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INTRODUCTION

This report fulfills the requirements of Section 4-74a of the General Statutes which stipulates that:

> "Part IV of the Budget Document shall consist of the recommendations of the Governor concerning the economy and shall include an analysis of the impact of both proposed spending and proposed revenue programs on the employment, production and purchasing power of the people and industries within the State".

This report is also designed to provide a brief profile of the State of Connecticut, the economy of the State, revenues and economic assumptions that support the Governor's Budget, and an analysis of the impact of both proposed spending and proposed revenue programs on the economy of the State of Connecticut.

The report will focus on eight areas including: (1) the general characteristics of the State; (2) the profile of employment in the State; (3) an in depth analysis of important Connecticut Sectors; (4) the performance indicators of three differing entities (the United States, the New England Region, and Connecticut); (5) a discussion of some of the important revenue raising taxes; (6) the economic assumptions of the Governor's Budget, including narratives on the foreign sector, the U.S. economy and the Connecticut economy, and a numerical comparison of some of the important indicators used in the preparation of the Governor's Budget; (7) the revenue forecasts of the General Fund and the Special Transportation Fund; and (8) the expected impact of the Governor's Budget on the economy of the State of Connecticut.

GENERAL CHARACTERISTICS OF THE STATE OF CONNECTICUT

Connecticut, settled in 1633, became the fifth state to ratify the United States Constitution in 1788. The State is the most southern of the New England States, located on the northeast coast and bordered by Long Island Sound, New York, Massachusetts and Rhode Island.

Connecticut enjoys a favorable location within New England and the rest of the Eastern seaboard markets. Over one-quarter of the total population of the United States and more than 50% of the Canadian population live within a 500-mile radius of Connecticut and are readily accessible by rail, truck and air, providing easy access to local and regional markets. Connecticut's Bradley International Airport is well situated for overseas airfreight operations and railroad service provides connections with the major eastern railroads, as well as direct access to Canadian markets. With operational harbors in Bridgeport and New Haven to accommodate most deep draft vessels and expansion and improvement plans for New London, proximity to the ports of New York and Boston provides favorable access to the European and Eastern South American export markets.

Connecticut is highly urbanized with a population density of 723 persons for each of its 4,845.4 square miles of land, compared with 83 persons per square mile of land for the United States (3,536,338 square miles), based on 2004 census estimate figures. Hartford, the capital, is a center for the insurance industry and a major service center for business and commerce. Industrial activity in the State is concentrated in two regions. The first, the Naugatuck Valley, extending from Bridgeport north, has a high concentration of heavy industry. The second, a belt extending from Hartford southwest to the coast in New Haven, is typified by highly skilled precision metal products manufacturing. In addition, a large submarine building firm, several chemical production facilities and two casino gaming enterprises exist in the Groton-New London area. The Southwestern portion of the state has a high concentration of financial service activity. The area also serves as headquarters to numerous Fortune 500 companies due to the talented labor pool which resides there, the amenable environment of the region and proximity to New York City.

Connecticut is a mature and highly developed state. Connecticut's leadership in the skills and techniques of modern manufacturing, trade, finance, insurance and other fields produced a record economic output and growth during the twentieth century while its revitalized transportation infrastructure made its products accessible to numerous markets. Connecticut's primary resources are the energies and skills of its citizens, who have benefited from the State's rich historical heritage and have continued its tradition of economic, social and cultural growth.

Census Information

On April 1, 2000, this nation's population was again counted. The 2000 Census of Population and Housing was the 22nd in a series that began in 1790, with a count of four million residents in 18 states. In 2000, the population totaled 281.4 million people in the 50 states and the District of Columbia. The Table on the following page displays the change in resident population for the U.S., New England and Connecticut with their corresponding census counts. Since 1930, the population has risen in all three data series for all decades. However, during the 1970s,

1980s and 1990s, the population growth in Connecticut and New England was significantly lower than the prior three decades and lower than the nation for the recent periods.

TABLE 1
CENSUS POPULATION COUNTS*
(In Thousands)

	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1930	123,203	16.3	8,166	10.3	1,607	16.3
1940	132,165	7.2	8,437	3.3	1,709	6.3
1950	151,326	14.5	9,314	10.3	2,007	17.4
1960	179,323	18.5	10,509	12.8	2,535	26.3
1970	203,302	13.4	11,847	12.6	3,032	19.6
1980	226,542	11.4	12,349	4.2	3,108	2.5
1990	248,710	9.8	13,207	6.9	3,287	5.8
2000	281,422	13.2	13,923	5.4	3,406	3.6

* The census is taken on April 1 of each census year.

Source: U.S. Bureau of the Census

In the United States, the resident population, which excludes Armed Forces Overseas, increased from 248,709,873 in 1990 to 281,421,906 in 2000, an increase of 13.2% for the 1990s, and the greatest increase since the 1960s. New England's population increased 5.4% from 1990 to 2000, experiencing relatively slower growth. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. According to projections made by the U.S. Bureau of the Census prior to the 2000 census, this trend is likely to continue.

During the last few decades, the heavily populated states experienced a slowdown in the growth of their populations. This phenomenon was common in New England, the Middle Atlantic, the East North Central and the West North Central Regions. The fastest growing states were those in the West, the South, the Pacific and the southern portion of the Mountain regions. The apportionment of seats in the U.S. House of Representatives changed as a result of both the 1990 Census and the 2000 census. Also, Connecticut's federal aid levels for grants such as highway planning and construction, alcohol and drug abuse programs, low income energy assistance, community assistance grants and job training will continue to fall as the state's estimated population size, relative to the nation's, decreases each year.

Resident population in Connecticut, according to figures from the 2000 census, was 3,405,565 an increase of 118,449 from the 3,287,116 figure of 1990. This represented a growth of 3.6% for the decade, slower growth than was experienced by either the New England Region or the nation as a whole, for the third consecutive decade. In fact, between 1990 and 2000, the state's growth rate was the fourth lowest in the nation. During the recession of the early 1990s, Connecticut's population started declining as a result of the state's weak economy, the high relative cost of living, and a softened job market which collectively made the state less attractive. The minor population losses in the early 1990s were the result of small in-migration compared to a much larger out-migration. This net out-migration is not to be confused with overall population

declines, because a surplus of births and an influx of foreign migration have offset domestic out-migration in most years. The migration of population to and from Connecticut during the late 1980s and 1990s parallels the performance of the state's economy, rising during the expansion, declining at the time of the recession, and rising again during the last few years of the 1990s.

Population counts and growth patterns for Connecticut counties are shown in the following Table. Connecticut counties experiencing faster growth during the 1990s generally were those not dominated by large urban areas. Population counts by municipality are also available in the Appendix of this report.

TABLE 2
COUNTY POPULATION IN CONNECTICUT

County	1990 Census	1990 Percent	2000 Census	2000 Percent	Percent Change
Fairfield	827,645	25.2	882,567	25.9	6.6
Hartford	851,783	25.9	857,183	25.2	0.6
Litchfield	174,092	5.3	182,193	5.3	4.7
Middlesex	143,196	4.4	155,071	4.6	8.3
New Haven	804,219	24.5	824,008	24.2	2.5
New London	254,957	7.7	259,088	7.6	1.6
Tolland	128,699	3.9	136,364	4.0	6.0
Windham	102,525	3.1	109,091	3.2	6.4
TOTAL	3,287,116	100.0	3,405,565	100.0	3.6

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

The national population is estimated monthly by the United States Bureau of the Census for total population which includes Armed Forces Overseas, resident population and civilian population. Population growth is a primary long-run determinant of the potential expansion path of the economy from both the supply and demand sides of the economy. The growth of the population and its composition have profound impacts on the labor force, education, housing, and the demand for consumer goods and services.

Annual estimates of population as of mid-calendar year for each state are vital for comparing standards of living through per capita income, productivity through per capita Gross State Product, or a state's private activity bond limitation which, under federal law, is capped at a level dependent upon the size of the population. Estimates are prepared by the U.S. Bureau of the Census based on the number of births and deaths as well as a variety of factors to approximate net migration changes. These factors can include Medicare enrollees, motor vehicle registrations, building permits, licensed drivers, school enrollments, etc. To comply with the Connecticut General Statutes concerning state aid to municipalities, the Department of Public Health also prepares an annual mid-year estimate of population based on the number of births, deaths and school age population. The Table on the following page shows the Bureau of

the Census estimates for mid-year population for the United States, the New England Region and Connecticut.

TABLE 3
MID-YEAR POPULATION
(In Thousands)

Mid	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1995	266,278	1.2	13,473	0.6	3,324	0.2
1996	269,394	1.2	13,555	0.6	3,337	0.4
1997	272,647	1.2	13,642	0.6	3,349	0.4
1998	275,854	1.2	13,734	0.7	3,365	0.5
1999	279,040	1.2	13,838	0.8	3,386	0.6
2000	282,192	1.1	13,953	0.8	3,412	0.8
2001	285,102	1.0	14,046	0.7	3,433	0.6
2002	287,941	1.0	14,130	0.6	3,459	0.8
2003	290,789	1.0	14,201	0.5	3,487	0.8
2004	293,655	1.0	14,239	0.3	3,504	0.5

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

Natural Change Rates

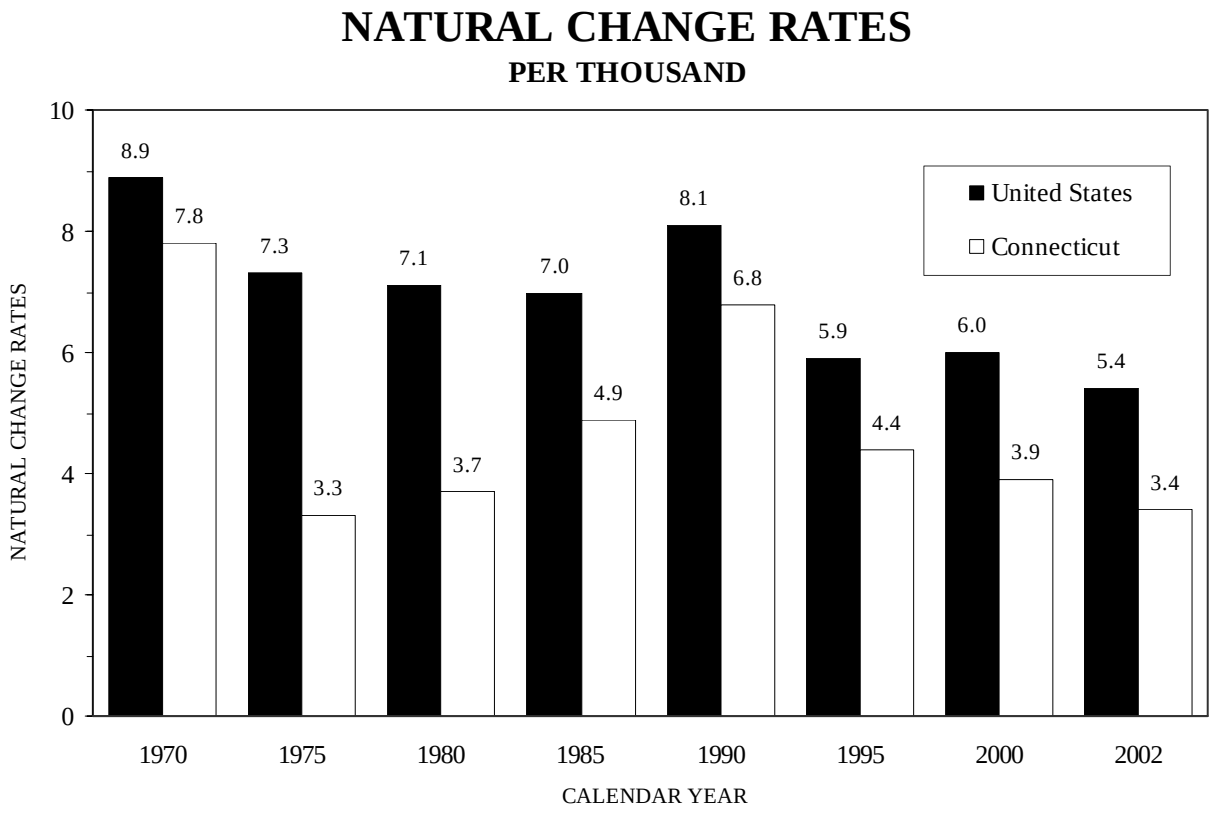
The natural change rate is defined as the difference between birth and death rates. The birth rate in Connecticut has consistently remained below the national average, declining during the 1960s and 1970s and then slowly reversing itself, increasing gradually since the early 1980s and finally peaking in 1990. However, since reaching its peak of 15.2 births per 1,000, Connecticut's trend has followed that of the nation, declining gradually through the 1990s and beyond. In 2002, the Connecticut birth rate was approximately 12.1 per 1,000, compared to the national average of 13.9. This is a decrease from the 13.0 in 2000 and 12.9 in 2001. The mortality rate for Connecticut for the last several years, however, has been fairly stable, much like the national death rate. This has occurred despite the improvements in medicine and health care and is attributable to the aging of the population. The following Table shows the natural change rates for the United States and Connecticut.

TABLE 4
NATURAL CHANGE RATES PER THOUSAND POPULATION

	1970	1975	1980	1985	1990	1995	2000	2002
Birth Rates:								
United States	18.4	16.1	15.9	15.8	16.7	14.6	14.7	13.9
Connecticut	16.7	11.6	12.5	13.7	15.2	13.3	13.0	12.1
Death Rates:								
United States	9.5	8.8	8.8	8.8	8.6	8.7	8.7	8.5
Connecticut	8.9	8.3	8.8	8.8	8.4	8.9	9.1	8.7
Natural Change Rates:								
United States	8.9	7.3	7.1	7.0	8.1	5.9	6.0	5.4

Connecticut	7.8	3.3	3.7	4.9	6.8	4.4	3.9	3.4

Source: Connecticut Department of Health, & National Center for Health Statistics
The following Chart provides a graphic presentation of the natural change rates for the United States and Connecticut.



Source: Connecticut Department of Health, & National Center for Health Statistics

Households

Demand for goods and services depends upon the level of household income and the total number of households. The number of households is a function of household size and population: for example, for a given population, as the size of the household declines, the number of households increases, which causes higher demand for housing and automobiles as well as household goods and services. The Table on the following page shows the change in household structure for the United States and Connecticut during the 1990s.

The number of households in Connecticut, according to the 2000 U.S. Census, was 1,301,670, up 5.8% from the 1990 Census, and up 6.5% from the 1995 Census estimate. This is not unusual in that it reflects the decline in Connecticut's population during the early 1990s and the slow growth in population during the second half of the decade. Family households include a householder and one or more other persons living in the same household who are related by birth, marriage or adoption. Non-family households include a householder living alone or with non-relatives. However, five-year growth patterns in various structural components for the

U.S. differ when compared to Connecticut. Family and non-family households, outside of female supported households, all declined or remained flat in the state, between 1990 and 1995, while expanding in the U.S. The out-migration of Connecticut residents during the early 1990s contributed significantly to the dip in overall household growth. As the economy improved, growth trends improved during the later 1990's, especially at the state level.

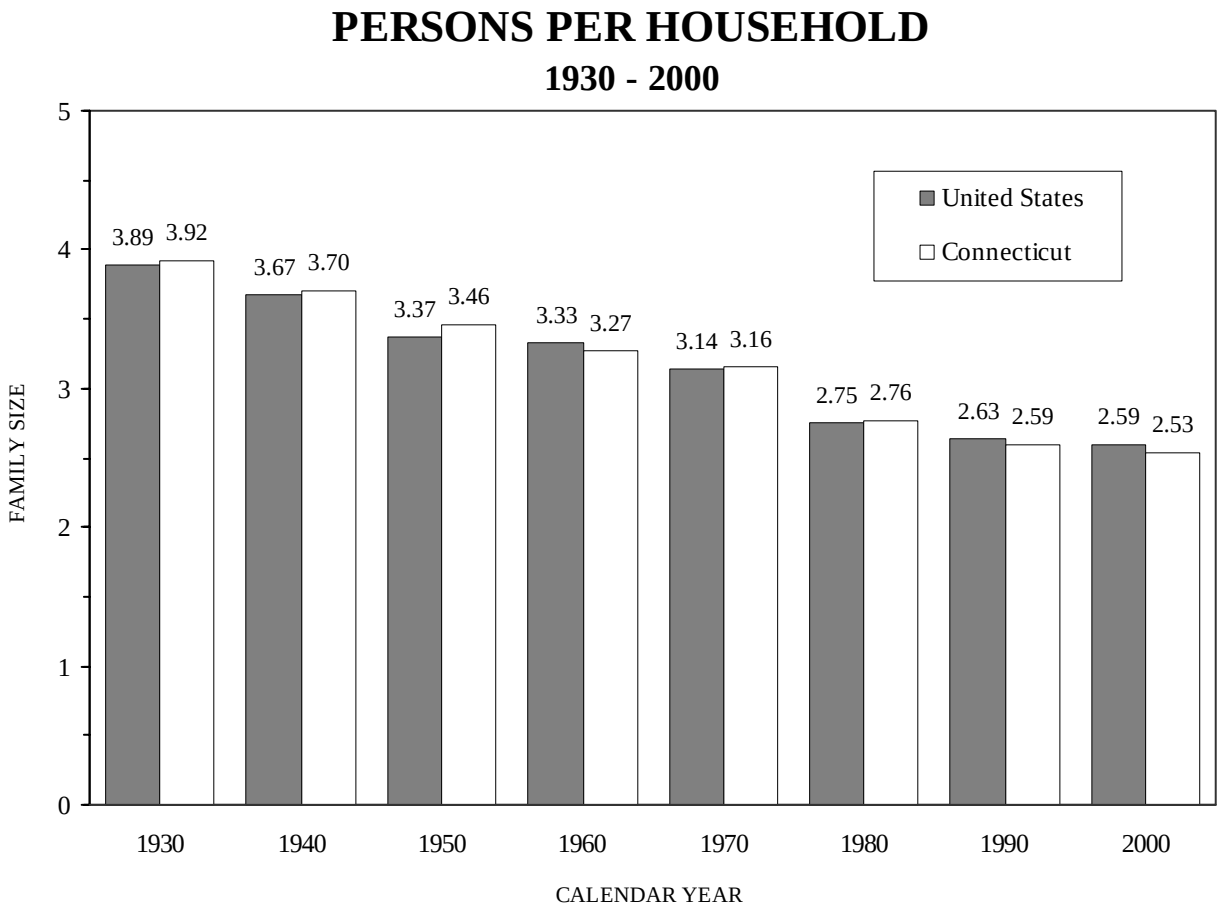
TABLE 5
HOUSEHOLD STRUCTURE
(In Thousands)

	United States			Connecticut		
	1990 Number of Households	1995 Number of Households	2000 Number of Households	1990 Number of Households	1995 Number of Households	2000 Number of Households
Family	66,091	69,305	71,787	864	857	881
• Married	52,317	53,858	54,493	685	675	676
• Male	2,884	3,227	4,394	39	39	48
• Female	10,890	12,220	12,900	140	143	157
Non-Family	27,257	29,685	33,693	366	365	421
Total	93,348	98,990	105,480	1,230	1,222	1,302
	Percent of Households	Percent of Households	Percent of Households	Percent of Households	Percent of Households	Percent of Households
Family	70.8	70.0	68.1	70.2	70.1	67.7
• Married	56.0	54.4	51.7	55.7	55.2	51.9
• Male	3.1	3.3	4.2	3.2	3.2	3.7
• Female	11.7	12.3	12.2	11.4	11.7	12.1
Non-Family	29.2	30.0	31.9	29.8	29.9	32.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
	% Change 1990-1995	% Change 1995-2000	% Change 1990-2000	% Change 1990-1995	% Change 1995-2000	% Change 1990-2000
Family	4.9	3.6	8.6	(0.8)	2.8	2.0
• Married	2.9	1.2	4.2	(1.5)	0.0	(1.3)
• Male	11.9	36.2	52.4	0.0	23.1	23.1
• Female	12.2	5.6	18.5	2.1	9.8	12.1
Non-Family	8.9	13.5	23.6	(0.8)	15.3	15.0
Total	5.7	6.6	13.0	(0.7)	6.5	5.9

Source: U.S. Bureau of the Census (Some numbers may not add due to rounding.)

Between 1990 and 1995, the relatively stable population, the decreasing number of households, and the changing mix in the types of households in Connecticut resulted in an increase in

average population per household in the state. The Chart on the following page, however, shows that household size has generally been edging downward in the state and for the nation. T



Source: U.S. Bureau of the Census

The declines in household size can be considered indicators of social change. Society is adjusting its mores to fit the demands of new generations including: delaying marriage, both delaying and having fewer children and the establishment of one or two person households by career minded men and women. Other social changes that result in smaller households are the increase in the elderly population and the increasing numbers of one parent families that are the consequence of the general rise in the number of divorces.

Age Cohorts

The distribution of the Connecticut population among age cohorts is somewhat different from that of the U.S. average. As shown in the Table on the following page, the state has a lower concentration of persons aged 18 to 24 years and a higher concentration of persons aged 65 and over than either New England or the Nation as a whole. Growth in this older age cohort in Connecticut will accelerate as baby boomers age. The aging population will put pressure on state spending requirements, which could be exacerbated by state revenues which may not grow at the same rate as during the late 1990s. The National Center for Health Statistics estimated average life expectancy at birth to be 77.3 years in 2002, up from 73.7 years in 1980,

75.4 years in 1990, and 77.0 years in 2000. As life spans continue to increase nationally, this trend is expected to impact retirement, social security, pension systems, health care, etc.

TABLE 6
POPULATION DISTRIBUTION BY AGE IN 2004
(In Thousands)

	17 & Less	18 to 24	25 to 64	65 +	85 +	Total
United States	73,758	29,182	154,444	36,271	4,760	293,655
% of Total	25.1	9.9	52.6	12.4	1.6	100.0
New England	3,305	1,322	7,707	1,906	283	14,239
% of Total	23.2	9.3	54.1	13.4	2.0	100.0
Connecticut	840	305	1,885	473	74	3,504
% of Total	24.0	8.7	53.8	13.5	2.1	100.0

Source: U.S. Bureau of the Census - Adjusted by OPM staff to reflect latest release of data.

Significant Trends

The following three Tables call attention to some implications of certain trends which might be considered as resource allocation decisions are made for the future. First, as shown in the following Table, Connecticut is a very densely populated state in a very densely populated region of the country. This has implications for housing, transportation, law enforcement and natural resources, as well as other areas.

TABLE 7
POPULATION DENSITY BY YEAR
(Persons per Square Mile)

	1980 Census	1990 Census	2000 Census	2004 Estimate
United States	64.0	70.3	79.5	83.0
Northeast	301.9	313.1	330.1	335.4
Connecticut	637.9	678.4	702.9	723.1

Source: U.S. Bureau of the Census

In addition, a change is occurring in the age distribution of the population. As shown in the first Table on the following page, not only are the elderly increasing in number, but the non-elderly, on a relative scale, are decreasing, with the young and very young remaining a relatively stable portion of the total. This means that increasing pressure will be brought upon those between the ages of 18 and 65 years of age to provide social and support services for the young and the elderly, particularly for the elderly. This will become increasingly significant as the “baby-boomers” begin to reach the age of sixty-five in the year 2011.

Finally, as shown in the second Table on the following page, cultural implications might be suggested by the racial distribution of the population in the state. The white population is decreasing as a percentage of the total, as both the African-American and Hispanic groups increase as a percentage of the total population, with the Hispanic growth rate outpacing the

African-American growth rate. Although Asians make up a very small percentage of the total population, Asians comprise the fastest growing group, while the American Indian population remains fairly stable. These same trends are occurring in the nation and the region.

TABLE 8
DEPENDENCY RATIOS*
(Number of Dependent Population per 100 Provider Population)

Dependency Ratio	1980	1990	2000
United States	65.1	61.5	61.6
Northeast	63.9	59.0	61.5
Connecticut	61.9	57.0	62.7
Youth Dependency			
United States	46.5	41.3	41.5
Northeast	43.6	37.3	39.3
Connecticut	42.9	35.8	40.2
Aged Dependency			
United States	18.6	20.2	20.1
Northeast	20.3	21.7	22.2
Connecticut	19.0	21.2	22.5
Aged Female Dependency Ratio			
United States	11.1	12.1	11.8
Northeast	12.3	13.3	13.3
Connecticut	11.5	12.8	13.4

* The Dependency Ratio is the number of the target dependent population (i.e., the aged or youth or the two groups combined) divided by the segment of the population which has traditionally provided for the dependent population, through taxes for health and social programs, volunteer activities, etc. The provider group is generally considered to be those older than 18 and less than 65 years of age.

Source: U.S. Bureau of the Census, Population Distribution Branch

TABLE 9
POPULATION DISTRIBUTION BY RACE AND YEAR
(Percent of Total Population Based On Each Census)

	United States			Northeast Region			Connecticut		
	1980	1990	2000	1980	1990	2000	1980	1990	2000
White	86.0	83.9	77.0	88.5	85.6	79.3	92.0	89.6	83.5
African-American	11.8	12.3	12.6	10.1	11.4	11.6	7.1	8.6	9.3
Asian	1.6	3.0	3.7	1.2	2.7	4.0	0.7	1.6	2.5
American Indian	0.6	0.8	0.9	0.2	0.3	0.3	0.2	0.2	0.3
Other	-	-	5.8	-	-	4.8	-	-	4.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hispanic Origin	6.4	9.0	12.5	5.4	7.6	9.8	4.1	6.5	9.4

Note: The method of counting by race changed in 2000. Definitions of various race categories were changed and, for the first time, a respondent could check off more than one race.

Source: U.S. Bureau of the Census

Housing

During fiscal 2004, the national housing market continued its strong performance. A rare confluence of factors including record low interest rates and easy lending standards combined to stimulate a surge in housing activity. Overall, housing starts in the U.S. rose 12.5% with 1.95 million starts being recorded nationally during fiscal 2004.

The following Table provides a ten year historical profile of housing starts in the United States, the New England Region, and Connecticut.

TABLE 10
HOUSING STARTS
(In Thousands)

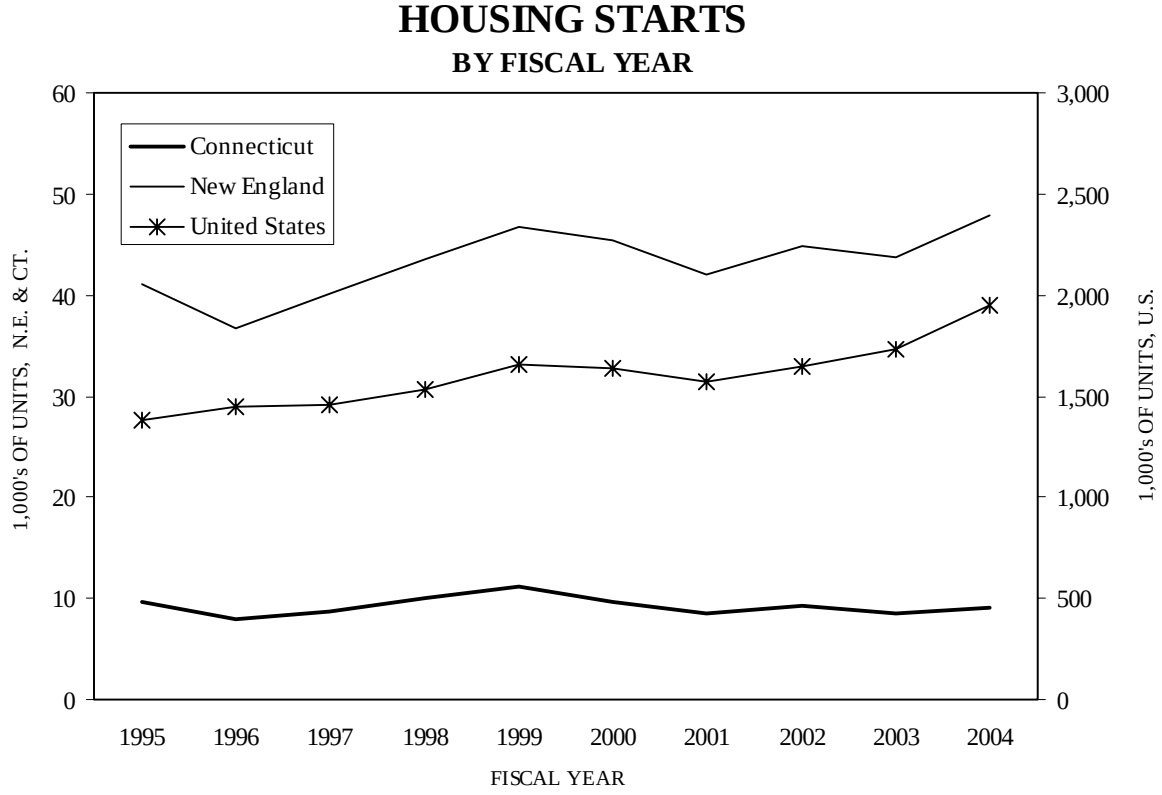
Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1994-95	1,384.4	(0.9)	41.0	1.1	9.6	15.3
1995-96	1,447.3	4.5	36.7	(10.3)	7.9	(17.7)
1996-97	1,456.8	0.7	40.1	9.2	8.8	11.7
1997-98	1,530.2	5.0	43.5	8.5	10.0	13.4
1998-99	1,659.3	8.4	46.7	7.4	11.2	11.8
1999-00	1,637.8	(1.3)	45.4	(2.9)	9.6	(14.4)
2000-01	1,570.7	(4.1)	42.0	(7.5)	8.6	(10.0)
2001-02	1,645.9	4.8	44.9	7.0	9.2	6.8
2002-03	1,729.8	5.1	43.8	(2.4)	8.6	(6.7)
2003-04	1,945.2	12.5	47.9	9.3	9.1	5.7

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

The remarkably strong housing sector has been one of the important pillars of the economy during this economic cycle. Low interest rates, refinancing, and the increase in homeowner equity have offset the effects of the sluggish economy and weak labor market. Potential negative factors impacting housing demand include inflationary pressures (with an expanding economy) and increasing energy costs. If inflation remains subdued, interest rates should remain low, and that bodes well for housing in general.

In Connecticut, starts for new dwelling units increased in fiscal 2004 to an annual rate of 9,107 units, slightly below the ten-year average of 9,283 units. While housing activity in Connecticut is expected to weaken in the near term, any decline should be limited. Low mortgage rates and the lack of any significant overbuilding anywhere in Connecticut place a solid floor under the market. Therefore, the severe real estate downturn of the early 1990s is unlikely to repeat itself this time.

The Chart on the following page provides a graphic presentation of the growth in housing starts for the three entities over a ten year fiscal period.



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

A major indicator of housing activity is the number of building permits authorizing construction issued by local authorities. The Connecticut Department of Economic & Community Development (DECD), the lead agency for all matters relating to housing, tabulates this information and presents it in its annual report "Connecticut Housing Production & Permit Authorized Construction". It should be noted that construction is ultimately undertaken for all but a very small percentage of housing units authorized by permits. A major portion typically gets under way during the month of permit issuance and most of the remainder begins within the three following months. Because of this lag, housing permits reported do not represent the number of units actually put into construction for the period shown and should therefore not be interpreted as housing starts.

The Table on the following page shows the Connecticut counties in which privately owned housing permits were issued in calendar 2003, indicating the geographic distribution of housing construction activity.

According to the report, calendar 2003 registered a 7.1% increase in housing permit activity. Permit activity totaling 10,435 units, up from 9,741, was authorized and added to the state's

housing unit inventory. The town of Bloomfield led all Connecticut communities with 309 permits issued, followed by Hartford and Milford.

