submitted in connection with the sale of the 2003 Series 1 and 2 Bonds and may not be reproduced or used as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the State and duly executed and delivered on its behalf by the officials signing below. The State’s independent auditors have agreed by letter to the State dated January 15, 2003 that the Independent Auditors’ Report dated October 9, 2002, which is Appendix C to this Official Statement, may be included in this Official Statement.

Any statements in this Official Statement involving matters of opinion, projections or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the State are fully set forth in the Indentures in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the State and the purchasers or owners of any of the 2003 Series 1 and 2 Bonds.

STATE OF CONNECTICUT

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

By: s/ Marc S. Ryan
Hon. Marc S. Ryan
Secretary of the
Office of Policy and Management

By: s/ James F. Byrnes, Jr.
Hon. James F. Byrnes, Jr.
Acting Commissioner of the
Department of Transportation

Dated at Hartford, Connecticut
This 15th day of January, 2003

Appendix A

STATE OF CONNECTICUT

There follows in this Appendix A a brief description of the State of Connecticut (the "State" or "Connecticut"), together with certain information concerning its governmental organization, its economy and a description of certain State financial procedures. The description and information were compiled December 1, 2002, and have not been updated.

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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.

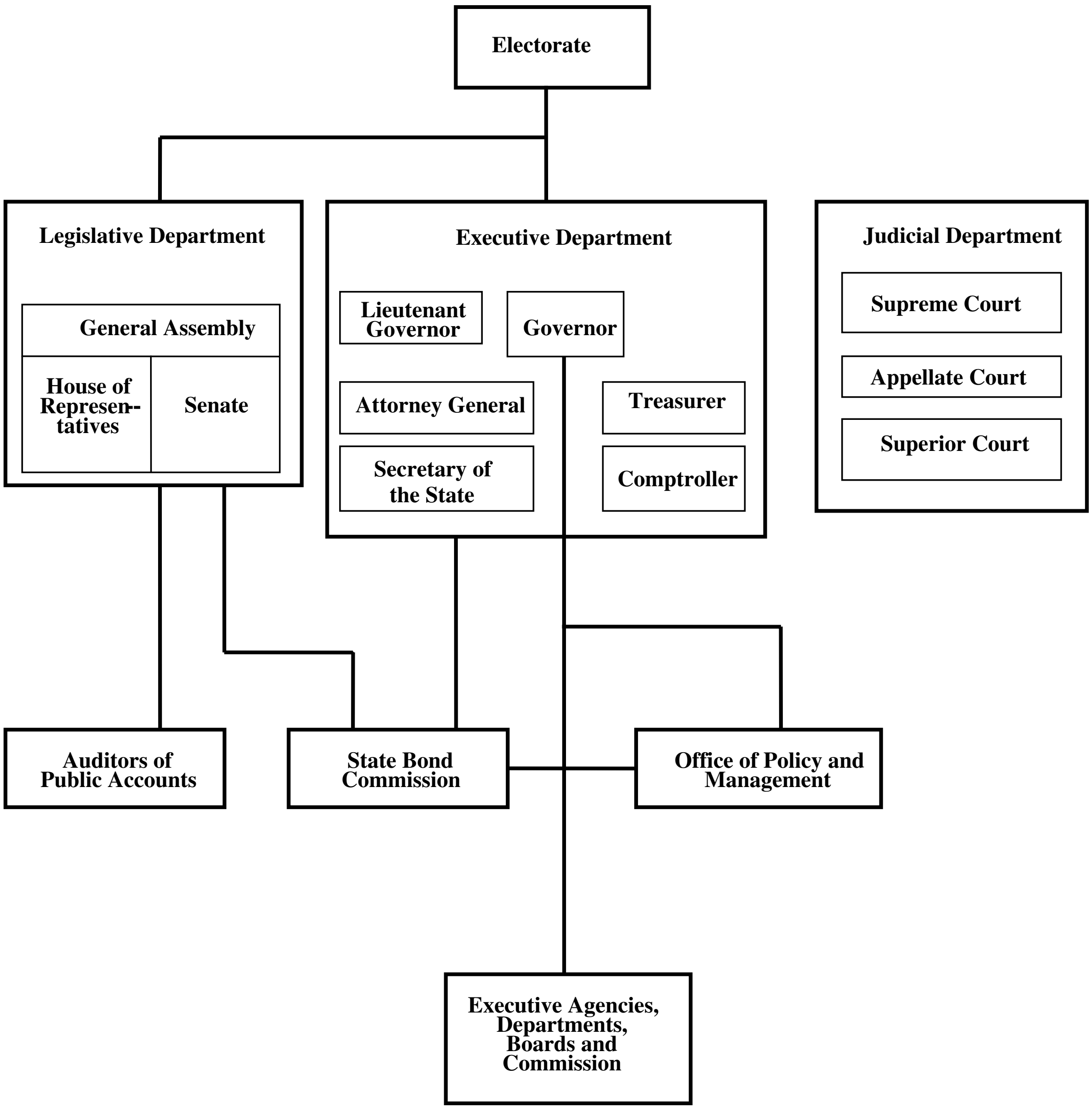
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute 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 2002, and the new members took office in January 2003.

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 present 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 and assumed office in January 2003. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

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

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

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 173 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 nine Appellate Court judges nominated by the Governor and appointed by the General Assembly to eight-year terms.

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

In addition to the principal trial and appellate courts, there is a Court of Probate in each of 128 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

Function Headings[(b)]	1998	1999	2000	2001	2002
Legislative	427	438	434	447	509
General Government	3,745	3,853	3,910	3,910	3,909
Regulation and Protection	4,200	4,319	4,550	4,592	4,620
Conservation and Development	1,399	1,420	1,463	1,457	1,496
Health and Hospitals	8,280	8,709	8,747	8,635	8,710
Transportation	3,675	3,610	3,643	3,626	3,631
Human Services	2,347	2,391	2,375	2,332	2,315
Education	13,494	14,130	14,357	14,921	15,331
Corrections	9,346	9,454	10,027	9,956	10,168
Judicial	2,971	3,068	3,224	3,342	3,369
Total	49,884	51,392	52,730	53,218	54,058

(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**.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2002[a]

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	509						509
General Government	3,082	11	9	450	29	328	3,909
Regulation and Protection	2,205	669	596	218	922	10	4,620
Conservation and Development	677		5	374	317	123	1,496
Health and Hospitals	8,243			77	335	55	8,710
Transportation		3,505		126			3,631
Human Services	1,980		14		307	14	2,315
Education	9,730			5,417	184		15,331
Corrections	10,012			91	65		10,168
Judicial	3,294			12	63		3,369
Total	39,732	4,185	624	6,765	2,222	530	54,058

[a] Table shows approximate filled full-time positions.

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[a] Collective Bargaining Units and Those Not Covered by Collective Bargaining

Bargaining Unit/Status Group	Percentage of State Employees Represented[a]	Contract Status, if any
Covered by Collective Bargaining		
Administrative Clerical	9.64%	Contract in place through 6/30/2002 (b)
Correction Officers	9.21%	Contract in place through 6/30/2004
Health Care Non-Professionals	8.34%	Contract in place through 6/30/2005
Maintenance and Service	8.21%	Contract in place through 6/30/2005
Social and Human Services	7.33%	Contract in place through 6/30/2002 (b)
Administrative and Residual	6.04%	Contract in place through 6/30/2003
Engineering, Scientific and Technical	4.95%	Contract in place through 6/30/2005
Health Care Professionals	4.80%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.45%	Contract in place through 6/30/2006
Judicial Employees	2.59%	Contract in place through 6/30/2002 (b)
University of Connecticut Faculty	2.38%	Contract in place through 6/30/2006
University of Connecticut Professional Employee Association	2.30%	Contract in place through 6/30/2005
Connecticut State University Faculty	2.29%	Contract in place through 6/30/2006
State Police	2.20%	Contract in place through 6/30/2004
Vocational Technical School Teachers	2.11%	Contract in place through 6/30/2003
Congress of Connecticut Community Colleges	2.08%	Contract in place through 6/30/2005
Judicial Professionals	1.78%	Contract in place through 6/30/2002 (b)
Education Professionals (Institutions)	1.73%	Contract in place through 6/30/2005
Protective Services	1.62%	Contract in place through 6/30/2004
Judicial Marshals	1.37%	Contract in place through 6/30/2004
Connecticut State University Administrators	1.03%	Contract in place through 6/30/2005
Other Bargaining Units (11 units)	2.02%	Varies by Unit
Total Covered by Collective Bargaining	87.46%	
Not Covered by Collective Bargaining		
Auditors of Public Accounts	0.18%	Not Applicable
Other Employees	12.36%	Not Applicable
Total Not Covered by Collective Bargaining	12.54%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 54,058 filled full-time positions as of June 30, 2002.

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

Source: Office of Policy and Management.

Governmental Services

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

TABLE A-5
Function of Government Headings[(a)(b)]

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
Connecticut Historical Commission

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
Board of Pardons
Board of Parole
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, 2002.

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.

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-2001 population in Connecticut was estimated at 3,425,074, up 0.4% from a year ago, compared to increases of 0.6% and 0.9% for both New England and the nation, respectively.

TABLE A-6

Population
(In Thousands)

Calendar Year	Connecticut Total	Connecticut % Change	New England Total	New England % Change	United States Total	United States % Change
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
1992….	3,301	(0.1)	13,271	0.2	256,514	1.4
1993….	3,309	0.3	13,334	0.5	259,919	1.3
1994….	3,316	0.2	13,396	0.5	263,126	1.2
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….	3,410	0.7	13,944	0.8	282,125	1.1
2001….	3,425	0.4	14,022	0.6	284,797	0.9

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1992-2001, Mid-year estimates.

SOURCE: United States Department of Commerce, Bureau of the Census

The State is highly urbanized with a 2001 population density of 707 persons per square mile, as compared with 81 for the United States as a whole and 223 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 is available to all consumers except those who had already entered into special contracts with the electric companies. The legislation also provides a procedure allowing for the recovery of utility's stranded costs, including the issuance of revenue bonds.

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 is allowing 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 The Southern New England Telephone Company (SNET), which has been acquired by SBC Communications, Inc. and Verizon New York, Inc. Connecticut also has approximately 139 CLECs certified to provide local exchange services including AT&T Communications of New England, 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 1992 to 2001 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE A-7

Connecticut Personal Income by Place of Residence

Calendar Year	Connecticut		Connecticut Per Capita as % of	
	Total (Millions of Dollars)	Per Capita[a] (Dollars)	New England	United States
1992	93,779	28,409	116.9	135.2
1993	96,867	29,274	117.2	135.6
1994	99,788	30,093	116.1	134.5
1995	104,315	31,382	116.1	134.8
1996	109,354	32,770	115.6	134.8
1997	116,420	34,763	116.2	136.6
1998	124,880	37,112	116.6	137.9
1999	130,175	38,445	115.6	137.8
2000	138,796	40,703	113.7	136.6
2001	143,613	41,931	114.2	137.5

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

The following table indicates the annual growth rate of personal income, on a current and constant dollar basis, of Connecticut, New England and the United States.

TABLE A-8

Annual Growth Rates in Personal Income By Place of Residence

Calendar Year	Conn. (Current)	New England (Current)	U.S. (Current)	Conn. (Constant)	New England (Constant)	U.S. (Constant)
1992	6.2%	5.0%	6.0%	3.6 %	2.5 %	3.5%
1993	3.3%	3.3%	4.1%	0.9 %	0.9 %	1.6%
1994	3.0%	4.3%	5.0%	0.9 %	2.1 %	2.8%
1995	4.5%	4.9%	5.3%	2.3 %	2.6 %	3.1%
1996	4.8%	5.4%	5.6%	2.8 %	3.4 %	3.6%
1997	6.5%	6.3%	6.0%	4.4 %	4.2 %	3.9%
1998	7.3%	7.1%	7.0%	6.0 %	5.8 %	5.7%
1999	4.2%	5.3%	4.9%	2.8 %	3.8 %	3.4%
2000	6.6%	8.4%	8.0%	4.4 %	6.2 %	5.7%
2001	3.5%	3.2%	3.3%	1.1 %	0.8%	0.9%

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 2001.

TABLE A-9

Sources of Personal Income By Place of Residence
Calendar 2001
(In Millions)

	Conn.	Percent of Total	U.S.	Percent of Total
Wages in Non-manufacturing	$ 72,021	50.15	$4,161,208	47.91
Property Income (Div., Rents & Int.)	25,082	17.46	1,638,303	18.86
Wages in Manufacturing	16,519	11.50	789,400	9.09
Transfer Payments less Social Insurance Paid	9,619	6.70	798,165	9.19
Other Labor Income	8,818	6.14	570,395	6.57
Proprietor's Income	11,554	8.05	727,862	8.38
Personal Income—Total	$143,613	100.00	$8,685,333	100.00

Note—Columns may not add due to rounding.

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

Gross State Product. The State and the region's economic vitality is evidenced in the rate of growth of its Gross State Product. Gross State Product is the market value of all final goods and services produced by labor and property located within the State. The economies of Connecticut and New England were, for much of the 1980s, among the strongest performers in the nation in this category. While the growth rates of both Connecticut and New England slowed in the initial years of the 1990s, thereafter the growth rates improved and remain higher than those experienced in the early 1990s.

The following table shows the Gross State Product in current dollars for Connecticut, New England and the United States.

TABLE A-10

Gross State Product
(In Millions of Dollars)

	Connecticut		New England[(a)]		United States[(b)]	
Year	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1991	100,395	1.5	344,025	1.3	5,895,430	3.3
1992	103,794	3.4	357,145	3.8	6,209,096	5.3
1993	107,924	4.0	373,298	4.5	6,513,026	4.9
1994	112,395	4.1	394,406	5.7	6,930,791	6.4
1995	118,645	5.6	416,166	5.5	7,309,516	5.5
1996	124,157	4.6	439,596	5.6	7,715,901	5.6
1997	134,968	8.7	471,336	7.2	8,224,960	6.6
1998	142,701	5.7	503,940	6.9	8,750,174	6.4
1999	149,483	4.8	537,962	6.8	9,279,697	6.1
2000	159,288	6.6	582,776	8.3	9,941,552	7.1

(a) Sum of the GSP for the States in New England.
(b) Denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S.

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

The following table shows the Gross State Product in 1996 chained dollars.

TABLE A-11

Gross State Product
(In Millions of 1996 Chained Dollars)

	Connecticut		New England		United States	
Year	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1991	114,576	(2.3)	388,572	(2.5)	6,615,685	(0.2)
1992	114,830	0.2	391,385	0.7	6,774,505	2.4
1993	115,725	0.8	397,470	1.6	6,918,388	2.1
1994	117,489	1.5	410,014	3.2	7,203,002	4.1
1995	120,792	2.8	422,524	3.1	7,433,965	3.2
1996	124,157	2.8	439,596	4.0	7,715,901	3.8
1997	132,620	6.8	463,498	5.4	8,093,396	4.9
1998	138,159	4.2	488,673	5.4	8,502,663	5.1
1999	143,500	3.9	517,174	5.8	8,915,954	4.9
2000	149,649	4.3	549,304	6.2	9,314,279	4.5

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 diverse economy. The table shows that, in 2000, Connecticut's output was concentrated in three areas: finance (29.5%), services (22.1%) and manufacturing (15.7%), which contributed two-thirds of the State's total output. The output contribution of manufacturing has been declining over time as the contribution of finance and services has been rapidly increasing. In 1991, Connecticut's outputs from these three areas were: finance, 25.2%; services, 19.4%; and manufacturing, 19.8%. The increasing share of the non-manufacturing sector may help smooth the business cycle by prolonging the length of expansion and reducing the span and depth of recession.

TABLE A-12

Gross State Product by Industry in Connecticut
(In Millions of Dollars)

Sector	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Manufacturing	$19,901	$19,452	$18,420	$18,983	$20,017	$21,233	$22,998	$24,151	$24,016	$25,010
Construction(a)	3,544	3,493	3,594	3,670	3,904	3,929	4,285	4,661	5,129	5,579
Agriculture(b)	660	734	819	802	771	845	874	926	1,000	1,090
Utilities(c)	6,803	7,212	7,622	8,026	8,407	8,192	8,315	8,824	8,987	9,399
Wholesale Trade	6,762	7,013	7,008	7,377	7,747	8,136	9,126	9,305	9,338	9,726
Retail Trade	8,361	8,340	8,553	8,835	9,026	9,347	10,100	10,676	11,737	12,876
Finance(d)	25,258	26,607	29,173	29,797	32,221	34,073	37,892	40,812	43,596	47,045
Services(e)	19,470	20,995	22,488	24,205	25,577	27,063	29,652	31,164	33,109	35,235
Government	9,636	9,948	10,247	10,700	10,975	11,339	11,726	12,182	12,571	13,328
Total GSP	$100,395	$103,794	$107,924	$112,395	$118,645	$124,157	$134,968	$142,701	$149,483	$159,288

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.

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 1992 and 2001. In Connecticut, approximately 60% 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 1,676,230 persons employed, but began declining with the onset of the recession in the early 1990s. It was not until 1993 that the State's economy started to gain momentum and it has steadily improved in each successive year since, adding tens of thousands of new workers annually. During 2000, nonagricultural employment surpassed the 1989 peak with a total employment of 1,693,500. Total nonagricultural employment declined in 2001 as the economy softened beginning with the first quarter of 2001.

TABLE A-13

Non-agricultural Employment[(a)]
(In Thousands)

Calendar Year	Connecticut Employment	Connecticut Percent Growth	New England Employment	New England Percent Growth	United States Employment	United States Percent Growth
1992	1,526.1	(1.86)	5,995.6	(0.77)	108,590	0.31
1993	1,531.1	0.33	6,079.9	1.41	110,693	1.94
1994	1,543.8	0.83	6,200.7	1.99	114,138	3.11
1995	1,561.8	1.17	6,328.2	2.06	117,190	2.67
1996	1,583.7	1.40	6,432.4	1.65	119,590	2.05
1997	1,612.4	1.81	6,574.6	2.21	122,670	2.58
1998	1,643.1	1.90	6,721.6	2.24	125,853	2.59
1999	1,668.8	1.56	6,853.9	1.97	128,903	2.42
2000	1,693.5	1.48	7,018.4	2.40	131,718	2.18
2001	1,682.8	(0.63)	7,033.6	0.22	131,923	0.16

(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 2001. The table shows that Connecticut has a larger share of employment in services and manufacturing than the nation as a whole.

TABLE A-14

Connecticut Non-agricultural Employment, 2001
(In Thousands)

	Connecticut Total	Connecticut %	United States Total	United States %
Services[(a)]	539.7	32.07	40,978	31.06
Trade[(b)]	358.2	21.29	30,295	22.96
Manufacturing	254.0	15.09	17,695	13.41
Government	243.8	14.49	20,928	15.86
Finance[(c)]	142.5	8.47	7,713	5.85
Utilities[(d)]	78.6	4.67	7,068	5.36
Construction[(e)]	66.0	3.93	7,246	5.49
	1,682.8	100.00	131,923	100.00

(a) Covers a considerable variety of activities, including professional, business and personal services.
(b) Includes wholesale and retail trade.
(c) Includes finance, insurance, and real estate.
(d) Includes transportation, communications, electric, gas and sanitary services.
(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 2001, approximately 85% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

TABLE A-15

Connecticut Non-agricultural Employment
(Annual Averages In Thousands)

Year	Manufacturing	Trade[(a)]	Services[(b)]	Government	Finance[(c)]	Utilities[(d)]	Construction[(e)]	Total Non-agricultural Employment[(f)]
1992	305.71	331.33	423.08	207.32	142.34	67.98	48.32	1,526.06
1993	294.15	330.33	438.08	210.68	139.78	69.53	48.53	1,531.07
1994	285.29	335.24	449.84	217.23	135.72	70.46	49.99	1,543.76
1995	279.06	341.07	465.16	220.87	133.04	71.28	51.32	1,561.80
1996	274.79	347.05	480.52	222.85	131.73	73.58	53.17	1,583.69
1997	275.98	351.61	494.97	225.73	132.13	74.93	57.06	1,612.41
1998	276.91	355.78	510.76	227.63	136.54	75.81	59.69	1,643.12
1999	268.42	359.23	526.29	235.09	140.04	77.53	62.16	1,668.76
2000	263.33	363.97	537.40	241.93	141.48	79.72	65.71	1,693.54
2001	253.96	358.17	539.72	243.84	142.51	78.56	66.04	1,682.80

(a) Includes wholesale and retail trade.
(b) Covers a considerable variety of activities, including professional, business and personal services.
(c) Includes finance, insurance and real estate.
(d) Includes transportation, communications, electric and gas.
(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 thirteenth in the nation for its dependency on manufacturing in fiscal 2001. Manufacturing has traditionally been of prime economic importance to Connecticut but has declined 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 while manufacturing employment for the nation has remained somewhat steady for the decade. The transformation in the State's manufacturing base confirms that the State's employment levels in the manufacturing sector are much closer to the national average. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar 2001, approximately 15% of the State's workforce, versus 13.4% for the nation, was employed in the manufacturing industry, down from roughly 50% in the early 1950s.

TABLE A-16

Manufacturing Employment
(In Thousands)

Calendar	Connecticut		New England		United States	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1992	305.7	(5.18)	1,094.4	(3.73)	18,108	(1.61)
1993	294.2	(3.76)	1,069.2	(2.30)	18,078	(0.17)
1994	285.3	(3.03)	1,055.3	(1.30)	18,323	1.36
1995	279.1	(2.17)	1,049.1	(0.59)	18,525	1.10
1996	274.8	(1.54)	1,040.4	(0.83)	18,495	(0.16)
1997	276.0	0.44	1,045.3	0.47	18,670	0.95
1998	276.9	0.33	1,046.5	0.11	18,805	0.72
1999	268.4	(3.07)	1,017.7	(2.75)	18,555	(1.33)
2000	263.3	(1.90)	1,015.1	(0.26)	18,475	(0.43)
2001	254.0	(3.53)	980.0	(3.46)	17,695	(4.22)

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, nonelectrical machinery, and electrical machinery for the total number employed in 2001.

TABLE A-17

Manufacturing Employment
By Industry
(In Thousands)

Calendar Year	Transportation Equipment	Fabricated Metals	Nonelectrical Machinery	Electrical Machinery	Other[(a)]	Total Manufacturing Employment
1992	70.55	33.35	37.15	29.10	135.56	305.71
1993	62.95	33.57	36.16	28.06	133.41	294.15
1994	56.87	33.97	35.33	27.68	131.44	285.29
1995	52.69	34.29	35.09	27.73	129.26	279.06
1996	50.59	34.00	34.94	28.26	127.00	274.79
1997	50.10	34.62	34.66	28.81	127.79	275.98
1998	50.26	35.27	34.70	28.67	128.01	276.91
1999	48.25	34.01	33.14	26.87	126.15	268.42
2000	45.60	33.54	32.91	27.39	123.89	263.33
2001	46.03	31.60	31.28	26.04	119.01	253.96

(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 1992 at 305,710 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, a sharp decrease in defense spending, 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 253,960 in 2001, after a rebound to 276,910 in 1998. The total number of manufacturing jobs dropped 51,750, or 16.93% for the ten year period since 1992.

Exports. In Connecticut, the export sector of manufacturing has assumed an increasingly 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 $8.6 billion in 2001, accounting for approximately 5% of Gross State Product. From 1997 to 2001, the State's export of goods grew at an average annual rate of 5.2%. The following table shows the growth in exports of manufacturing products.