TABLE 11
CONNECTICUT HOUSING PERMIT ACTIVITY
Calendar Year 2003

County	Total Units Authorized	% of Total	% Growth
Fairfield	1,964	18.8	4.5
Hartford	2,585	24.8	13.2
Litchfield	732	7.0	(9.30
Middlesex	821	7.9	0.1
New Haven	1,826	17.5	7.3
New London	1,222	11.7	27.8
Tolland	731	7.0	(2.8)
Windham	554	5.3	2.2
State Total	10,435	100.0	7.1

Source: Connecticut State Department of Economic and Community Development

In addition, residential demolition permits issued during calendar 2003 totaled 1,275. New Haven issued the most demolition permits with 186, followed by Greenwich and Westport. These three cities accounted for 28% of all demolition permits**.** As a result, the net gain to Connecticut's housing inventory totaled 9,160 units in calendar 2003. This was an increase of 10.8% from 2002's net gain of 8,270 units. At the end of 2003, an estimated 1,410,962 housing units existed in Connecticut.

The following Table shows changes in Connecticut's housing unit inventory on a calendar basis from 2002 to 2003.

TABLE 12
CONNECTICUT HOUSING INVENTORY

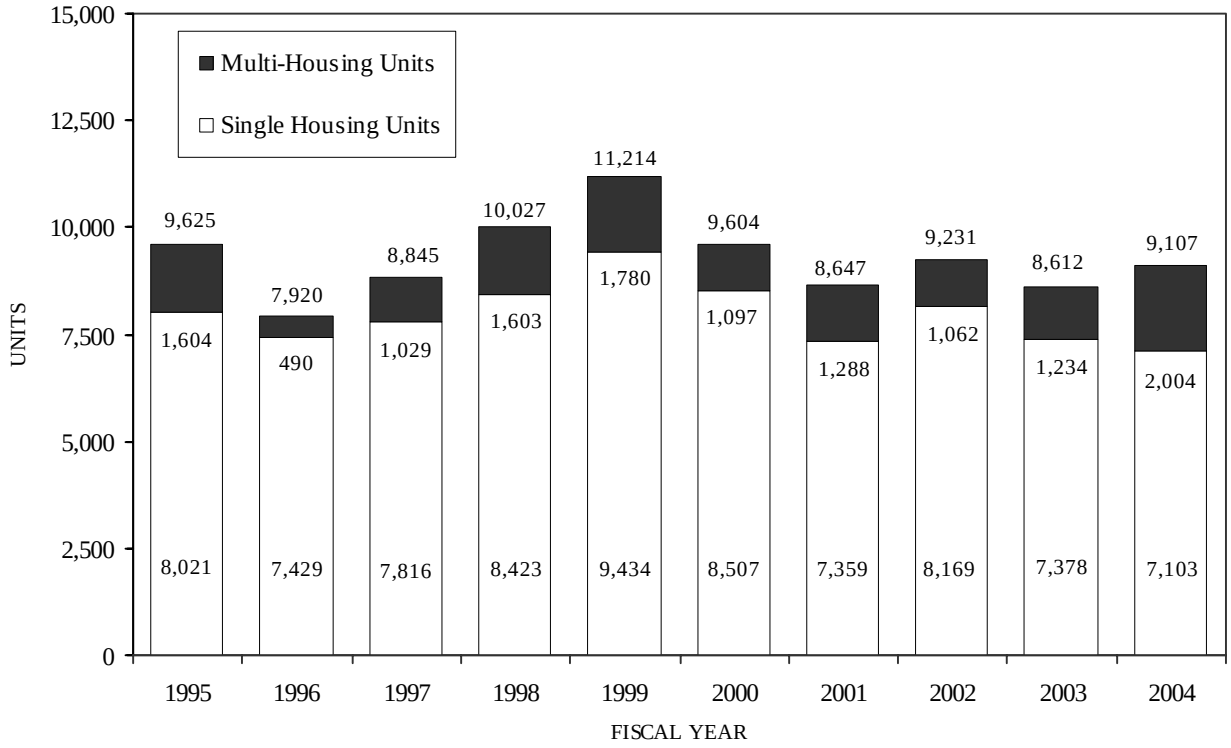
Structure Type	Inventory 2002	% of Total	Inventory 2003	% of Total	Net Gain	Growth Rate
One-Unit	902,704	64.4	910,884	64.6	8,180	0.9%
Two-Unit	119,625	8.5	119,891	8.5	266	0.2%
Three & Four-Unit	126,841	9.0	126,967	9.0	126	0.1%
Five Or More Unit	240,438	17.2	242,301	17.2	1,863	0.8%
Other	12,194	0.9	12,194	0.8	0	0.0%
Demolitions	0	0.0	(1,275)	(0.1)	(1,275)	NA

Total Inventory	1,401,802	100.0	1,410,962	100.0	9,160	0.7%

Source: Connecticut State Department of Economic and Community Development

As shown in the following Chart, the mix of housing construction in Connecticut (i.e., single unit versus multi-unit) has varied greatly during the last ten fiscal years. In addition to the interest rate, there are other factors that influence both the demand for and mix of housing including age of buyer or renter and changes in the mortgage market**.**

CONNECTICUT HOUSING STARTS



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

Age of Buyer or Renter

Current projections anticipate a decline in the 25-44 year old age group. This is significant for the housing market for two reasons. First, this age group is the prime source of household formation. Consequently, a declining population of this age group, similar to what occurred in Connecticut during the 1990s, will slow the formation of new households, thus reducing the demand for starter homes. Moreover, weak demand for starter homes makes it harder for maturing families who already own starter homes to move up, thus reducing demand and appreciation throughout the housing market.

The age group of citizens 65 and older grew during the 1990s, at a healthy rate of 5.5%. This age group is projected to grow rapidly during the next two decades. With the growth in this

demographic, the housing market will see a shift in the type of housing units that are sought after. As more baby-boomers turn into empty-nesters, they will trade-down their large homes for smaller, easier to maintain condos and second homes. Demand for easier to maintain rental or condo units, particularly those targeted toward the elderly, will accelerate and boost the state's housing market, but at a cost. As the elderly population expands, additional benefits and services to care for this group will be required. How society will pay for these ever-expanding needs has yet to be determined.

Listed below are actual statistics from the Bureau of the Census for 1980 - 2000. The 2010-2030 statistics are projections of population for Connecticut forecast by an econometric firm. The totals below illustrate the potential impact of the 25 to 44 year old homebuyer group and the 65 and older population. Population totals are in thousands.

Years of Age	1980	1990	2000	2010	2020	2030
25-44	870	1099	1033	945	994	1003
% Change		26.3%	-6.1%	-8.5%	5.2%	0.8%
65 and over	368	447	471	497	589	724
% Change		21.2%	5.5%	5.5%	18.6%	22.8%

Source: U.S. Bureau of the Census, Economy.com, October 2004

Changes in the Mortgage Market

Fiscal year 2004 began with thirty-year fixed rate loans and one-year adjustable rate loans at a 46-year record low. The averages for the thirty-year fixed and one-year adjustable rates in June of 2003 were 5.4% and 3.75% respectively. Throughout fiscal year 2004, rates rose modestly, with a slight dip between September 2003 and March 2004. By fiscal year end, rates on thirty-year fixed mortgages averaged 6.4%, and the one-year adjustable-rate mortgages averaged 4.25%. The upside of the continued low interest rates includes a stabilization of the affordability of homes.

EMPLOYMENT PROFILE

Employment Estimates

The employment estimates for most of the tables included in this section are obtained through the U.S. Bureau of Labor Statistics and the Connecticut State Labor Department. They are developed as part of the federal-state cooperative Current Employment Statistics (CES) Program. The estimates for the state and the labor market areas are based on the responses to surveys of 5,000 Connecticut employers registered with the Unemployment Insurance Program. Companies are chosen to participate based on specifications from the U.S. Bureau of Labor Statistics. As a general rule, all large establishments are included in the survey as well as a sample of smaller employers. It should be noted, however, that this method of estimating employment may result in under counting jobs created by agricultural and private household employees, the self-employed and unpaid family workers who are not included in the sample. The survey only counts total business payroll employment in the economy.

In an effort to provide a broader employment picture, the following Table, based on residential employment, was developed. Total residential employment is estimated based on household surveys which include individuals excluded from establishment employment figures such as self employed and workers in the agricultural sector. By that measure, residential employment in fiscal 2004 declined by 6,700 jobs. Likewise, the level of establishment employment based on the survey response decreased by 12,200 jobs in fiscal 2004.

The following Table provides a ten fiscal year historical profile of residential and establishment employment in Connecticut.

TABLE 13
CONNECTICUT SURVEY EMPLOYMENT COMPARISONS
(In Thousands)

Fiscal Year	Residential Employment	% Growth	Establishment Employment	% Growth
1994-95	1,643.6	(1.55)	1,555.9	1.48
1995-96	1,636.9	(0.41)	1,568.5	0.81
1996-97	1,654.8	1.10	1,599.6	1.99
1997-98	1,673.9	1.16	1,627.6	1.75
1998-99	1,679.6	0.34	1,657.2	1.82
1999-00	1,722.1	2.53	1,682.1	1.50
2000-01	1,734.5	0.72	1,690.3	0.49
2001-02	1,708.5	(1.50)	1,675.3	(0.89)
2002-03	1,710.9	0.14	1,652.6	(1.36)
2003-04	1,704.2	(0.39)	1,640.4	(0.73)

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Nonagricultural Employment

Nonagricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid family workers, farm and household domestic workers. Nonagricultural employment is comprised of the broad manufacturing sector and the nonmanufacturing sector. These two components of nonagricultural employment are discussed in detail in the following sections.

The following Table shows a ten year historical profile of nonagricultural employment in the United States, the New England Region, and Connecticut.

TABLE 14
NONAGRICULTURAL EMPLOYMENT
(In Thousands)

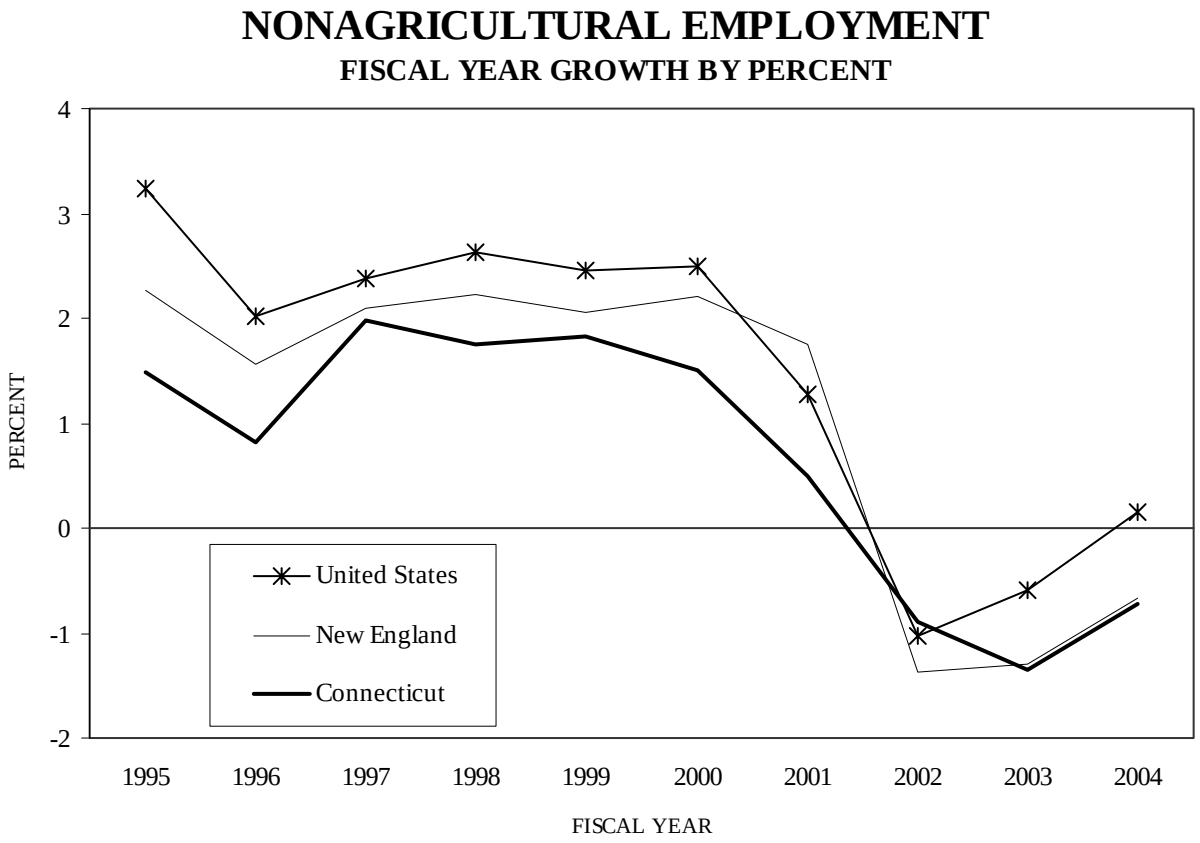
Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1994-95	116,046	3.24	6,272.7	2.26	1,555.9	1.48
1995-96	118,379	2.01	6,371.1	1.57	1,568.5	0.81
1996-97	121,199	2.38	6,505.1	2.10	1,599.6	1.99
1997-98	124,380	2.62	6,650.2	2.23	1,627.6	1.75
1998-99	127,427	2.45	6,786.8	2.05	1,657.2	1.82
1999-00	130,598	2.49	6,937.0	2.21	1,682.1	1.50
2000-01	132,250	1.27	7,059.3	1.76	1,690.3	0.49
2001-02	130,884	(1.03)	6,961.8	(1.38)	1,675.3	(0.89)
2002-03	130,115	(0.59)	6,871.0	(1.30)	1,652.6	(1.36)
2003-04	130,328	0.16	6,824.7	(0.67)	1,640.4	(0.73)

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

In Connecticut, approximately 57% of total personal income is derived from wages earned by workers classified in the nonagricultural employment sector. Thus, increases in employment in this sector lead to increases in personal income growth and consumer demand. In addition, nonagricultural employment can be used to compare similarities and differences between economies, whether state or regional, and to observe structural changes within. These factors make nonagricultural employment figures a valuable indicator of economic activity.

Throughout the 1990s Connecticut's employment figures slowly recovered from the job losses experienced during the late 1980s – early 1990s recession. Beginning in fiscal 1994 the state began adding jobs and employment levels steadily improved in each successive year through fiscal 2001, establishing a new high point for nonagricultural employment in Connecticut. Unfortunately, the economic expansion that officially earned the distinction as the longest in U.S. history came to an abrupt end. Since then, jobs have been under continued assault from foreign competition, outsourcing abroad, and burgeoning productivity at home. Consequently, nonagricultural employment in Connecticut declined by 12,200 jobs in fiscal 2004 as the sluggish nature of the economy again forced businesses to trim their workforce for a third year in a row as part of restructuring intended to reduce costs, boost profits, and to stay competitive.

The following Chart provides a graphic presentation of the growth rates in nonagricultural employment for the three entities for a ten fiscal year period.



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Throughout the last two decades, while manufacturing employment in Connecticut has been steadily declining, employment growth in nonmanufacturing industries has surged. Relatively rapid growth in the nonmanufacturing sector is a trend that is in evidence nationwide and reflects the increased importance of the service industry. This shift in employment provides for relatively more stable economic growth in the long run through the moderation of the peaks and troughs of economic cycles. In calendar 2003, approximately 88% of the state's workforce was employed in nonmanufacturing jobs, up from roughly 50% in the early 1950s.

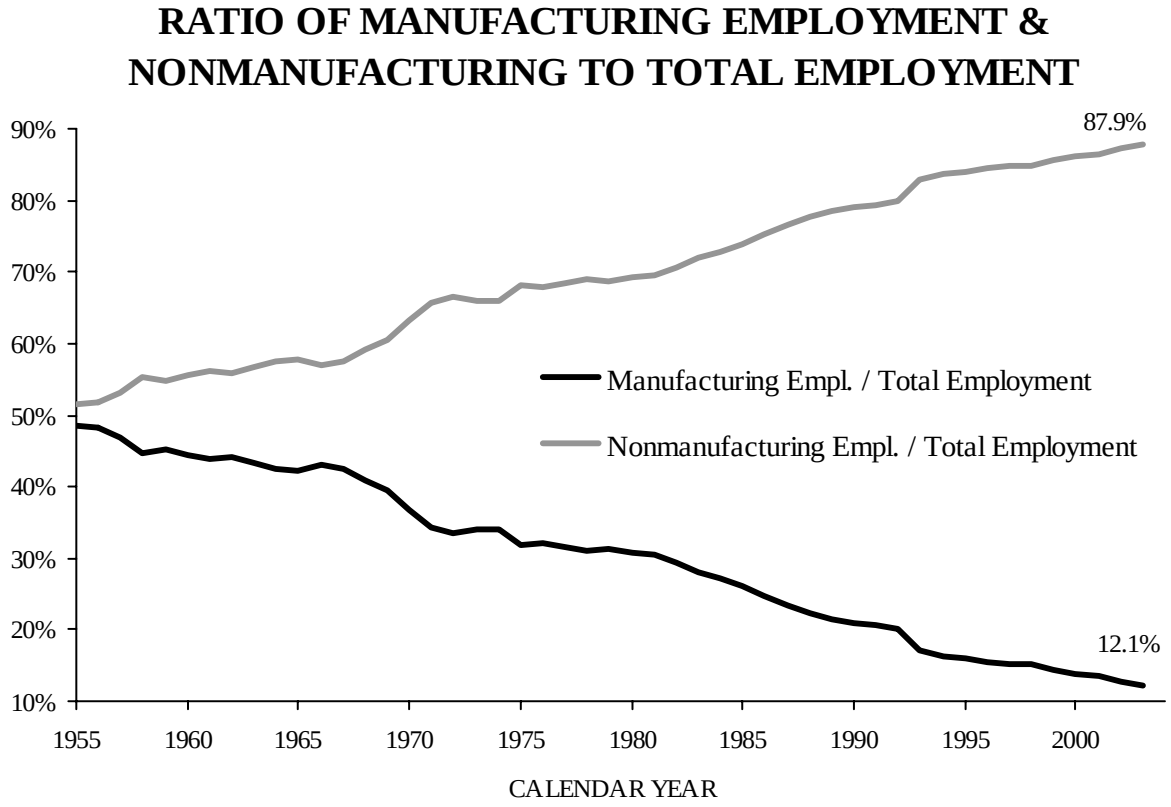
Despite the fact that manufacturing is an economic base industry in Connecticut, the state still possesses a diversified economy. It is one of the few states whose service sector exports a product-insurance. For example, total premium and annuity income from policyholders of all lines of insurance to Connecticut based companies was $115.2 billion in calendar 2003. Of the $115.2 billion, $13.5 billion or approximately 11.7% is derived from Connecticut residents. The other 88.3% is derived from sales outside of the state. This provides an additional source of incoming funds to bolster the economy of the state.

The Table on the following page depicts the decrease in the ratio of manufacturing employment to total employment in Connecticut over the last five decades.

TABLE 15
CONNECTICUT RATIO OF MANUFACTURING EMPLOYMENT TO TOTAL EMPLOYMENT
(In Thousands)

Calendar Year	Total Employment	Manufacturing Employment	NonMfg. Employment	Ratio of Mfg. Employment to Total Employment
1950	766.1	379.9	386.2	49.6
1955	874.7	423.2	451.6	48.4
1960	915.2	407.1	508.1	44.5
1965	1,033.0	436.2	596.8	42.2
1970	1,198.1	441.8	756.3	36.9
1975	1,224.6	389.8	834.8	31.8
1980	1,428.4	440.8	987.6	30.9
1985	1,558.2	408.0	1,150.2	26.2
1990	1,623.5	341.0	1,282.5	21.0
1995	1,561.6	248.5	1,313.1	15.9
2000	1,693.2	235.7	1,457.5	13.9
2003	1,643.5	199.5	1,444.0	12.1

The following Chart provides a graphic presentation of the decrease in the state's ratio of manufacturing employment to total employment over the last five decades.



Source: Connecticut State Labor Department

Manufacturing Employment

Even with declines in overall manufacturing employment, the ratio of manufacturing employment to total employment still defines Connecticut as one of the major manufacturing and industrial states in the country. Based on the level of personal income derived from this sector, Connecticut ranks nineteenth in the nation for its dependency on manufacturing. Within this broad definition, the manufacturing sector can be further broken down into the major components of the sector. One important component of this sector in Connecticut is defense-related business. The largest employers in these industries are United Technologies Corporation, including its Pratt & Whitney Aircraft Division in East Hartford, and General Dynamics Corporation's Electric Boat Division in Groton. These businesses fall under the transportation equipment classification.

In federal fiscal year 2003 Connecticut ranked fifth in total defense dollars awarded and second in per capita dollars awarded. The state is one of the leading producers of military and civilian helicopters. The industry is well diversified, with transportation equipment (primarily aircraft engines, helicopters and submarines) the dominant industry. The transportation equipment sector is followed, in order of the total number employed, by metals manufacturing, electronic & electrical manufacturing and chemicals, plastics & rubber manufacturing. The following Table provides a ten year historical picture of the state's level of employment in these sectors.

TABLE 16
CONNECTICUT MANUFACTURING EMPLOYMENT
(In Thousands)

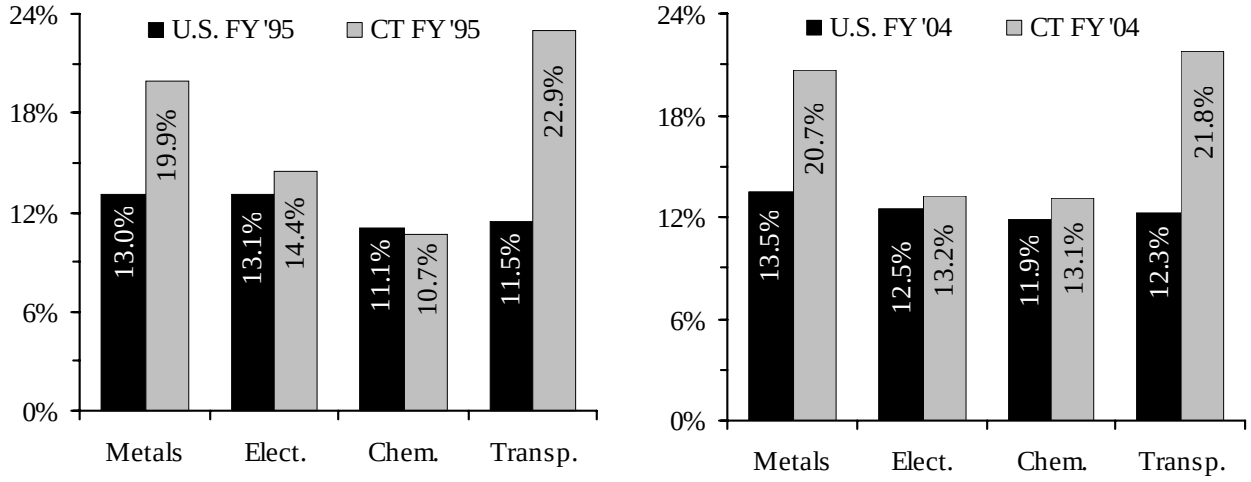
Fiscal Year	Transportation Equipment	Metals Manufacturing	Electronic & Electrical Manufacturing	Chemical, Plastics & Rubber Mfg.
1994-95	57.7	50.1	36.3	27.0
1995-96	54.3	50.0	35.9	26.8
1996-97	52.4	51.1	36.2	27.0
1997-98	51.7	51.2	38.0	27.3
1998-99	51.7	51.2	36.4	28.1
1999-00	47.9	49.8	35.1	28.7
2000-01	47.0	49.0	35.4	29.5
2001-02	46.3	44.8	31.3	28.0
2002-03	44.2	42.0	27.6	26.7
2003-04	42.7	40.5	25.9	25.7

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Over the last decade the state's manufacturing sector has become less dependent on defense related production, as the percentage of manufacturing employment in the transportation equipment sector (aircraft engines, helicopters & submarines) has fallen from 22.9% in fiscal 1995 to 21.8% by fiscal 2004. The transformation in the state's manufacturing base, illustrated on the following page, confirms that the state's employment levels in the sector are much closer to reflecting nationwide trends. As a result, Connecticut has been successfully diversifying

itself away from dependence on just one industry. With the state's share of prime defense contract awards below 1989 levels on a real dollar basis, the state's shift towards the national trend should result in a moderation of potential manufacturing job losses. The following charts provide an historical comparison of the employment levels in the U.S. and in Connecticut in the state's most highly concentrated manufacturing sectors over the last ten fiscal years.

COMPARISON OF MANUFACTURING EMPLOYMENT IN CERTAIN SECTORS
(As A Percentage Of Total Manufacturing Employment)



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

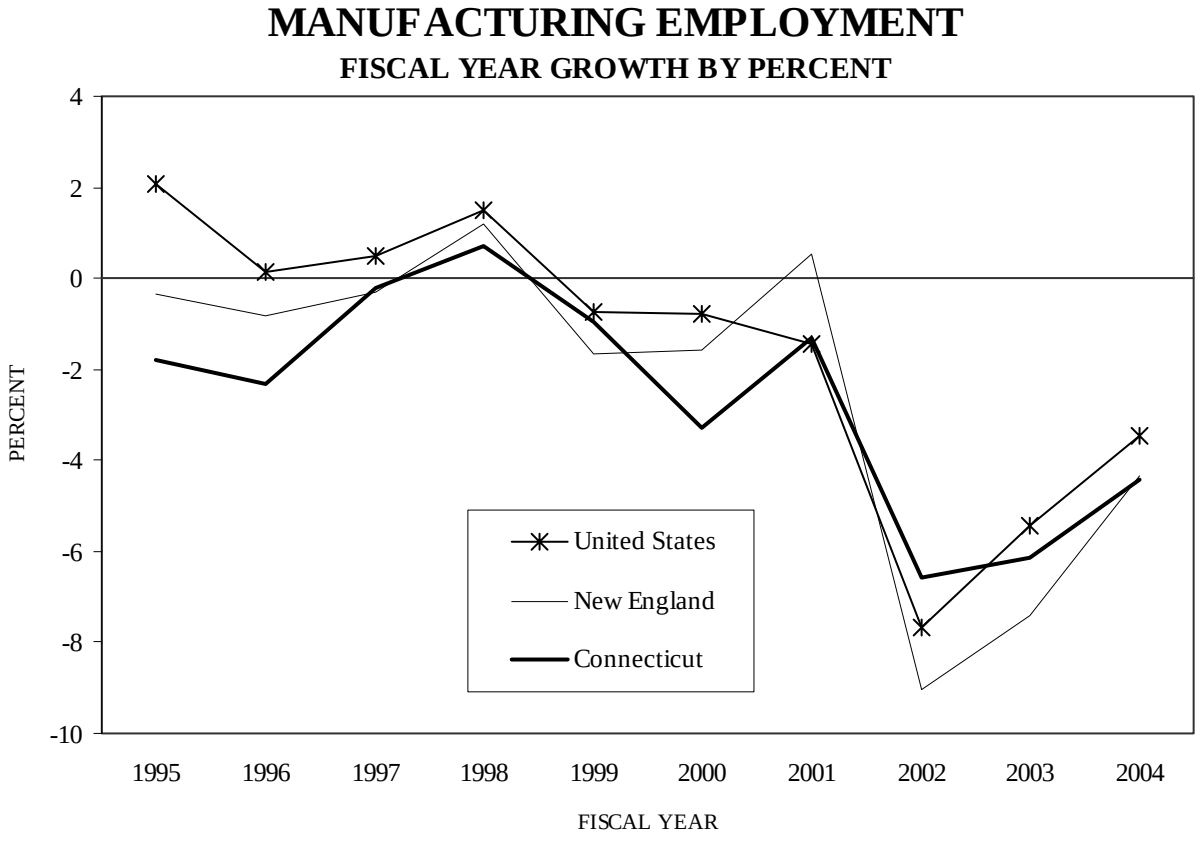
The following Table provides a ten year historical picture of manufacturing employment in the United States, the New England Region, and Connecticut.

TABLE 17
MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1994-95	17,196	2.07	972.0	(0.33)	251.8	(1.80)
1995-96	17,220	0.14	963.9	(0.83)	245.9	(2.34)
1996-97	17,301	0.47	960.9	(0.31)	245.4	(0.22)
1997-98	17,559	1.49	972.5	1.21	247.1	0.72
1998-99	17,427	(0.75)	956.1	(1.68)	244.7	(0.98)
1999-00	17,290	(0.79)	941.2	(1.56)	236.7	(3.27)
2000-01	17,040	(1.44)	936.2	(0.53)	233.7	(1.29)
2001-02	15,734	(7.66)	851.7	(9.02)	218.3	(6.56)
2002-03	14,880	(5.43)	788.5	(7.43)	204.9	(6.15)
2003-04	14,365	(3.46)	754.4	(4.33)	195.9	(4.42)

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Historically, manufacturing employment closely parallels the business cycle, typically expanding when the economy is healthy and contracting during recessionary periods, as it did during the early 1980s. However, this phenomenon diverged in the latter part of the 1980s, as contractions in manufacturing employment were not initially accompanied by a recession. Other factors, such as heightened foreign competition, smaller defense budgets, and improved productivity, played a significant role in affecting the overall level of manufacturing employment in Connecticut. Consequently, during the past decade, the state's manufacturing sector diminished considerably. The sector shed 22% of its employment from fiscal 1995 through fiscal 2004, a loss of about 55,900 jobs. The manufacturing sector has suffered in large part because of the ramp down in defense and aerospace spending over the last decade. Faced with leaner times, the state's manufacturers confronted the turbulent market conditions head-on and subsequently have restructured in response to global market forces: rapidly changing technologies, mounting competition from overseas markets, and shrinking defense spending. More recent expansions in the federal defense budget should improve the employment picture for this sector. The following Chart provides growth rates in manufacturing employment in the United States, the New England Region and Connecticut over a ten year period.



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

Unfortunately, the sharp downturn in industrial activity that began at the end of fiscal 2001 and a subsequent economic recovery that failed to generate a substantial number of new jobs dimmed any prospect for employment stability in the manufacturing sector. Within Connecticut, the manufacturing sector struggled as the rate of job loss remained firmly

entrenched during fiscal 2004. The sector's workforce shrunk by roughly 4.4% as renewed weakness throughout the sector prompted manufacturers to reduce employment levels by 9,000 jobs. The bulk of the job cuts occurred in durable good industries, predominately in electronic & electrical production and industrial machinery.

In fiscal 2004, activity in the manufacturing sector expanded during the course of the fiscal year as output produced by manufacturers increased by 1.3%, as measured by the Connecticut Manufacturing Production Index, (CMPI). The increase was attributed to demand driven gains. Better demand cut into inventories, triggering renewed ordering for both consumer goods and capital equipment. In addition, total factory production work hours rose 1.9% on an average annual basis. This coupled with an increase of 4.1% in weekly manufacturing earnings suggests sustained momentum for the economy. However, these gains will not reverse the long-term structural shift that keeps diminishing manufacturing's strength. The continued erosion of the state's manufacturing base reflects the national trend away from traditional industries, both durable and nondurable. More of U.S. demand is being satisfied by foreign producers who can manufacture goods more cheaply. Lastly, the upward trend of higher productivity has enabled Connecticut manufacturers to make more with fewer workers. Even with the structural change, manufacturing employment in Connecticut still accounts for 11.9% of all nonfarm payroll jobs, compared to 11.0% in the U.S. through fiscal 2004. The sector still matters. Manufacturing jobs remain one of the best-paid segments of payroll, contributing more to personal income than the same number of service jobs. The following Table provides a breakdown of the state's manufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the manufacturing sectors.