TABLE A-18

Exports Originating in Connecticut
(In Millions)

	1997	1998	1999	2000	2001	% of 2001 Total	Average % Growth 1997-01
A. Manufacturing Products							
Transportation Equipment	$2,067.6	$2,665.3	$2,599.0	$3,168.5	$3,988.3	46.3%	18.6%
Computer & Electronics	807.5	762.6	877.6	904.5	804.4	9.3%	0.4%
Machinery, Except Electronics	831.4	801.4	755.7	1,005.2	898.0	10.4%	3.3%
Fabricated Metal Production	360.5	312.9	328.5	369.8	391.5	4.5%	2.6%
Chemicals	560.4	557.0	547.7	612.8	567.3	6.6%	0.5%
Misc. Manufacturing	515.0	568.3	581.5	395.1	430.4	5.0%	(2.6%)
Electrical Equipment	315.0	237.5	242.9	292.9	259.8	3.0%	(3.3%)
Plastics & Rubber	159.5	159.6	153.1	144.5	152.0	1.8%	(1.1%)
Paper	154.3	134.1	139.6	150.8	139.5	1.6%	(2.1%)
Primary Metal Mfg.	309.0	182.1	191.1	247.0	210.1	2.4%	(5.5%)
Others	977.9	916.3	814.5	755.7	769.1	8.9%	(5.7%)
Total	$7,058.1	$7,297.1	$7,231.2	$8,046.8	$8,610.4	100.0%	5.2%
% Growth		3.4%	(0.9%)	11.3%	7.0%		
B. Gross State Product[(a)]	$134,968	$142,701	$149,483	$159,288	$163,436[(b)]		
Mfg Exports as a % of GSP	5.2%	5.1%	4.8%	5.1%	5.3%		

(a) In millions.
(b) Gross State Product for 2001 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. Connecticut has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In fiscal year 2001, however, Connecticut received $4.3 billion of prime contract awards, an increase of 96.1% over 2000. These total awards accounted for 3.2% of national total awards and ranked tenth in total defense dollars awarded and third in per capita dollars awarded among the 50 states. In fiscal year 2001, Connecticut had $1,247 in per capita defense awards, compared to the national average of $475. 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 fallen to 2.0% of Gross State Product in fiscal year 2001, down from 4.0% of Gross State Product in fiscal year 1992. The increase in 2001 was primarily due to higher awards for naval ships and helicopters.

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

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

TABLE A-19

Defense Contract Awards

Federal Fiscal Year	Connecticut Total Contract Award (Thousands)	Connecticut Rank Among States Total Awards	% Change from Prior Year	
			Connecticut	U.S.
1991-92	$3,099,444	11th	(37.7)	(9.5)
1992-93	$2,894,638	12th	(6.6)	1.7
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

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 85% by 2001. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 208,500 jobs created in this sector, an increase of 17.1%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1993.

The table below provides a ten year profile of non-manufacturing employment in Connecticut, New England and the United States.

TABLE A-20

Non-manufacturing Employment
(In Thousands)

Calendar Year	Connecticut Number	Connecticut % Growth	New England Number	New England % Growth	United States Number	United States % Growth
1992	1,220.4	(1.00)	4,886.3	(0.08)	90,483	0.70
1993	1,236.9	1.35	4,995.6	2.24	92,615	2.36
1994	1,258.5	1.75	5,129.8	2.69	95,815	3.46
1995	1,282.8	1.93	5,263.6	2.61	98,665	2.97
1996	1,308.9	2.03	5,392.0	2.44	101,095	2.46
1997	1,336.4	2.10	5,529.3	2.55	104,000	2.87
1998	1,366.2	2.23	5,675.1	2.64	107,048	2.93
1999	1,400.3	2.50	5,836.2	2.84	110,348	3.08
2000	1,430.2	2.14	6,003.3	2.86	113,243	2.62
2001	1,428.9	(0.09)	6,053.5	0.84	114,228	0.87

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 1992, 1999, 2000 and 2001 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 1992 and 2001, service industry employment expanded by 116,640 workers, adding more than one out of every two jobs statewide, which registered an increase of 208,490 jobs. State and local governments expanded by 38,710 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 government employees. Per the State's Department of Labor, approximately 20,000 employees worked at the State's two tribal casinos.

TABLE A-21

Connecticut Non-manufacturing Employment By Industry
(In Thousands)

Industry	Calendar 1992	Calendar 1999	Calendar 2000	Calendar 2001	Percent Change 2000-01	Percent Change 1992-01
Construction[a]	48.32	62.16	65.71	66.04	0.50	36.67
Transportation	39.68	44.53	45.42	46.02	1.32	15.98
Communications	17.11	18.75	19.26	20.33	5.56	18.82
Utilities	13.20	12.45	12.84	12.83	(0.08)	(2.80)
Wholesale Trade	73.42	86.21	86.31	75.96	(11.99)	3.46
Retail Trade	257.91	273.02	277.67	282.21	1.64	9.42
Finance and Real Estate	59.68	69.73	69.89	71.24	1.93	19.37
Insurance	82.66	70.32	71.59	71.27	(0.45)	(13.78)
Services[b]	423.08	526.29	537.40	539.72	0.43	27.57
Federal Government	24.27	22.35	22.32	23.49	5.24	(3.21)
State and Local Government	181.03	214.53	221.81	219.74	(0.93)	21.38
Total Non-manufacturing Employment[c]	1,220.36	1,400.34	1,430.22	1,428.85	(0.09)	17.08

(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 2001 totaled $42.2 billion, a decrease of 0.9% from fiscal 2000. This decrease reflects the State's economic slowdown after the continued, lengthy expansion in the State's economy experienced throughout most of the 1990s.

TABLE A-22

Retail Trade In Connecticut
(In Millions)

		Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	% Of Fiscal Year 2001 Total	Average % Growth Fiscal Year 1997-2001
SIC52	Hardware Stores	$1,436	$1,512	$2,320	$2,418	$2,376	5.6	15.3
SIC53	General Merchandise	3,636	3,793	3,742	3,744	3,024	7.2	(4.1)
SIC54	Food Products	6,127	6,479	6,922	7,139	7,521	17.8	5.3
SIC55	Automotive Products	7,488	7,654	7,963	8,712	8,531	20.2	3.4
SIC56	Apparel & Accessory	1,696	1,896	2,047	2,195	2,237	5.3	7.2
SIC57	Furniture & Appliances	3,724	4,333	4,011	4,299	3,971	9.4	2.1
SIC58	Eating & Drinking	2,685	2,799	2,966	3,148	3,327	7.9	5.5
SIC59	Misc. Shopping Stores	8,579	9,425	9,865	10,975	11,247	26.6	7.1
	Total[(a)]	$35,371	$37,891	$39,836	$42,630	$42,234	100.0	4.6
% Change from Previous Year		6.5	7.1	5.1	7.0	(0.9)		
Durables (SIC 52,55,57)		$12,648	$13,499	$14,294	$15,429	$14,878	35.2%	4.2%
% Change from Previous Year		10.3	6.7	5.9	7.9	(3.6)		
Non Durables (all other SICs)		$22,723	$24,392	$25,542	$27,201	$27,356	64.8%	4.8%
% Change from Previous Year		4.5	7.3	4.7	6.5	0.6		

(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 7.6% in 1992, which was below the New England average of 8.1% but above the national average of 7.5%. Since then it has generally been declining and has mostly remained below the New England and the national average. It fell to 2.2% in 2000 and edged up to 3.6% for the first six months of 2002, below the national averages of 4.2% and 5.8%, respectively, for the same periods.

The following table compares the unemployment rate averages of Connecticut, New England and the United States between 1992 and the first half of 2002.

TABLE A-23

Unemployment Rate

Year	Unemployment Rate		
	Connecticut	New England	United States
1992	7.6	8.1	7.5
1993	6.3	6.8	6.9
1994[(a)]	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[(b)]	3.6	4.2	5.8

(a) Beginning with estimates for January 1994, State and area labor force statistics reflect a number of important changes. These include implementation of a major redesign of the Current Population Survey (CPS); introduction of updated population controls to the CPS; improved regression models for smaller states such as Connecticut; and incorporation of selected 1990 Census data in the geographic redefinition of labor market areas and in local area labor force estimation.

(b) Reflects average for the first six months.

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

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 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 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 (the "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 the 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 the 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 the 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 the 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 7□ % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2002, the balance in the budget reserve fund was $594.7 million. However, the entire budget reserve fund balance was applied to partially offset a fiscal year 2002 General Fund deficit of $817.1 million (unaudited) leaving a zero balance in the budget reserve fund. In the past, 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 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 the 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, 2003 and the amortization date to June 30, 2005.

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 the 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 the 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 the motor fuels tax revenue and the motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and which tax is 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 which is received by the Department of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (7) the accrual of income tax revenue which is 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, which is received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; and (9) 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.

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 the 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. Such participation units are legal investments for all agencies, authorities, instrumentalities and political subdivisions of the state. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers' acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. The Treasurer may adopt regulations specifying the terms and conditions of the purchase and sale of participation units, the payment of interest, investment policies, and accounting practices.

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. Such funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the 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.

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 cashflow basis, including swap agreements and other arrangements to manage interest rate risk. The unsecured long-term obligations of the counter party to any arrangement must be rated the same 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.

BUDGET APPROPRIATIONS OF THE STATE SPECIAL TRANSPORTATION FUND FOR FISCAL YEARS 2001-2002 AND 2002-2003

APPROPRIATIONS		2001-2002	RECOMMENDED 2002-2003
I.	DEPARTMENT OF TRANSPORTATION		
A.	Personal Services	$124,871,748	$131,450,727
B.	Other Expenses	31,194,864	33,770,518
C.	Equipment	1,500,000	1,500,000
D.	Highway Planning and Research	2,715,778	2,768,418
E.	Minor Capital Projects	350,000	350,000
F.	Highway and Bridge Renewal Equipment	4,000,000	4,000,000
G.	Handicapped Access Program	7,828,800	8,259,400
H.	Hospital Transit for Dialysis	113,000	113,000
I.	Rail Operations	65,795,592	69,659,185
J.	Bus Operations	67,461,199	72,128,068
K.	Highway and Bridge Renewal	12,000,000	12,000,000
L	Payments to Local Governments - Town Aid	0	25,000,000
M	Airport Payment in Lieu of Taxes	0	0
N.	Tweed New Haven Airport	0	0
O.	Dial-A-Ride	2,500,000	2,500,000
P.	Transit Equipment	0	0
	AGENCY TOTAL TRANSPORTATION FUND	$320,330,981	$363,499,316
II.	MOTOR VEHICLE DEPARTMENT		
A.	Personal Services	$37,878,038	$39,524,863
B.	Other Expenses	13,349,549	13,981,550
C.	Equipment	664,979	641,064
D.	Graduated Licenses	0	0
E.	Insurance Enforcement	459,542	574,403
	AGENCY TOTAL	$52,352,108	$54,721,880
III.	STATE INSURANCE AND RISK MANAGEMENT BOARD		
	Other Expenses	$2,252,000	$2,457,000
	AGENCY TOTAL	$2,252,000	$2,457,000
IV.	NON-FUNCTIONAL		
	DEBT SERVICE-STATE TREASURER		
	Debt Service - State Treasurer	$406,139,466	$414,608,531
	DEPARTMENT OF ADMINISTRATIVE SERVICES		
	Worker's Compensation Claims	3,227,296	3,374,737
	APPROPRIATIONS ADMINISTERED BY THE COMPTROLLER		
	Unemployment Compensation	269,000	275,000
	STATE EMPLOYEES RETIREMENT CONTRIBUTIONS		
	Other Expenses	36,676,000	40,214,000
	INSURANCE - GROUP LIFE		
	Other Expenses	240,000	240,000
	EMPLOYERS SOCIAL SECURITY TAX		
	Other Expenses	12,775,600	13,432,000
	STATE EMPLOYEES HEALTH SERVICE COST		
	Other Expenses	20,030,200	22,075,300
	TOTAL NON-FUNCTIONAL	$479,357,562	$494,219,568
	TOTAL - Special Transportation Fund	$854,292,651	$914,897,764
	Plus: Reserve for Salary Adjustments	1,454,600	3,264,400
	Less: Estimated Lapse	(15,000,000)	(15,000,000)
	NET- SPECIAL TRANSPORTATION FUND	$840,747,251	$903,162,164

SOURCES: Office of Policy and Management
Department of Transportation

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Appendix C

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE SPECIAL TRANSPORTATION FUND OF THE STATE OF CONNECTICUT AS OF AND FOR THE YEAR ENDED JUNE 30, 2002

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STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND

FINANCIAL STATEMENTS
AS OF JUNE 30, 2002

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
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JUNE 30, 2002

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INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Honorable John G. Rowland
Governor of the State of Connecticut

We have audited the accompanying financial statements of each major fund of the Special Transportation Fund (the "Fund") of the State of Connecticut (the "State") as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Special Transportation Fund of the State are intended to present the financial position and the changes in financial position of each major fund of the State that is attributable to the transactions of the Special Transportation Fund. They do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2002, and the changes in its financial position and budgetary comparisons for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Special Transportation Fund of the State of Connecticut, as of June 30, 2002, and the respective changes in financial position thereof and the respective budgetary comparison for the Transportation Fund for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, the Special Transportation Fund of the State of Connecticut has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2001.

As discussed in Note 12, the State is currently a defendant in numerous lawsuits relating to the operations of the Fund and payments of any adverse financial judgments, if rendered, may be made by the Fund if so directed by the State.

As discussed in Note 1, the Special Transportation Fund of the State of Connecticut has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

DiSanto Bertoline & Company, P.C.

Glastonbury, Connecticut
October 9, 2002

FINANCIAL STATEMENTS

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
(Amounts Expressed in Thousands)

	Transportation Fund	Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	$ 163,159	$ -	$ 163,159
Restricted investments held by Trustee	-	590,374	590,374
Receivables:			
Taxes	38,084	-	38,084
Accounts, net of allowance for doubtful accounts of $1,780	4,211	-	4,211
Interest	160	4,418	4,578
Restricted federal grants	20,642	-	20,642
Restricted non-federal grants	6,555	-	6,555
Due from other funds of the State	15,918	-	15,918
Inventories	14,859	-	14,859
Total assets	$ 263,588	$ 594,792	$ 858,380
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued liabilities	$ 27,913	-	27,913
Deferred revenue	16,426	-	16,426
Due to other funds of the State	1,021	4,418	5,439
Total liabilities	45,360	4,418	49,778
FUND BALANCES			
Reserved for:			
Inventories	14,859	-	14,859
Debt service	-	590,374	590,374
Continuing appropriations	28,192	-	28,192
Unreserved	175,177	-	175,177
Total fund balances	218,228	590,374	808,602
Total liabilities and fund balances	$ 263,588	$ 594,792	$ 858,380

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

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Amounts Expressed in Thousands)

	Transportation Fund	Debt Service Fund	Total
REVENUES			
Motor fuel taxes	$ 468,480	$ -	$ 468,480
Sales taxes	65,224	-	65,224
License, permit and fee revenues	287,427	-	287,427
Investment income	4,738	33,950	38,688
Intergovernmental	101,924	-	101,924
Fines and rents	24,165	-	24,165
Sales and other services	10,956	-	10,956
Miscellaneous	9,630	-	9,630
Total revenues	972,544	33,950	1,006,494
EXPENDITURES			
Current:			
General government	1,673	-	1,673
Regulation and protection	74,092	-	74,092
Transportation	511,098	-	511,098
Debt service:			
Principal retirement	17,884	193,585	211,469
Interest and fiscal charges	5,018	155,654	160,672
Total expenditures	609,765	349,239	959,004
Excess (deficiency) of revenues over expenditures	362,779	(315,289)	47,490
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	-	533,335	533,335
Payment to refunded bond escrow agent	-	(574,893)	(574,893)
Premium on bonds issued	-	39,044	39,044
Operating transfers from other state funds	38,660	388,455	427,115
Operating transfers to other state funds	(382,577)	(35,094)	(417,671)
Total other financing sources (uses)	(343,917)	350,847	6,930
Net change in fund balances	18,862	35,558	54,420
FUND BALANCE, beginning of year, as adjusted	197,649	554,816	752,465
CHANGE IN RESERVE FOR INVENTORIES	1,717	-	1,717
FUND BALANCE, end of year	$ 218,228	$ 590,374	$ 808,602

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

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - NON-GAAP BUDGETARY BASIS - TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2002

(Amounts Expressed in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Over (Under)
REVENUES				
Budgeted:				
Taxes, net of refunds	$ 514,400	$ 534,400	$ 533,734	$ (666)
Licenses, permits, and fees	320,300	331,400	331,400	-
Other	37,000	40,500	40,480	(20)
Federal grants	3,000	3,300	3,305	5
Refunds of payments	(2,800)	(2,500)	(2,525)	(25)
Operating transfers out	(9,500)	(9,500)	(9,500)	-
Total budgeted	862,400	897,600	896,894	(706)
Federal and other restricted	199,569	308,272	103,225	(205,047)
Total revenues	1,061,969	1,205,872	1,000,119	(205,753)
EXPENDITURES				
Budgeted:				
General government	2,252	2,252	1,673	(579)
Regulation and protection	63,866	63,902	55,757	(8,145)
Transportation	359,838	365,612	347,043	(18,569)
Non-functional	484,540	486,495	468,182	(18,313)
Total budgeted	910,496	918,261	872,655	(45,606)
Federal and other restricted	199,569	308,272	103,225	(205,047)
Total expenditures	1,110,065	1,226,533	975,880	(250,653)
Appropriations lapsed	15,000	16,641	-	(16,641)
Excess (deficiency) of revenues over expenditures	(33,096)	(4,020)	24,239	28,259
OTHER FINANCING SOURCES (USES)				
Prior year appropriations carried forward	54,748	54,748	54,748	-
Appropriations continued to fiscal year 2002-2003	-	-	(28,192)	(28,192)
Miscellaneous adjustments	-	3,167	3,167	-
Total other financing sources (uses)	54,748	57,915	29,723	(28,192)
Net change in fund balance	$ 21,652	$ 53,895	53,962	$ 67
BUDGETARY FUND BALANCE, beginning of year			390,038	
CHANGE IN RESERVE			(21,078)	
BUDGETARY FUND BALANCE, end of year			$ 422,922	

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

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Special Transportation Fund of the State of Connecticut (the "Fund") have been prepared in conformity with U.S. generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB"). Following is a summary of significant accounting policies of the Fund:

REPORTING ENTITY

The Special Transportation Fund of the State of Connecticut was established pursuant to Public Act 83-30 (the "Act") of the June 1983 Special Session of the General Assembly of the State of Connecticut (the "State") as amended to date, to account for the transportation related taxes, revenues and fees pledged for payment of special tax obligation bonds (the "Bonds") issued by the State for transportation infrastructure purposes.

After providing for debt service requirements of the Bonds, the balance of the revenues and other financing sources of the Fund will be applied for the payment of debt service on general obligation bonds of the State issued for transportation purposes, for the payment of certain expenditures of the State Department of Motor Vehicles, and for the payment of expenditures of the State Department of Transportation, including both the annually budgeted operating expenditures and the State's share of infrastructure improvement program costs not financed separately by other sources.

The Fund is included in the basic financial statements of the State of Connecticut as a major governmental fund. The accompanying financial statements are prepared only for the accounts and transactions of the Fund. Accordingly, they do not purport to, and do not, present fairly the financial position of the State of Connecticut, as of June 30, 2002, and the changes in its financial position and budgetary comparisons for the year then ended in accordance with U.S. generally accepted accounting principles.

BASIS OF PRESENTATION

Implementation of New Pronouncements

During 2002, the Fund implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

The primary effect of the implementation of GASB Statement No. 34 on the Fund's financial statements is that general long-term obligations previously presented in a general long-term debt account group in the governmental funds balance sheet are no longer presented in the fund financial statements prepared in accordance with GASB Statement No. 34. However, disclosure of these amounts is presented in Notes 6 through 8.

In addition, GASB Statement No. 34 requires the presentation of budgetary comparison information for certain major funds with legally adopted budgets, either as required supplemental information or as a basic financial statement. The budgetary comparison information for the Transportation Fund has been presented as a basic financial statement for the year ended June 30, 2002.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF PRESENTATION *(Continued)*

Implementation of New Pronouncements *(Continued)*

The fund has not presented a management's discussion and analysis ("MD&A") in accordance with GASB Statement No. 34 and GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* because the focus of an MD&A is on a primary government. The State of Connecticut, the primary government, will provide an MD&A in its annual report that will include analysis of the Fund. The accompanying financial statements are prepared only for the accounts and transactions of the Fund, which do present the financial position, changes in its financial position and budgetary comparisons of the State of Connecticut.

The accounts and transactions of the Fund do not represent the financial position and changes in financial position of a general-purpose government or of a special-purpose government. Accordingly, only the provisions of GASB No. 34 and related pronouncements that are applicable to fund financial statements have been considered in the accompanying financial statements. Consequently, no government-wide financial statements are included in the accompanying financial statements.

There were no fund reclassifications or adjustments to fund equities as a result of the implementation of the above GASB statements.

Fund Financial Statements

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The financial activities of the Fund are accounted for in individual funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts. Funds are utilized for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial activities of the Fund are reported in the following major governmental funds in the accompanying fund financial statements:

- Transportation Fund - This fund is used to account for motor vehicle taxes, transportation related federal revenues and other receipts collected for the payment of debt service requirements of special tax obligation bonds and transportation related general obligation bonds issued by the State for transportation infrastructure purposes, for the payment of certain expenditures of the State Department of Motor Vehicles, and for the payment of budgeted appropriations made by the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State of Connecticut.

- Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, principal and interest on special tax obligation bonds and transportation related general obligation bonds issued by the State for transportation infrastructure purposes.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 60 days of the end of the current period. Significant revenue sources that are considered to be susceptible to accrual include motor fuel taxes and sales taxes. Revenue recognition policies are as follows:

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

- Intergovernmental Grants and Similar Items - Intergovernmental grants and similar items are recognized as revenue in the period when all applicable eligibility requirements imposed by funding sources have been met and when the resources are available. Resources received in advance are reported as deferred revenue

- Investment income - Investment income from restricted funds held by the Trustee in the bond service account and the debt service reserve account, and from other investments is recognized when earned.

- Licenses, Permits, and Fees and Other Revenues - Licenses, permits and fees and all other revenues are recognized as revenue when received because they are considered to be measurable and available only when the cash is actually received.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

Expenditures are recorded when the related fund liability is incurred except for debt service expenditures and expenditures related to compensated absences and claims and judgments, which are recorded as expenditures when payment is due.

CASH AND CASH EQUIVALENTS (amounts expressed in thousands)

Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents consisted of investments in the State Treasurer's Short-Term Investment Fund which totaled $146,728 as of June 30, 2002.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENTS

In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Fund presents all investments at fair value, except for non-participating investment contracts which are recorded at accreted value.

The fair value of investments traded on public markets is determined using quoted market prices. The Fund invests in the State Treasurer's Short-Term Investment Fund, which is an investment pool managed by the State Treasurer's Office. The fair value of the Fund's position in the pool is the same as the value of the pool shares.

There were no significant investment losses for the year ended June 30, 2002.

INVENTORIES

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

DEFERRED REVENUE

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

COMPENSATED ABSENCES

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTEREST RATE SWAP AGREEMENTS

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

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 INFORMATION AND LEGAL COMPLIANCE

By statute, the Governor of the State of Connecticut must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for several funds of the State, including the Special Transportation Fund. 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 demonstrating compliance with the legally adopted budget is necessary because the legal level of control is more detailed than reflected in the accompanying statement of revenues, expenditures and changes in fund balances - budget and actual. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the State Comptroller upon request by the agency. Such funds can then be expended by the State Treasurer only upon a warrant, draft or order of the State Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over 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.