TABLE 18
CONNECTICUT MANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

				Percent Change	
	F.Y.	F.Y.	F.Y.	FY 2003 to	FY 1995 to
Industry	1994-95	2002-03	2003-04	FY 2004	FY 2004
Transportation Equipment	57.73	44.18	42.71	(3.3)	(26.0)
Metal Manufacturing	50.09	42.03	40.50	(3.6)	(19.1)
Electronic & Electrical	36.30	27.61	25.88	(6.2)	(28.7)
Chemical, Plastics & Rubber	26.97	26.66	25.74	(3.5)	(4.5)
Printing, Publishing & Textile	27.56	20.06	18.97	(5.5)	(31.2)
Industrial Machinery	24.92	19.48	17.83	(8.5)	(28.5)
Food, Beverage & Tobacco	9.99	8.82	8.73	(1.0)	(12.6)
Miscellaneous	18.22	16.07	15.48	(3.7)	(15.0)
Total Mfg. Employment	251.78	204.91	195.85	(4.4)	(22.2)

Source: U.S. Bureau of Economic Analysis, Connecticut State Labor Department

In fiscal 2004, manufacturing employment in Connecticut contracted in every major sector. This trend reflects the strain that weak global markets and fierce foreign competition has put on the state's manufacturing base. Despite the losses, the state's vital transportation sector fared reasonably well relative to its peers. The sector ranked second out of the seven in terms of

posting the smallest year-over-year decline in employment growth. With defense spending projected to experience sizable increases due to changing world events, (See Table 41 – Defense Contract Awards & Related Employment) some of Connecticut's defense-related industries could begin new rounds of hiring which could help stem the downward spiral in manufacturing employment. Military producers like Sikorsky Aircraft, Pratt & Whitney and Electric Boat are likely recipients of military contracts to build and supply hardware to the nation's armed forces. Likewise, specialized work could spillover to smaller manufacturers in the state, boosting both employment and industrial output. However, it is still anticipated that manufacturing employment will continue to decline as a share of total state employment well into the latter part of this decade. The following Table ranks the 50 states in terms of their relative dependence on manufacturing wages as a percentage of total personal income.

TABLE 19
MANUFACTURING WAGES AS A PERCENT OF PERSONAL INCOME BY STATE
(In Millions of Dollars)

State	Personal Income	Mfg. Wages	%	FY 04 Rank	State	Personal Income	Mfg. Wages	%	FY 04 Rank
Indiana	$183,386	$27,449	14.97	1	California	$1,219,436	$84,657	6.94	26
Wisconsin	171,841	22,356	13.01	2	Maine	38,772	2,681	6.92	27
Michigan	320,617	39,810	12.42	3	Georgia	261,199	17,991	6.89	28
Ohio	349,530	38,415	10.99	4	Texas	660,547	44,706	6.77	29
Iowa	86,706	9,253	10.67	5	Washington	208,319	13,774	6.61	30
South Carolina	111,024	11,065	9.97	6	Nebraska	54,067	3,462	6.40	31
N. Hampshire	45,946	4,569	9.94	7	New Jersey	353,789	22,462	6.37	32
Kentucky	111,294	10,973	9.86	8	Louisiana	120,127	7,207	6.00	33
North Carolina	244,337	23,799	9.74	9	West Virginia	45,722	2,739	5.99	34
Tennessee	171,429	16,629	9.70	10	Arizona	155,485	9,196	5.91	35
Arkansas	68,457	6,604	9.65	11	Oklahoma	95,634	5,558	5.81	36
Alabama	121,529	11,458	9.43	12	Delaware	28,005	1,601	5.72	37
Minnesota	176,813	16,304	9.22	13	South Dakota	22,459	1,235	5.50	38
Kansas	82,325	7,416	9.01	14	Virginia	255,861	13,019	5.09	39
Mississippi	69,214	6,114	8.83	15	Colorado	161,210	8,013	4.97	40
Vermont	19,442	1,708	8.78	16	Maryland	211,773	9,010	4.25	41
Oregon	105,107	8,899	8.47	17	North Dakota	18,882	797	4.22	42
Pennsylvania	400,207	32,213	8.05	18	New York	714,777	27,628	3.87	43
Connecticut	154,705	12,403	8.02	19	Florida	524,405	16,240	3.10	44
Illinois	429,192	33,242	7.75	20	New Mexico	49,307	1,494	3.03	45
Missouri	169,441	12,539	7.40	21	Montana	24,406	672	2.75	46
Utah	60,954	4,336	7.11	22	Nevada	73,528	1,882	2.56	47
Massachusetts	260,069	18,469	7.10	23	Wyoming	16,719	358	2.14	48
Idaho	35,991	2,541	7.06	24	Alaska	21,778	381	1.75	49
Rhode Island	35,151	2,473	7.04	25	Hawaii	39,567	491	1.24	50

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Nonmanufacturing Employment

The nonmanufacturing sector is comprised of industries that provide a service. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently, and it cannot be inventoried. Connecticut's nonmanufacturing sector consists of the industries listed in the following Table. Over the last three decades, nonmanufacturing employment has risen in importance to the Connecticut economy, reflecting the overall national trend away from manufacturing (See Table 14). The following Table provides a breakdown of Connecticut's nonmanufacturing employment by industry and indicates percentage changes for the year and over a ten year period for each of the sectors.

TABLE 20
CONNECTICUT NONMANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

Industry	F.Y. 1994-95	F.Y. 2002-03	F.Y. 2003-04	Percent Change FY 2003 to FY 2004	Percent Change FY 1995 to FY 2004
Construction & Mining	51.32	62.35	62.36	0.0	21.5
Information	41.02	40.05	39.18	(2.2)	(4.5)
Transp., Trade & Utilities	293.32	307.06	305.31	(0.6)	4.1
Transp., & Warehousing	39.40	39.86	40.01	0.4	1.5
Utilities	10.08	8.92	8.70	(2.4)	(13.6)
Wholesale	63.26	65.75	65.40	(0.5)	3.4
Retail	180.58	192.54	191.20	(0.7)	5.9
Finance (FIRE)	132.87	142.86	143.44	0.4	8.0
Finance & Insurance	114.03	122.58	123.13	0.5	8.0
Real Estate	18.84	20.28	20.31	0.1	7.8
Services	565.59	647.13	649.60	0.4	14.9
Professional & Business	174.52	199.06	194.68	(2.2)	11.6
Education & Health	223.73	262.11	264.54	0.9	18.2
Leisure & Hospitality	108.57	123.57	127.65	3.3	17.6
All Other Services	58.77	62.39	62.73	0.5	6.7
Government	219.97	248.20	244.69	(1.4)	11.2
Federal	24.04	21.16	20.61	(2.6)	(14.3)
State	68.70	68.43	65.22	(4.7)	(5.1)
Local	127.23	158.62	158.86	0.2	24.9
Total Nonmanufacturing Employment	1,304.08	1,447.65	1,444.58	(0.2)	10.8

Note: Totals may not agree with detail due to rounding.

Source: Connecticut State Labor Department

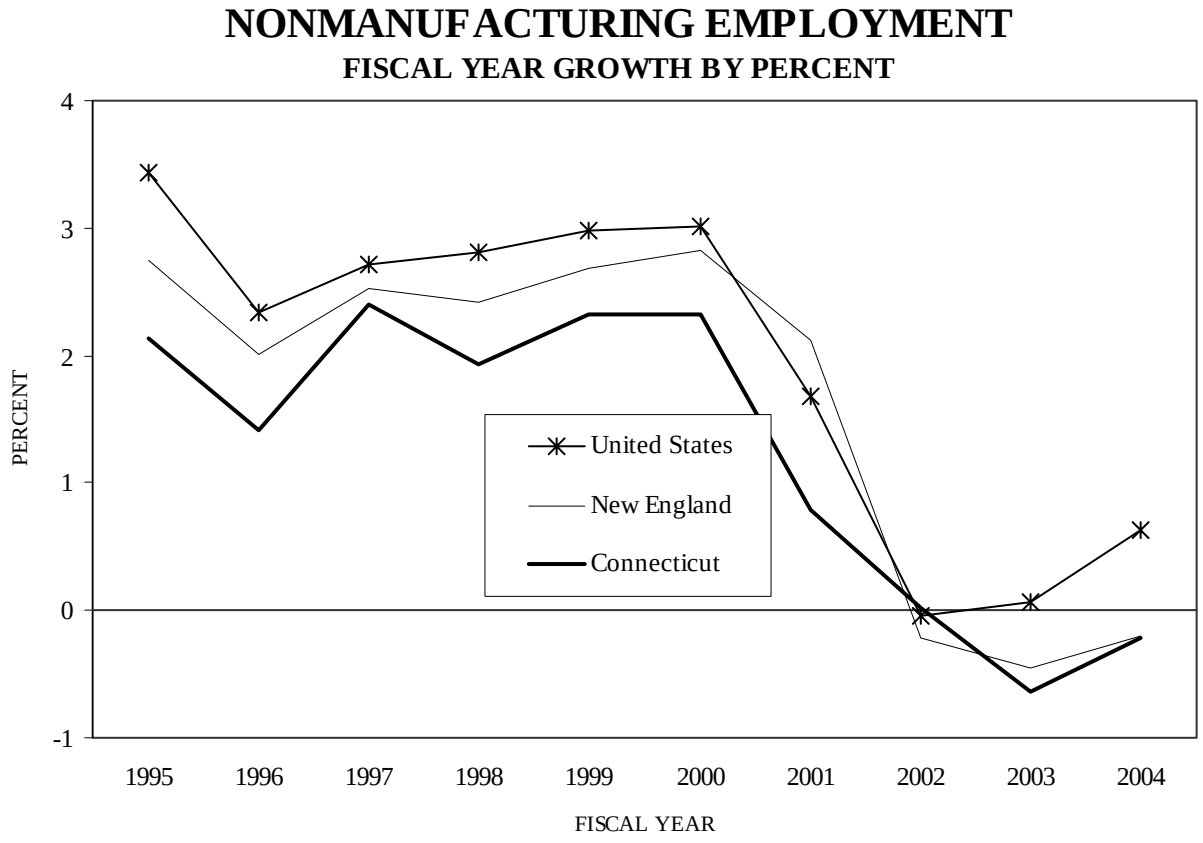
The Table on the following page provides a ten year profile of nonmanufacturing employment in the United States, the New England Region, and Connecticut.

TABLE 21
NONMANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1994-95	98,851	3.44	5,300.7	2.75	1,304.1	2.14
1995-96	101,160	2.34	5,407.2	2.01	1,322.6	1.42
1996-97	103,898	2.71	5,544.2	2.53	1,354.3	2.40
1997-98	106,821	2.81	5,677.7	2.41	1,380.4	1.93
1998-99	109,999	2.98	5,830.6	2.69	1,412.5	2.32
1999-00	113,308	3.01	5,995.8	2.83	1,445.4	2.33
2000-01	115,210	1.68	6,123.1	2.12	1,456.7	0.78
2001-02	115,150	(0.05)	6,110.1	(0.21)	1,457.0	0.02
2002-03	115,235	0.07	6,082.5	(0.45)	1,447.7	(0.64)
2003-04	115,963	0.63	6,070.4	(0.20)	1,444.6	(0.21)

Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

The following Chart provides a graphic presentation of the growth in nonmanufacturing employment in the U.S., the New England Region, and Connecticut over a ten year period.



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

As evidence of the unsteady nature of the state's economy, nonmanufacturing employment in Connecticut contracted for the second year in a row, as 3,100 jobs were eliminated through the end of fiscal 2004. Nearly half of all the state's nonmanufacturing industries failed to generate sufficient opportunities to offer job growth. The construction industry, despite a still robust residential housing market, experienced weak growth. With the exception of modest gains in services and finance, the rest of the major sectors shed employment during fiscal 2004. The long suffering information sector, comprising businesses engaged in telecommunications, broadcasting, publishing and data processing again retreated, though much more slowly than in fiscal 2003. Smaller capital outlays and business downsizing restricted employment gains in wholesale and retail trade, and the utility sector. While gains in leisure & hospitality services and health & education service sectors were not enough to compensate for the overall loss in nonmanufacturing employment, they were among the main factors in keeping the net loss to a minimum. Nonetheless, downsizing in the state and federal government sectors together with tepid growth at the two Indian Casinos limited expansion in the government sector. Much of the decade long rise in government employment can be attributed to the Federal Government's decision to classify all workers employed on Indian Reservations as local government employees. (In June of 2004, per the state's Department of Labor, about 22,500 collective employees worked at the Foxwoods Resort Casino & Mohegan Sun Casino.)

Annual salaries for Connecticut's nonmanufacturing industries are listed on the following Table. The figures were derived by dividing total wage and salary disbursements by employment. Percent changes over the previous year and over the decade are also provided.

TABLE 22
CONNECTICUT NONMANUFACTURING ANNUAL SALARIES

				Percent Change	
Industry	F.Y. 1994-95	F.Y. 2002-03	F.Y. 2003-04	FY '03 to FY '04	FY '95 to FY '04
Construction	$38,225	$49,643	$50,643	2.0%	32.5%
Information	53,383	56,923	60,803	6.8%	13.9%
Transp., Trade & Utilities	31,483	43,855	47,088	7.4%	49.6%
Wholesale Trade	49,850	66,503	67,895	2.1%	36.2%
Retail Trade	21,558	28,333	29,390	3.7%	36.3%
Finance, Ins. & Real Estate	51,900	95,720	97,453	1.8%	87.8%
Service	33,178	47,905	49,603	3.5%	49.5%
Professional & Business	43,258	59,120	62,730	6.1%	45.0%
Education & Health	27,630	39,700	41,398	4.3%	49.8%
Leisure & Hospitality	13,403	18,709	19,033	1.8%	42.0%
Government	34,605	43,145	43,848	1.6%	26.7%
Federal	39,173	48,238	49,605	2.8%	26.6%

State and Local	34,045	42,670	43,320	1.5%	27.2%

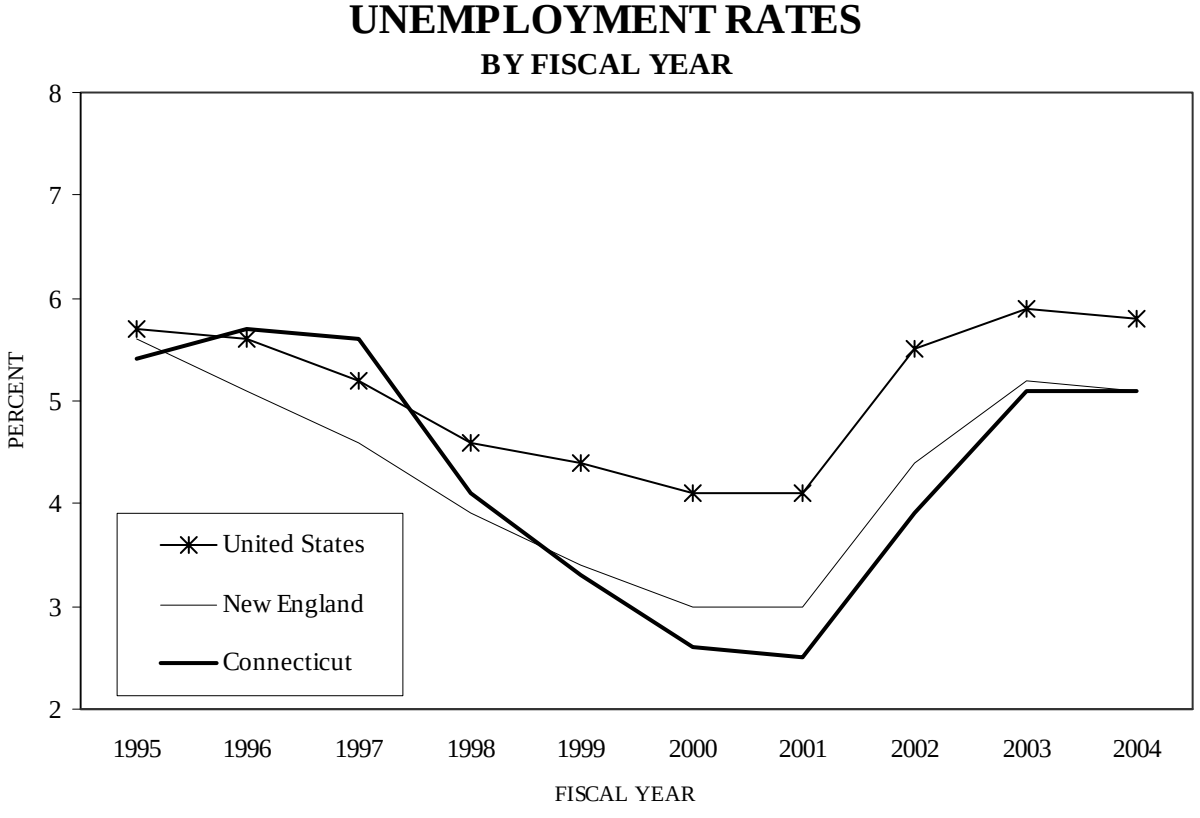
Source: U.S. Bureau of Economic Analysis

Unemployment Rate

The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. The rate is based upon a monthly survey in which household members are asked a series of questions, one of which determines if a jobless person has looked for work at some time during the preceding four weeks. Those looking for work are considered in the labor force but unemployed. The following Table and Chart shows the unemployment rate for the U.S., the New England Region, and the state over a ten year period.

TABLE 23
UNEMPLOYMENT RATES

Fiscal Year	United States	New England	Connecticut
1994-95	5.7	5.6	5.4
1995-96	5.6	5.1	5.7
1996-97	5.2	4.6	5.6
1997-98	4.6	3.9	4.1
1998-99	4.4	3.4	3.3
1999-00	4.1	3.0	2.6
2000-01	4.1	3.0	2.5
2001-02	5.5	4.4	3.9
2002-03	5.9	5.2	5.1
2003-04	5.8	5.1	5.1



Source: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

SECTOR ANALYSIS

Energy

Over the past two hundred years, the history of energy supplies and the mode of energy use in the United States reflected the country's industrialization, economic development, and social transformation. As the U.S. becomes more dependent on imported energy, economic activity hinges more upon the availability and stability of its supply in the world market. In the past 30 years, all of the nation's four recessions were concurrent with the energy disruptions that occurred worldwide in 1991 (Iraq invaded Kuwait), in 1981 (Iran/Iraq war), in 1979 (Iranian Revolution), and in 1973 (Arab Oil Embargo). The latest recession, which began in March 2001, also follows an energy supply disturbance that occurred in late 2000 when petroleum inventories remained relatively low and the price reached a high of $37.80 per barrel, the highest since the Gulf War of 1991.

The United States, like the rest of the industrialized world, relies heavily on three fossil fuels: crude oil, coal, and natural gas. In 2003, they accounted for 86% of total energy consumption. The following three sections describe energy production and consumption for the world, the United States, and Connecticut.

Worldwide

In the world oil market, supply and demand among countries or regions is significantly imbalanced. The Table on the following page illustrates the disparity between the world's suppliers of oil and its users. Members of the Organization of Petroleum Exporting Countries (OPEC), for example, supplied 30.54 million barrels per day (MBPD) in 2003 and consumed roughly 6.48 MBPD, leaving a 24.06 MBPD surplus. The Organization for Economic Cooperation and Development (OECD), on the contrary, consumed more than it supplied. In 2003, the OECD consumed 48.72 MBPD, while supplying only 23.24 MBPD, registering a 25.48 MBPD deficit.

The United States consumed 20.03 MBPD in 2003, representing 25.1% of total world demand, compared to a production of 8.80 MBPD, or 11.1% of world supply. The deficit between supply and demand also exists in larger economies such as Japan, France, and Germany. China, which switched from a net exporter of oil as recently as 1993, began running an increasing oil deficit as its economy continued to grow at a fast pace. In 2003, China consumed 5.53 MBPD while supplying 3.54 MBPD, leaving a 1.99 MBPD deficit, up from 1.87 MBPD and 1.56 MBPD deficits in 2002 and 2001, respectively. Demand for petroleum in China, one of the world's fastest growing economies, is expected to accelerate and become the world's second largest oil consumer after the U.S. by 2020. China's transportation demand for oil is the major factor as the highway network expands and personal wealth increases. Industrial demand is also increasing as the manufacturing sector prospers. To secure sources of energy, China has been aggressively seeking contracts with energy abundant countries such as Russia, Indonesia, and Iran. The countries making up the former USSR supplied more oil than they required. In 2003, the former USSR consumed 4.18 MBPD while supplying 10.31 MBPD, registering a 6.13 MBPD surplus, up from 5.45 MBPD and 5.21 MBPD surpluses in 2002 and 2001, respectively.

TABLE 24
WORLD OIL SUPPLY AND DEMAND
Calendar 2003

	Supply			Demand	
	Millions of Barrels Per Day	% of Total		Millions of Barrels Per Day	% of Total
Total OECD (a)	23.24	29.2	Total OECD	48.72	61.1
United States	8.80	11.1	United States	20.03	25.1
Canada	3.11	3.9	Canada	2.18	2.7
North Sea (b)	5.98	7.5	Japan	5.58	7.0
Other OECD	5.35	6.7	Germany	2.64	3.3
			France	2.06	2.6
Total OPEC (c)	30.54	38.5	Italy	1.87	2.3
Saudi Arabia	8.85	11.1	United Kingdom	1.72	2.2
Iran	3.78	4.8	Other OECD	12.64	15.9
Iraq	1.31	1.7			
Other OPEC	16.60	20.9			
			Total Non-OECD	30.99	38.9
Total Non-OECD	25.62	32.3	China	5.53	6.9
Former USSR	10.31	13.0	Former USSR	4.18	5.2
China	3.54	4.5	OPEC	6.48	8.1
Other	11.77	14.8	Other	14.80	18.7
Total Supply	79.40	100.0	**Total Demand**	79.71	100.0

Note:
(a) The OECD includes the United States, Western European countries, Australia, Canada, Japan, and New Zealand.
(b) North Sea includes the United Kingdom Offshore, Norway, Denmark, Netherlands Offshore, and Germany Offshore.
(c) The OPEC includes Algeria, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

Source: U.S. Department of Energy, Energy Information Administration, "*Annual Energy Review*", September 2004

The share of world oil reserves held by all OPEC countries is 75%. Among the total, the Middle East controls approximately 65% of world oil reserves with Saudi Arabia alone controlling more than one-quarter of the total, followed by Iraq's 11.1%. While the Middle East countries dominate crude oil reserves, they hold only 41% of natural gas reserves.

As the economy grows, the United States continues to deplete its energy reserves. U.S. crude oil and natural gas reserves in 2003 were estimated at 22.7 billion barrels and 186.9 trillion cubic feet, or 2.2% and 3.1%, respectively, of the world's reserve. These were down about 30% and 20%, respectively, from 1977 levels, the year when the U.S. Department of Energy started assembling the reserve data. Oil or natural gas reserves are the estimated quantities that are

recoverable in the future from known reservoirs under existing economic and operating conditions. Given certain market prices, oil and natural gas now can be produced more economically due to improved technology that helps identify potential reserve sites and assists in production from marginal fields.

World energy reserves also mirror the same pattern of disparity as the oil supply market. The following Table shows world oil and natural gas reserves by country.

TABLE 25
WORLD OIL & NATURAL GAS RESERVES
January 1, 2003

	Oil		Gas	
	Billions of Barrels	% of Total	Trillions of Cubic Feet	% of Total
North America	**45.4**	**4.4**	**262.1**	**4.3**
United States	22.7	2.2	186.9	3.1
Mexico	17.2	1.7	15.0	0.2
Canada	5.5	0.5	60.1	1.0
Central & South America	**75.9**	**7.3**	**244.4**	**4.0**
Venezuela	53.1	5.1	149.2	2.4
Western Europe	**17.0**	**1.6**	**175.7**	**2.9**
E. Europe & Former USSR	**81.9**	**7.9**	**2,047.0**	**33.4**
Middle East	**669.8**	**64.7**	**2,517.0**	**41.1**
Saudi Arabia	261.8	25.3	234.6	3.8
Iraq	115.0	11.1	112.6	1.8
Iran	100.0	9.6	913.6	14.9
Kuwait	98.9	9.7	56.6	0.9
Other Mid. East	94.0	9.1	1,199.6	19.6
Africa	**96.3**	**9.3**	**438.9**	**7.2**
Far East & Others	**48.5**	**4.7**	**441.7**	**7.2**
Total	**1,034.7**	**100.0**	**6,126.6**	**100.0**

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *"Annual Energy Review"*, September 2004

United States

The nation has long been a net energy importer. According to the *Annual Energy Review 2003*, the U.S. consumed 98.16 quadrillion British Thermal Units (QBTU's) of energy, 2.2 times the 1960 level. Whereas the U.S. produced only 70.47 QBTU's and exported 4.05 QBTU's, it required net imports of 26.97 QBTU's, which represented 27.5% of total national consumption, up from 16.6% in 1990. Although U.S. energy production comes from many sources, fossil fuels that include coal, natural gas, crude oil, and natural gas plant liquids far exceed all other forms such as nuclear electric power, wood and waste, and hydroelectric power, etc. In 2003,

fossil fuels accounted for about 80% of total energy production with coal accounting for 31.6%; natural gas, 27.8%; crude oil, 17.2% and natural gas plant liquids, 3.3%.

National energy consumption has increased at an average annual rate of 1.2% over the past two decades. Growth in energy consumption has trended along with economic conditions, up during periods of healthy economic growth and down during periods of sluggish growth. Growth in energy consumption also reflects the movement of prices, higher during periods of relatively low or stable prices and down during periods of price increases. The following Table illustrates the breakdown of energy usage in the U.S. in 2003 by fuel type and by economic sector. As can be seen, petroleum products are the most important energy source for the U.S. economy. In 2003, the U.S. consumed 98.16 QBTU's of energy. The 39.07 quadrillion petroleum generated BTU's accounted for 39.8% of U.S. fuel consumption, followed by coal of 22.71 QBTU's and natural gas of 22.51 QBTU's. These three fuel sources together accounted for about 86% of U.S. fuel consumption. Nuclear and hydroelectric power were distant followers.

TABLE 26
U.S. ENERGY CONSUMPTION IN 2003
(Quadrillion BTU's)

Fuels	Residential	Commercial	Industrial	Trans-portation	Electric Generation	Total	% of Total
Natural Gas	5.25	3.22	8.32	0.67	5.05	22.51	22.9
Petroleum	1.55	0.75	9.44	26.13	1.21	39.07	39.8
Coal	0.01	0.10	2.13	0.00	20.47	22.71	23.1
Nuclear	0.00	0.00	0.00	0.00	7.97	7.97	8.1
Hydroelectric	0.00	0.00	0.06	0.00	2.72	2.78	2.8
Other	0.44	0.11	1.75	0.00	0.61	2.90	3.0
Electricity	4.37	4.17	3.38	0.02	0.22	12.16	12.4
Electric Losses	9.62	9.20	7.45	0.04	(38.25)	(11.94)	(12.2)
Total Demand	21.23	17.55	32.53	26.86	0.00	98.16	100.0
% of Total	*21.6%*	*17.9%*	*33.1%*	*27.4%*	*0.0%*	*100.0%*	

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, "*Annual Energy Review 2003*", September 2004

There are five energy-use sectors: residential, commercial, industrial, transportation, and electric power generation. The first four sectors are end-users while the last one is the intermediate-user that consists of all utility and non-utility facilities and equipment used in the electricity industry. Of the four end-users, the industrial sector was the largest energy consumer in 2003, consuming 32.53 QBTU's, followed by transportation of 26.86 QBTU's, residential of 21.23 QBTU's, and commercial of 17.55 QBTU's. In contrast to the relatively smooth trends in the other sectors, industrial consumption, which used the biggest share of total energy, has showed the greatest fluctuation, dropping sharply in 1975 and 1980-83 in response to high oil prices. The electric power generation sector consumes and also produces energy. Energy losses occur throughout the entire electrical system beginning with utility

generation in fossil-fired, nuclear or hydroelectric power plants all the way to the end-users. Energy losses are approximately two-thirds of total energy input during the conversion process of heat energy into mechanical energy for turning electric generators. Of the electricity generated, about 5% is lost in plant use and 9% is lost in transmission and distribution.

The increasing disparity between oil demand and supply along with the increasing dependency on imported oil creates the potential for instability in both petroleum's price and availability in the U.S. The following Table illustrates refiners' crude oil prices and the U.S. dependence on imported oil.

TABLE 27
CRUDE OIL PRICES AND U.S. DEPENDENCE ON IMPORTED OIL

	Refiners' Crude Oil Acquisition Costs ($/Barrel)			Import as a % Share of U.S. Oil Consumption				
Year	Current $	($/Barrel) Chained 2000$	Year	Persian Gulf (%)	Other OPEC (%)	Non-OPEC (%)	Total Imports (%)	Total Demand (MBPD)
1970	3.40	12.35	1970	0.8	8.3	14.1	23.2	14,697
1975	10.38	27.31	1975	7.1	14.9	15.1	37.1	16,302
1980	28.07	51.94	1980	8.9	16.3	15.3	40.5	17,056
1985	26.75	38.37	1985	2.0	9.7	20.6	32.3	15,726
1990	22.22	27.23	1990	11.6	13.7	21.9	47.2	16,988
1995	17.23	18.71	1995	8.9	13.7	27.3	49.9	17,725
2000	28.26	28.26	2000	12.6	13.8	31.8	58.2	19,701
2001	22.95	22.42	2001	14.1	14.1	32.3	60.5	19,649
2002	24.10	23.19	2002	11.5	11.8	35.0	58.3	19,761
2003	28.50	26.97	2003	12.4	13.4	35.3	61.1	20,044

Note: Refiner's crude oil acquisition costs peaked at $35.24 per barrel in 1981. Its inflation-adjusted cost of $59.61 (chained 2000 dollars) per barrel was also a record high.

Source: U.S. Department of Energy, Energy Information Administration, "*Annual Energy Review 2003*", September 2004

Crude Oil Prices

Crude oil prices have a long history of large fluctuations that affect the world and U.S. economies as well as inflation levels. In 1973, the year of the Arab Oil Embargo, crude oil prices in the U.S. measured by the composite Refiners' Acquisition Cost averaged $4.15 per barrel. Oil prices reached their peak in 1981 at $35.24 per barrel after two consecutive supply disturbances brought on by the Iranian Revolution in 1979 and the Iran-Iraq war in 1980. Since then, long-term prices have trended down to a low of $12.52 per barrel in 1998 and then stayed in mid-$20 range until mid-2003. Crude oil prices started to creep up above $30 per barrel in 4th quarter of 2003 and continued to soar to above $36 in mid-January of 2004 as

world oil demand picked up, Iraqi oil flow bogged down, and crude stocks in the U.S. were below levels considered comfortable. Furthermore, prices were aggravated by cold weather and OPEC's efforts to keep prices high. The rising trend in prices was exacerbated in the second half of 2004 as world demand for energy increased steeply while supply became constrained along with considerable uncertainty in the outlook. While demand for oil continues to grow as the world economy expands, notably in China, India and other developing countries, the supply of oil has become limited due to disruptions in the Middle East, Russia, Nigeria, and Venezuela. Domestic production also was detrimentally affected by hurricane damage in the Gulf of Mexico. Prices of crude oil in mid-October jumped over 60% from the first day of the year to an all-time high of $55.83 per barrel. This price, however, was still below the all-time peak set in 1980, which reached $80 per barrel when adjusted for inflation in current dollars.