NOTE 2 - BUDGETARY INFORMATION AND LEGAL COMPLIANCE *(Continued)*

All funds use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Continuing appropriations are reported as reservations of fund balance in the fund financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes and Federal and other restricted grant revenues which are recognized when earned. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the accompanying statement of revenues, expenditures and changes in fund balances - budget and actual. A reconciliation between budgetary amounts and GAAP amounts is as follows (amounts expressed in thousands):

	Transportation Fund
Net change in fund balance - budgetary basis	$ 53,962
Increases (decreases) in revenue items:	
Due from other governments	164
Deferred revenue	(55)
Accounts receivable	(132)
Interest receivable	(647)
Grants receivable	(724)
Due from other funds of the State	(1,879)
Increases (decreases) in expenditure items:	
Due to other funds of the State	69
Accounts payable and accrued liabilities	(5,340)
Decrease in continuing apporpriations	(26,556)
Net change in fund balance - GAAP basis	$ 18,862

NOTE 3 - RESTRICTION OF FUND REVENUES

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

Included in intergovernmental revenues are certain restricted grants. These grants represent amounts received from federal and local governments and other sources specifically to fund their share of certain program costs incurred. These revenues totaled $98.5 million for the year ended June 30, 2002 and are not available for debt service.

NOTE 4 - CASH DEPOSITS

The Fund's cash deposits are commingled with those of other funds of the State of Connecticut. The State's cash deposits are categorized pursuant to Statement No. 3 of the Governmental Accounting Standards Board, *Deposits with Financial Institutions, Investments, and Repurchase Agreements*. Category 1 includes amounts which are insured or collateralized with securities held by the State or by its agent in the State's name. Category 2 includes amounts which are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 includes amounts which are uninsured and uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the State's name.

The carrying value of the Fund's cash deposits totaled $16.4 million as of June 30, 2002. Because the Fund's cash deposits are commingled with those of other funds of the State, the categorization of the Fund's cash deposits in accordance with GASB Statement No. 3 is not readily determinable as of June 30, 2002.

Investments in the Short-Term Investment Fund totaling $146.7 million are included in cash and cash equivalents in the accompanying balance sheet. Such investments are not required to be categorized by risk category in accordance with GASB Statement No. 3.

NOTE 5 - RESTRICTED INVESTMENTS HELD BY TRUSTEE

Restricted investments held by the Trustee in the bond service account and the debt service reserve account are invested by the Trustee pursuant to the terms of the Indentures. Connecticut General Statutes permit the Fund to invest in bonds or obligations of, or guaranteed by, the State or the United States, or agencies or instrumentalities of the United States, commercial paper, banker's acceptances, certificates of deposit, savings accounts, highly rated obligations of any state of the United States or any political subdivision, authority or agency thereof, highly rated obligations of any regional school district, municipality or metropolitan district of the State of Connecticut or any money market fund which invests in United States government obligations or the State of Connecticut Short-Term Investment Fund.

In accordance with the provisions of Statement No. 3 of the Governmental Accounting Standards Board, the Fund's investments must be categorized to give an indication of the level of risk assumed at year-end. Category 1 includes securities that are insured or registered in the Fund's name or are held by the Fund or by its agent in the Fund's name. Category 2 includes uninsured and unregistered securities, which are held by the counterparty's trust department or by its agent in the Fund's name. Category 3 includes uninsured and unregistered securities, which are held by the counterparty, its trust department or its agent, but not held in the Fund's name. A summary of restricted investments held by Trustee as of June 30, 2002 is as follows (amounts expressed in thousands):

	Risk Category	Accreted Value	Fair Value
Bond service account:			
Short-Term Investment Fund	*	$ 211,607	$ 211,607
Total bond service account		211,607	211,607
Debt service reserve account:			
Short-Term Investment Fund	*	26,602	26,602
Municipal bonds maturing through 2009, various rates from 5.625% to 7.20%	1	73,575	72,165
Federal Home Loan Bank Securities	1	280,000	280,000
Total debt service reserve account		380,177	378,767
Total restricted investments		$ 591,784	$ 590,374

* Not required to be categorized by risk category.

NOTE 6 - SPECIAL TAX OBLIGATION BONDS

A summary of special tax obligation bonds issued, pursuant to the State Bond Commission's authorization, and the outstanding principal balances as of June 30, 2002 is as follows:

Issue	Interest Rates	Dated Date	Maturing Annually Through Fiscal Year	Amount of Original Issue	Principal Balance at June 30, 2002
1988B Bonds	5.10% - 7.75%	June 1, 1988	2008	$ 74,998,187	$ 3,417,825
1990A Bonds	6.10% - 7.75%	May 15, 1990	2010	250,000,000	43,985,000
1990B Bonds	1.30% **	December 19, 1990	2011	250,000,000	156,100,000
1991B Bonds	5.00% - 6.50%	September 15, 1991	2012	266,000,000	77,655,000
1992A Bonds*	2.75% - 6.18%	January 1, 1992	2008	125,715,000	24,710,000
1992B Bonds	3.00% - 6.15%	September 1, 1992	2013	275,000,000	128,740,000
1993A Bonds*	2.65% - 5.40%	March 1, 1993	2011	560,750,000	508,365,000
1993B Bonds*	3.20% - 4.60%	September 1, 1993	2006	254,770,000	135,930,000
1993C Bonds	4.40% - 5.00%	September 15, 1993	2013	175,000,000	30,010,000
1994A Bonds	4.75% - 5.65%	March 1, 1994	2014	150,000,000	14,035,000
1994B Bonds	5.50% - 6.25%	September 15, 1994	2015	200,000,000	17,410,000
1995A Bonds	5.10% - 5.60%	May 15, 1995	2015	125,000,000	16,750,000
1995B Bonds	3.60% - 5.63%	September 1, 1995	2016	175,000,000	22,815,000
1995C Bonds*	3.60% - 5.63%	September 1, 1995	2006	160,630,000	51,360,000
1996A Bonds	4.13% - 6.00%	June 1, 1996	2016	150,000,000	19,460,000
1996B Bonds	4.25% - 6.00%	October 1, 1996	2016	150,000,000	66,290,000
1996C Bonds*	4.00% - 6.00%	October 1, 1996	2009	79,795,000	79,555,000
1997A Bonds	4.00% - 6.00%	October 15, 1997	2017	150,000,000	117,910,000
1997B Bonds*	4.00% - 5.50%	October 15, 1997	2017	65,415,000	55,660,000
1998A Bonds*	4.25% - 5.50%	April 15, 1998	2014	197,500,000	196,695,000
1998B Bonds	4.00% - 5.50%	September 15, 1998	2018	225,000,000	201,275,000
1999A Bonds	4.10% - 5.50%	November 15, 1999	2019	150,000,000	138,025,000
2000A Bonds	4.35% - 5.625%	July 15, 2000	2020	125,000,000	118,420,000
2000B Bonds	1.15% **	September 15, 2000	2020	100,000,000	100,000,000
2001A Bonds	2.00% - 5.375%	September 15, 2001	2021	175,000,000	175,000,000
2001B Bonds*	3.25% - 5.375%	September 15, 2001	2015	533,335,000	533,335,000
2002A Bonds	3.00% - 5.375%	May 1, 2002	2022	112,000,000	112,000,000
					$ 3,144,907,825

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

** Represents the variable interest rate in effect as of June 30, 2002. These variable rate bonds bear interest at a weekly variable rate determined by the Fund's remarketing agent on Tuesday of each week, and become effective on the following Wednesday.

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

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

Revenues are credited to the Fund and transferred to the Fund's debt service account to the extent required to meet debt service requirements as provided by the Indentures. In addition, the Fund is required to maintain the reserve account at a level equal to the maximum annual principal and interest requirements on the Bonds as defined in the Indentures, for the current or any fiscal year.

The 1988B outstanding bonds consist of capital appreciation bonds that are not subject to redemption prior to their respective maturities.

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

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

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

The 1992A Bonds, maturing on February 15, 2008, are subject to partial redemption on February 15 in each of the years 2006-2008 by payment of principal plus accrued interest on the date of redemption. In addition, the 1992A Bonds maturing on any date after February 15, 2003 may be redeemed in whole or in part prior to their maturity on any interest payment date on or after February 15, 2002, at the option of the State, in any order as the State shall determine and pursuant to the Indentures. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 2 percent of principal.

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

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

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

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

The 1993C Bonds, maturing on October 1, 2013, are subject to partial redemption on October 1 in each of the years 2012 and 2013 by payment of principal plus accrued interest on the date of redemption. In addition, the 1993C Bonds maturing on or after October 1, 2004 may be redeemed in whole or in part prior to their maturity on any interest payment date on or after October 1, 2003, at the option of the State, in any order as the State shall determine. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 1/2 percent of principal.

The 1994A Bonds, maturing on or after April 1, 2005, may be redeemed at any time in whole or in part prior to their maturity on or after April 1, 2004, at the option of the State in any order, as the State shall determine. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 1/2 percent of principal.

The 1994B Bonds, maturing on or after June 1, 2005, may be redeemed at any time, in whole or in part, prior to their maturity on or after October 1, 2004. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 percent of principal.

The 1995A Bonds maturity on or after June 1, 2006, may be redeemed at any time, in whole or in part, prior to their maturing on or after October 1, 2005. These bonds may be redeemed by payment of principal, accrued interest thereon, and a premium not to exceed 1 percent of principal.

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

The 1995B Bonds, maturing on or after October 1, 2005, may be subject to redemption, in whole or in part, on or after October 1, 2004 at the option of the State. The bonds may be redeemed by payment of principal, accrued interest thereon, and a premium. The premium is not to exceed 1 percent for the time period from October 1, 2004 through September 30, 2005 and ½ percent for the time period from October 1, 2005 through September 30, 2006.

The 1995C Bonds, maturing on or after October 1, 2005, may be subject to redemption, in whole or in part, on or after October 1, 2004 at the option of the State. The bonds may be redeemed by payment of principal, accrued interest thereon, and a premium. The premium is not to exceed 1 percent for the time period from October 1, 2004 through September 30, 2005 and ½ percent for the time period from October 1, 2005 through September 30, 2006

The 1996A Bonds maturing on or after June 1, 2007 may be subject to redemption, in whole or in part, on or after June 1, 2006 at the option of the State. The bonds may be redeemed by the payment of principal, accrued interest thereon and a premium. The premium is not to exceed 1 percent through May 31, 2007.

The 1996B Bonds maturing on or after October 1, 2007 may be subject to redemption, in whole or in part, on or after October 1, 2006 at the option of the State. The bonds may be redeemed by the payment of principal, accrued interest thereon and a premium. The premium is not to exceed 1 percent for the time period from October 1, 2006 through September 30, 2007 and ½ percent for time period from October 1, 2007 through September 30, 2008.

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

The 1997A Bonds maturing on or after November 1, 2008 will be subject to redemption, at the election of the State, on or after November 1, 2007, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent for the period from November 1, 2007 through October 31, 2008 and ½ percent for the time period November 1, 2008 through October 31, 2009.

The 1997B Bonds maturing on or after November 1, 2008 will be subject to redemption, at the election of the State, on or after November 1, 2007, at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. These bonds may be redeemed by the payment of principal, accrued interest thereon and a premium not to exceed 1 percent for the period from November 1, 2007 through October 31, 2008 and ½ percent for the time period November 1, 2008 through October 31, 2009.

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

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

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

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

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

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

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

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

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

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

Year ending June 30:	Principal	Interest	Total
2003	$ 216,315	$ 157,889	$ 374,204
2004	226,125	148,941	375,066
2005	223,460	137,175	360,635
2006	247,205	125,440	372,645
2007	235,144	118,601	353,745
2008 - 2012	1,100,729	387,248	1,487,977
2013 - 2017	639,050	136,849	775,899
2018 - 2022	248,475	26,427	274,902
2023	8,405	210	8,615
	$ 3,144,908	$ 1,238,780	$ 4,383,688

DEBT REFUNDINGS (amounts expressed in thousands)

During the year ended June 30, 2002, the State issued $533,335 of special tax obligation refunding bonds with an average interest rate of 5.07% to advance refund $543,375 of special tax obligation revenue bonds with an average interest rate of 5.39%.

The proceeds of the refunding bonds were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by $34,257 and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $24,681. As of June 30, 2002, $955,615 of outstanding special tax obligation revenue bonds, including prior year's refundings, are considered defeased.

BONDS AUTHORIZED BUT NOT ISSUED

As of June 30, 2002, the State Bond Commission has authorized but not issued $376.6 million of special tax obligation bonds. These bonds would be payable from the revenues of the Fund if issued.

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

INTEREST RATE SWAP AGREEMENTS

The State entered into two interest rate swap agreements in December 1990 to modify interest rates of its variable rate 1990B Bonds. The original notional amount was $250 million which decreases in proportion to the outstanding debt on the 1990B Bonds. As of June 30, 2002, the notional amount and the outstanding principal on the 1990B Bonds were $156.1 million. The interest rate swap agreements were executed with AIG Financial Products ("AIG") and SMBC Capital Markets ("SMBC"), formerly known as Sumitomo Bank Capital Markets, and as of June 30, 2002, the interest rate swap agreements had notional amounts of $93.7 million and $62.4 million for AIG and SMBC, respectively. Per the AIG and SMBC interest rate swap agreements, the Fund owes interest calculated at a fixed rate of approximately 5.75% and 5.71%, respectively. In return, AIG and SMBC owe the Fund interest based on a variable rate that approximates the rate required by the 1990B Bonds. Only the net difference of interest payments is exchanged with the counterparties. The notional amount is not exchanged; it is only the basis on which the swap payments are calculated. As of June 30, 2002, the AIG and SMBC interest rate swap agreements had unfavorable positions of $10.9 million and $7.2 million, respectively. The net interest cost incurred in connection with the interest rate swap agreements totaled $6.6 million for the year ended June 30, 2002.

The Fund continues to pay interest to the bondholders at the variable rate provided by the 1990B Bonds. However, during the term of the interest rate swap agreements, the Fund effectively pays a fixed rate on the 1990B Bonds. The debt service to maturity for these bonds are based on the fixed rates. The Fund will be exposed to variable rates if the counterparties to the interest rate swap agreements default or it the agreements are terminated. A termination of the interest rate swap agreements may also result in the Fund making or receiving a termination payoff amount. Both AIG and SMBC have guaranteed their agreements. In addition, the interest rate swap agreement with AIG contains a collateral agreement that becomes effective if the credit rating of AIG falls below a defined level. The Fund evaluates the credit worthiness of the counterpartys' financial condition and does not expect default by the counterparties.

NOTE 7 - TRANSPORTATION RELATED GENERAL OBLIGATION BONDS

Public Act 84-254 of the General Assembly of the State of Connecticut requires the principal and interest payments of the transportation related general obligation bonds outstanding to be paid from the revenues of the Fund. However, the general obligation bonds remain the general liability of the State. These bonds mature in various amounts through fiscal year 2018 and bear interest at rates from 4.22% to 7.53%.

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

Year ending June 30:	Principal	Interest	Total
2003	$ 9,035	$ 947	$ 9,982
2004	530	666	1,196
2005	530	641	1,171
2006	530	614	1,144
2007	609	803	1,412
2008 - 2012	2,918	3,376	6,294
2013 - 2017	8,205	627	8,832
2018	525	14	539
	$ 22,882	$ 7,688	$ 30,570

The above table does not include amounts for debt service that the State will charge the Fund for various non-transportation related general obligation refunding bonds and cash defeasements. The proceeds of these bonds were used to refund or defease transportation related general obligation bonds. Aggregate principal and interest maturities related to the non-transportation related general obligation refunding bonds used to retire transportation related general obligation bonds are as follows (amounts expressed in thousands):

Year ending June 30:	Principal	Interest	Total
2003	$ 5,773	$ 1,097	$ 6,870
2004	11,644	748	12,392
2005	2,794	374	3,168
2006	2,650	251	2,901
2007	2	86	88
2008 - 2012	564	102	666
2013	27	1	28
	$ 23,454	$ 2,659	$ 26,113

NOTE 8 - CHANGES IN LONG TERM OBLIGATIONS

Although the Fund does fund certain long-term obligations, such obligations have not been reported in the accompanying fund financial statements in accordance with GASB Statement No. 34. A summary of changes in long-term obligations of the Fund for the year ended June 30, 2002 is as follows (amounts expressed in thousands):

Description	Balance, July 1, 2001	Additions	Reductions	Balance, June 30, 2002
Special tax obligation bonds	$ 3,061,533	$ 820,335	$ 736,960	$ 3,144,908
General obligation bonds	32,271	-	9,389	22,882
Compensated absences	36,442	3,911	-	40,353
Arbitrage liability	6,787	1,282	1,145	6,924
	$ 3,137,033	$ 825,528	$ 747,494	$ 3,215,067

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following as of June 30, 2002:

Accounts payable	$ 18,386
Salaries and wages payable	7,149
Fringe benefits payable	527
Contracts payable - retainage	1,851
	$ 27,913

NOTE 10 - ADJUSTMENT OF FUND BALANCE

Unreserved fund balance of the Transportation Fund as of July 1, 2001 has been adjusted as follows (amounts expressed in thousands):

Fund balance, beginning of year, as originally reported	$ 193,889
Adjustments:	
Understatement of due from other funds of the State	1,879
Overstatement of accounts payable	1,881
Fund balance, beginning of year, as restated	$ 197,649

The effect of the above adjustments for the year ended June 30, 2001 is to increase the excess of revenues and other financing sources over expenditures and other financing uses by S3,760.

NOTE 11 - INTERFUND BALANCES

INTERFUND RECEIVABLES AND PAYABLES

A summary of interfund receivables and payables as of June 30, 2002 is as follows (amounts expressed in thousands):

Receivable Fund	Payable Fund		Amount
Transportation Fund	Debt Service Fund	$	4,418
	Other funds of the State		11,500
		$	15,918
Other funds of the State	Transportation Fund	$	1,021

INTERFUND TRANSFERS

A summary of interfund transfers for the year ended June 30, 2002 is as follows (amounts expressed in thousands):

Transfer In	Transfer Out		Amount
Transportation Fund	Debt Service Fund	$	35,094
	Other funds of the State		3,566
		$	38,660
Debt Service Fund	Transportation Fund		373,077
	Other funds of the State		15,378
		$	388,455
Other funds of the State	Transportation Fund	$	9,500

Transfers are used primarily to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

LITIGATION

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

With regard to litigation, the most notable cases are: (1) George Campbell Painting Corporation v. State of Connecticut in which the plaintiff is seeking approximately $40 million in damages for delay and other claims arising out of a major bridge rehabilitation project; (2) White Oak Corporation v. State of Connecticut, Department of Transportation in which the plaintiff is seeking approximately $100 million in damages for a wrongful termination action in connection with the reconstruction of the Tomlinson Bridge; and (3) White Oak Corporation v. State of Connecticut, Department of Transportation in which the plaintiff is seeking approximately $50 million in damages for alleged delays and other damages in connection with an I-95 bridge project in Bridgeport, Connecticut. It is the opinion of the Attorney General that these cases and other pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially and adversely affect the operations of the Fund.

ARBITRAGE REBATE REQUIREMENTS (amounts expressed in thousands)

Section 148 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986, requires 90% of the earnings from the investment of tax-exempt bond proceeds that exceed the yield on tax-exempt bonds be remitted to the federal government. In accordance with this regulation, the Fund is required to rebate a portion of its investment earnings on the proceeds of the Bonds to the federal government. Rebate payments of $1,145 were made during the year ended June 30, 2002. The total estimated liability for arbitrage rebates totaled $6,924 as of June 30, 2002.

CONTRACTUAL COMMITMENTS

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

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

As of June 30, 2002, the aggregate contractual commitments totaled approximately $123.7 million. Funding of these expenditures is expected to be received from Federal and other grants and other revenues to be received by the Fund.

NOTE 12 - COMMITMENTS AND CONTINGENCIES *(Continued)*

PENSIONS

Certain employees of the Fund participate in the State Employees' Retirement System ("SERS") which is administered by the State Employees' Retirement Commission. The Fund has no liability for these pension costs other than the annual contribution, pursuant to Public Act 83-30 of the June 1983 Special Session of the General Assembly of the State of Connecticut as amended to date. In addition, the actuarial study was performed on the Plan as a whole and does not provide separate information for employees of the Fund. Therefore, certain pension disclosures cannot be provided. Information on the total Plan funding status and progress, required contributions and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report.

The Fund's contribution is determined by applying a State mandated percentage to eligible salaries and wages. The contribution made by the Fund totaled $33.7 million for the year ended June 30, 2002.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Fund is one of many funds within the State of Connecticut financial reporting entity. As a result, certain transactions of the Fund, including operating transfers and certain allocations of expenses among funds, are under the direction of management of the State.

ALLOCATION OF FRINGE BENEFIT COSTS (amounts expressed in thousands)

Fringe benefit costs incurred at the State level are allocated to all benefiting funds based on each fund's share of total salaries and wages of the State. Fringe benefit costs allocated to the Fund totaled $527,010 for the year ended June 30, 2002.

ALLOCATION OF BANK CHARGES (amounts expressed in thousands)

The Fund invests in the State Treasurer's Short-Term Investment Fund *(see Note 5)*, which is a money market investment pool administered by the State Treasurer. In addition, the Fund's cash balances are managed by the State of Connecticut, Office of the Treasurer. Bank charges allocated to the Fund totaled $484,488 for the year ended June 30, 2002.

RISK MANAGEMENT

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

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FORM OF OPINION OF

UPDIKE, KELLY & SPELLACY, P.C.
Bond Counsel
And
LEWIS & MUNDAY, A PROFESSIONAL CORPORATION
Co-Bond Counsel

[Date of Closing]

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

Dear Madam Treasurer:

We have examined (i) the Constitution and laws of the State of Connecticut, including Public Act No. 84-254 of the February 1984 Session of the General Assembly, as amended (the "Act"), (ii) an Indenture of Trust, by and between the State of Connecticut (the "State") and The Connecticut National Bank (successor trustee is now U.S. Bank National Association), as Trustee, dated as of December 1, 1990, as amended by the Second Lien Special Tax Obligation Bonds Transportation Infrastructure Purposes Amendment No. 1 dated as of December 9, 1994 by and between the State and Shawmut Bank Connecticut, National Association (successor trustee is now U.S. Bank National Association), as Trustee, as supplemented by the Third Supplemental Indenture among the State, U.S. Bank National Association, as Trustee, and U.S. Bank National Association, as Fiscal Agent, dated as of January 1, 2003 (the "Second Lien Indenture") and (iii) a record of proceedings relative to the issuance of $220,385,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes (Variable Rate Demand), 2003 Series 1 (the "2003 Series 1 Bonds") and $201,595,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes (Variable Rate Demand), 2003 Series 2 (the "2003 Series 2 Bonds") of the State. The 2003 Series 1 Bonds and the 2003 Series 2 Bonds are referred to herein collectively as the "2003 Series 1 and 2 Bonds". Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Second Lien Indenture.

The 2003 Series 1 and 2 Bonds will be issued as fully registered bonds and will bear interest at an initial interest rate from the date of delivery to and including the first Rate Determination Date. Thereafter, so long as any of the 2003 Series 1 and 2 Bonds are in a Weekly Rate Mode, such 2003 Series 1 and 2 Bonds will bear interest at the Weekly Rate determined by the Remarketing Agent for the 2003 Series 1 and 2 Bonds, as set forth in the Second Lien Indenture.

2003 Series 1 and 2 Bonds in a Weekly Rate Mode are subject to optional tender for purchase at the option of a holder, and all 2003 Series 1 and 2 Bonds which are not Bank Bonds are subject to mandatory tender for purchase on the terms and conditions set forth in the Second Lien Indenture. In addition, all 2003 Series 1 and 2 Bonds are subject to optional and mandatory redemption prior to maturity on the terms and conditions set forth in the Second Lien Indenture.