Crude Oil Consumption

Petroleum consumption in the United States has steadily grown from 15.2 MBPD in 1983 to 20.0 MBPD in 2003. As shown in the Table on U.S. Energy Consumption, in 2003, petroleum consumption accounted for approximately 40% of total U.S. energy, while the transportation sector alone used two-thirds of all petroleum. Despite the fact that oil efficiency continues to improve, an increase in both population and the number of cars per household along with the shift in driving tastes from traditional vehicles to light utility trucks added to the demand for oil. Per capita oil consumption, however, has remained relatively steady at 25.2 barrels per capita in 2003, gradually up from 24.0 barrels in 1983.

Oil Imports Share

The share of imported oil to total U.S. consumption in the late 1970s and early 1980s declined notably, down from a high of 47.8% in 1977 to a low of 32.2% in 1985. High oil prices prompted consumers to conserve energy and to seek energy substitutes. However, the downward trend in the percentage of consumption met by imports reversed itself as oil prices dropped from $49.21 in real dollars per barrel in 1980 to $12.14 per barrel in 1998. The share of total U.S. consumption attributable to imported oil has consistently risen over the years reaching 61.1% in 2003.

Efficiency

Increasing efficiency has spearheaded the nation's energy conservation policy. Energy regulatory agencies have been aggressively promoting energy-efficient products over the past two decades. The National Appliance Energy Conservation Act of 1987 set minimum efficiency standards for 13 appliances and prohibited the sale if standards were not met. In 1992, the EPA embarked upon "*Energy Star*" as a voluntary labeling program to identify and promote energy-efficient products to reduce greenhouse gas emissions. The first labeled products were computers and monitors. The *Energy Star* label is now applicable to furnaces, air conditioners, dishwashers, refrigerators, dehumidifiers, windows, TVs, DVDs, cordless phones, totaling over 30 product categories and thousands of models. The label is granted for qualified commercial products. Manufacturers having commercial products with scores higher than energy efficiency standards can apply and display this label on their product to convey excellent performance. These certified products carry out the same or better functions

and use less energy as compared to older models. For example, a refrigerator labeled with an *Energy Star* can save 50% of the energy of a 10-year old model. Technologies and inventions that significantly improve efficiency continue to be adopted. To name a few, motion sensors that are used to turn off lights and copiers while rooms are empty save energy by 25%; nighttime water chillers reduce air-cooling system expenses by 30%; upgrading air-conditioning systems can cut annual costs by one dollar per square foot of space; and high-efficiency fluorescent fixtures trim lighting bills by 50%.

Other than energy conservation, increases in productivity also play a vital role for efficiency. Productivity, a crucial ingredient in the economy's long-term vitality, is a measure of economic efficiency which shows how effectively economic inputs are converted into output. Productivity is measured by comparing the amount of goods and services produced with the inputs that are used in production. A measure of the efficiency in the U.S. is the amount of energy used to produce a dollar of Gross Domestic Product (GDP). The following Table compares U.S. consumption of fuel sources and illustrates the nation's improvement in energy efficiency.

TABLE 28
U.S. PRIMARY ENERGY CONSUMPTION & ENERGY EFFICIENCY

			Million BTU per 2000$ GDP		
	U.S. Energy Consumption		GDP	Million	
Calendar	Total	Percent	Billion	BTU	Percent
Year	Quadrillion BTU's	Change	(96$)	Per 2000$	Change
1975	72.0		4,311	16.70	
1980	78.3	8.74	5,162	15.17	(9.18)
1985	76.4	(2.39)	6,054	12.62	(16.77)
1990	84.6	10.71	7,113	11.90	(5.77)
1995	91.2	7.82	8,032	11.36	(4.52)
2000	98.9	2.12	9,817	10.07	(11.29)
2001	96.4	(2.55)	9,891	9.74	(3.28)
2002	98.0	1.71	10,075	9.73	(0.15)
2003	98.2	0.13	10,381	9.46	(2.82)

Source: U.S. Department of Energy, Energy Information Administration
U.S. Department of Labor, Bureau of Labor Statistics

In 1980, it required 15.17 million BTU's of energy to produce $1 of GDP measured in 2000 dollars, gradually falling to 9.46 million BTU's in 2003. This reflects that energy efficiency has increased at an average annual rate of 1.64% over the past 23 years. The number of BTU's used per constant dollar of GDP declined 21.6% between 1980 and 1990, compared to a 15.3% reduction between 1990 and 2000. The slowdown in energy efficiency reflects that improvements tend to stagnate when fuel prices decline. As oil prices fell, the incentive to conserve energy diminished. A continuing shift in car purchases from the smaller sized models to the sought-after, less-efficient sports utility and larger models dramatically reduced the pace of improvement in energy efficiency.

Oil Stability Program

To protect against supply disruptions, the United States began to create a Strategic Petroleum Reserve (SPR) under the Energy Policy and Conservation Act of 1975 (EPCA). The SPR program was established as a 750 million barrel capacity crude oil reserve with the objective to achieve a maximum draw down rate within 15 days of the notice to proceed. As of the end of November 2004, the reserve held 672 million barrels of crude oil.

In early 2000, a shortage of home heating oil sent prices to a high of $2.45 a gallon from $1.00 a gallon a year earlier. To reduce the risk, the U.S. Department of Energy established the Northeast Heating Oil Reserve under the SPR program. The maximum inventory of heating oil in the reserve is 2 million barrels, which will provide relief for approximately 10 days. New Haven, Connecticut is one of the designated storage facilities. This reserve program was permanently established in March 2001 as a part of America's energy readiness effort, separating it from the Strategic Petroleum Reserve. Heating oil is the dominant fuel used for home heating in Connecticut with 52% of all homes in Connecticut using heating oil as the primary heating fuel.

Connecticut

Connecticut is ranked as the most efficient state in the nation in energy usage. Connecticut consumed 5,329 MBTU's per dollar of Gross State Product in 2000, the latest available data, 46% less than the national average of 9,930 MBTU's. When compared to the national per person consumption, Connecticut residents are moderate energy users. Connecticut consumed 253.4 MBTU's of energy per person in 2000, ranking it 45th among the 50 states and 27% less than the national average of 349.0 MBTU's. These figures were far less than Alaska's consumption of 1,000.6 MBTU's, the largest consumers in the nation. Because the State lacks indigenous energy sources, it must import nearly all the energy that it consumes. This situation affects Connecticut consumers' energy choices and results in prices that are approximately 20% higher than the national average, according to the American Chamber of Consumer Research Association. (Please see the section "Cost of Living Index" later in this publication.)

The Table on the following page shows a breakdown of the amount and percentage share of total energy consumed in Connecticut by fuel in 2000, the latest available data. When compared to the national average, petroleum has supplied more of Connecticut's energy needs relative to coal and natural gas. This is because petroleum is more easily transported than other types of fuel. The Table on page 39 shows that petroleum prices in 2000 were only 16.8% higher than the national average compared to 80.3% and 38.4% more for coal and natural gas, respectively.

A comparison of the U.S. and Connecticut's electric generation sectors shows additional differences in energy mixes. The United States is much more dependent on coal and less reliant on nuclear energy than is Connecticut. The state has long been an electricity importer, a condition that was only further exacerbated when the nuclear plants were shut down. Generation of electricity by nuclear plants has been unstable in recent years. There were originally four plants located in the state, each with a generation capacity slightly over 6.0 gigawatt hours of electricity annually. In 1997, all four plants were shut down as two were

decommissioned and the other two were not operating due to a variety of safety problems. In July of 1998, one was reopened and, in 1999, the other one resumed operations. In 2000, the latest available data, the state generated 16,993 gigawatt hours out of total electricity sales of 29,917 gigawatt hours. This implies that, in 2000, the state generated only 56.8% of its demand, relying heavily on imports from other states and Canada for the balance of its need.

TABLE 29
CONNECTICUT ENERGY CONSUMPTION IN 2000
(Trillion BTU's)

Fuels	Resi-dential	Com-mercial	In-dustrial	Trans-portation	Electric Generation	CT Total	% of CT Total	% of US Total
Natural Gas	42.6	49.7	34.4	3.2	0.0	129.9	15.1	23.7
Petroleum	84.4	24.1	41.2	226.3	0.0	376.0	43.6	39.3
Coal	0.0	0.1	36.1	0.0	0.0	36.2	4.2	22.7
Nuclear	0.0	0.0	0.0	0.0	170.7	170.7	19.8	8.3
Hydroelectric	0.0	0.0	3.9	0.0	11.7	15.6	1.8	2.7
Other	8.2	0.9	30.6	0.0	4.9	44.6	5.2	2.4
Deliv. Elec.	39.7	42.6	19.8	0.0	5.8	107.9	12.5	13.0
Deliv. Losses	68.1	73.1	34.0	0.0	(193.1)	(17.9)	(2.1)	(12.2)
Total Demand	243.0	190.5	200.0	229.5	0.0	863.0	100.0	100.0
% of Total	*29.0%*	*22.7%*	*23.8%*	*27.3%*	*0.0%*	*100.0%*		

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, "*State Energy Data Report, 2000*"

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. The electricity is delivered to the consumer over the wires of the regulated distribution companies. Electric suppliers are not subject to rate regulation by the 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 Connecticut deregulation law requires the sale of nuclear assets by 2004. In 2002, the latest available data, there were 1.55 million electricity consumers in Connecticut, including 1,402,609 residential units, 141,298 in commercial units, 5,802 industrial units, and 5,281 for others. They consumed 31.3 gigawatt hours of electricity provided by investors and publicly owned utility companies. Approximately 95% of the

electricity was sold by two investor-owned companies: Connecticut Light & Power Company and United Illuminating Company.

The role of nuclear power in Connecticut has been reduced over the past decade. In 2004, Connecticut had two operational nuclear electric generating units: Millstone 2 and 3. They contributed a total of 2,037 megawatts in the summer that accounted for approximately 27% of the State's capacity. This is down from 45% at its peak due to the retirement of Connecticut Yankee and Millstone 1 in December 1996 and July 1998, respectively. The electrical capacity from these existing two generators is expected to increase as upgraded low pressure turbine rotors are added on.

Not all energy prices in the state are higher than the national average. Some types of energy are high while others are lower. The following Table shows various prices to the national average for electricity, natural gas, motor gasoline, and heating oil. As can be seen, the price of electricity in 2003 was 28.1% higher than the national norm while the price of natural gas, excluding taxes, was 4.6% below the national average. Overall energy prices in Connecticut as mentioned before, however, have been higher than the national average by just about 20%.

TABLE 30
ENERGY PRICES IN THE UNITED STATES AND CONNECTICUT
Average Price of 2003

	Electricity (End-users) (a)	Natural Gas (b)	Motor Gasoline (c)	Distillate Fuel (d)
Connecticut	$0.1116	$5.59	$1.180	$0.924
United States	$0.0871	$5.86	$1.139	$0.942
CT as a % of the U.S.	128.1%	95.4%	103.6%	98.1%

Note:
(a) Per kilowatthour, retail price to ultimate residential customers.
(b) Per thousand cubic feet, city gate price.
(c) Per gallon excluding taxes for all grades, sold to end users through retail outlets.
(d) Per gallon excluding taxes for No. 2 distillate fuel, sold to end users.

Source: U.S. Department of Energy, Energy Information Administration

The high price of electricity in Connecticut is partially the result of a lack of low cost indigenous fuel sources. It also reflects higher overall costs of operating in the Northeast and the employment of less polluting electric generating processes. The aging nuclear generators and the distribution system in Connecticut are more than 30 years old, requiring higher maintenance and operation costs. Due to an inefficient transmission system and inadequate power supplies, southwest Connecticut is particularly vulnerable to supply deficiencies and voltage instability problems. Public Act 98-28 authorized the restructuring of the electric industry in Connecticut. The Act allows consumers to choose their electric suppliers from among suppliers licensed by the DPUC, and requires electric utilities to separate their electric generation function from their transmission and distribution functions. The Act mandates a 10 percent reduction in total rates from 1996 levels, subject to specified adjustments, during

the period from 2000 to 2003 for all but special contract and flexible rate customers. In 1996, the average cost of electricity was 10.5 cents per kilowatt-hour for all end-users. This "standard offer" service is available to all consumers except those that had already entered into special contracts with the electric companies.

Natural gas prices did move lower in Connecticut in 2003. Connecticut is situated far from sources of supply and must rely on pipelines that have capacity limitations during periods of peak demand. Since 1996, the Department of Public Utility Control has allowed some competitive market forces to enter the natural gas industry in the state. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. The gas is delivered to consumers using the local distribution company's mains and pipelines.

The lack of energy resources and its relatively higher price have a negative impact on the State's economy. As energy prices increase, the use of energy declines and so does the state's output. The University of Connecticut estimates that a 10% increase in energy prices will cut real Gross State Product by 2.5%.

Gasoline Consumption and Automotive Fuel Economy

In the U.S., highway vehicles consume approximately 98% of all gasoline. Only about 2% is used for other purposes such as agriculture, aviation, industrial, commercial, construction and boating. During 2002, the latest available data year, gasoline consumption in the U.S. totaled 130.8 billion gallons, the equivalent of 8.53 million barrels per day. The following Table shows gasoline consumption during the past ten years for the U.S. and Connecticut.

TABLE 31
GASOLINE CONSUMPTION IN THE UNITED STATES & CONNECTICUT

Calendar Year	U.S. Consumption Gallons (000's)	Percent Change	Connecticut Gallons (000's)	Percent Change
1993	113,704,395	2.5	1,321,880	0.8
1994	115,007,612	1.1	1,328,585	0.5
1995	120,875,789	5.1	1,292,233	(2.7)
1996	123,326,745	2.0	1,390,385	7.6
1997	125,399,139	1.7	1,400,016	0.7
1998	127,977,505	2.1	1,425,178	1.8
1999	132,260,590	3.3	1,551,446	8.9
2000	132,279,950	0.0	1,476,340	(4.8)
2001	134,110,264	1.4	1,496,469	1.4
2002	130,718,501	(2.5)	1,498,140	0.1

Source: U. S. Department of Transportation, Office of Highway Information Management, "*Highway Statistics 2002*"

In Connecticut, gasoline consumption totaled 1.50 billion gallons or 35.7 million barrels during 2002. Consumption increased by 0.1%, compared to a national decrease of 2.5%. This

converts to consumption of 433 gallons per Connecticut resident versus 466 gallons for the nation. The lower per capita consumption may be attributable to several factors. As one of the smallest states in size in the nation, generally residents commute shorter distances to work and shop. In addition, gasoline prices in Connecticut are relatively higher than the national average, which tends to encourage conservation by the state's residents. Connecticut's small size also increases the likelihood that gasoline may be purchased outside our borders, particularly if there is incentive to do so due to price differentials.

In 1975, the U.S. Congress authorized the Department of Transportation to set automobile efficiency standards, known as Corporate Average Fuel Economy (CAFE). These regulations mandate that automobile makers achieve a fleet wide minimum for fuel efficiency. After the enactment of the law, the average miles per gallon (MPG) for automobiles and light trucks increased from 15.3 MPG in model year (MY) 1975 to 28.9 MPG in MY 2002, an 88% improvement in CAFE. The increase in fuel efficiency varied over the past three decades: accelerating during the 1970s and 1980s, but remaining relatively constant in the 1990s. This reflects the change in driver's tastes and reduced consciousness on energy conservation. During the 1970s and 1980s, more efficient engines and smaller cars were produced. During the 1990s and into the 2000s, light trucks gained market share while sales for high-powered, four-wheel drive cars increased, reducing the average MPG rating for new vehicles. In 1987, the total fleet fuel economy peaked at 26.2 MPG when light trucks made up 28.1% of the market. By 2001, with light trucks making up 46.7% of the market sales, fuel economy fell to 24.4 MPG. Currently, light trucks make up more than 50% of new vehicle sales. Despite recently introduced high mileage vehicles powered by hybrid-electricity and fuel cells, they only accounted for a fraction of the improvement in the whole auto-industry. The following Table details the CAFE standards along with fleet wide average miles per gallon by model year.

TABLE 32
AUTOMOTIVE FUEL ECONOMY
Domestic vs. Imported Passenger Cars & Trucks
(Model Year, Average Miles Per Gallon)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
CAFE Standards										
Passenger Cars	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Light Trucks	20.4	20.5	20.6	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Cars Produced	28.4	28.3	28.6	28.5	28.7	28.8	28.3	28.5	28.6	28.9
Domestic Cars	27.8	27.5	27.7	28.1	27.8	28.6	28.0	28.5	28.8	29.0
Import Cars	29.6	29.6	30.3	29.6	30.1	29.2	29.0	28.3	28.4	28.7
Light Trucks Produced										
(Up to 8,500 lbs.)	21.0	20.8	20.5	20.8	20.6	21.1	20.9	21.3	20.9	21.3
Total Fleet	25.2	24.7	24.9	24.9	24.6	24.7	24.5	24.8	24.4	24.6

Source: U.S. Dept. of Transportation, National Highway Traffic Safety Administration, *"Automotive Fuel Economy Program, Annual Update Calendar Year 2002"*

Light trucks include, minivans, sport utility vehicles (SUVs), and small pick-up trucks that are generally less efficient than cars. With the real price of gasoline still low by historical standards, and market demand for heavier, larger, more powerful, and high performance passenger cars expanding, car manufacturers continued to provide less fuel-efficient models. The minivan emerged in the early 1980s and the SUVs popularity rose in the 1990s.

The Table on the prior page also shows that the gap in average MPG between foreign imports and American cars has continually been narrowing since 1995. This positive gap even reversed itself beginning in MY 2000 as the fuel economy performance of domestic passenger cars continued to improve while imported cars experienced a decline. Foreign cars with higher performance features continued to be imported as demand increased. The average fuel efficiency of foreign produced 2002 MY passenger cars, the latest available data, was 28.7 MPG, up slightly from 28.4 MPG for MY 2001, but down from more than 29.0 MPG for most of the MY 1990s.

Fuel economy for passenger cars varies depending upon the car size, type of transmission, or variation in travel. For MY 2005, the two-seater Honda Insight, for example, using a hybrid electric system with 5-speed manual transmission gets 66 MPG on the highway and 61 MPG in the city, while Honda Odyssey minivan using gasoline gets only 28 MPG on the highway and 20 MPG in the city. CAFE standards for passenger cars have remained at 27.5 MPG since 1990 and light trucks at 20.7 MPG since 1996. In April of 2003, the National Highway Traffic Safety Administration promulgated a final rule establishing the average fuel economy standards for light trucks that will be manufactured in the 2005-2007 model years. The standard for all light trucks manufactured is set at 21.0 MPG for MY 2005, 21.6 MPG for MY 2006, and 22.2 MPG for MY 2007. As the economy continues to rely on foreign oil and seeks to increase energy efficiency, tougher auto fuel-economy standards have been fiercely debated for both energy security and environmental concerns.

To date, hybrid-electric vehicles, which combine the best features of internal combustion engines and electric motors, attain the highest fuel economy. When braking or coasting to a stop, the hybrid vehicle uses its electric motor as a generator to produce electricity, which is then stored in its battery pack. Unlike battery-powered electric cars, which were introduced in California in the 1990s and are required to be recharged by plugging in, the hybrid vehicle can charge as the vehicle runs. Recently, fuel cell technology has been developing in the auto industry as an alternative energy source. A fuel cell is a device that directly and indirectly produces electricity from hydrogen or hydrocarbon fuel through a non-combustive electro-chemical process. However, hybrid-electric vehicles are expected to be on the road in large numbers before fuel cell powered cars hit the market. To encourage the development of this new technology, the State's Public Act 01-6 provides for a sales tax exemption on materials, tools, fuel, machinery and equipment used in a fuel cell manufacturing facility in Connecticut.

Reformulated Gasoline

According to the Clean Air Act, as amended in 1990, the U.S. Environmental Protection Agency (EPA) requires the sale of reformulated gasoline (RFG) in metropolitan areas that do not meet federal air quality standards. The burning of RFG reduces emissions of ozone-forming and toxic air pollutants. Those areas include Hartford and other big cities such as Boston, Chicago, and New York. RFG is blended with domestically produced ethanol to burn

cleaner than conventional gasoline, producing approximately 15% to 17% less pollution. After implementing Phase I of the Clean Air program that ran from 1995 through 1999, the Phase II RFG program was begun in 2000, and is designed to result in greater emissions reductions for areas with the worst smog problems, reducing 22% of total toxic pollutants versus 17% for Phase I of the program. California has been aggressively enforcing its own reformulated gas rule since 1996, with the whole state already meeting the Phase II RFG program requirements. In late September of 2004, California further approved new regulations requiring automakers to cut emissions by 25% starting with the 2009 MY and up to 34% by the 2016 MY. Reformulated gasoline has been sold in Connecticut since January 1, 1995.

While the use of Methyl-Tertiary-Butyl Ether (MTBE) has been very effective in reducing the emissions of carbon monoxide and toxics, the incidence of MTBE contamination of groundwater increased significantly. Public Act 03-122 mandated the removal of (MTBE) from gasoline sold in Connecticut, effective January 1, 2004. Since then, the motor fuels industry has substituted MTBE with increased levels of ethanol. Gasoline with an ethanol content of ten percent or more would be eligible for 5.2 cents tax credit from the federal government.

Fluctuations in Gasoline Prices

The price of gasoline is one of the most closely watched items by consumers. The U.S. Bureau of Labor Statistics assigns a 3.091% relative weight to this single component to calculate the CPI-U index, the consumer price index for all urban consumers. Due to their more volatile price fluctuations, energy and food prices are excluded from the CPI-U index to measure the "core inflation" rate in order to understand underlying price changes.

Short-term gasoline prices have long been known for their drastic volatility, often rising and dropping markedly during relatively short periods of time. Regular gasoline, for example, in the U.S. averaged $2.19 per gallon in May 2004, up from $1.67 in December of 2003, then dropped to $2.06 in September 2004 before it came right back up to $2.19 in October 2004. Gasoline price fluctuations are caused by many factors, but are basically determined by the fundamental law of supply and demand of fuel, any disruption of refinery operations, inventory levels, seasonality and weather conditions, the regulation of environmental standards and geopolitical conditions, etc. In addition, gasoline prices tend to go up faster than they go down when there is turbulence in the energy markets. The long run price, however, shows a relatively stable upward trend except for a 3-year sharp uptick in the early 1980s. Gasoline prices averaged approximately 30 cents a gallon during the 1950s through the early 1970s. After the Arab oil embargo in 1973, gasoline prices gradually increased to hover around $1.50 a gallon. To remove the effects of inflation, the use of inflation-adjusted prices for comparison can better reflect the real price changes.

The Table on the following page shows that the average real gasoline price for the past five decades was $1.45 per gallon, with the 1980s much higher and the 1990s much lower than the norm. The real gasoline price of $1.51 in 2003 was just 6 cents over the norm.

TABLE 33
RETAIL MOTOR GASOLINE PRICES
(Dollars per Gallon, Regular Gasoline)

Calendar Year	Nominal Price	Real Price	Average Real Price (for the Decade of)
1950	$0.27	$1.62	$1.54
1960	0.31	1.48	1.40
1970	0.36	1.30	1.40
1980	1.25	2.20	1.63
1990	1.16	1.43	1.27
1999	1.17	1.19	-
2000	1.51	1.51	1.44
2001	1.46	1.43	-
2002	1.36	1.31	-
2003	1.59	1.51	
Average			$1.45

Note: Prices for 1950 thru 1970 are leaded regular; 1980 and after are unleaded regular. Real prices are in chained 2000 dollars, calculated by using GDP implicit price deflators.

Source: U.S. Dept. of Energy, Energy Information Admin. *"Annual Energy Review,"* Sept. 2004

Gasoline Prices In Developed Countries

The retail price of gasoline in the U.S. averaged $2.19 per gallon in October 2004, compared to $5.68 in the United Kingdom and $5.65 in Germany. Gasoline prices in the U.S. are about 40% that of European countries. Gasoline prices in the U.S. may rank among the lowest in the world for oil-importing countries. The following Table shows the retail price of gasoline among selected countries.

TABLE 34
END-USER GASOLINE PRICES AMONG DEVELOPED COUNTRIES
Unleaded Premium Gasoline, October 2004

	Before Tax	Tax	End-User Price	Tax As a % of Price	U.S. End-User Price as a % of Other Country
France	1.60	3.65	5.24	70%	42%
Germany	1.78	3.87	5.65	69%	39%
Italy	1.97	3.56	5.53	64%	40%
United Kingdom	1.62	4.07	5.68	72%	38%
Average of Above	**1.74**	**3.79**	**5.53**	**69%**	**40%**
USA	1.80	0.38	2.19	18%	

Source: U.S. Department of Energy, Information Administration, International Energy Agency, November 2004

International gasoline prices are determined by global supply and demand, technological levels, differing consumer tastes, and non-economic factors such as heightened consciousness of energy conservation and the environment. In Europe, these non-economic factors play the primary role in driving up gasoline prices. To conserve energy and prevent environmental damage, large gas taxes, in addition to steep taxes on car purchases and ownership, are levied to discourage car use and hence gasoline consumption. The tax portion of the price of gasoline in the U.S. accounted for only 18% of the retail price, compared to 72% in the U.K. and 70% in France. Of the 38-cent tax in the U.S., 18.4 cents was the federal fuel tax with the remainder attributable to state taxes. In 2004, the highest state fuel tax was Washington, at 40.2 cents, and the lowest was Alaska, at 8.0 cents. (Please see section entitled Motor Fuel Tax under the "Major Revenue Raising Taxes" Chapter of this report.)

Export Sector

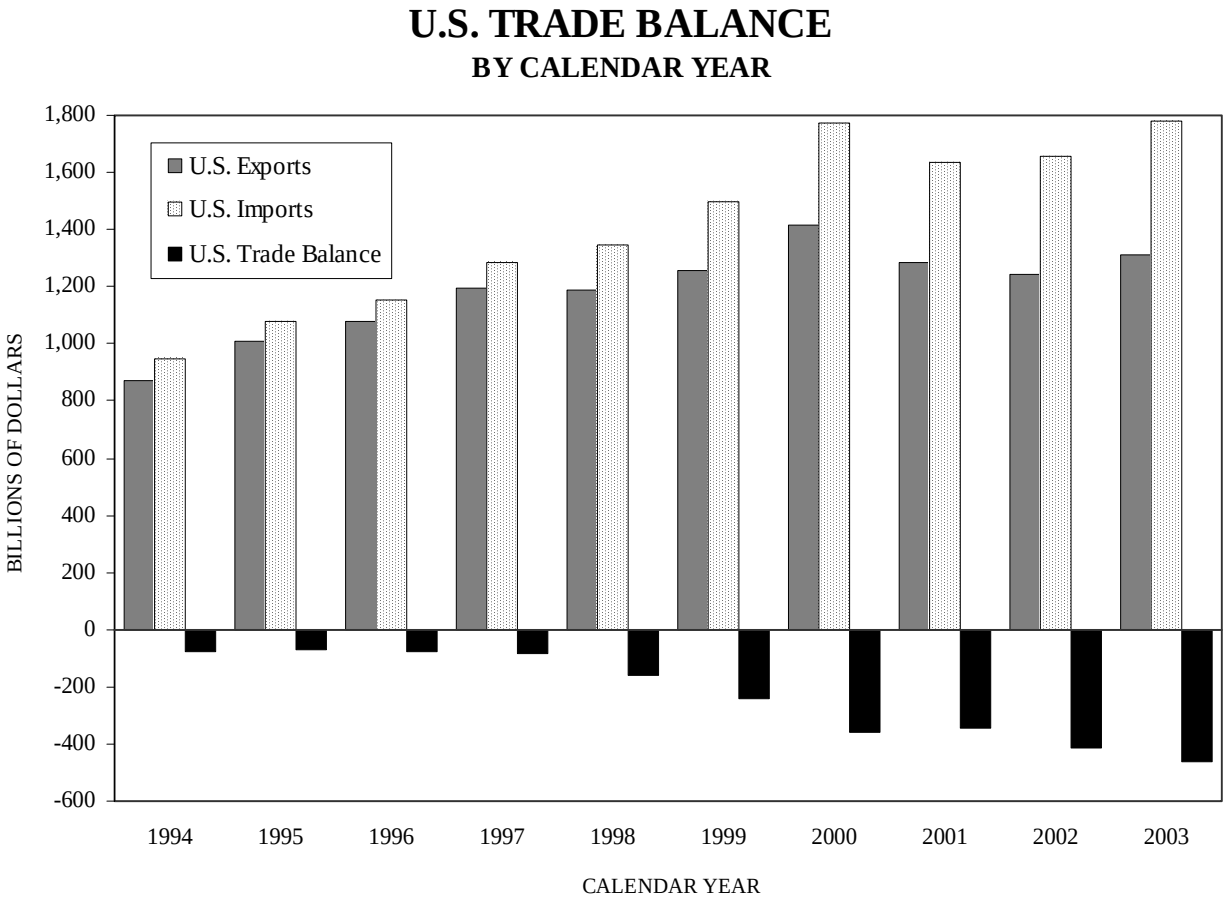
The United States is increasingly becoming a world trade-oriented economy. U.S. real exports and imports accounted for 24.9% of Gross Domestic Product (GDP) in 2003, continuously declining from the peak of 26.2% in 2000, but up from 16.3% in 1990, 12.3% in 1980, 9.9% in 1970, and 7.8% in 1960. The decline in the 2003 share was due to a slowdown in the U.S. and worldwide economies which impeded export and import trade activities. Exports and a favorable balance of payments have traditionally been important to the growth of the U.S. affecting employment, production, and income. Real exports of goods and services have been significantly boosting economic growth over the past decades accounting for 9.9% of real GDP in 2003, down from 11.2% in 2000, but up from 7.8% in 1990, 6.3% in 1980 and 4.3% in 1970.

The Chart on the following page illustrates the United States' trade balance for the past ten years. The trade deficit, the difference between exports and imports, from merchandise, services and investment income reached its prior peak in 1987 at $137.4 billion caused primarily by the relatively high value of the dollar between 1983 and 1986. In 1990, the trade deficit fell to $52.3 billion and further dropped to $7.0 billion by 1991. However, it turned up and grew rapidly to a new record high of $357.8 billion by 2000 due to rapid growth in imports over exports. In 2003, the deficit grew further to $463.2 billion, brought about by an increase in the deficit on goods combined with a decline in the surplus in services. Despite the continued increase in the deficit, investment income improved in 2003.

The United States trade balances in the past decade generally improved during recession years and deteriorated during recovery and expansionary periods. Trade deficits narrowed in 1991 and 2001 when the U.S. experienced an economic slowdown, whereas deficits widened during the boom years that were experienced during most of the 1990s. The U.S. price elasticity of demand for foreign goods and services is greater than our major trade partners' elasticity of demand for U.S. goods and services resulting in unfavorable trade balances during U.S. economic recoveries.

According to the U.S. Department of Commerce, international trade is classified into three categories: merchandise trade, service transactions, and investment income. The decline in the international trade deficit in the late 1980s resulted from an improvement in merchandise trade, enhanced balances in service transactions and a continued surplus in investment income. However, the favorable trade situation turned around in 1991 with widening deficits in merchandise and narrowing surpluses in services. In 2003, the surplus in services fell to $51.1

billion from $61.2 billion in 2002 and $64.5 billion in 2001. The surplus in investment income, however, ran counter to the downward trend and jumped to $33.3 billion from $7.2 billion in 2002. The deficit in merchandise expanded from $482.9 billion in 2002 to $547.6 billion in 2003 from a low of $76.9 billion in 1991. The total trade deficit registered $463.2 billion in 2003, up from $414.5 billion in 2002. A two-year detailed listing of these three categories is broken down in the Table on the following page.



Merchandise Trade

There are six subcategories within merchandise trade including: foods and beverages; industrial supplies and materials; capital goods excluding autos; consumer goods and others. The deficit in merchandise trade registered $547.6 billion in 2003, up from $482.9 billion in 2002 and much higher than the recent low of $76.9 billion in 1991. Before 1991, the merchandise trade deficit had declined as exports grew faster than imports. After 1991, however, the situation reversed itself, imports climbed faster than exports, resulting in a continued increase in the trade deficit. The increase in the 2003 deficit in merchandise trade was due to a higher growth rate in imports than that of exports. U.S. commodity imports registered an increase of 8.2% in 2003 compared to an increase of 4.6% in exports.

TABLE 35
U.S. TRADE DEFICIT BY CATEGORY
(In Billions of Dollars)

	2002			2003		
	Exports	Imports	Balance	Exports	Imports	Balance
Total Trade	**1,242.8**	**1,657.3**	**(414.5)**	**1,314.9**	**1,778.1**	**(463.2)**
Merchandise	**681.9**	**1,164.7**	**(482.9)**	**713.1**	**1,260.7**	**(547.6)**
Foods/Beverages	49.6	49.7	(0.1)	55.0	55.8	(0.8)
Industrial Supplies & Materials	156.8	268.1	(111.3)	173.1	314.5	(141.4)
Capital Goods, Excluding Autos	290.5	283.3	7.2	293.6	295.8	(2.2)
Autos	78.9	203.7	(124.8)	80.7	210.2	(129.5)
Consumer Goods	84.4	308.0	(223.6)	89.9	334.0	(244.1)
Others	21.6	51.9	(30.3)	20.8	50.4	(29.6)
Services	**294.1**	**232.9**	**61.2**	**307.4**	**256.3**	**51.1**
Travel & Transportation	112.8	116.4	(3.6)	112.0	122.3	(10.3)
Royalties, License fees, etc.	166.7	70.9	95.8	176.0	105.8	70.2
Other Services	14.6	45.6	(31.0)	19.4	28.2	(8.8)
Investment Income	**266.8**	**259.6**	**7.2**	**294.4**	**261.1**	**33.3**
Direct Investment	147.3	46.5	100.8	187.5	68.7	118.8
Other Private Investment	113.3	128.7	(15.4)	99.1	111.9	(12.8)
U.S. Gov't Receipts/Payments	3.3	76.1	(72.8)	4.7	72.0	(67.3)
Compensation of Employees	2.9	8.4	(5.5)	3.0	8.5	(5.5)
		Percent Change From Previous Year				
Total Trade	**(3.9)**	**1.5**	**22.2**	**5.8**	**7.3**	**11.7**
Merchandise	**(5.1)**	**1.6**	**13.0**	**4.6**	**8.2**	**13.4**
Foods/Beverages	0.4	6.4	(102.7)	10.9	12.3	0.8
Industrial Supplies & Materials	(2.1)	(2.9)	(4.0)	10.4	17.3	27.1
Capital Goods, Excluding Autos	(9.7)	(4.9)	(69.8)	1.1	4.4	(130.7)
Autos	4.7	7.4	9.1	2.2	3.2	3.8
Consumer Goods	(4.5)	8.3	14.0	6.6	8.4	9.2
Others	(8.3)	2.1	11.2	(3.9)	(3.0)	(2.3)
Services	**2.2**	**4.3**	**(5.1)**	**4.5**	**10.0**	**(16.5)**
Travel & Transportation	(4.6)	(4.2)	6.9	(0.7)	5.1	185.2
Royalties, License fees, etc.	6.7	(15.7)	32.9	5.6	49.1	(26.7)
Other Services	9.0	157.7	622.8	32.8	(38.1)	(71.6)
Investment Income	**(6.9)**	**(1.3)**	**(69.5)**	**10.3**	**0.6**	**362.5**
Direct Investment	14.5	160.5	(9.1)	27.3	47.7	17.9
Other Private Investment	(25.2)	(19.6)	80.3	(12.5)	(13.1)	(16.9)
U.S. Gov't Receipts/Payments	(7.2)	(5.7)	(5.6)	42.3	(5.4)	(7.6)
Compensation of Employees	(1.3)	85.5	245.9	3.4	1.2	0.0

Note: Percent changes were derived before rounding to billions.

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2004

United States merchandise imports have been evenly distributed among four categories: industrial supplies and materials, capital goods excluding autos, autos, and consumer goods. They accounted for more than 90% of total merchandise imports over the past decade. In contrast, U.S. exports have been concentrated in two categories: capital goods and industrial supplies and materials. These two categories accounted for approximately 65% of the country's merchandise exports. The broad penetration of foreign imports indicates the difficulty the U.S. would have in improving its trade position.

Of the total deficit of $547.6 billion, consumer goods accounted for the largest portion of the deficit, reaching $244.1 billion in 2003. This category registered a 9.2% increase after growth of 14.0% in 2002 and 1.8% in 2001. Consumer goods consist of durables and nondurables. Durable goods including household and kitchen appliances such as radio and stereo equipment, televisions and video receivers, bicycles, watches, toys and sporting goods. Nondurables include footwear, apparel, medical, dental and pharmaceutical preparations.

The second largest portion of the deficit occurred in the industrial supplies and materials category at $141.4 billion, a 27.1% increase from 2002's deficit of $111.3 billion. Industrial supplies and materials include energy products, iron and steel, metal products, lumber and paper and chemicals excluding medicinals. The large increase in the deficit is attributable to many factors including a large rise in both price and volume of petroleum and petroleum products imported to the U.S. In value, iron and steel products rose a record $0.9 billion, or 23 percent, the largest percentage in nearly 23 years; the increase partly resulted from the lifting of U.S. tariffs on steel imports in December 2003.

The third largest portion of the merchandise trade deficit occurred in the auto category at $129.5 billion, a 3.8% increase from 2002's deficit of $124.8 billion. Exports increased 2.2% while imports increased 3.2% resulting in the overall growth of 3.8% from 2002. This growth is extremely modest compared to the 9.1% increase from 2001. Most of the rise was accounted for by increases in passenger cars from Japan and in engines and other parts from Mexico.

For the first time, capital goods posted a deficit of $2.2 billion compared to the surplus of $7.2 billion in 2002 and $23.7 billion in 2001. This sector, which excludes autos, includes machine tools, telecommunications equipment, hospital and scientific instruments, industrial engines, and oil drilling and mining equipment. The deterioration in the surplus was caused by a larger increase in imports than exports. Exports increased 1.1% to $293.6 billion in 2003, compared to a 4.4% increase in imports to $295.8 billion. The largest import increases were in computers; peripherals, parts mainly from China; in semiconductors, largely from Asia; and in scientific equipment, mainly from Ireland.

Service Transactions

The United States is highly competitive in the delivery of services. It is estimated that the U.S. is 20% more productive than our major foreign competitors in this area. The surplus has been generated from travel, passenger fares, royalties and license fees, as well as private services including education, finance, insurance, telecommunications, and business services. Despite the falling surplus, service transactions continued to play a vital role in the balance of trade. The surplus in service transactions declined to $51.1 billion in 2003. This was the result of a gradual decline from a peak of $90.4 billion in 1997. Faster increases in imports than exports

led to the decline in the surplus. Imports increased 10.0% to $256.3 billion while exports of services increased 4.5% to $307.4 billion. Receipts from royalty and license fees were the major contributor to the surplus in services, and its role continues to be more favorable to the trade balance. Of the $51.1 billion total surplus in 2003, $70.2 billion was attributable to royalty and license fees, which more than offset the deficits in travel and other services. This reflects that the U.S. continues to lead in technology worldwide

Investment Income

The balance in investment income registered a surplus of $33.3 billion, a 362.5% increase from 2002. Investment income contains two components: 1) receipts generated from U.S.-owned assets abroad including direct investments, other private securities such as the U.S. government-owned securities as well as corporate bonds and stocks, and 2) compensation receipts of workers employed abroad in international organizations and foreign embassies stationed in the U.S., including wages, salaries, and benefits. Payments are the counterpart of U.S. receipts; they are in contrast paid on foreign-owned assets invested in the U.S.

The large surplus in investment income is primarily due to the increase in direct investment income which grew 17.9% to $118.8 billion from $100.8 billion in 2002. Receipts from U.S. direct investment abroad increased 47.7% compared to a 31.2% increase in payments on foreign investments in the U.S. Appreciation of most foreign currencies against the U.S. dollar from year end 2002 to year end 2003 raised the dollar value of all foreign currency denominated assets and liabilities, especially the value of U.S. held foreign stocks and U.S. direct investment abroad. Limited economic growth in industrial countries generated only a small increase in earnings for affiliates located abroad. The increase in payments on foreign investments in the U.S. reflected primarily the strong economic recovery in the U.S. The U.S. GDP grew 3.0% in 2003 versus 1.9% in 2002.

In addition to the large positive balance in direct investment, the decreased deficits in other private investment and U.S. government receipts/payments helped produce the $33.3 billion investment income surplus. The deficit in the government receipts/payments account declined from $72.8 billion in 2002 to $67.3 billion in 2003 while the other private investment deficit decreased from $15.4 billion in 2002 to $12.8 billion in 2003.

As described above and listed in the Table on the following page, there are six major types of foreign assets in the United States including; U.S. government securities held by foreign governments and the private sector, direct investments, and liabilities captured by private bonds, corporate stocks and U.S. banks.

According to the U.S. Department of Commerce, in calendar 2003 foreign assets in the U.S., measured at current cost increased by $986.8 billion, or 11.4%, to $9,633.4 billion, compared to an increase of $789.2 billion, or 12.3%, to $7,202.7 billion for U.S. assets abroad. This placed U.S. international investment at a net negative of $2,430.7 billion, which deteriorated from $2,233.0 billion in 2002. U.S. direct investment in assets abroad continues to exceed foreign direct investment in the U.S. In 2003, the U.S.'s direct investment abroad was $2,069.0 billion and foreign direct investment in the U.S. was $1,554.0 billion, registering $515.0 billion in net investment, up from $334.8 billion in 2002. Foreign assets in the United States are mostly in securities such as bonds and stocks issued by the Treasury and corporations. Net foreign

purchases of U.S. stocks and bonds in 2003 posted an 8.8% increase to $1,739.9 billion, up from $1,599.0 billion in 2002.

TABLE 36
INTERNATIONAL INVESTMENT
(Millions of Dollars At Current Cost)

	2002	2003	Change	Percent Change
A. U.S.-owned assets abroad	**6,413,535**	**7,202,692**	**789,157**	**12.3%**
U.S. official reserve assets	158,602	183,577	24,975	15.7%
U.S. government assets	85,309	84,772	(537)	(0.6%)
U.S. credit & long-term assets	82,682	81,980	(702)	(0.8%)
Currency holdings & short-term assets	2,627	2,792	165	6.3%
U.S. private assets	6,169,624	6,934,343	764,719	12.4%
Direct investment abroad	1,839,995	2,069,013	229,018	12.4%
Foreign securities	1,846,879	2,474,374	627,495	34.0%
Bonds	501,762	502,130	368	0.1%
Stocks	1,345,117	1,972,244	627,127	46.6%
Financial instruments	2,482,750	2,390,956	(91,794)	(3.7%)
B. Foreign-owned assets in the U.S.	**8,646,553**	**9,633,374**	**986,821**	**11.4%**
Foreign official assets	1,212,723	1,474,161	261,438	21.6%
U.S. Government securities	954,896	1,145,029	190,133	19.9%
Others	257,827	329,132	71,305	27.7%
Foreign private assets	7,433,830	8,159,213	725,383	9.8%
Direct investment	1,505,171	1,553,955	48,784	3.2%
Foreign securities	3,545,585	4,251,500	705,915	19.9%
Treasury securities & currency	758,938	860,450	101,512	13.4%
Corporate & Municipal Bonds	1,600,414	1,852,971	252,557	15.8%
Stocks	1,186,233	1,538,079	351,846	29.7%
Financial instruments	2,383,074	2,353,758	(29,316)	(1.2%)
C. Net U.S. Total Investment Position (A-B)	**(2,233,018)**	**(2,430,682)**	**(197,664)**	**8.9%**
Net U.S. private investment position	(1,264,206)	(1,224,870)	39,336	(3.1%)
Direct Investment	334,824	515,058	180,234	53.8%
Other Indirect investment	(1,599,030)	(1,739,928)	(140,898)	8.8%
Net Bond and Stock Investment	(968,812)	(1,205,812)	(140,898)	24.5%
Net Government liabilities and Others	(939,768)	(916,676)	23,092	(2.5%)

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2004

The Table on the following page shows U.S. trade transactions by area. The deficit on goods and services in 2003 was $463.2 billion, an increase of $48.7 billion. The U.S. trade position with Japan improved in 2003 as exports to Japan increased while imports from that country decreased. The United States continues to import more from Europe, Canada, Latin America, Asia and Africa than it exports to those countries. Surplus with Australia increased as a result of a larger increase in exports rather than imports of capital goods. The trade deficit with the

European Union also increased as its economy slowed. The European Union's real GDP grew 0.8% in 2003 after an increase of 1.1% in 2002

The trade balance of goods with China is important to highlight since it is the driving force behind the high import numbers for Asia and Africa presented below. In 2003, the United States imported $152.4 billion worth of goods from China. This figure is up from $125.2 billion in 2002 and $102.3 billion in 2001. While the export of goods to China has also been increasing, the figure is drastically lower resulting in a large negative trade balance. In 2003, the United States exported $28.3 billion of goods to China. This figure increased from $22.0 billion in 2002 and $19.1 billion in 2001. The resulting negative trade balance with China continues to grow at alarming rates. In 2003 the trade balance was negative $124.1 billion up from negative $103.2 billion in 2002 and $83.2 billion in 2001.

TABLE 37
U.S. INTERNATIONAL TRANSACTIONS
(By Area, In Billions of Dollars)

	2001			2002			2003		
	Exports	Import	Bal.	Exports	Imports	Bal.	Exports	Imports	Bal.
Total Trade	**1,293.3**	**1,632.5**	**(339.2)**	**1,242.8**	**1,657.3**	**(414.5)**	**1,314.9**	**1,778.1**	**(463.2)**
Europe	416.5	486.1	(69.6)	394.8	496.3	(101.5)	422.2	531.8	(109.6)
Canada	209.7	237.8	(28.1)	206.9	235.2	(28.3)	221.4	253.3	(31.9)
Japan	98.2	176.6	(78.4)	92.6	176.6	(84.0)	95.6	171.3	(75.7)
Australia	19.4	11.4	8.0	22.3	11.8	10.5	24.2	11.8	12.4
Latin America (1)	275.1	294.4	(19.3)	245.8	288.8	(43.0)	251.6	307.1	(55.5)
Asia & Africa (2)	239.6	411.9	(172.3)	243.7	432.2	(188.5)	261.5	485.8	(224.3)
Others (3)	34.8	14.3	20.5	36.7	16.4	20.3	38.4	17.1	21.3
European Union (4)	359.4	418.8	(59.4)	340.6	426.0	(85.4)	363.5	457.0	(93.5)

(1) Includes Brazil, Mexico, Venezuela, and other Western Hemisphere countries
(2) Includes members of OPEC, China, Hong Kong, South Korea, New Zealand, Singapore, Taiwan, and South Africa
(3) Includes figures for International Organizations and unallocated areas
(4) Includes 15 member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, The Netherlands, & United Kingdom

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2004

Connecticut Exports

In Connecticut, the export sector has assumed an important role in overall economic growth. State exports of goods abroad for the past five years averaged 5.01% of the Gross State Product (GSP).

According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER) to capture a greater percent of indirect exports, Connecticut exports of commodities totaled $8,136.4 million in 2003. The

State's economy benefits from goods produced not only for direct shipment abroad but also from those that are ultimately exported from other states. These indirect exports are important in industries whose products require further processing such as primary metals, fabricated metal products and chemicals. In addition, indirect exports are important in industries whose products constitute components and parts for assembly into machinery, electrical equipment and transportation equipment.

Exports of services of approximately $3.5 billion and income receipts of approximately $3.4 billion on Connecticut direct investment abroad also play a vital role in Connecticut. These bring Connecticut's total export related receipts to $15.0 billion, or approximately 9.0% of the State's GSP. Exports of services include foreign transactions generated from travel, royalties and license fees, as well as private services including education and business services. Income receipts on Connecticut investment abroad include profits, interest, dividends and capital gains generated from direct investment and securities owned by the state's citizens or companies. As a high-tech state with excellent institutes of higher education and growing entertainment attractions, along with superior expertise in finance and insurance, Connecticut's service exports and investment income are estimated to be higher than the national average.

Exports of educational services also play an important role in the state's economy. There were 7,655 foreign students attending Connecticut colleges in the 2003-04 school year, accounting for 1.3% of the national total, up 15.9% from 2002-03 school year and compared to the national decrease of 2.4%, according to the *Institute of International Education*. It is estimated that this total would rise to 8,655 foreign students if those who attend secondary and middle schools were included. It is estimated foreign students and their dependents spend $168 million on tuition, room and board and the other incidentals of everyday life. Tourism receipts had also steadily increased up until the attack of September 11, 2001. It is estimated that as many as 200,000 people from other countries visit Connecticut and spend $300 million annually, partially as a result of casino related businesses.

Connecticut industries that rely most heavily on exports are Transportation Equipment (NAICS 336), Chemicals (NAICS 325), Fabricated Metal (NAICS 332), Nonelectrical Machinery (NAICS 333), Computer & Electronic Equipment (NAICS 334), Electrical Equipment (NAICS 335), and Miscellaneous Manufacturing (NAICS 339). NAICS refers to the North American Industry Classification System, which replaced the Standard Industrial Classification (SIC) system and was implemented in 1997. The top seven industries account for 84.5% of Connecticut's foreign sales. The table on the following page shows the breakdown of major products by NAICS code for the past five years. In 2003, transportation equipment, which includes aircraft engines and spare parts, gas turbines, and helicopters, spacecraft, etc. accounted for 40.5% of total exports down from 49.3% of exports in 2002. Transportation equipment is followed by computer & electronic at 9.7%, nonelectrical machinery at 9.6%, chemicals at 9.2%, fabricated metal at 5.4%, and miscellaneous manufacturing at 6.0%. The industrial machinery and equipment related sector, which includes NAICS 332, 333, 334 and 335, accounts for 28.8% of total. In terms of average annual growth from 2000 to 2003, chemicals posted the strongest growth at 10.6%, followed by increases in electrical equipment of 9.3%, 8.5% in paper, 7.8% in transportation equipment, and 7.7% in fabricated metal. The industry that posted the biggest loss was plastics and rubber products at negative 2.6%, followed by computer & electronic equipment at negative 2.4%, and miscellaneous manufacturing at negative 2.0%. The miscellaneous manufacturing industry produces medical and surgical equipment and instruments.

Overall growth in exports of commodities for the past five years averaged 3.2%. Exports of $8.1 billion is estimated to account for 4.87% of Connecticut Gross State Product (GSP), gradually expanding from 4.2% of Gross State Product in 1987 to a high of 5.9% in 1993, then edging down to hover between 4.9% and 5.2% for the past five years. Commodities or goods, exports which include products in the manufacturing, agricultural, and mining industries in Connecticut have improved since the late 1980s. However, exports of commodities grew more or less proportionately with overall goods production as measured by the GSP, resulting in a fairly stable percentage of exported goods relative to GSP.

TABLE 38
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY PRODUCT
(In Millions of Dollars)

NAIC	Industry	1999	2000	2001	2002	2003	% of 2003 Total	Average Growth 99-03
322	Paper	139.5	150.8	139.5	174.9	188.6	2.3%	8.5%
325	Chemicals	547.7	612.8	567.3	499.9	749.0	9.2%	10.6%
326	Plastics & Rubber	153.1	144.6	152.0	141.2	137.6	1.7%	(2.5%)
331	Primary Metal	191.1	247.0	210.1	167.6	203.1	2.5%	3.8%
332	Fabricated Metal	328.5	369.8	391.5	427.4	440.5	5.4%	7.7%
333	Machinery, exc. Elec.	755.7	1,005.2	898.0	669.8	784.4	9.6%	3.5%
334	Computer & Electronic	877.6	904.5	804.4	760.0	789.5	9.7%	(2.4%)
335	Electrical Equipment	242.9	292.9	259.8	316.3	336.1	4.1%	9.3%
336	Transportation Equip.	2,599.0	3,168.5	3,988.3	4,098.7	3,298.1	40.5%	7.8%
339	Miscellaneous MFG	581.5	395.1	430.3	393.6	486.4	6.0%	(2.0%)
	Others	814.5	755.7	769.1	664.0	723.0	8.9%	(2.6%)
Total Commodity Exports		7,231.2	8,046.8	8,610.4	8,313.4	8,136.4	100%	3.2%
	% Growth	(0.9%)	11.3%	7.0%	(3.4%)	(2.1%)		
Gross State Product ($M)		148,251	157,988	162,411	165,744	168,751		13.2%
	% Growth	3.50%	6.67%	2.80%	2.05%	1.81%		
Exports as a % of GSP		4.88%	5.05%	5.30%	5.02%	4.82%		5.0%

Note: GSP for 2003 is estimated to grow at the same rate as wage income derived from the manufacturing sector, estimated by the U.S. Department of Commerce, Bureau of Economic Analysis.

Source: U.S. Department of Commerce, & University of Massachusetts (MISER)

Individual Connecticut firms with the highest export sales include General Electric, United Technologies, Xerox, Champion, Perkin & Elmer, Pitney Bowes, and the Stanley Works.

The bulk of Connecticut's exports are shipped by air from Bradley International Airport and by sea from the port of New Haven. In 2003, exports originating from Connecticut totaled $8.1 billion, with 61.3% of the total being shipped by air, 17.9% being delivered by sea, and the

remaining 20.9% being transported inland by railroad or truck to Canada, Mexico or other states for further shipment to other countries. This compares with 55.4% by air, 17.6% by sea, and 27.5% by land for exports totaling $4.5 billion in 1990. This reflects the demand for meeting just-in-time inventory requirements, as the majority of goods produced are transported by air as it provides more frequent departures and faster transit times.

The following Table shows the ten major foreign countries to which state firms export their products. In 2003, Canada remained the largest destination country at 16.6%, followed by France, Germany, Japan and the United Kingdom. These five countries accounted for 53.6% of total state exports in 2003. Exports to Canada declined 6.4% to $1.35 billion in 2003. Exports to Canada benefited from proximity and the similar cultural backgrounds of consumers, but seemingly not from the North American Free Trade Agreement (NAFTA). Exports to Canada accounted for 17.9% of Connecticut's total exports in 1988, the year before NAFTA. The extension of NAFTA to include Mexico in 1994 also seems not to have yielded a noticeable benefit to the State due in part to the geographical distance. Exports to Mexico for the past five years stayed in the $0.3 billion to $0.5 billion range. The share of the State's exports to Mexico accounted for 5.9% in 2003, compared to 9.2% for the United States. Exports to our major partners in East Asia including Singapore and South Korea played an important role. Exports to these two countries totaled $720 million, accounting for 8.9% of exports. A new major partner, the Netherlands, experienced an 81.3% growth from 1999-2003 purchasing $198.6 million of the State's exports.

TABLE 39
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY COUNTRY
(In Millions of Dollars)

Destination	2003 Rank	1999	2000	2001	2002	2003	Percent of 2003 Total	1999-03 Average Growth Rate
Canada	1	1,780.4	1,831.2	1,728.8	1,492.4	1,352.3	16.6%	(6.4%)
France	2	959.8	1,112.3	1,416.3	1,178.4	1,095.7	13.5%	4.9%
Germany	3	403.8	561.2	675.4	654.1	760.1	9.3%	18.1%
Japan	4	516.1	508.3	616.6	606.5	639.0	7.9%	5.9%
United Kingdom	5	431.0	471.2	462.4	499.9	512.8	6.3%	4.5%
Mexico	6	333.3	404.9	326.6	402.0	478.0	5.9%	11.0%
Singapore	7	180.5	198.5	413.5	407.3	436.9	5.4%	31.0%
South Korea	8	314.9	158.4	190.9	300.3	282.9	3.5%	5.6%
Netherlands	9	183.9	292.7	75.2	229.8	198.6	2.4%	81.3%
Belgium	10	141.4	96.6	159.2	212.8	162.6	2.0%	10.8%
Other Areas		1,986.3	2,411.5	2,545.7	2,330.1	2,217.4	27.3%	1.9%
TOTAL		7,231.2	8,046.8	8,610.4	8,313.4	8,136.4	100.0%	3.2%

Source: Connecticut Department of Economic Development

Connecticut's exports have also experienced geographical diversification. Connecticut's trade area has expanded from traditional big partners such as Canada, the United Kingdom and

Japan to emerging markets in Southern and Central America, Eastern Europe, Asia and the Middle East. Connecticut's firms exported to approximately 180 countries worldwide in 2003. A breakdown of Connecticut's exports by region shows that while trade volume and the share of exports to Europe, Asia, and Latin America continued to increase over the past five years, both trade volume and the share to Africa have declined, with volume dropping from $168.6 million in 1998 to $72.2 million in 2003 when the share declined from 2.3% in 1998 to 0.9% in 2003. Africa may represent a potential market where Connecticut's manufacturers can expand their exporting efforts.

In an effort to create jobs and investment, the Department of Economic and Community Development has been working with a number of foreign companies to establish branches in Connecticut. As a result of this work, foreign countries continually invest and own firms in Connecticut. This foreign investment is an important stimulant for Connecticut's economic growth and future productivity. As of the latest available data (2002), manufacturing and non-manufacturing foreign affiliates in Connecticut employed 113,000 workers with $12.79 billion of investment, down from 123,000 workers with $14.42 billion of investment in 2001. A foreign affiliate is defined as a single foreign person owning or controlling, directly or indirectly, 10% or more of the voting securities.

In 2002 Germany comprised 19.8% of total foreign investment at $2.53 billion, followed by the Netherlands at $2.05 billion, the United Kingdom at $1.65 billion, France at $0.79 billion, and Japan at $0.59 billion. While overall foreign investment in Connecticut continued to grow, changes in direct investment among major trade partners varied. Canadian firms have been taking advantage of the integrating markets established by the NAFTA agreement. The Canadian firms, through economies of scale or comparative advantage, increased Canadian production of goods to be sold in the U.S. As a result, two-way trade continued to expand while investment slowed. Canadian investment in Connecticut registered $982 million in 2002, gradually rising from $884 million in 2001 and $852 million in 2000, but still well below the peak of $1,270 million in 1992.

In order to increase global competitiveness and sustain the state's economic growth and prosperity by expanding the state's international business and investment, the Department of Economic and Community Development launched an international trade initiative and set up foreign trade representatives in Africa, Argentina, Brazil, China, Israel, Mexico and Turkey. The state also provides several specific services to aid in the overall effort to increase exports. For further information regarding any assistance, services, or publications, please contact the following:

State of Connecticut
Department of Economic and Community Development
505 Hudson Street
Hartford, Connecticut 06106
(860) 270-8166, 270-8067, or 270-8068

Or visit their website, http://www.state.ct.us/ecd/ for more details.

Connecticut's Defense Industry

The defense industry is an integral part of Connecticut's manufacturing sector, and has been since the inception of the United States as a nation. The state's economy is still affected by the volume of defense contracts awarded or subcontracted to Connecticut firms.

In FFY 2003, according to information supplied by the U.S. Department of Defense, Connecticut-based companies received $8.06 billion in defense-related prime contract awards. This was up 43.0% from the $5.64 billion received in awards for FFY 2002, and exceeds the previous peak of $6.08 billion in FFY 1989 by 32.6%. The Table on the following page shows the breakdown by type and value of contracts since FFY 1994. Connecticut's total defense awards, based on a three year moving average, have increased at an average annual rate of 8.8% during this time, compared to an average growth of 6.3% for the nation. Most of this growth has come in the last few years because Connecticut has been much more dependent on supply contracts, which includes procurement of aircraft, ships, weapons, and equipment, etc., than is the nation as a whole, and they declined through most of the 1990s, and are only recently rebounding. Service contracts experienced the greatest growth nationally during this period, but only accounted for an average of 12.5% of the state's total. During the 1990s, defense policy strategies shifted from a focus on the threat of global conflict to regional contingencies. Procurement practices had shifted from an emphasis on full production of new systems to the development of prototypes; therefore, defense procurement had been falling at a faster rate than overall defense spending, although the war on terrorism has begun another shift in procurement strategy.

The analysis of contract awards shows that, through 2000, Connecticut's defense industry had been especially vulnerable to contractions in defense spending because of its particular dollar distribution or mix of awards. The state had relied too heavily on supply contracts that experienced a sharp decline while those contracts that experienced relative stability accounted for only a small portion of Connecticut's total. This particular composition had a detrimental impact on the state's economy through most of the last decade. Defense contracts under the Bush Administration, however, have reversed this trend, given the level of awards for the last few years.

In FFY 2003, contractors in the state were awarded $8.1 billion worth of defense-related prime contracts, with the heaviest concentration in the state's transportation equipment sector. Of the total awarded, $7.1 billion, or 88.5%, went to the following five Connecticut companies listed below primarily for the described areas of work:

1.	United Technologies Corp.	$4,282,010,000	Aircraft Rotary Wing
2.	General Dynamics Corp.	$2,674,784,000	Submarines
3.	The Purdy Corporation	$70,201,000	Aircraft / Helicopter Components, Turbines
4.	The B. F. Goodrich Company	$59,617,000	Pump & Engine Control
5.	Engineered Support Systems, Inc	$53,748,000	Military Support Equipment

TABLE 40
CONNECTICUT PRIME CONTRACT AWARDS
(In Thousands of Dollars)

Type of Contract	Supply	R&D*	Service	Construction	Civil Function	Total
FFY 1994	1,721,722	234,234	465,955	18,143	10,015	2,450,069
(% of Total)	70.3	9.6	19.0	0.7	0.4	100.0
FFY 1995	2,049,584	203,244	442,984	2,931	19,278	2,718,021
(% of Total)	75.4	7.5	16.3	0.1	0.7	100.0
FFY 1996	1,736,339	457,348	390,336	1,009	53,228	2,638,260
(% of Total)	65.8	17.3	14.8	0.0	2.0	100.0
FFY 1997	1,547,402	551,643	380,827	25,629	30,480	2,535,981
(% of Total)	61.0	21.8	15.0	1.0	1.2	100.0
FFY 1998	2,320,505	753,632	310,177	17,824	6,582	3,408,719
(% of Total)	68.1	22.1	9.1	0.5	0.2	100.0
FFY 1999	2,581,519	245,473	328,573	8,137	5,692	3,169,394
(% of Total)	81.4	7.7	10.4	0.3	0.2	100.0
FFY 2000	1,636,417	223,364	303,910	7,012	6,762	2,177,465
(% of Total)	75.2	10.2	14.0	0.3	0.3	100.0
FFY 2001	3,468,084	376,018	390,812	30,075	4,555	4,269,544
(% of Total)	81.2	8.8	9.2	0.7	0.1	100.0
FFY 2002	4,085,824	979,756	547,279	17,482	8,244	5,638,585
(% of Total)	72.5	17.4	9.7	0.3	0.1	100.0
FFY 2003	6,533,608	901,370	600,004	23,508	6,319	8,064,809
(% of Total)	81.0	11.2	7.4	0.3	0.1	100.0
Average % of Total	73.2	13.4	12.5	0.4	0.5	100.0
Average Growth** (FFY 1994-03)	9.4	16.3	-0.1	8.4	0.1	8.8
U.S. FFY 2003	84,702,535	31,503,792	65,627,835	5,789,950	3,597,853	191,221,965
(% of Total)	44.3	16.5	34.3	3.0	1.9	100.0

Note: * Denotes Research & Development.
** Average annual growth rate of 3 year moving average trend.