The 2003 Series 1 and 2 Bonds, including the principal of, premium, if any, and interest thereon are payable from the Pledged Revenues (as defined in the Act and the Second Lien Indenture) and other receipts, funds or moneys pledged therefor and credited to the Special Transportation Fund of the State pursuant to the Act and the Second Lien Indenture. The 2003 Series 1 and 2 Bonds are junior in right of payment from such sources to principal, premium, if any, and interest on the State's Special Tax Obligation Bonds, Transportation Infrastructure Purposes (the "Senior Bonds"), issued pursuant to the Indenture of Trust, dated as of September 15, 1984, between the State and The Connecticut National Bank, as Trustee, as amended and supplemented (the "Senior Indenture") and any other obligations of the State constituting "Debt Service Obligations" under the Act and the Senior Indenture ("Other Senior Obligations").

The Second Lien Indenture authorizes the issuance of second lien bonds (the "Second Lien Bonds"), including the 2003 Series 1 and 2 Bonds, from time to time without limitation as to amount, except as provided in the Second Lien Indenture or as may be limited by law and provided that statutory authorization for the issuance of such Second Lien Bonds is enacted by the State. Additional Second Lien Bonds, when and if authorized by the State Bond Commission to be issued and sold, shall with the 2003 Series 1 and 2 Bonds, be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Second Lien Indenture and shall be junior in right of payment to principal of, premium, if any, and interest on all Senior Bonds and any Other Senior Obligations.

From such examination we are of the opinion that:

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

2. The 2003 Series 1 and 2 Bonds have been duly authorized and issued under the Constitution and laws of the State of Connecticut, particularly the Act, and under proceedings duly had and taken in conformity therewith.

3. The 2003 Series 1 and 2 Bonds are valid and binding special obligations of the State of Connecticut payable from a second lien on the Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Second Lien Indenture and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Second Lien Indenture with all present and future holders of Second Lien Bonds or Notes issued under the Second Lien Indenture, the provider of any Credit Facility and the provider of any Qualified Swap without privilege or priority except as provided in the Second Lien Indenture.

4. The Second Lien Bonds, including the 2003 Series 1 and 2 Bonds, are secured in the manner and to the extent set forth in the Act and the Second Lien Indenture. Pursuant to the Act, the Second Lien Indenture creates a valid second call upon Pledged Revenues and lien upon any and all amounts held to the credit of the Special Transportation Fund from time to time, to the extent set forth in the Second Lien Indenture, including moneys and securities held by the Trustee in the Debt Service Account and Reserve Account established thereunder, which the Second Lien Indenture purports to create, subject only to the provisions of the Second Lien Indenture permitting the application thereunder for or to the purposes and on the terms and conditions set forth in the Second Lien Indenture. Such second call and lien are valid and binding against all parties having claims of any kind in tort, contract or otherwise against the State (including holders of general obligation debt of the State). All amounts necessary for the punctual payment of the Debt Service Requirements (as defined in the Act and the Second Lien Indenture) with respect to the 2003 Series 1 and 2 Bonds are validly deemed to be appropriated by the Act from the Pledged Revenues and other receipts, funds or moneys pledged therefor, and the State Treasurer is required by the Act to pay such Debt Service Requirements with respect to the 2003 Series 1 and 2 Bonds as the same shall accrue, but only from such sources. Such payment by the Treasurer does not require further legislative approval.

5. The State is not obligated to pay the principal of, premium, if any, and interest on the 2003 Series 1 and 2 Bonds except from Pledged Revenues and other receipts, funds or moneys pledged therefor under the Act and the Second Lien Indenture, and neither the full faith and credit of the State or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, and interest on the 2003 Series 1 and 2 Bonds.

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

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

8. Under existing law, (i) interest on the 2003 Series 1 and 2 Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) such interest will not be treated as a preference item for purposes of calculating the Federal alternative minimum tax for individuals or corporations; such interest is, however, includable in the adjusted current earnings of certain corporations for purposes of computing the Federal alternative minimum tax imposed on such corporations. We express no opinion regarding other Federal income tax consequences caused by ownership of, or receipt of interest on, the 2003 Series 1 and 2 Bonds.

9. Under existing law, interest on the 2003 Series 1 and 2 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.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2003 Series 1 and 2 Bonds in order that interest on the 2003 Series 1 and 2 Bonds not be includable in gross income under the Code. The State has covenanted in a Tax Regulatory Agreement (the "Tax Regulatory Agreement") that it will at all times perform all acts and things necessary or appropriate under any valid provision of law to ensure that such interest on the 2003 Series 1 and 2 Bonds shall not be included in the gross income of the owners thereof for Federal income tax purposes under the Code.

In rendering the foregoing opinions, regarding the Federal tax treatment of interest on the 2003 Series 1 and 2 Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Regulatory Agreement, and (ii) compliance by the State with the covenants set forth in the Tax Regulatory Agreement as to such matters.

In rendering this opinion, we further advise you that the enforceability of rights and remedies with respect to the 2003 Series 1 and 2 Bonds may be limited by insolvency, moratorium and other laws affecting creditors' rights generally heretofore or hereafter enacted and by law applicable to relief in equity and by the reserved police powers of the State; no opinion is expressed as to the availability of a right in equity to specific performance of any covenant requiring legislative action with respect to taxes not presently enacted when an adequate remedy at law for damages is available or another such limitation exists and is applied.

We have examined the 2003 Series 1 and 2 Bonds and, in our opinion, the form of said bonds, and their execution, are regular and proper.

Respectfully submitted,

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FORM OF CONTINUING DISCLOSURE AGREEMENT

The State of Connecticut (the "State") will agree, pursuant to a Continuing Disclosure Agreement for the 2003 Series 1 and 2 Bonds to be executed by the State substantially in the following form, to provide, or cause to be provided, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the 2003 Series 1 and 2 Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for the 2003 Series 1 and 2 Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the ____ day of January, 2003 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of $421,980,000 Second Lien Special Tax Obligation Refunding Bonds, Transportation Infrastructure Purposes, 2003 Series 1 and 2 dated the date of delivery (the "Bonds"), and U.S. Bank National Association as Trustee for the Bonds (the "Trustee") under the Indenture (as hereinafter defined), for the benefit of the beneficial owners from time to time of the Bonds.

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

"Final Official Statement" means the official statement of the State dated January 15, 2003 prepared in connection with the Bonds.

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

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

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

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
(609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

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

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
(212) 771-6999
Fax: (212) 771-7390
Email: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository
55 Water Street - 45th Floor
New York, NY 10041
(212) 438-4595
Fax: (212) 438-3975
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, 2002) as follows:

(i) Financial statements of the State's Special Transportation Fund for the prior fiscal year, which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. As of the date of this Agreement, the State is required to prepare financial statements of its various funds and accounts on a budgeted basis (i.e., on the basis of the modified cash method of accounting as described in Appendix A to the Official Statement under the caption "Accounting Procedures"). As of the date of this Agreement, the State also prepares financial statements for the Special Transportation Fund in accordance with generally accepted accounting principles but is not required to do so. The financial statements will be audited.

(ii) To the extent not included in the financial statements described in (i) above, the financial information and operating data within the meaning of the Rule included in the material under the headings "TOTAL BONDS OUTSTANDING," "DEBT SERVICE ON OUTSTANDING BONDS," "THE OPERATIONS OF THE SPECIAL TRANSPORTATION FUND" and "THE DEPARTMENT OF TRANSPORTATION" and Appendices B and C in the Official Statement; provided, however, that reference to such headings in the Official Statement for the Bonds as a means of identifying such financial information and operating data shall not prevent the State from reorganizing such material in subsequent official statements.

(b) The financial statements and other financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The State's fiscal year currently ends on June 30.

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

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

Section 3. Material Events.

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

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

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

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

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

Section 5. Use of Agents.

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

Section 6. Termination.

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

Section 7. Enforcement.

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

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

Section 8. Miscellaneous.

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

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

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

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

STATE OF CONNECTICUT

By:____
Denise L. Nappier
Treasurer

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:____
Authorized Officer

There follows in this Appendix F certain information concerning the Series 1 Bank and the Series 2 Banks, as those terms are defined in this Official Statement. The following documents are included in this Appendix F:

(i) Certain Information Concerning Bayerische Landesbank

(ii) Dexia Crédit Local

(iii) Overview of WestLB AG

The following information in this Appendix F has been furnished by each of the above Banks. Neither the State nor the Underwriter make any representation as to the accuracy or completeness of such information.

CERTAIN INFORMATION CONCERNING BAYERISCHE LANDESBANK

Bayerische Landesbank (the "Bank") was incorporated as a public law financial institution (Rechtsfaehige Anstalt des Oeffentlichen Rechts) by the Law Establishing Bayerische Landesbank Girozentrale (Gesetz ueber die Errichtung der Bayerischen Landesbank Girozentrale) of June 27, 1972, as amended, as adopted by the Parliament of the Free State of Bavaria, and is subject to the German Federal Banking Act of July 10, 1961, as amended (Gesetz ueber das Kreditwesen) (the "Federal Banking Act"). Its statutes authorize the Bank to provide universal financial services including both commercial and investment banking as well as brokerage activities. The Free State of Bavaria owns 50% of the Bank's share capital, the other 50% being owned by the Association of Bavarian Savings Banks (Bayerischer Sparkassen-und Giroverband) (which is the central organization of the Bavarian Savings Banks). In March 2001 the Free State of Bavaria and the Association of Bavarian Savings Banks announced that a new holding company will be holding the Bank (the Free State of Bavaria and the Association of Bavarian Savings Banks will remain shareholders of this holding company); the Statutes of the Bank and the Law on Bayerische Landesbank (formerly known as the Law Establishing Bayerische Landesbank Girozentrale) have recently been amended accordingly and now provide for this future restructuring.
The Bank is equipped to provide a full range of domestic and international banking services; with regard to local banking functions, the Bank also makes use of the Bavarian Savings Bank's network. In the domestic field, the Bank places emphasis on wholesale banking, lending to federal and local authorities and mortgage lending, together with industrial credit. The Bank holds the function of a banker of the Free State of Bavaria and its municipalities, and also finances public and private development projects, administers public funds and performs certain treasury functions for the Free State of Bavaria.

The Free State of Bavaria and the Bavarian Savings Bank and Clearing Association currently are jointly and severally liable for the obligations of the Bank if the liabilities cannot be satisfied from the Bank's assets (Gewaehrtraegerhaftung). The owners of the Bank also currently have an obligation to maintain the Bank in a financial position which enables it to carry out its functions. This liability (Anstaltslast), which is peculiar to German law, obliges the owners to provide funds for the Bank that are necessary to enable it to fulfill its functions, to meet its liabilities and to keep its finances sound. As an additional safeguard, it is noted that as a public law institution the Bank can only be put into liquidation through a specific law to this effect. However, following a complaint with the European Commission against this Gewährträgerhaftung and Anstaltslast there has been an "Understanding on Anstaltslast and Gewährträgerhaftung" between the European Commission and the German Authorities in July 2001, representing (among others) that "Gewährträgerhaftung shall be abolished" and Anstaltslast shall be replaced by a financial relationship "not different from a normal commercial owner relationship governed by market economy principles, just as between a private shareholder and a limited liability company". The Understanding includes a transitional arrangement that liabilities existing on July 18, 2001 will continue to be covered by Gewährträgerhaftung until their maturities and that there will be a transitional period until July 18, 2005, during which any liability existing by then and created after July 18, 2001 will continue to be covered by Gewährträgerhaftung provided that its maturity does not go beyond December 31, 2015.

The Bank established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York.