Source: U.S. Department of Defense, "Atlas / Data Abstract for the U. S. and Selected Areas"

Prime defense contracts have tended to be "leading" indicators of the state's economic activity. This means that changes in defense contract awards precede changes in employment. However, new defense contract awards cannot be directly converted into anticipated employment gains or losses because: a) contracts have different terms and different completion dates; b) subcontracting on prime awards may be done by firms in different states; c) research and development contracts are usually capital intensive rather than labor intensive; and d) there often exists a time lag between awarding the contract and having the necessary funding become available. Although employment is affected by the defense budget, the state's economic activity is not immediately impacted by fluctuations in defense contracts. The following Table compares defense contract awards with employment in Connecticut's transportation equipment sector.

To compare the relative volatility of contract awards with employment, the coefficient of variation is used: the larger the number, the greater the volatility. It is derived by dividing the standard deviation of a variable by its mean. The Table also shows that the coefficient of variation for the state's real defense contract awards, over the past decade, was 0.425 compared with 0.103 for transportation equipment employment. This implies that, in general, the fluctuations in employment are milder than the fluctuations in defense contract awards. Because most defense contract awards are long-term projects, there is usually a backlog of unfinished orders in the pipeline, allowing continued employment even if new contracts are not received.

TABLE 41
CONNECTICUT DEFENSE CONTRACT AWARDS AND RELATED EMPLOYMENT

Federal Fiscal Year	Defense Contract Awards (000's)	% Growth	Connecticut Transportation Equipment Employment (000's)	% Growth	Defense Contract Awards '96 Dollars (000's)	% Growth
1993-94	2,450,069	(15.4)	60.97	(5.6)	2,593,899	(17.5)
1994-95	2,718,021	10.9	56.48	(7.4)	2,798,278	7.9
1995-96	2,638,260	(2.9)	53.99	(4.4)	2,638,260	(5.7)
1996-97	2,535,981	(3.9)	51.96	(3.8)	2,478,806	(6.0)
1997-98	3,408,719	34.4	52.03	0.1	3,281,153	32.4
1998-99	3,169,394	(7.0)	50.78	(2.4)	2,984,861	(9.0)
1999-00	2,177,465	(31.3)	47.38	(6.7)	1,983,997	(33.5)
2000-01	4,269,544	96.1	46.85	(1.1)	3,782,560	90.7
2001-02	5,638,585	32.1	45.93	(2.0)	4,917,699	30.0
2002-03	8,064,809	43.0	43.70	(4.9)	6,877,003	39.8
Coefficient of Variation	0.499		0.103		0.425	

Sources: U.S. Department of Defense, Bureau of Labor Statistics, & Department of Labor

The prior Table also shows real contract awards for the past decade by taking into account the erosion of the dollar by adjusting contracts for inflation. From $2.6 billion in FFY 1994, real defense contract awards increased to $6.9 billion in FFY 2003. This represents an average growth of 11.4% per year from FFY 1994 to FFY 2003, with virtually all of the growth occurring in the last three years, most likely spurred by the war on terrorism.

Connecticut's defense contract awards have become extremely volatile since the late 1980s and are much less stable when compared with other states or the nation as a whole. The following Table shows the coefficient of variation for Connecticut, over the past decade, was 0.499, compared to 0.220 for the U.S., reflecting the fluctuations in the state's annual levels of defense contract awards.

TABLE 42
COMPARISON OF U.S. AND CONNECTICUT DEFENSE CONTRACT AWARDS

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions $)	% Growth	3-year Moving Average (Millions $)	% Growth	U.S. Defense Contract Awards (Millions $)	% Growth	3-year Moving Average (Millions $)	% Growth
1993-94	2,450	(15.4)	2,815	(23.0)	110,316	(3.4)	112,249	(3.9)
1994-95	2,718	10.9	2,688	(4.5)	109,005	(1.2)	111,155	(1.0)
1995-96	2,638	(2.9)	2,602	(3.2)	109,408	0.4	109,576	(1.4)
1996-97	2,536	(3.9)	2,631	1.1	106,561	(2.6)	108,325	(1.1)
1997-98	3,409	34.4	2,861	8.8	109,386	2.7	108,452	0.1
1998-99	3,169	(7.0)	3,038	6.2	114,875	5.0	110,274	1.7
1999-00	2,177	(31.3)	2,918	(3.9)	123,295	7.3	115,852	5.1
2000-01	4,270	96.1	3,205	9.8	135,225	9.7	124,465	7.4
2001-02	5,639	32.1	4,029	25.7	158,737	17.4	139,086	11.7
2002-03	8,065	43.0	5,991	48.7	191,221	20.5	161,728	16.3
Coefficient of Variation	0.499				0.220			

Source: United States Department of Defense

As defense contract awards normally take several years to complete, one can use the 3-year moving average method to better reflect actual production activities. The prior Table shows that overall defense changes in Connecticut have been more severe and more volatile than the national average. Both of these factors had negative implications for the state's economy. Volatility imposes difficulties for the industry in terms of long term planning, making future capital investment less likely and decreasing the dollars devoted to Research and Development. In addition, a severe loss in market share could result in the deterioration of the fundamental industrial base and erosion of the competitive edge established in the past. The loss of defense jobs also has a profound implication on both the state's income and employment mix. Based on a three-year moving average, awards reached a low point in 1996, and have displayed a dramatic increase in the last few years.

Over the last several years, defense contract projects have become fewer in number, larger in size and the market is much more competitive than it has been historically. The lack of continuity in full funding for new submarine awards, coupled with prior year defense reductions, dramatically increased the volatility of Connecticut's awards during the 1990's.

Over the last ten years, the relative share of defense related production activities, measured by the size of the moving average of defense contract awards compared to Gross State Product (GSP), drifted down from 2.5% in FFY 1994 to 1.8% in FFY 2000, and back up to 3.6% in FFY 2003. (This was 9.8% in 1982.) The following Table provides a ten-year history of U.S. and Connecticut defense awards and the proportion of state GSP such awards represent.

TABLE 43
CONNECTICUT DEFENSE CONTRACT AWARDS AND GSP

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions)	U.S. Defense Contract Awards (Millions)	% of CT to U.S.	Cal. Year CT GSP Current Dollars (Millions)	3-year Average CT Awards (Millions)	CT Awards as % of CT GSP
1993-94	2,450	110,316	2.2	112,395	2,815	2.5
1994-95	2,718	109,005	2.5	118,645	2,688	2.3
1995-96	2,638	109,408	2.4	124,157	2,602	2.1
1996-97	2,536	106,561	2.4	134,968	2,631	1.9
1997-98	3,409	109,386	3.1	143,232	2,861	2.0
1998-99	3,169	114,875	2.8	148,251	3,038	2.0
1999-00	2,177	123,295	1.8	157,988	2,918	1.8
2000-01	4,270	135,225	3.2	162,411	3,205	2.0
2001-02	5,639	158,737	3.6	165,744	4,029	2.4
2002-03	8,065	191,221	4.2	168,751	5,991	3.6
Coefficient of Variation	0.499	0.220				

Note: GSP after 1998 is updated based on the North American Industry Classification System (NAICS).

GSP for 2003 is assumed to grow at the same rate as income derived from wages and salaries estimated by the U.S. Department of Commerce, Bureau of Economic Analysis.

Source: United States Department of Defense and Department of Commerce

In federal fiscal 2003, while Connecticut ranked fifth in total defense contracts awarded, it ranked second in per capita defense dollars awarded with a figure of $2,315. This figure was 3.5 times the national average of $658. In 2002, Connecticut ranked ninth in total defense contracts awarded and second in per capita defense dollars awarded with a figure of $1,629. This was almost three times the national average of $550 for that year.

The Table on the following page shows, by state, federal fiscal year 2003 total awards, per capita awards and their corresponding rank.

TABLE 44
COMPARISON OF STATE PRIME CONTRACT AWARDS
Federal Fiscal Year 2003

State	Prime Contract Awards $ (000)	Rank	Per Capita Prime Contract Awards	Rank	State	Prime Contract Awards $ (000)	Rank	Per Capita Prime Contract Awards	Rank
Virginia	19,978,027	3	2,705	1	Oklahoma	1,514,812	30	431	26
Connecticut	8,064,809	5	2,315	2	Louisiana	1,914,220	25	426	27
Alaska	1,426,752	31	2,199	3	N. Hampshire	544,528	38	423	28
Hawaii	1,807,956	27	1,438	4	Indiana	2,607,131	18	421	29
Alabama	6,281,122	10	1,396	5	Georgia	3,446,525	16	397	30
Maryland	7,569,528	6	1,374	6	Ohio	4,325,803	12	378	31
Arizona	7,504,719	7	1,345	7	Tennessee	2,189,558	23	375	32
Missouri	6,557,677	9	1,150	8	South Carolina	1,540,474	29	371	33
Massachusetts	6,799,599	8	1,057	9	Minnesota	1,564,786	28	309	34
Texas	22,867,586	2	1,034	10	South Dakota	208,104	46	272	35
Kentucky	3,896,774	14	946	11	Michigan	2,524,136	20	250	36
Maine	1,182,271	34	905	12	North Carolina	2,091,445	24	249	37
California	28,681,160	1	808	13	Wisconsin	1,271,148	32	232	38
Utah	1,898,545	26	807	14	Iowa	666,785	36	226	39
Mississippi	2,325,642	22	807	15	New York	4,319,529	13	225	40
Vermont	464,030	41	750	16	Montana	200,038	48	218	41
Colorado	2,488,236	21	547	17	Arkansas	587,546	37	216	42
Washington	3,217,220	17	525	18	Delaware	167,907	49	205	43
New Mexico	972,924	35	519	19	Nevada	456,870	42	204	44
Florida	8,108,136	4	476	20	Illinois	2,564,632	19	203	45
Rhode Island	489,046	40	454	21	Nebraska	315,311	43	181	46
Kansas	1,222,024	33	449	22	Idaho	213,001	45	156	47
Pennsylvania	5,491,220	11	444	23	Wyoming	76,297	50	152	48
North Dakota	279,795	44	441	24	Oregon	491,235	39	138	49
New Jersey	3,792,555	15	439	25	West Virginia	207,410	47	115	50
U.S. Total	191,221,483		$658						

Source: U.S. Department of Defense, "Atlas / Data Abstract for the United States and Selected Areas" U.S. Department of Commerce, Bureau of the Census

The following Table summarizes some programs of particular interest to the State of Connecticut contained in the Department of Defense requested Budget for 2005. (Note that the Commanche Helicopter program has since been cancelled.)

TABLE 45
SAMPLES OF U.S. DEFENSE PROGRAMS OF INTEREST TO CONNECTICUT

Item	Contractor	Component	Budget FFY 2004 ($M)	Proposed 2005 by DoD ($M)	Quantity	
RAH-66 Commanche Helicopter	Sikorsky Aircraft	Airframe and avionics systems development	$1,068.0	$1,241.7	N / A	(a) (b)
UH-60 Blackhawk Hel.	Sikorsky Aircraft	Prime Contractor for production	$411.3	$192.1	17 in 2004 & 8 in 2005	(b)
MH-60R Helicopter	Sikorsky Aircraft	Prime Contractor for airframe dev. and production	$461.7	$487.9	6 in 2004 & 8 in 2005	(b)
MH-60S- Helicopter	Sikorsky Aircraft	Prime Contractor for production	$467.0	$482.0	13 in 2004 & 15 in 2005	(b)
C-17 Airlift Aircraft	Pratt & Whitney	Engine production	$3,592.7	$4,039.6	11 in 2004 & 14 in 2005	(b) (c)
F-15E Eagle Fighter	Pratt & Whitney	Prime Contractor for engine	$322.7	$296.8	N / A	(b)
F-16 Falcon Fighter	Pratt & Whitney	Continued engine development	$403.4	$435.9	N / A	(d)
F-22 Advanced Tactical Fighter	Pratt & Whitney	Engine production	$5,043.2	$4,721.5	22 in 2004 & 24 in 2005	(e)
F-35 Joint Strike Fighter	Pratt & Whitney	Engine develop. and evaluation	$4,365.8	$0	N / A	(f)
SSGN Conversions	Electric Boat Div. of General Dynamics	Conversion Mgr., Design, Build Conversion Kits	$1,227.5	$658.4	1 in 2004 & 1 in 2005	(b) (g)
Virginia Class Submarine	Electric Boat Div. of General Dynamics	Prime Contractor, design, joint production	$2,514.3	$2,596.3	1 in 2004 & 1 in 2005	(h) (b)

(a) Currently in development phase. Joint venture with Boeing.
(b) Includes research, development, testing and evaluation.
(c) Replacement for C-141.
(d) Joint venture with General Electric.
(e) To replace F-15 aircraft.
(f) No request for 2005.
(g) Conversion of 4 SSBG Trident submarines to SSGN cruise missile submarines.

(h) Will replace retiring submarines. At this time, five are planned.

Source: U.S. Department of Defense
Moreover, the following Table displays a number of fairly recent contract awards made to state firms by the Department of Defense in areas other than transportation manufacturing.

TABLE 46
SAMPLES OF RECENT DEFENSE CONTRACTS AWARDED TO STATE FIRMS NOT RELATED TO TRANSPORTATION EQUIPMENT MANUFACTURING

Contractor	Work Location	Date of Award	Amount ($Mill.)	Type of Work	Completion
Colt Defense, LLP, Hartford	West Hartford, CT	4/30	$123.0	Supply 124,803 M4 carbines	9/2007
Sempra Energy Trading Corp., Stamford, CT	Several Locations in CA	5/17	$30.1	Supply natural gas	9/2005
McLaughlin Research Corp., New London	Newport, RI, Keyport, WA	6/10	$18.6	Life-cycle support services for torpedo programs	6/2009
Transatlantic Lines, LLC, Greenwich	Greenwich, CT	3/8	$18.9	International cargo transportation services	4/2005
Delta Industries LLP, East Granby	East Granby, CT	10/13	$17.1	Supply cylinder assemblies for M1 armaments	10/2009
Colt Defense, LLP, Hartford	West Hartford, CT	1/15	$8.1	Supply spare parts for M4 carbines	1/2009
Ensign Bickford Company, Simsbury	Simsbury, CT	9/23	$7.8	Supply detonators for demolition	9/2009
Sonalysts, Inc., Waterford	Waterford, CT, San Diego, CA	8/31	$5.7	Scientific, engineering, analytical and technical services in support of training	8/2009
ASML Inc., Wilton	Wilton, CT	7/1	$5.2	Optical Lithography research and development	12/2005

Source: U.S. Department of Defense

While defense budgets for the foreseeable future had been expected to be leaner than ten years ago, the Bush Administration has reversed the declining trend seen over most of the 1990s, especially given the wars in Afghanistan and Iraq and the war on terrorism. These new conflicts can be expected to create a need for replacements for lost equipment and systems,

spare parts, and new features on existing systems as new needs are identified in the ever-changing environment. Additionally, with previously awarded contracts and ongoing construction contracts for aircraft engines, helicopters and submarines, production activity in Connecticut will extend well into the future.

During the 1990s, the defense industry reacted to defense cutbacks in various ways. With fewer contracts to compete for, companies consolidated, leaving fewer companies to compete for the shrinking pie. As the federal budget experienced slower growth and the defense industry consolidated through mergers, acquisitions and joint ventures, Connecticut continued to experience additional job losses, similar to other states in the northeast region. However, the pace of job reductions has slowed down as the largest defense cuts are in the past and the industry diversified into commercial markets. Former prime contractors have now become subcontractors. Companies also engaged in aggressive cost cutting measures. These moves led to severe downward pressure on employment in these industries.

The Table on the prior page demonstrates that there is defense-related activity occurring in the state outside of the transportation equipment manufacturing industry. Larger firms, as well as a number of smaller firms, are finding different ways to do business with the government. This non-weapons-systems approach could play an important and vital role in the future of the state's economy.

Retail Trade in Connecticut

Consumer spending on goods and services, ranging from pencils to refrigerators to haircuts to electricity, accounts for two-thirds of the gross state product (GSP). According to statistics, approximately half of economic spending is done through retail stores, implying that retail trade constitutes approximately one third of the state's economic activity. During the last decade, variations in retail trade closely matched variations in GSP growth, making retail trade an important barometer of economic health.

The Standard Industrial Classification Manual, 1987, includes establishments that engage in selling merchandise for personal or household consumption and rendering services incidental to the sale of the goods in the retail trade industry. The Standard Industrial Classification (SIC) codes for retail trade are from SIC 52 to SIC 59. In general, retail establishments are classified in these codes according to the principal lines of commodities sold (apparel, groceries, etc.) or the usual trade designation (liquor store, drug store, etc.).

The Table on the following page shows the major group in each SIC code as well as the state's retail trade history for the past five fiscal years. (Retail Trade was redefined by the new North American Industry Classification System (NAICS) in 1997. The state is in the process of converting from the SIC system to the NAIC system).

Retail sales reflect the pulse of economic conditions: they perform strongly as the economy expands whereas they perform poorly during a recession. The following Table demonstrates the fluctuating pattern of retail sales in the state. Connecticut retail trade in fiscal 2003 totaled $45.2 billion, a 2.8% increase.

TABLE 47
RETAIL TRADE IN CONNECTICUT
(In Millions of Dollars)

SIC		FY 1999	% of Total	FY 2000	FY 2001	FY 2002	FY 2003	% of Total
A.	**Amounts of Retail Trade**							
52	Hardware Stores	2,320	5.8%	2,418	2,376	2,751	2,736	6.0%
53	General Merchandise	3,742	9.4%	3,744	3,024	4,002	4,191	9.3%
54	Food Products	6,922	17.4%	7,139	7,521	8,127	8,142	18.0%
55	Automotive Products	7,963	20.0%	8,712	8,531	8,605	8,688	19.2%
56	Apparel & Accessory	2,047	5.1%	2,195	2,237	2,274	2,105	4.7%
57	Furniture & Appliances	4,011	10.1%	4,299	3,971	3,629	3,518	7.8%
58	Eating & Drinking	2,966	7.4%	3,148	3,327	3,374	3,460	7.7%
59	Misc. Shopping Stores	9,865	24.8%	10,975	11,247	11,161	12,329	27.3%
	Total	39,836	100.0%	42,630	42,234	43,924	45,169	100.0%
Durables (SIC 52,55,57)		14,294	35.9%	15,429	14,878	14,986	14,942	33.1%
Nondurables (All Other SIC)		25,542	64.1%	27,201	27,356	28,939	30,227	66.9%

B.	**Change From Previous Year**					FY 99-03 Average Growth
52	Hardware Stores	53.4%	4.2%	(1.7%)	15.8%	(0.5%)	14.2%
55	Automotive Products	4.0%	9.4%	(2.1%)	0.9%	1.0%	2.6%
57	Furniture & Appliances	(7.4%)	7.2%	(7.6%)	(8.6%)	(3.1%)	(3.9%)
	Durables (SIC 52,55,57)	5.9%	7.9%	(3.6%)	0.7%	(0.3%)	2.1%
53	General Merchandise	(1.3%)	0.0%	(19.2%)	32.3%	4.7%	3.3%
54	Food Products	6.8%	3.1%	5.3%	8.1%	0.2%	4.7%
56	Apparel & Accessory	7.9%	7.2%	1.9%	1.6%	(7.4%)	2.3%
58	Eating & Drinking	6.0%	6.1%	5.7%	1.4%	2.6%	4.4%
59	Misc. Shopping Stores	4.7%	11.3%	2.5%	(0.8%)	10.5%	5.6%
Nondurables (All Other SICs)		4.7%	6.5%	0.6%	5.8%	4.5%	4.4%
	Total	5.1%	7.0%	(0.9%)	4.0%	2.8%	3.6%

Source: Connecticut Department of Revenue Services

Retail trade can be broken down into two major categories, durable and nondurable goods. Durable goods are items that presumably last three years or more and include such items as automobiles, furniture, and appliances. Nondurable goods have a shorter life span and include such items as food, gas, apparel, and other miscellaneous products. Durable goods are normally big-ticket items that are sensitive to interest rates and the overall economic climate.

Purchases of durable goods drop off when interest rates increase or individuals encounter a slowdown in income growth or become concerned about future employment and income stream prospects.

Sales of durable goods experience greater fluctuations during changing economic conditions. Growth in sales at retail stores that concentrate on durable goods tends to increase faster than the growth in gross state product during expansionary years and experience greater declines during recessionary years. Sales of nondurable goods are typically less volatile as most items are deemed "necessities" and relatively inelastic regardless of price variations. Necessities include such items as food, footwear, clothing, gasoline, as well as drugs. The previous Table shows that Connecticut sales of durable goods had a minimal 0.3% decline in fiscal 2003, after a 0.7% increase in 2002.

Sales by hardware stores (SIC 52), which include establishments selling lumber and building materials, paint, wallpaper, and hardware registered $2.74 billion in fiscal 2003, a 0.5% decrease from fiscal 2002, with sales of lumber and building materials increasing 1.8% to $2.17 billion. Although the State's non-agricultural employment started falling in July 2000 and continued through the end of fiscal year 2003, a historically low inflation rate coupled with favorable mortgage interest rates and the shift of investment dollars from equities into the housing market created a strong demand for new and existing housing.

Sales in the general merchandise category (SIC 53) were $4.19 billion, an increase of 4.7% from $4.00 billion in fiscal 2002. General merchandise includes three types of department stores. These are national chain stores such as Sears, conventional stores such as Filenes, and discount stores such as Wal-Mart and Target. These merchandise stores carry a diverse range of commodities, including items such as appliances, radios, TVs, home furnishings, household linens, dry goods, and a general line of apparel. A sharp increase in sales at general merchandise stores reflects the ferocious competition in pricing and the continued evolution of product sources in this industry. While consumers have become more value-conscious, the industry has strived to restructure itself by establishing more attractive discount stores and "super stores" with products that are mainly produced in countries with lower labor costs. Super stores such as Sam's Club and Costco combine a traditional discount store with a supermarket. In addition, the emergence of large discount retail companies carrying a full product line in a focused category of goods has also increased competition with local stores.

Sales by food product stores (SIC 54), which include establishments selling meat, fish, fruit, dairy products, as well as candy and confectionary products for home preparation and consumption, registered $8.14 billion in fiscal 2003, up 0.2% from $8.13 billion in fiscal 2002. Sales in dairy products stores increased 34.7% to $0.02 billion, followed by increases of 19.8% in cannery & confectionary stores to $1.41 billion, and 9.3% in miscellaneous food stores to $0.3 billion. Fruit and vegetable stores as well as retail bakeries also had minimal increases in sales of 3.7% and 0.5% respectively. In contrast, sales by meat and fish market stores fell 17.7% to $0.07 billion in fiscal 2003, followed by a decline of 3.7% at grocery stores that registered $6.2 billion. Sales at retail bakeries continued to lose ground to the super-grocery stores. Food products are necessary goods; therefore, consumption is less affected by economic conditions.

Sales of automotive products (SIC 55) were $8.69 billion, a scant 1.0% increase from the $8.60 billion in fiscal 2002. Automotive product stores play an important role in the retail industry,

generating approximately 20% of total retail trade. Auto dealers include new and used passenger cars, light trucks, and other vehicles such as boats and motorcycles, as well as recreational trailers and campers. The increase in fiscal 2003 sales mostly reflected activity at dealers of new and used cars, recreation and utility trailers, and motorcycles.

Increased demand for minivans and light trucks, which offer both recreational and utility features with increased capacities for passengers, load-carrying, towing, and four-wheel drive functions, continued to help boost new car sales. In addition the introduction of crossover vehicles that feature an SUV on car platforms have started to create another wave of buyer interest. Minivans and light trucks, which have gained popularity at the expense of station wagons and sedans, are estimated to account for 52.4% of 2002 model sales, up from 49.1% in 2001.

Sales by apparel and accessory stores (SIC 56) were $2.11 billion in fiscal 2003, down 7.4% from fiscal 2002. Apparel and accessory stores include establishments for men's & boys' clothing, women's clothing, women's accessory & specialty goods, children's & infants' wear, family clothing and shoes. Sales in men's & boys' stores, women's accessory & specialty, and miscellaneous stores showed growth in fiscal 2003, up 0.5%, 3.2%, and 11.4% respectively. On the other hand, sales in women's stores, children & infants, family clothing stores and shoe stores dropped, falling 1.6%, 9.4%, 18.5% and 8.3% respectively.

Sales by home furniture and appliance stores (SIC 57) registered $3.5 billion in fiscal 2003, down 3.1% from $3.6 billion in fiscal 2002. These establishments are comprised of computer and software stores, furniture stores, and home furnishing stores. Sales by home improvement related stores increased, while sales of computer related items fell significantly, reflecting mixed business conditions in a sagging economy. Sales at computer and software stores fell 27.2% to $0.41 billion, caused by poor sales, deep price cuts, and the ability to custom order computers through the Internet. Sales also declined at record stores (17.8%) and household appliance stores (14.1%). Sales increases were registered in drapery (16.2%), radio, TV & electronics (10.4%) furniture stores (5.0%), and at floor covering stores (2.8%).

Sales by eating and drinking establishments (SIC 58) were $3.5 billion in fiscal 2003 up 2.6% from fiscal 2002. Of the total, sales in eating places were $3.3 billion, up 2.6% from $3.2 billion in fiscal 2002. Sales in drinking places rose by 1.6% to $0.15 billion.

Sales by miscellaneous shopping stores (SIC 59) were $12.3 billion in fiscal 2003, up 10.5% from fiscal 2002. Miscellaneous shopping stores include a wide range of stores such as drugs, liquor & cigar, sporting goods, books and stationery, jewelry, gifts and souvenirs, catalog and mail order, direct selling organizations, optical goods, and other miscellaneous retail in arts, pet foods, and telephones, etc. Sales at jewelry stores increased a dramatic 53.6%. Sales also increased at fuel dealers (32.4%), luggage stores (8.4%), and liquor stores (5.2%). In contrast, sales at gift novelty & souvenir stores declined 47.0%, followed by decreases at news dealers (16.8%), cigar shops (16.7%), florists (12.7%), and specialty stores (6.3%).

As people become more conscientious about their health and the population ages, demand for nutritional supplements (such as vitamins or herbal drugs and medicines for preventive purposes) and fitness & exercise equipment has increased. Sales by drug stores reflected this trend, growing 44.3% in fiscal 2003. Although the need for health care drugs and supplements

grows with an aging population, drug stores at the same time face fierce competition. Traditional and chain drug stores have been yielding market share to supermarkets and discount stores. Sales by direct selling organizations such as Amway and Tupperware continued to grow, up 28.9% to $1.3 billion in fiscal 2003 while sales by mail order houses fell 14.9% to $0.73 billion.

In addition to the traditional transactions occurring in Connecticut based "bricks and mortar" establishments, a significant amount of retail activity is also taking place within and beyond the state's borders through mail and on-line order sales. As computer technology advances rapidly, so do on-line sales through the Internet. The revolutionary on-line transactions provide sufficient product information and often offer favorable discounts. In addition, they are convenient to access, virtually open around the clock and involve no travel. As more merchants find that opening a store on the Internet is more cost effective or more attractive than opening a store in a mall, transactions through the Internet are expected to increase rapidly. These direct purchases primarily include personal computers, electronic gadgets, furniture, sporting goods, books, music, apparel, flowers & cards, and toys etc.

U.S. Supreme Court rulings forbid states from forcing retailers to collect sales tax unless the seller has a physical presence in the state where the purchase is made (nexus). As retail sales via the Internet grew rapidly, the U.S. Department of Commerce started estimating e-commerce quarterly transactions in late 1999. In fiscal 2004 national retail e-commerce sales are estimated at $62.5 billion, accounting for 1.7% of total retail sales of $3,525.0 billion. Retail transactions through the Internet have increased much faster than traditional brick and mortar sales. E-commerce retail sales rose 28.5% in fiscal 2004 compared to a 6.2% increase for traditional retail sales. The estimate of e-commerce sales does not include travel agencies, financial services, manufacturers, and wholesalers.

Sales via the Internet continue to grow at a brisk pace. According to the Bureau of Census, national e-commerce retail sales in the third quarter of 2004 were up 21.5% from the same period a year ago. Retail e-commerce sales in Connecticut were estimated at $975 million in fiscal 2003. Connecticut has seen erosion of its tax base due to the Internet sales trend. In a study conducted by the University of Tennessee's Center for Business and Economic Research, it was estimated that Connecticut lost between $227 and $236 million in state and local revenue in 2003 due to e-commerce. With most residents failing to file use taxes for the purchase of goods and services made over the Internet, along with the increase in on-line businesses, future sales tax losses are inevitable.

Currently, a joint effort by state and local governments as well as the private sector on the Streamlined Sales Tax Project (SSTP) has been undertaken, aimed at fundamentally restructuring the national sales tax system by creating a uniform taxable base and simplifying tax administration among the states. As of July 2004, 21 of the 44 states who have authorized the participation in SSTP have enacted legislation to fully comply with the Streamlined Sales Tax Implementing States Agreement. Connecticut is currently a participant state. If enough states make the required changes to their tax codes to bring about national uniformity, it will be one less legal obstacle for states to face in collecting revenue from Internet transactions. Momentum for the project is likely to grow as many states confront the erosion in their sales tax base over the next several years. The likelihood of Congressional action on the issue also increases as more states adopt the streamlined approach.

Retail trade as a percentage of disposable income in Connecticut decreased to 35.7% in 2003, down from 36.6% in 2002. The decrease reflects a slower growth in the demand for goods, and to a lesser extent for services, than disposable income. The state's per capita disposable income of $36,313 in 2003 was 30% above the national average of $27,391. In 2003, Connecticut per capita retail trade was estimated at $12,968. With the highest per capita disposable income in the nation, continued overall growth in retail sales is expected. In general, wealthier people tend to purchase more expensive cars and replace them more frequently. The same may be applicable for other durable goods such as computer equipment, appliances and furniture. Additional factors, which affect the level of expenditures, can include tax burden, consumer confidence, economic climate as well as the condition of a household's balance sheet.

According to the 1997 economic census on retail sales, a survey that is done once every 5 years by the U.S. Department of Commerce, Connecticut had $34.9 billion of retail sales, up from $27.8 billion in 1992. Retail sales varied among the state's eight counties with most sales concentrated in Fairfield, Hartford, and New Haven. These three counties accounted for 80.5% of total sales, with the remaining 19.5% spread among the other five counties. The Table on the following page shows retail sales activity by county. Growth in sales also varied among counties. Between 1992 and 1997, Fairfield increased the fastest at 34.5%, followed by Litchfield at 34.2%, compared to a less than 20% growth for Hartford, Tolland, and Windham. As a result, the share of total sales in Fairfield and Litchfield rose while declining in Hartford, Tolland, and Windham.

Although the retail trade sector is one of the major sources of jobs in the Connecticut economy, both the number of establishments and employment has declined. In 1997, the sector had 14,574 establishments that employed 186,935 persons. Establishments were down from 21,012 in 1992 and 21,688 in 1987 while employment was down from 240,885 in 1992 and 267,611 in 1987. This downward trend in establishments and employment reflects an overall change in the economic structure, operational management, and technological revolution in this sector. With the implementation of just-in-time inventory strategy assisted by advancements in computer management aids, job hiring was suppressed. As mega-sized discount and chain stores continued to grow and on-line order accessibility increased, markets became more competitive, forcing average sized retailers out of business. Aside from the expansion of catalog marketing, electronic retailing has exploded, shifting sales away from in-state retailers and putting downward pressure on job growth. The greater availability of electronic devices that provide more efficient market information and offer convenient shopping alternatives only exerts mounting pressure on the local "main street" businesses.