The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.
All banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the German Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), an independent federal authority with regulatory powers in cooperation with the Deutsche Bundesbank (the "German Federal Central Bank") in accordance with the Federal Banking Act. The Federal Banking Act contains major rules for banking supervision and regulates the Bank's business activities, capital adequacy and liquidity. In addition to the above-mentioned general banking supervision, the group of Landesbanks is subject to special supervision by their respective federal states; the Bank is subject to the supervision by the Bavarian State Ministries of Finance and of the Interior.

As reported in the Bank's Annual Report for the Fiscal Year ended December 31, 2001, the Bank had total assets of EURO ("EUR") 301.3 billion ($265.5 billion at $0.8813 = EUR 1.00 at 12/31/01) on a consolidated basis. Business volume (balance sheet total, own drawings charged to borrowers, endorsement liabilities, and guarantees) expanded by 5.7% to EUR 321.7 billion ($283.5 billion) from the previous year end. The Bank's consolidated lending volume increased 1.7% to EUR 206.7 billion ($182.2 billion) from year end 2000. Total equity of the Bank, including, among other items, nominal capital of EUR 1.2 billion ($1.06 billion), profits participation rights with a nominal value of EUR 2.83 billion ($2.49 billion) and capital contributions of silent partners in an amount of EUR 2.89 billion ($2.55 billion), totaled EUR 11.1 billion ($9.78 billion) or 3.7 % of the consolidated balance sheet. Net income amounted to EUR 254.0 million ($223.9 million), a decrease of 53.8% compared to year end 2000. EUR 82.3 million ($72.5 million) of such amount has been allocated to revenue reserves, raising the bank's published reserve to EUR 4.13 billion ($3.6 billion). The accounting principles applied in the preparation of the Bank's financial statements comply with generally accepted accounting principles in the Federal Republic of Germany and may not conform to generally accepted accounting principles applied by United States banks. (At 10/8/02, $0.9870 = EUR 1.00).
The rate of exchange between the EUR and the dollar is determined by the forces of supply and demand in the foreign exchange markets, which, in turn, are affected by changes in the balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The foregoing information relating to the Bank is based upon facts and circumstances present on the dates referenced above. Such facts and circumstances may change from time to time. The Bank shall have no obligation to update the foregoing information to reflect any such change. Copies of the Bank's Annual Report for the most recent available fiscal year may be obtained at the New York Branch in person during normal business hours or by mail by writing to the New York Branch at: Bayerische Landesbank, 560 Lexington Avenue, New York, New York 10022, Attention: Corporate Finance.

The Bank has supplied the information relating to it in the previous paragraphs. The Bank does not accept responsibility for any information contained in this Official Statement other than the information contained in this Section relating to the Bank.

DEXIA CRÉDIT LOCAL

Dexia, created in 1996, is a major player on the European banking scene. A banking organization that is the product of 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. Dexia is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of more than 17 billion euros as of March 14, 2001, Dexia ranks in the top third of the Euronext 100 companies.

Dexia Crédit Local is a Dexia subsidiary specialized in the group's first line of business – public and project finance and financial services for the public sector. Worldwide, Dexia Crédit Local federates group entities involved in this business and spearheads their development. Dexia Crédit Local has recognized expertise in local sector financing and project finance. It is backed by a network of specialized banks, which employ 2,500 professionals.

Through this network of subsidiaries, affiliates and branches, the bank is present in almost all of the countries of the European Union. It is progressively expanding its activities to Asia Pacific, South America and the Caribbean, and countries around the Mediterranean.

Dexia Crédit Local, known as Dexia Public Finance Bank ("Dexia PFB") until March 8, 2001, is a bank with its principal office located in Paris, France.

In issuing the Standby Bond Purchase Agreement, Dexia Crédit Local will act through its New York Agency, which is licensed by the State of New York as an unincorporated agency of Dexia Crédit Local, Paris, and is licensed by the Banking Department of the State of New York.

Dexia Crédit Local is the leading local authority lender in Europe, funding its lending activities in 2001 primarily through the issuance of euro and US dollar denominated bonds. In 2001, total funding raised by Dexia Crédit Local and Dexia Municipal Agency was 12.4 billion euros.

The acquisition of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), holding company for U.S. based bond insurer Financial Security Assurance Inc., by Dexia and Dexia Crédit Local was completed on July 5, 2000.

As of December 31, 2001, Dexia Crédit Local had total consolidated assets of 155.5 billion euros, outstanding medium and long term loans to customers of 129 billion euros and shareholders' equity of nearly 3.3 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 644 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia Crédit Local maintains its records and prepares its financial statements in euros. At December 31, 2001, the exchange rate was 1.0000 euro equals 0.8813 United States dollar. Such exchange rate fluctuates from time to time.

Dexia Crédit Local is rated Aa2 long-term and P-1 short-term by Moody's Investors Service, Inc., AA long-term and A-1+ short-term by Standard & Poor's Ratings Group, and AA+ long-term and F1+ short-term by Fitch, Inc.

Dexia Crédit Local will provide without charge a copy of its most recent publicly available annual report. Written request should be directed to Dexia Crédit Local, New York Agency, 445 Park Avenue, 8th 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.

OVERVIEW OF
WESTLB AG

- *BACKGROUND INFORMATION*

WestLB AG, a wholly owned subsidiary of Landesbank Nordrhein-Westfalen (“Landesbank NRW”), was created as a result of a restructuring (the “Restructuring”) of the former Westdeutsche Landesbank Girozentrale (“WestLB”) which separated WestLB’s competitive operations from its public-mission business. WestLB, which traced its history to 1832, was created by the merger of two central banks, or Landesbanks (German State Banks), in the State of North Rhine-Westphalia, the Federal Republic of Germany ("Germany") on January 1, 1969. On August 1, 2002, WestLB was split into two legally separate entities: Landesbank NRW, a financial institution under public law, and WestLB, which comprises all commercial bank activities of the former WestLB except for the Pfandbrief (mortgage bond) business, which was moved to Landesbank NRW. Furthermore, on August 30, 2002, WestLB changed its legal form into a private law corporation named WestLB AG. Under German law, despite this change of legal form, WestLB and WestLB AG are the same legal entity. All branches, representative offices and foreign subsidiaries are maintained by WestLB AG. WestLB AG will continue to be liable for all current obligations and duties of former WestLB except those which have been spun off to Landesbank NRW. In addition, Westdeutsche Landesbausparkasse (“LBS”), a former division of WestLB which conducted the business of a building and loan association, was spun off into a newly established financial institution under public law owned by the former guarantors of WestLB and became a legally separate entity. Landesbank NRW, WestLB AG and LBS will be jointly and severally liable for all liabilities of former WestLB existing before the spin-offs until the end of 2006.

As a German universal bank, WestLB AG provides commercial and investment banking services regionally, nationally and internationally to public, corporate and bank customers. As of December 31, 2001, the former WestLB had total assets of approximately € 325 billion (US$ 286 billion).

WestLB AG also performs the functions of a state and municipal bank for the State of North Rhine-Westphalia and acts as the central bank of the Sparkassen (savings banks) in North Rhine-Westphalia (Germany's most populous state). It conducts a comprehensive range of wholesale banking business and has the power to issue municipal bonds and other bonds and is one of the largest continuous issuers of long term debt in Germany. In addition, WestLB AG acts as the clearing and depository bank for the savings banks in North Rhine-Westphalia. Internationally, the WestLB Group (the "Group") operates through an extensive network of banking subsidiaries, branches and representative offices to provide a range of financial services to its clients.

Pursuant to a guaranty obligation (Gewährträgerhaftung) set forth in Section 39 of the North Rhine-Westphalia Savings Bank Act and Section 5 of the Ordinances of WestLB, North Rhine-Westphalia together with the other guarantors specified therein (including regional authorities and savings bank associations) were jointly and severally liable without restriction for all obligations of the former WestLB, including all obligations of WestLB New York. The guaranty obligation gave creditors a direct claim against North Rhine-Westphalia only if the claims of the creditors have not first been satisfied out of the assets of WestLB, including the assets of WestLB New York.

In addition to being liable under the guaranty obligation, North Rhine-Westphalia together with the other guarantors were responsible to the former WestLB for the performance of WestLB's obligations, including all obligations of the former WestLB’s New York Branch. This maintenance obligation (Anstaltslast), while not a formal guaranty affording creditors of WestLB a direct claim against North Rhine-Westphalia and the other guarantors, required North Rhine-Westphalia and the other guarantors to keep WestLB in a position to perform its functions and to enable it, in the event of financial difficulties, to perform its obligations, when due.

Several years ago, the European Banking Federation lodged a complaint with the European Commission alleging that the Anstaltslast and the Gewährträgerhaftung constitute illegal state aid in violation of the European Community Treaty. On July 17, 2001, there was a public announcement of an agreement in principle between the European Commission, the Federal Republic of Germany and the German Länder, whereby a four-year transition period has been agreed upon for the abolition of the Gewährträgerhaftung and the modification of the Anstaltslast.

Pursuant to the agreement, any outstanding obligations of WestLB incurred prior to and including July 18, 2001 will be “grandfathered” and will continue to be covered by the Anstaltslast and the Gewährträgerhaftung until they mature. During the four year transition period, the parties have agreed that the Anstaltslast and the Gewährträgerhaftung will continue to apply to any new obligations incurred by WestLB (and after the Restructuring, by WestLB AG) after July 18, 2001 and prior to and including July 18, 2005, provided, however, that such obligations mature no later than the end of 2015.

- *THE NEW YORK BRANCH*

The New York Branch of WestLB AG ("WestLB AG New York") is licensed and subject to supervision and regulation by the Superintendent of Banks of the State of New York. WestLB New York is examined by the New York State Banking Department and is subject to banking laws and regulations applicable to a foreign bank that operates a New York branch. In addition to being subject to New York banking laws and regulations, WestLB AG and WestLB AG New York are also subject to the International Banking Act of 1978 (the "IBA") and the Foreign Bank Supervision Enhancement Act of 1991, and WestLB is subject to federal regulation under the IBA and the Bank Holding Company Act of 1956.

- *SUMMARY OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001*

The following summary relates to the results of operations and financial condition of the former WestLB prior to the Restructuring.

WestLB’s total assets increased by 6.8% (from € 304 billion in 2000) to € 325 billion in the 2001 business year. WestLB's total business volume expanded in 2001 by 9.3% (from € 399 billion in 2000) to € 436 billion in 2001. WestLB's capital and reserves increased by 2 % to € 14,967 million at the end of 2001 (as compared to € 14,672 million at the end of 2000).

WestLB's operating profit after risk provisions/result of evaluation of € 351 million (U.S.$ 309 million) decreased by 33.6% from the previous year. Interest surplus increased by 20.2% (from € 1,768 million in 2000 to € 2,125 million in 2001). Commission surplus decreased by 16.8% (from € 597 million in 2000 to € 497 million in 2001). Staff expenses increased by 1.4% to € 1,076 million (U.S.$ 948 million) in 2001, with other administrative expenses showing an increase of 15.6% to € 1,082 million (U.S.$ 954 million) in 2001. As a result, WestLB's operating result before risk provisions/result of evaluation of € 792 million in 2001 decreased by 2.1% (€ 809 million in 2000).

- *UNITED STATES AND GERMAN EXCHANGE RATES, AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES*

The financial information for the year ended December 31, 2001 is derived from the audited statements of WestLB, does not include the consolidated subsidiaries of the WestLB Group and has been prepared in accordance with accounting principles, practices, laws and regulations generally accepted in Germany. German accounting principles differ in certain respects from accounting principles generally accepted in the United States.

Unless indicated otherwise, currency amounts are stated in Euro ("€" or "Euros") or United States dollars ("US$" or "U.S. dollars"). Merely for the convenience of the reader, this summary contains translations of certain Euro amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the Euro amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollar amounts at the rate indicated. Unless otherwise indicated, the translations of Euro into U.S. dollars have been made at € 1.00 = US$ 0.8813 which was the official (Frankfurt fixing) exchange rate on December 31, 2001, the last trading day in 2001. In certain instances, figures reflect the effect of rounding.

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the Connecticut Insurance Guaranty Association.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)