This sector is expected to undergo continual evolution and encounter profound competition in the future. As the economy becomes more global, competition will continue to heighten and require revisions in strategies to prevent declining market shares and falling profit margins. As transformations in demographics occur, such as more young adults living alone and persons per household declining, domestic retailers shall have to reassess and adjust their traditional selling strategies to fit these new consumption patterns.

TABLE 48
RETAIL SALES IN CONNECTICUT BY COUNTY

	Sales ($M)	% of Total	Number of Employees	Per Employee Sales ($ 000's)	Employees Per Establish.	Number of Establish.	Annual Payroll ($M)	% of Total
A. 1992 Economic Census								
Fairfield	8,599.2	31.0%	63,773	134.8	11.3	5,652	1,076.5	31.1%
Hartford	7,476.0	26.9%	69,508	107.6	13.0	5,351	952.2	27.5%
Litchfield	1,200.5	4.3%	10,222	117.4	8.8	1,158	145.5	4.2%
Middlesex	1,075.0	3.9%	9,555	112.5	10.3	932	134.9	3.9%
New Haven	6,241.3	22.5%	56,078	111.3	11.2	4,997	756.3	21.8%
New London	1,906.2	6.9%	18,742	101.7	10.8	1,740	239.6	6.9%
Tolland	659.3	2.4%	7,126	92.5	11.8	604	85.4	2.5%
Windham	596.3	2.1%	5,881	101.4	10.2	578	73.8	2.1%
Total	27,753.8	100.0%	240,885	115.2	11.5	21,012	3,464.2	100.0%
B. 1997 Economic Census								
Fairfield	11,563.9	33.1%	54,012	214.1	13.5	4,008	1,218.0	33.5%
Hartford	8,829.0	25.3%	51,121	172.7	13.9	3,683	943.6	26.0%
Litchfield	1,611.0	4.6%	8,193	196.6	10.0	816	158.0	4.3%
Middlesex	1,345.0	3.8%	8,050	167.1	10.8	742	143.1	3.9%
New Haven	7,725.2	22.1%	41,942	184.2	12.6	3,335	775.9	21.3%
New London	2,405.0	6.9%	13,923	172.7	11.8	1,182	240.3	6.6%
Tolland	763.9	2.2%	5,028	151.9	11.7	428	81.8	2.3%
Windham	695.8	2.0%	4,666	149.1	12.3	380	73.6	2.0%
Total	34,938.8	100.0%	186,935	186.9	12.8	14,574	3,634.3	100.0%
C. Growth (%) from 1992 to 1997								
Fairfield	34.5		(15.3)	58.8	19.3	(29.1)	13.1	
Hartford	18.1		(26.5)	60.5	6.8	(31.2)	(0.9)	
Litchfield	34.2		(19.8)	67.5	14.1	(29.5)	8.6	
Middlesex	25.1		(15.8)	48.5	5.3	(20.4)	6.1	
New Haven	23.8		(25.2)	65.5	12.3	(33.3)	2.6	
New London	26.2		(25.7)	69.8	9.1	(32.1)	0.3	
Tolland	15.9		(29.4)	64.2	(0.4)	(29.1)	(4.2)	
Windham	16.7		(20.7)	47.1	20.4	(34.3)	(0.3)	
Total	25.9		(22.4)	62.2	11.5	(30.6)	4.9	

Source: U.S. Department of Commerce, "Census of Retail Trade, Connecticut"

The Table on the following page using the most recently collected data from 1997 compares retail sales with personal income growth and changes in population. Slower sales growth in

Hartford reflected below average growth in income and a decline in population while the healthy sales growth in Fairfield reflected the then strong economic growth due to the gains in the stock market and the high concentration of similar sources of unearned income.

TABLE 49
RETAIL SALES, INCOME AND POPULATION BY COUNTY

	Retail Sales	Personal Income ($B)			Population (000's)		
	% Change			% Change			% Change
	'92 to '97	1992	1997	'92 to '97	1992	1997	'92 to '97
Fairfield	34.5%	31.46	42.05	33.6%	825.5	834.0	1.0%
Hartford	18.1%	22.73	27.28	20.0%	845.1	827.1	(2.1%)
Litchfield	34.2%	4.49	5.58	24.3%	176.4	180.6	2.3%
Middlesex	25.1%	3.74	4.67	24.9%	144.0	148.8	3.3%
New Haven	23.8%	19.73	24.51	24.2%	801.7	792.4	(1.2%)
New London	26.2%	5.71	7.08	24.1%	247.7	248.8	0.4%
Tolland	15.9%	2.84	3.50	23.2%	128.5	130.8	1.8%
Windham	16.7%	2.04	2.49	21.9%	103.2	104.8	1.6%
Connecticut	25.9%	92.75	117.17	26.3%	3,272.2	3,267.2	(0.2%)

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Small Business in Connecticut

Small businesses in the nation, as well as in Connecticut, have been playing an increasingly important role in overall economic activity. Small businesses are often cited as the major labor generators, the important job providers, and the primary technological innovators. Studies have shown that small businesses contributed the majority of the scientific and technological advances and developments in the twentieth century. They tend to be externally efficient which leads to the creation of new products, new jobs, and new processes. On the other hand, large business firms tend to be internally efficient, which leads to substituting capital for labor and focusing on cutting operational costs. In addition, small businesses help develop the free enterprise system, deterring monopoly formation by providing competition. With greater innovation and product differentiation occurring within small businesses, large firms are forced to improve productivity in order to respond to marketplace competition, thereby increasing society's social well-being and standard of living.

Structurally, small business tends mostly to be sole proprietorships and partnerships, and, to a lesser extent, corporations. These organizations range from "mom & pop" stores to high-tech instrument laboratories. The definition of a small business, however, varies, and may even change over time.

Theoretically, a small business firm is one that does not benefit from an economy of scale available to large firms. The U.S. Small Business Administration (SBA), in determining eligibility for loans and assistance, takes into account whether the entity concerned is dominant in its market. Other criteria include amount of annual receipts and number of

employees, which may even vary by industry. The definition of small business varies from state to state based on comparative size in the regional economy, industrial structure, and policy emphasis.

According to Connecticut General Statutes, Chapter 588r, a small business is a firm with an employee size of 500 or less. It includes employees in any subsidiary or affiliate of a corporation, partnership, or sole proprietorship, operating for profit. For entities focused on special innovative research programs, the size of a small business is based upon federal guidelines.

According to the classification of the U.S. Department of Commerce, businesses can be broken down into several groups by employment size. Since the definition for small business is not generally agreed upon, the Department of Commerce, rather than identifying them by specific size, simply lists all employment classes for comparison.

In 2001, the latest year for which complete, consistent and comparable data is available, among the total 92,105 establishments employing 1,555,214 persons in Connecticut, small businesses with fewer than 100 employees accounted for 82.5% of total establishments and 35.7% of the total labor force.

The Table on the following page shows the breakdown of employment for manufacturing and non-manufacturing sectors and the distribution statistics for establishments and employment by business size in Connecticut. This Table demonstrates that small businesses constitute a major part of the state's employment and have contributed to job growth through the 1990s.

The Table also shows that, in 2001, small business firms played almost an equally important role in the nonmanufacturing sector as in manufacturing. Businesses with more than 500 employees accounted for 49.1% of total employment in nonmanufacturing, compared to 54.3% in manufacturing. This lower percentage is indicative of the concentration of small business in service activities where substitutions are uncommon and services are inherently specialized while goods production occurs in larger firms with economies of scale in both labor and capital. This certainly fits the traditional economic production model. Determining whether small or large businesses create more jobs, however, depends upon the point in the economic cycle when the assessment begins. We may be seeing a change.

A breakdown of total employment into manufacturing and nonmanufacturing sectors reflects different growth patterns for various firm sizes. During this period, the employment increase was solely in the nonmanufacturing sector which continually absorbed the outflow from the manufacturing sector, further shifting the economic activity of the state toward services. During this time, the percentage of all manufacturing firms which had 500 or more employees fell from 63.7% in 1992 to 54.3% in 2001, while the percentage of all nonmanufacturing firms which had 500 or more employees rose from 45.5% in 1992 to 49.1% in 2001. This more pronounced decrease in the employment in larger manufacturing firms could be explained by a move to permanent downsizing and outsourcing, thus becoming more productive. It is cheaper for larger firms to outsource more work to smaller firms and reduce their costs of sudden and drastic changes in labor requirements. The relatively larger increases in employment seen in the larger nonmanufacturing firms could be the result of a maturing of the service industries and the resulting consolidation of some services into larger firms.

TABLE 50
SMALL BUSINESS EMPLOYMENT IN CONNECTICUT
(Size of Employment in Thousands)

Calendar Year	1-4	5-9	10-19	20-99	100-499	500&up	Total
A. Employment			Manufacturing Employment				
1992	4.0	6.7	12.4	45.1	49.8	207.5	325.6
2000	3.5	6.1	12.1	44.3	40.8	125.9	232.8
2001	3.5	6.0	12.1	44.2	40.8	126.7	233.2
(# Change, 92-01)	(0.6)	(0.8)	(0.3)	(0.9)	(9.1)	(80.8)	(92.4)
(% Growth, 92-01)	(13.9%)	(11.4%)	(2.5%)	(2.0%)	(18.2%)	(38.9%)	(28.4%)
(% Growth, 92-00)	(12.5%)	(8.6%)	(1.8%)	(1.9%)	(18.1%)	(39.3%)	(28.5%)
(% Growth, 00-01)	(1.6%)	(3.0%)	(0.7%)	(0.2%)	(0.1%)	0.7%	0.2%
			Nonmanufacturing Employment				
1992	73.9	82.7	93.1	195.2	146.8	494.9	1,086.6
2000	72.9	85.5	101.9	227.2	181.2	644.8	1,313.5
2001	72.0	84.7	100.9	231.2	184.5	648.8	1,322.0
(# Change, 92-01)	(1.9)	2.0	7.7	36.0	37.7	153.9	235.4
(% Growth, 92-01)	(2.6%)	2.4%	8.3%	18.5%	25.7%	31.1%	21.7%
(% Growth, 92-00)	(1.3%)	3.3%	9.4%	16.4%	23.4%	30.3%	20.9%
(% Growth, 00-01)	(1.3%)	(0.9%)	(1.0%)	1.8%	1.8%	0.6%	0.7%
			Total Employment				
1992	77.9	89.5	105.5	240.3	196.6	702.5	1,412.2
2000	76.4	91.6	114.1	271.4	222.0	770.6	1,546.3
2001	75.4	90.7	112.9	275.4	225.2	775.5	1,555.2
(# Change, 92-01)	(2.5)	1.2	7.4	35.1	28.6	73.0	143.0
(% Growth, 92-01)	(3.2%)	1.4%	7.1%	14.6%	14.5	10.4%	10.1%
(% Growth, 92-00)	(1.9%)	2.4%	8.1%	13.0%	12.9%	9.7%	9.5%
(% Growth, 00-01)	(1.3%)	(1.0%)	(1.0%)	1.5%	1.4%	0.6%	0.6%
B. Total Establishments							
2001	44.2	14.0	8.9	8.9	3.9	12.2	92.1
C. Distribution of Establishments & Employment, 2001							
Establishments	48.0%	15.2%	9.6%	9.7%	4.2%	13.3%	100.0%
Cumulative	48.0%	63.2%	72.8%	82.5%	86.7%	100.0%	
Total Employment	4.9%	5.8%	7.3%	17.7%	14.5%	49.9%	100.0%
Cumulative	4.9%	10.7%	17.9%	35.7%	50.1%	100.0%	
Nonmfg Employ.	5.4%	6.4%	7.6%	17.5%	14.0%	49.1%	100.0%
Cumulative	5.4%	11.9%	19.5%	37.0%	50.9%	100.0%	

Note: Totals may not add due to rounding.

Source: U.S. Department of Commerce, Bureau of the Census
Manufacturing employment in Connecticut has continued on a downward trend through the 1990s since its peak in 1984. The loss of manufacturing employment occurred across the board with the smallest decrease in smaller firms which are not as susceptible to the vagaries of the economy. They are generally less capitalized and managed by family owners or by a joint venture operated by closely related members. These businesses are more self-sustaining and are willing to bear greater cost pressures, making them relatively recession proof and less mobile geographically. Large manufacturing businesses have been more responsive to economic conditions by adjusting their workforce size or moving. The downward trend is a common phenomenon for states in the Northeast because of unique regional economic factors. The decline has been more rapid until recently, spurred by globalization, deregulation, technology improvements, and budget cuts. These factors create more competition in the already fiercely competitive marketplace, resulting in lower employment in the manufacturing sector.

Negative factors affecting small businesses include higher operating costs, tighter credit availability, and less price flexibility. Material purchases and transaction costs for small business firms are normally not large enough to take advantage of volume discounts, creating a cost disadvantage. Small business firms may lack financial strength or enough assets to be used as collateral for financing purposes. Without name recognition and a long track record, obtaining credit can be constrained, thereby limiting a firm's growth potential. Major corporate loans are normally negotiated at the prime rate while small sized businesses are charged additional points above prime. When costs increase, small business firms may not be able to adjust prices to fully recover their costs from customers, thereby reducing profit margins. Larger firms generally can exert control over costs and prices as well as increase their economic power by expanding market share.

Small businesses are constantly facing operational difficulties and at the same time confronting competition from larger firms. To ensure constant growth for the economy, it is imperative that policy makers pay special attention to small businesses. Recognizing that small business is an important engine of economic growth, the State has aggressively created and provided a wide range of programs and services aimed to help expand or set-up new businesses. The Connecticut Department of Economic and Community Development (DECD) has partnered with the Connecticut Economic Resource Center, Inc. to provide programs such as counseling, training, financing, technical assistance, and trade information to assist this important sector.

For more information, please write or contact the following:

Connecticut Economic Resource Center, Inc.
805 Brook Street
Rocky Hill, CT 06067
1-(800)-392-2122

Connecticut Department of Economic & Community Development
Research Division
505 Hudson Street
Hartford, CT 06106
(860)-270-8165

Nonfinancial Debt

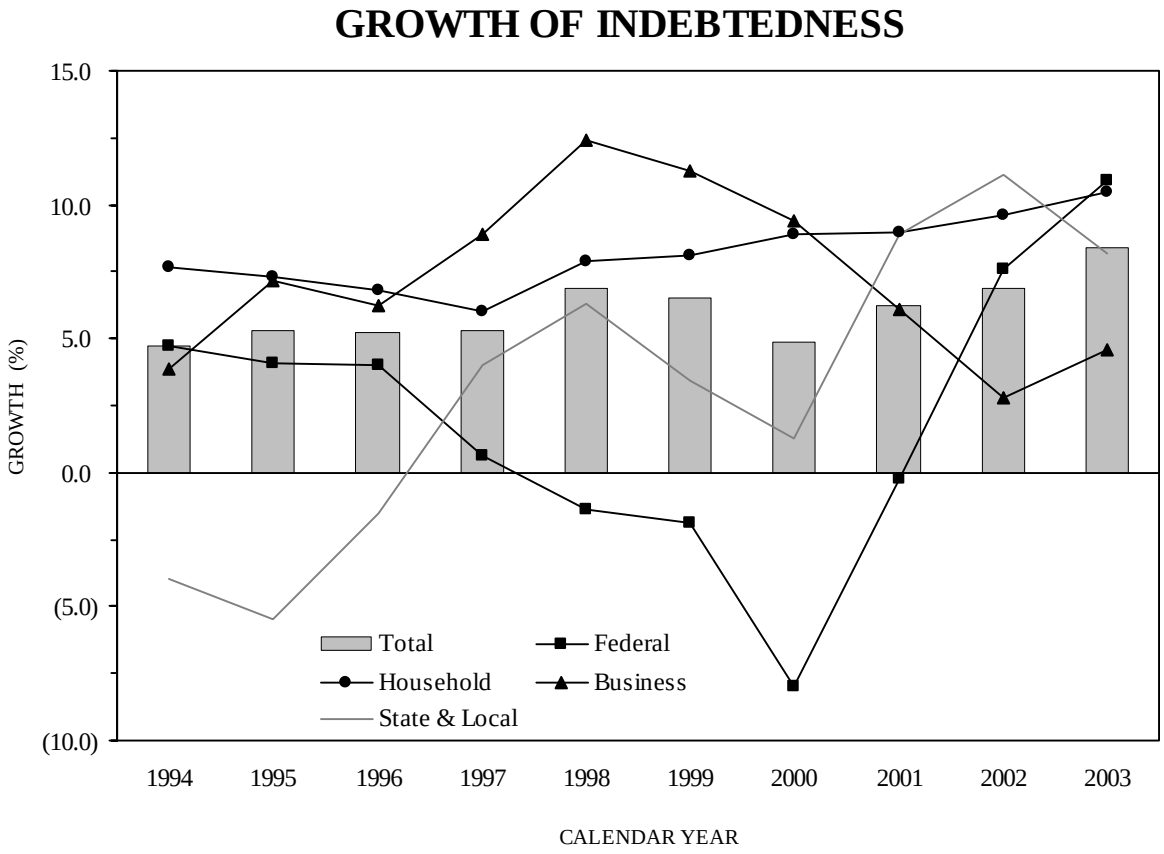
National attention has been centering on the issue of the federal budget and trade deficits, as well as the level of indebtedness of domestic nonfinancial entities. Domestic Nonfinancial Debt (DNFD) is the aggregate net indebtedness of all nonfinancial borrowers in the United States. It includes the borrowings of all levels of government, business and households. It excludes the debt of foreigners and the liabilities of financial intermediaries such as commercial banks, thrift institutions and finance companies. As required by the Full Employment and Balanced Growth Act of 1978, Domestic Nonfinancial Debt is compiled quarterly by the Federal Reserve.

The Chart on the following page depicts the 10-year growth history for total DNFD and each of its components. Growth in total DNFD, which registered double-digit growth rates in the mid 1980s, slowed to an average of 6.0% in the past 10 years. It grew 8.4% in 2003, up from 6.9% in 2002. Among the four components, only the growth in debt of state and local government slowed, the other three sectors showed either a continued rapid increase or a reversal in their downward trend. Growth in both the household and the federal government sectors continued at a brisk pace, growing 10% or more. The improvement in debt outstanding of the federal government stopped after 2001 and worsened in 2003 with a 10.9% growth. The acceleration for the federal government was due to a reduction in revenue from personal income tax cuts, an increase in spending related to the fight against terrorism at home and abroad, as well as other functions such as the rising cost of health care. Growth in household borrowings jumped as interest rates sank to a 4-decade low that spurred demand for housing. Growth in the business sector rebounded after declining for four years, reflecting a sharp increase in mortgages and corporate bonds. Growth in state and local government debt financings slowed as their financial condition improved. Details for each sector are described beginning on the next page.

In 2003, according to the Federal Reserve, the seasonally adjusted year-end total domestic nonfinancial debt outstanding was $22,272.2 billion, with households accounting for 41.5% of the total, nonfinancial businesses at 33.3%, the federal government at 18.1%, and state and local governments at 7.0%. Prior to 1990, household borrowings trailed those of businesses; however, faster growth since 1991 in home mortgages and consumer credit coupled with a steady increase in income helped catapult household borrowings to the top. Over the past decade, the private sector has increasingly played a more important role in the debt market. Debt outstanding in the household and nonfinancial business sectors accounted for 74.9% of the total in 2003, up from 64.6% for 1994. Among the four categories, the household sector grew 103% in the past decade, followed by nonfinancial business at 93%; state and local governments at 41%; and the federal government at 16%, compared to an increase of 72% for total debt balances.

The DNFD-to-GDP ratio stood at 197.6% in 2003, up from 181.9% in 2000, 185.6% in 1990 and 140.9% in 1980, implying a faster growth in nonfinancial debt than GDP in the past two decades. The DNFD-to-GDP ratio gained speed in the late 1980s as a result of a combination of nearly double-digit increases in federal borrowings and the deregulation of the financial markets. During the 1980s, non-bank financial institutions funneled funds more freely between the suppliers of capital and its consumers, creating a more competitive and efficient

market. The ratio declined in the late 1990s as federal debt fell, which was accompanied by more robust GDP growth. However, the ratio increased lately, resulting from an economic recovery and an accommodative monetary policy.



Source: Board of Governors of the Federal Reserve System & U.S. Department of Commerce

Household Borrowing

Household borrowings, which accounted for 42% of total non-financial debt, include home mortgages, consumer credit, and other miscellaneous items. Growth in household borrowings accelerated to 10.5% in 2003 after reaching a recent low of 6.7% in 1997.

Growth in household borrowings is closely related to economic and household wealth conditions. When income and wealth expand, it nurtures consumer spending and confidence, and then sustains consumer spending and borrowings. During the second half of the 1980s, when borrowing growth averaged 9.0%, a buildup of wealth, generated by increases in income and appreciation of real estate and stocks, as well as innovations in the financial market and remarkably low interest rates created a borrowing binge. In the first half of the 1990s, when growth averaged 6.3%, sluggish income growth, the depressed value of real estate, an uncertain economy, and increased health insurance and educational costs made consumers more cautious. In the second half of the 1990s, household borrowings climbed to

7.7% on average as a result of the continued strong economy, a healthy growth in income from wages, capital gains, and an appreciation in home values.
Household borrowings expanded at a 9.0% rate in the beginning of the 2000s and picked up speed into 2002 and 2003 as the economy continued to recover. The value of stocks dropped 27% by the end of 2003 to $9.3 trillion from their peak in the first quarter of 2000. However, due to the continued decline of mortgage rates to a four-decade low, home values increased 27% to $15.0 trillion during the same period, according to the Board of Governors of the Federal Reserve System. Continued appreciation in home values and favorable interest rates have created a vibrant housing market, helping dilute the negative wealth impact brought about by a sharp decline in the stock market. The economy continues to grow as families use home equity to finance personal spending, trade up, or invest in new construction amid a time when business investment declined and only recently started to grow in 2003. The ratio of net home equity to disposable personal income, one of the measures of the wealth effect, consistently increased from a ratio of 1.49 in the first quarter of 2000 to 1.73 in late 2002 and 1.80 in late 2003. The share of net home equity, which is the value of one's home less a home mortgage, in total family net assets has become more important, increasing from 30% to 47% during the same period. In addition, as the equity markets improved from their late 2002 lows, so did the household balance sheets, greatly supporting consumer spending.

Among total household borrowings of $9.25 trillion in 2003, home mortgage loans accounted for $6.69 trillion, or 72.3%, followed by consumer credit at $2.03 trillion, or 21.9%, with the remainder in other miscellaneous items. The resurgence of household borrowings primarily reflects strength in the housing market. Total outstanding home mortgages in late 2003 were up 12.7% from a year ago. Brisk demand for homes and refinancings were mainly supported by extraordinarily favorable mortgage rates and aggressive mortgage lending. Conventional 30-year fixed mortgage rates averaged 5.82% in 2003, down from 6.54% in 2002. As mortgage rates edged down, refinancing activities increased. Of the total $3.4 trillion mortgages originated in 2003, the refinancing portion stood at $2.2 trillion, accounting for 62% of total originations, up from 58% in 2002 and 22% in 2000. Research findings show that rising home prices have a bigger influence on credit creation and spending than that of rising equity prices. Home value appreciation is perceived more permanent and consistent with a higher propensity to consume by the public relative to gains in the stock market that are volatile and ephemeral in nature. Unlike capital gains on stocks, benefits realized through mortgage refinancing due to the appreciation of homes or lower mortgage rates can be cashed out without tax liability. Refinancing will free up more money for spending or paying off old debts. Although mortgage financings continued to rise in the U.S., the credit quality on residential real estate loans improved. Delinquency rates decreased to 1.81% in 2003, down from 1.99% in 2002 and 2.25% in 2001.

Consumer credit not secured by real estate, including automobile loans, personal loans, and revolving credit (which includes credit card debt and store charges) registered $2,025 billion in late 2003, up 4.3% from a year go. Consumer credit helped finance a large expansion in spending for consumer non-durables. Credit card debt continues to increase at a rapid pace as convenience and security continue to improve, and more consumers rely on credit cards for making purchases online or by telephone. Credit cards have been making inroads in the purchases of other goods and services. Use of credit cards for college expenses, medical and dental expenses, and government taxes and fees have risen sharply. The frequent flyer mileage and hotel discount programs, free car and travel insurance, as well as credits or

reimbursements toward the purchase of commodities, also contributed to the rise in credit card debt. Business use of credit cards has also increased rapidly. Due to simplicity, speed and the convenience of credit cards, more small businesses use them as one of the ways to finance their operations, including leasing of items such as vehicles and computer equipment. Small-business suppliers, wholesalers, and distributors are also increasingly accepting credit cards. It is estimated that half of all small businesses used credit cards as a financing source. Credit card usage has even gained widespread penetration at the college level. Research shows that 60 percent of college students have at least one credit card and carry an average balance of more than $1,800.

Business Borrowing

Business borrowings include debts owed by corporations, nonfarm noncorporations and farms. Total borrowings grew by 4.6% to $7.43 trillion at the end of 2003. The bulk of the debts are owed by corporations that account for approximately 70% of the total. Corporate borrowings grew slowly by 3.7% to $4.99 trillion at the end of 2003. The slower growth rate was due to previous over-investment and uncertainty in the economy. Borrowing instruments include corporate bonds, commercial paper, municipal securities, bank loans, mortgages, and others. Corporate bonds comprised the major portion of the total, accounting for 41.4%, followed by mortgages at 35.0%, and bank loans at 15.0%. Both corporate bonds and mortgages grew substantially as interest rates remained low, while financing through traditional bank loans declined. Corporate bonds issued grew 6.3% to $2.87 trillion at the end of 2003 and corporate mortgage borrowing grew 11.4% to $2.43 trillion.

Thanks to favorable interest rates in the past few years, corporations have replaced high cost long-term debt with shorter-maturity debt. With strong revenue growth and the rally in equity markets, corporate balance sheets have drastically improved. Annualized corporate cash flow at the end of 2003 exceeded capital spending by $74.7 billion after reaching a record of $78.8 billion during the previous quarter. Improved financial conditions allowed capital spending to expand beyond replacement demand. The ISM manufacturing Index, conducted by The Institute for Supply Management, for last quarter of 2003 reached 60.2 after dropping to 41.7 in first quarter of 2001 and had been hovering around 50 over the past three years. An index above 50 indicates activity expansion in the manufacturing sector, while a reading below 50 indicates contraction.

Government Borrowing

In the 1970s, the federal deficit surged. To mitigate the recessions experienced in the early 1980s, the federal administration applied an expansionary fiscal policy to stimulate aggregate demand. At the same time, a tax cut was implemented in an attempt to sacrifice a short-term loss in revenue for a long-term gain by reducing spending and increasing revenues through more rapid economic growth. This expectation, however, was not realized and deficits persisted during the mid 1980s when the economy was booming.

In fiscal 1992, the federal deficit, based on a unified budget that includes Social Security and Medicare reached its zenith at $290.4 billion as a result of the recession that occurred between July 1990 and March 1991. It fell to $22.0 billion in fiscal 1997. The situation continued to improve, resulting in a surplus of $69.3 billion in fiscal 1998, the first surplus since 1969, a surplus of $236.5 billion in fiscal 2000 and $127.3 billion in fiscal 2001. However, deficits

returned in fiscal 2002 registering $157.8 billion, deteriorating to $374.8 billion in fiscal 2003 and worsening to $412.6 billion in fiscal 2004. The turn from a consecutive 4-year surplus to deficits was due to the combination of a decline in revenue accompanied by an increase in outlays. Receipts in 2004 increased 5.5% to $1,879.8 billion; however, outlays in 2004 grew 6.3% to $2,292.4 billion. As the federal operating gap widened, so did the increase in the national debt. By the end of federal fiscal year 2004, gross debt outstanding registered $7,379.1 billion, up 8.8% from fiscal 2003, compared to an increase of 2.3% and 0.3% in fiscal 2001 and 2000.

Of the 2004 total federal gross debt of $7,379.1 billion, $4,307.3 billion was held by the public and $3,071.7 billion by intra-governmental agencies. Public holders include individuals, corporations, state or local governments, foreign governments, and other entities outside of the United States while intra-governmental agencies hold federal securities in trust funds, revolving funds, and other special funds. The federal statutes authorize federal agencies such as the Federal Reserve Bank and various trust funds to invest in Treasury securities.

Total state and local government's debt outstanding spiked in the past three years. It totaled $1.62 trillion at the end of 2003, an 8.4% growth after increases of 11.1% in 2002, 8.9% in 2001 and an average of 2.3% for 1999 and 2000. This compares with its peak increase of 32.0% in 1985 and recent low of negative 5.5% in 1986. State and local government includes states, counties, municipalities and other local entities. The most recent recession caused state coffers to shrink as the increase in current expenditures exceeded the increase in current receipts. Current receipts registered $1,494.9 billion versus $1,498.1 billion for current expenditures, yielding an operating deficit of $3.2 billion for 2003, down from a deficit of $25.0 billion in 2002. This deficit reversed a surplus of $4.8 billion in 2001 that was down from a surplus of $52 billion registered in 1998. Facing financial difficulties in recent years, states have slashed spending, cut programs, raised taxes and fees, securitized tobacco settlement funds, and issued debt to bridge the budget shortfalls.

According to the U.S. Department of Commerce's "State Government Finances," state government debt outstanding in Connecticut, from all obligations at the end of fiscal 2002, the latest available year, was $20.78 billion, up from $19.01 billion in 2001. Per capita state government debt was $6,009, up from $5,539 in 2001 and compared with $2,234 for the nation, which was up from $2,025 in 2001.

Connecticut's overall credit rating is determined by three major investment houses: Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service, Inc. As of the end of 2003, Connecticut's General Obligation bonds are rated Aa3 by Moody's and AA by the other two firms.

PERFORMANCE INDICATORS

This section is devoted to performance trends of various economic indicators for three entities; the United States, the New England Region and Connecticut. These statistics will indicate the relative economic performance of the entities showing both their strong and weak points.

Gross Product

Gross National Product (GNP) is defined as the aggregate current market value of final goods and services produced by a nation's citizens and capital, regardless of location, in a given period of time. GNP was generally used as a measure of a nation's economic performance to track the cyclical ups and downs of the economy, but GNP reflects more than domestic activity; products produced by citizens outside territorial borders are included, while products produced by foreign workers and capital located in the nation are excluded. As a result, Gross Domestic Product (GDP) which measures all economic activity within a territory, and is consistent with other economic indicators such as employment and shipments of manufactured goods, has been adopted as a better measure of economic activity within a territory.

Because prices of goods and services change over time, both GNP and GDP may also change, even if there has been no change in physical output. Therefore, to measure changes in real output, they are adjusted by an index of the general price level and expressed in constant dollars. Other things being equal, when real gross product rises the economy is experiencing an expansion; when real gross product falls the economy is experiencing a decline. In the past, a fixed-weighted inflation index, the GDP deflator, had been used to measure real output, but with the rapid change in technology, price movements for certain commodities actually grew less than the price for all goods on average. As such, the traditional measurement of real product had misstated the growth in output as it moved away from the base year, creating what is known as substitution bias. To correct for this bias, the U.S. Department of Commerce, Bureau of Economic Analysis, uses a chained-type inflation index based on 2000.

One measure of a state's economic performance is Gross State Product (GSP). Like GDP, GSP is the current market value of all final goods and services produced by labor and property located in a state. In 2002, the State of Connecticut produced $165.7 billion worth of goods and services and $158.9 billion worth of goods and services in 2000 chained type dollars. The Table on the following page provides a five-year comparison of nominal and real gross products for Connecticut, the New England Region and the Nation as a whole.

The output contribution of manufacturing, however, has been declining over time as the contributions of finance, insurance and real estate and services have been rapidly increasing. The share of production from the manufacturing sector decreased, caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which includes industries in information, professional and technical services, health care and education, FIRE and other services have increased to 59.8% of total GSP in 2002 from 57.7% in 1998. During this period, the shift toward services in Connecticut has been occurring at a slightly slower rate than the rate for the nation as a whole. The share of service production increased 2.1 percentage points (3.6%) in Connecticut versus 2.5 percentage points

(5.2%) for the nation. The increasing share of service production may help smooth the business cycle, reducing the span and depth of recessions and prolonging the length of expansions. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and somewhat less vulnerable to foreign competition. Therefore, this shift to the service sectors should smooth output fluctuations.

TABLE 51
GROSS PRODUCT

Calendar	United States *		New England *		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
A. Millions of Current Dollars						
1998	8,679,658		495,753		143,232	
1999	9,201,138	6.0	523,099	5.5	148,251	3.5
2000	9,749,105	6.0	564,534	7.9	157,988	6.6
2001	10,031,393	2.9	579,858	2.7	162,411	2.8
2002	10,407,141	3.7	595,910	2.8	165,744	2.1
% Increase ('98 to '02)		19.9		20.2		15.7
B. Constant Dollars**						
1998	9,004,664		508,805		148,276	
1999	9,404,246	4.4	530,553	4.3	151,013	1.8
2000	9,749,105	3.7	564,534	6.4	157,988	4.6
2001	9,809,501	0.6	569,384	0.9	158,810	0.5
2002	10,014,936	2.1	574,116	0.8	158,902	0.1
% Increase ('98 to '02)		11.2		12.8		7.2

* Sum of State's Gross State Products.

** 2000 chained dollar series are calculated as the product of the chain-type quantity index and the 2000 current-dollar value of the corresponding series, divided by 100. The system for these calculations was converted from SIC Codes to the NAICS system for years 1998 and later.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The Table on the following page, which displays gross state product by source in 2002, shows Connecticut's production concentrated in two areas: finance, insurance and real estate (FIRE) and manufacturing. Production in these two industries accounted for 42.1% of total production in Connecticut compared to 33.4% for the nation and was little changed from 42.6% in 1998. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and this concentration has changed little in recent years.

TABLE 52
GROSS PRODUCT BY SOURCE
(In Billions of Current Dollars)

	------ Calendar 1998 ------				------- Calendar 2002 -------			
Industry	U.S.	%	CT	%	U.S.	%	CT	%
Agriculture, Forest & Fisheries	102.4	1.2	0.319	0.2	98.6	0.9	0.327	0.2
Construction & Mining	449.2	5.2	4.469	3.1	570.4	5.5	5.355	3.2
Manufacturing	1,343.9	15.5	21.401	14.9	1,351.6	13.0	20.807	12.6
Wholesale Trade	542.9	6.3	8.507	5.9	622.9	6.0	9.079	5.5
Retail Trade	598.6	6.9	8.740	6.1	765.8	7.4	11.004	6.6
Transportation & Utilities	454.5	5.2	4.789	3.3	496.5	4.8	4.995	3.0
Information	381.6	4.4	5.563	3.9	484.0	4.7	6.224	3.8
Finance, Insurance, Real Estate	1,684.6	19.4	39.656	27.7	2,125.7	20.4	48.925	29.5
Professional, Technical Services	565.3	6.5	10.870	7.6	723.5	7.0	12.707	7.7
Health Care & Education	601.5	6.9	11.650	8.1	793.1	7.6	14.648	8.8
Other Services	928.0	10.7	14.852	10.4	1,122.0	10.8	16.582	10.0
Government	1,027.2	11.8	12.416	8.7	1,253.0	12.0	15.091	9.1
Total	8,679.7	100.0	143.232	100.0	10,407.1	100.0	165.744	100.0
Broadly Defined Services		47.9		57.7		50.4		59.8
CT as a % of U.S. Total GSP			1.65				1.59	

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Per Capita Gross Product

Growth in gross product may not sufficiently reflect the overall improvement in the well being of an economy. Gross product may rise significantly, but population may increase even more rapidly, signifying no real improvement in the well being of the economy. Therefore, real per capita gross product, which takes into account increases in population and inflation provides a better measure of the standard of living among differing economies. The Table on the following page provides a comparison of annual nominal per capita and annual real per capita output for the United States, the New England Region and Connecticut.

Growth in Connecticut was relatively low in the late 1990s, reflecting a struggle to recover from a deeper recession in the early 1990s when compared with the United States. The ratio of Connecticut's real per capita output relative to the United States was unsteady between 1998 and 2002, suggesting that the recession in Connecticut was deeper than most of the rest of the nation and, overall, productivity in the state may not have increased as fast as earlier thought. The latest data shows that, between 1998 and 2002, Connecticut's real per capita output increased 4.3% compared to 6.6% nationally for the same period, but has remained one third higher than that of the nation.

TABLE 53
PER CAPITA GROSS PRODUCT

A. In Current Dollars

Calendar	United States		New England		Connecticut		
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
1998	31,465		36,097		42,561		135
1999	32,974	4.8	37,803	4.7	43,778	2.9	133
2000	34,548	4.8	40,460	7.0	46,300	5.8	134
2001	35,185	1.8	41,283	2.0	47,305	2.2	134
2002	36,143	2.7	42,172	2.2	47,917	1.3	133
% Increase	('98 to '02)	14.9		16.8		12.6	

B. In 2000 Chained Dollars

Calendar	United States		New England		Connecticut		
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
1998	32,643		37,048		44,060		135
1999	33,702	3.2	38,341	3.5	44,594	1.2	132
2000	34,548	2.5	40,460	5.5	46,300	3.8	134
2001	34,407	(0.4)	40,537	0.2	46,257	(0.1)	134
2002	34,781	1.1	40,630	0.2	45,939	(0.7)	132
% Increase	('98 to '02)	6.6		9.7		4.3	

Source: U.S. Department of Commerce, Bureau of Economic Analysis & Bureau of the Census

Productivity and Unit Labor Cost

Gross State Product provides the information to gauge Connecticut's efficiency in the use of labor, i.e. labor productivity. Rising productivity leads to an improved standard of living and curbs inflationary pressures. In Table on the following page, the column entitled Hourly Production shows labor productivity as the ratio of total output to total workhours in Connecticut's manufacturing sector. On an hourly basis, nominal output in the manufacturing sector increased from $66.9 in 1998 to $78.6 in 2001, a 17.5% increase in output per hour over the period compared to only an 8.4% increase in the Consumer Price Index.

Another approach allows for the assessment of the labor cost for each $1 of product produced - the unit labor cost. Labor cost is one of the major input costs and is often cited as a critical indicator of competitiveness. The column entitled Unit Labor Cost shows the monetary cost which is equal to the average hourly wages of each worker divided by productivity. Connecticut continues to enjoy a downward trend in labor costs when productivity is factored in. Per $1 of output costs, the unit labor cost has declined from 23.6 cents in 1998 to 22.5 cents in 2001, a 4.7% reduction over the period, even while production workers have enjoyed a 12.0% increase in average hourly wages.

Overall, productivity depends upon a broad range of factors. Other than wages, the quality of management as well as the size of and quantity of capital stock invested in the form of plant,

machinery and equipment, and the employment of new technologies impact productivity. Any increase in labor productivity is the combined result of all these factors.

TABLE 54
CONNECTICUT'S MANUFACTURING LABOR PRODUCTIVITY

Cal. Year	GSP (Million)	Production Workhours (Million)	Hourly Production (Output Per Hour)	Total Wages (Million)	Average Hourly Wages	Unit Labor Cost (¢ Per $1 Output)
1998	$21,401	320.0	$66.9	$5,064.6	$15.8	23.6¢
1999	$20,360	298.2	$68.3	$4,946.5	$16.6	24.3¢
2000	$20,832	295.1	$70.6	$5,093.9	$17.3	24.5¢
2001	$21,313	271.3	$78.6	$4,807.1	$17.7	22.5¢
% Increase ('98-'01)			17.5		12.0	(4.7)

Source: U.S. Department of Commerce, Bureau of Economic Analysis
U.S. Department of Commerce, Bureau of the Census, "Annual Survey of Manufactures"

Value Added

In order to more accurately assess the performance of the manufacturing sector, one must look beyond employment figures. Employment figures provide only a one dimensional view of what is actually occurring in the manufacturing sector of the Connecticut economy. Although Connecticut has lost 180,100 manufacturing jobs between calendar year 1977 and 2001, this is being partially mitigated by a long-term increase in productivity per worker.

Value added is the market value of a firm's output less the value of inputs which it purchased from other firms. Changes in productivity over time can be measured by dividing the value that is added to a product by the total number of production workers involved in producing that good.

The Chart illustrates the value added concept as raw materials are transformed into a new automobile.

The Table on the following page lists value added per production worker for Connecticut and the U.S. Connecticut's value added per production worker has steadily increased over every period covered in the table. Moreover, by 2001, Connecticut's value added per production worker was 122% of the national average, up from 100% in 1977.

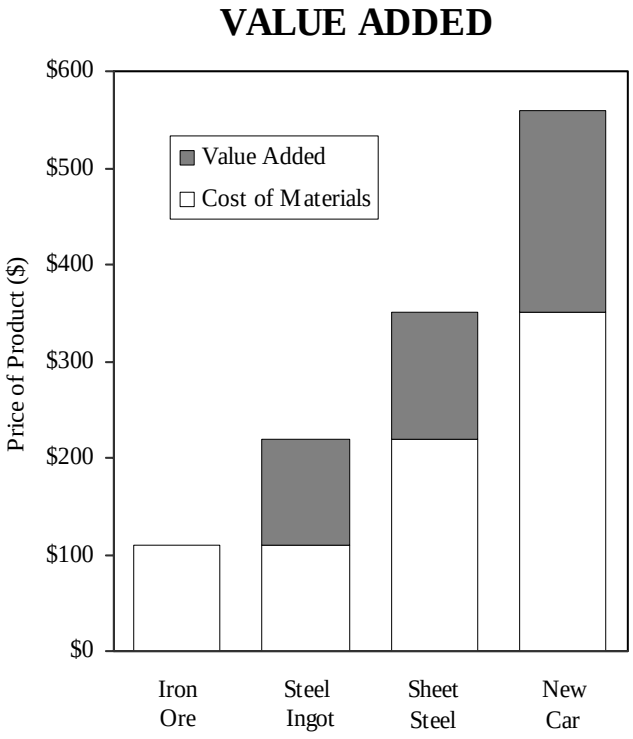


TABLE 55
VALUE ADDED PER PRODUCTION WORKER
(In Current Dollars)

Cal. Year	Conn.	United States	% Change From Prior Period Conn.	% Change From Prior Period U.S.	Cumulative % Change From 1997 Conn.	Cumulative % Change From 1997 U.S.	Ratio of CT Value Added to U.S.
1977	42,828	42,741	61.9	63.3			1.002
1982	66,830	66,458	56.0	55.5			1.006
1987	103,228	94,927	54.5	42.8			1.087
1992	143,074	122,387	38.6	28.9			1.169
1997	179,595	151,317	25.5	23.6			1.187
1998	183,424	155,155	2.1	2.5	2.1	2.5	1.182
1999	188,914	163,185	3.0	5.2	5.2	7.9	1.158
2000	189,191	165,245	0.1	1.3	5.4	9.2	1.145
2001	201,127	165,012	6.3	(0.1)	12.0	9.1	1.219

Note: Value Added Per Production Worker = $\frac{\text{Total Value Added by Manufacture}}{\text{Number of Production Workers}}$

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

The following Table lists value added after removing the effects of inflation for both the United States and Connecticut. In 2001, Connecticut's value added per production worker more than exceeded the rate of growth in inflation as measured by the GDP deflator.

TABLE 56
VALUE ADDED PER PRODUCTION WORKER
(In Constant Dollars, 1996 = 100)

Cal. Year	Conn.	United States	% Change From Prior Period Conn.	% Change From Prior Period U.S.	Cumulative % Change From 1997 Conn.	Cumulative % Change From 1997 U.S.	Ratio of CT Value Added to U.S.
1977	95,151	94,959					1.002
1982	100,861	100,299	6.0	5.6			1.006
1987	133,077	122,376	31.9	22.0			1.087
1992	155,787	133,262	17.1	8.9			1.169
1997	176,178	148,438	13.1	11.4			1.187
1998	177,702	150,315	0.9	1.3	0.9	1.3	1.182
1999	180,261	155,711	1.4	3.6	2.3	4.9	1.158
2000	176,979	154,579	(1.8)	(0.7)	0.5	4.1	1.145
2001	183,845	150,834	3.9	(2.4)	4.4	1.6	1.219

Note: Value Added Per Production Worker = $\frac{\text{Total Value Added by Manufacture}}{\text{GDP Deflator X Production Workers}}$

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

Value added per production worker can vary greatly among manufacturing sectors. Factors which may contribute to this variance include the mix between labor and capital, the overall cost structure for an industry, the volume of production, and the prevailing markup or profit on a product. The following Table segments value added per production worker by industry in Connecticut for calendar year 2000 and 2001.

TABLE 57
VALUE ADDED PER PRODUCTION WORKER IN CONNECTICUT
(In Current Dollars)

Industry	2000	2001	% Change
Manufacturing	189,191	201,127	6.3
Food	234,930	255,220	8.6
Printing	113,349	107,329	(5.3)
Paper	199,848	210,306	5.2
Chemical	729,820	734,740	0.7
Plastics & Rubber	122,713	114,092	(7.0)
Primary Metals	126,818	128,953	1.7
Fabricated Metals	118,135	110,871	(6.1)
Machinery	221,705	256,427	15.7
Computer & Electronic	169,973	174,701	2.8
Electrical Equipment	164,729	155,241	(5.8)
Transportation Equipment	239,104	296,524	24.0

Note: Value Added Per Production Worker = $\frac{\text{Total Value Added by Manufacture}}{\text{Number of Production Workers}}$

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

Capital Expenditures

Connecticut's manufacturers have also been making substantial investments in capital equipment. Total capital expenditures are defined as outlays for permanent additions and major alterations to manufacturing establishments and investments in new machinery and equipment used for replacement and additions to plant capacity. Organizations undertake capital projects for various reasons including to reduce costs, improve efficiencies, upgrade product quality, develop new products and to implement environmental and safety technology. According to the Annual Survey of Manufactures, for the past 10 years, the level of capital expenditures within Connecticut has remained well above the one billion dollar figure. Although capital expenditure figures tend to fluctuate substantially each calendar year, the levels sustained during the past ten years were the highest ever recorded since the U.S. Department of Commerce began tracking such data in 1955. The Table on the following page details capital expenditures in Connecticut.

To further promote the expansion of manufacturing firms in Connecticut, the Legislature passed and the Governor signed into law, the Manufacturing Assistance Act of 1990 and the Manufacturing Recovery Act of 1992. These laws provide substantial incentives for manufacturers to make capital expenditures within Connecticut. The main tenet of the acts is a

five year alleviation of local property taxes on all new or newly acquired machinery used in the production process. The machinery must be of the type classified by the Internal Revenue Service as five or seven year property. Beginning in fiscal 2002, towns are eligible to receive 80% reimbursement from the state for the property taxes foregone on such machinery. Municipalities must then abate the remaining 20% of property taxes on such machinery.

TABLE 58
TOTAL CAPITAL EXPENDITURES IN CONNECTICUT
(In Millions of Dollars)

Calendar Year	Connecticut Capital Expenditures	Percent Change
1992	1,513.6	11.4
1993	1,642.0	8.5
1994	1,586.6	(3.5)
1995	1,517.1	(4.4)
1996	1,768.9	16.6
1997	1,867.8	5.6
1998	1,900.9	1.8
1999	1,715.9	(9.7)
2000	1,861.6	8.5
2001	1,783.2	(4.2)

Source: U.S. Department of Commerce, "Annual Survey of Manufactures"

Total Personal Income

Total personal income, defined as current income received by persons from all sources including public and private transfer payments but excluding transfers among persons, is a good reliable measure of economic performance. Total personal income captures the manufacturing sector through manufacturing wages; the nonmanufacturing sector through wages in government, wholesale/retail trade, utilities, transportation, mining, personal services, etc.; the private sector through proprietor's income, etc.; and a part of agricultural activity via farm properties' income. Personal income is approximately 83% of Gross Domestic Product; hence, the two are well correlated.

The U.S. Department of Commerce, defines the various sources of personal income as the following:

Wages and Salaries - the monetary remuneration of employees, including the compensation of corporate officers; commissions, tips and bonuses; and receipts in kind that represent income to the recipient. Wages and salaries are measured before deductions such as social security contributions and union dues.

Other Labor Income - consists primarily of employer contributions for employee pension and insurance funds and employer contributions for government social insurance.

Property Income - income from Dividends, Interest and Rents.

Dividends are payments in cash or other assets, excluding stock, by corporations organized for profit to non-corporate stockholders who are U.S. residents.

Interest is the monetary and imputed interest income of persons from all sources. Imputed interest represents the excess of income received by financial intermediaries from funds entrusted to them by persons, over income disbursed by these intermediaries to persons. Part of imputed interest reflects the value of financial services rendered without charge to persons by depository institutions. The remainder is property income held by life insurance companies and private non-insured pension funds on behalf of persons; one example is the additions to policyholder reserves held by life insurance companies.

Rental income is the monetary income of persons (except those primarily engaged in the real estate business) from the rental of real property (including mobile homes); the imputed net rental income of owner-occupants of nonfarm dwellings; and the royalties received by persons from patents, copyrights, and rights to natural resources.

Proprietors' Income - the income, including income-in-kind, of sole proprietorships and partnerships and of tax-exempt cooperatives. The imputed net rental income of owner occupants of farm dwellings with certain adjustments is included.

Transfer Payments - income payments to persons, generally in monetary form, for which they do not render current services. These include payments by the government and business to individuals and nonprofit institutions.

Personal Contributions to Social Insurance - contributions made by individuals under the various social insurance programs. Payments by employees and the self-employed (farm and nonfarm) are included as well as contributions that are sometimes made by employers on behalf of their employees (i.e., those customarily paid by the employee but, under special arrangement, paid by the employer).

The correlation between Gross Domestic Product and personal income provides another basis of comparison among individual states. A comparison of growth rates in personal income is a good indicator of a state's present and future performance.

According to figures provided by the U.S. Bureau of Economic Analysis, personal income to Connecticut residents during fiscal year 2004 was $154.7 billion, a 4.1% increase over fiscal 2003. Total personal income in Connecticut increased 53.2% from fiscal 1995 to 2004. For the United States, total personal income increased 56.1%, and in the New England Region, the increase for the identical period was 56.7%.

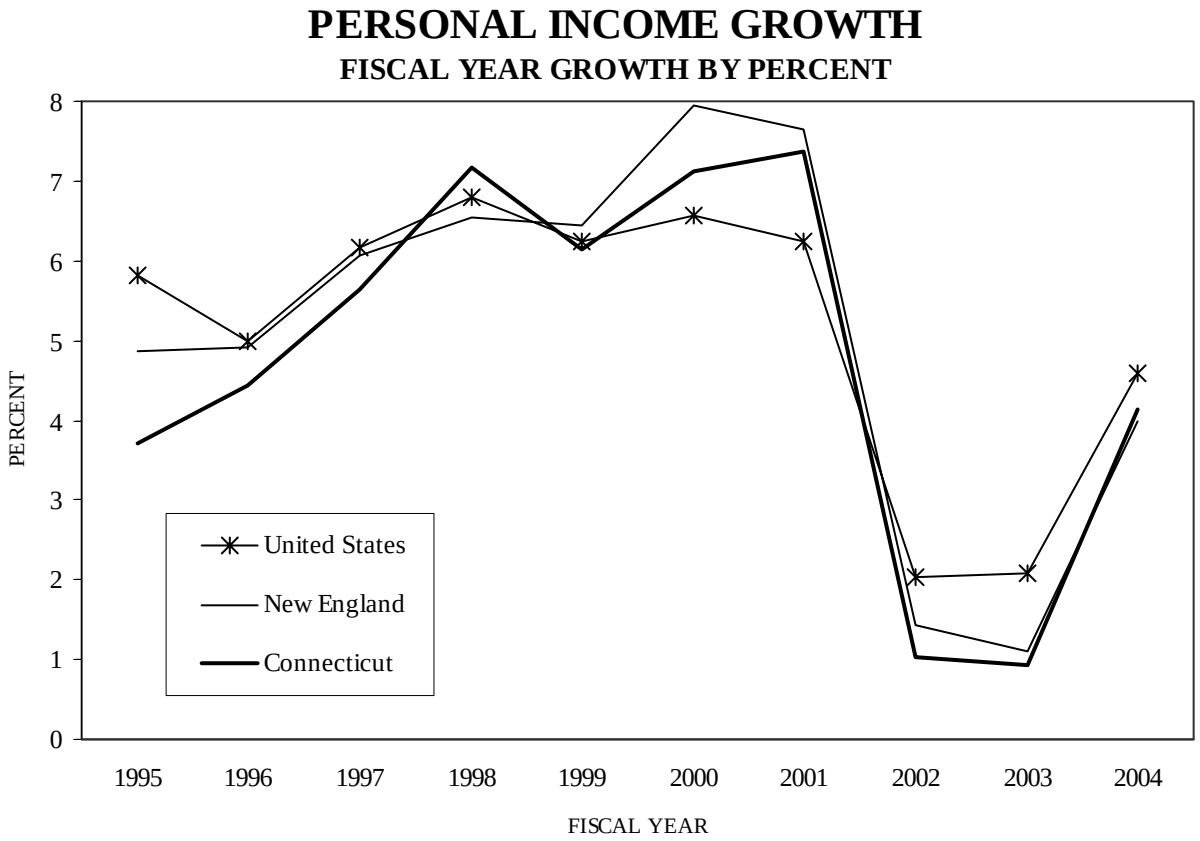
The Table on the following page shows personal income for the United States, the New England Region, and Connecticut.

TABLE 59
PERSONAL INCOME
(In Millions)

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1994-95	6,011,961	5.86	353,538	4.86	101,001	3.70
1995-96	6,312,124	4.99	370,930	4.92	105,479	4.43
1996-97	6,702,156	6.18	393,404	6.06	111,444	5.65
1997-98	7,158,319	6.81	419,179	6.55	119,426	7.16
1998-99	7,607,013	6.27	446,176	6.44	126,769	6.15
1999-00	8,109,583	6.61	481,751	7.97	135,783	7.11
2000-01	8,613,778	6.22	518,607	7.65	145,783	7.37
2001-02	8,791,972	2.07	525,976	1.42	147,281	1.03
2002-03	8,966,084	1.98	531,747	1.10	148,649	0.93
2003-04	9,386,889	4.69	554,084	4.20	154,705	4.07

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The following Chart provides a graphic presentation of the growth rates in personal income for the three entities over a ten year fiscal period.



Source: U.S. Department of Commerce, Bureau of Economic Analysis

The State of Connecticut's sources of personal income vary slightly from those of the United States, with wages and employee salaries accounting for approximately 57% of total personal income compared to almost 56% for the nation. The following Table shows a comparative study of the sources of personal income for the United States and Connecticut for a two fiscal year period.

TABLE 60
SOURCES OF PERSONAL INCOME
(In Billions of Dollars)

	FISCAL YEAR 2002-03				FISCAL YEAR 2003-04			
	U.S.	%	CT	%	U.S.	%	CT	%
Manufacturing Salaries & Wages	668.6	7.5	12.2	8.2	674.0	7.2	12.4	8.0
Nonmanufacturing Salaries & Wages	4,340.3	48.4	72.3	48.7	4,534.7	48.3	75.4	48.8
Proprietors Income	791.7	8.8	15.9	10.7	872.6	9.3	17.4	11.2
Property Income	1,482.4	16.5	24.7	16.6	1,497.7	16.0	24.9	16.1
Other Labor Income	1,131.5	12.6	18.5	12.5	1,222.7	13.0	19.6	12.7
Transfer Payments Less Payments to Social Insurance	551.6	6.2	4.9	3.3	585.3	6.2	5.0	3.2
Total	8,966.1	100.0	148.6	100.0	9,386.9	100.0	154.7	100.0

Note: Totals may not agree with detail due to rounding.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Per Capita Personal Income

One of the more important single indicators of a state's performance is the growth in per capita personal income. This is total personal income divided by the population. On a per capita basis, personal income growth in Connecticut increased 45.3% from fiscal 1995 to 2004, compared to a national increase of 41.6% and a New England Region increase of 48.3%.

Per capita personal income in Connecticut, for the most recent fiscal year, was 13.5% higher than for the New England Region and 38.1% higher than for the United States. Connecticut's per capita personal income continues to be at a higher level than that of the nation and New England due to the concentration of manufacturing in relatively high paying manufacturing industries and major corporate headquarters within the state.

The Table on the following page shows the growth in per capita personal income for ten fiscal years for the United States, the New England Region and Connecticut. The Chart following the

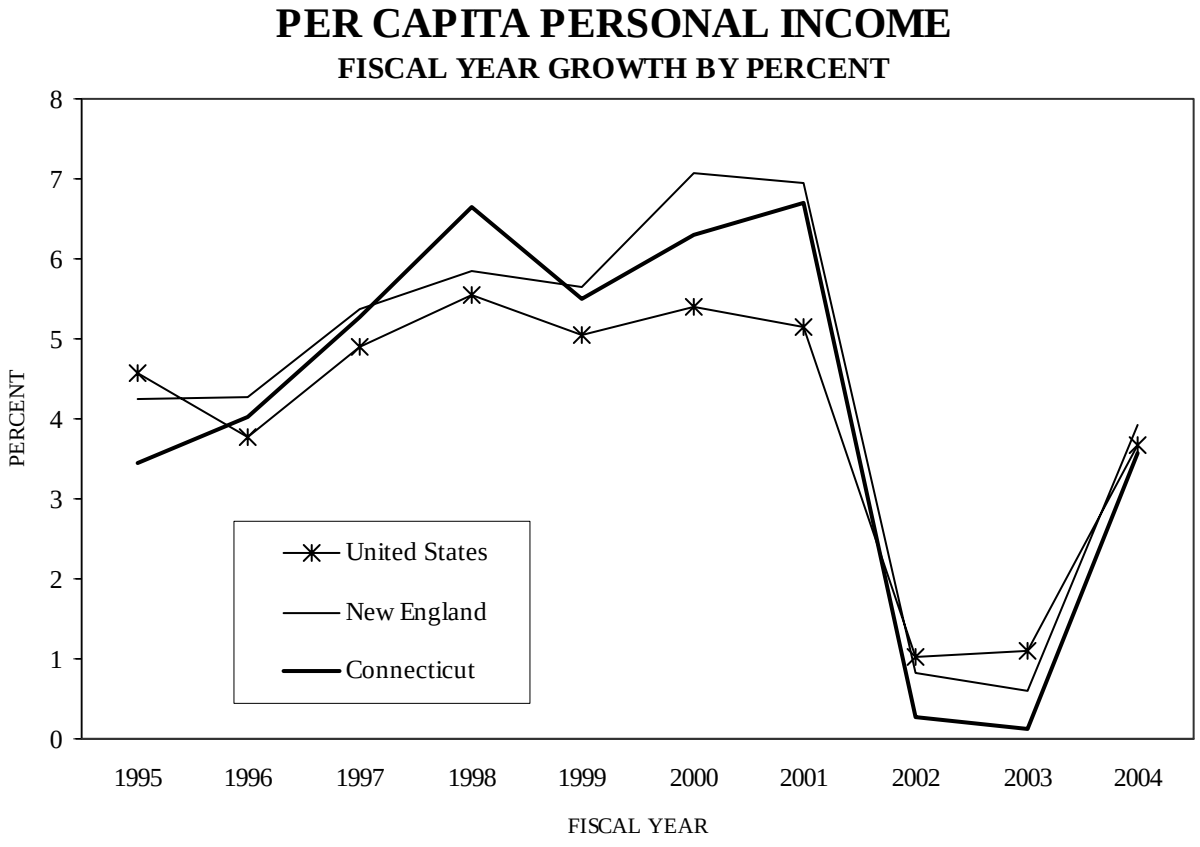
Table provides a graphic representation of the growth rates in per capita personal income for the three entities over a ten year fiscal period.

TABLE 61
PER CAPITA PERSONAL INCOME

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1994-95	22,578	4.61	26,240	4.26	30,385	3.45
1995-96	23,431	3.78	27,365	4.28	31,609	4.03
1996-97	24,582	4.91	28,838	5.38	33,277	5.28
1997-98	25,950	5.56	30,521	5.84	35,491	6.65
1998-99	27,261	5.05	32,243	5.64	37,439	5.49
1999-00	28,738	5.42	34,527	7.08	39,796	6.29
2000-01	30,213	5.13	36,922	6.94	42,465	6.71
2001-02	30,534	1.06	37,224	0.82	42,579	0.27
2002-03	30,834	0.98	37,444	0.59	42,629	0.12
2003-04	31,966	3.67	38,913	3.92	44,156	3.58

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Total Personal Income}}{\text{Population}}$



Source: U.S. Department of Commerce, Bureau of Economic Analysis
The following Table shows per capita income for each of the fifty states with their corresponding ranking for fiscal year 2004. In 2004, the $44,156 figure for Connecticut per capita personal income remained more than 38% higher than the national average.

TABLE 62
PER CAPITA PERSONAL INCOME BY STATE
(Fiscal 2004)

State	Per Capita Income	Rank	State	Per Capita Income	Rank
Connecticut	$44,156	1	Kansas	$30,095	26
New Jersey	40,556	2	North Dakota	29,764	27
Massachusetts	40,531	3	Georgia	29,583	28
Maryland	38,102	4	Missouri	29,444	29
New York	37,175	5	Maine	29,433	30
New Hampshire	35,357	6	Indiana	29,400	31
Colorado	35,035	7	Texas	29,371	32
Minnesota	34,662	8	Iowa	29,347	33
Virginia	34,299	9	Oregon	29,240	34
California	33,973	10	South Dakota	29,133	35
Illinois	33,758	11	Tennessee	29,051	36
Delaware	33,724	12	North Carolina	28,607	37
Washington	33,579	13	Oklahoma	27,141	38
Alaska	33,228	14	Arizona	27,070	39
Wyoming	33,009	15	Kentucky	26,844	40
Rhode Island	32,529	16	Alabama	26,826	41
Pennsylvania	32,258	17	Louisiana	26,601	42
Michigan	31,705	18	South Carolina	26,446	43
Nevada	31,492	19	Montana	26,330	44
Hawaii	31,333	20	New Mexico	25,906	45
Vermont	31,287	21	Idaho	25,832	46
Wisconsin	31,193	22	Utah	25,515	47
Nebraska	30,945	23	West Virginia	25,185	48
Ohio	30,503	24	Arkansas	24,870	49
Florida	30,143	25	Mississippi	23,842	50
U.S. Average	$31,966				

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Personal Income}}{\text{Population}}$

Per Capita Disposable Personal Income

The following Table shows per capita disposable income for each of the fifty states with their corresponding ranking for fiscal year 2004.

TABLE 63
PER CAPITA DISPOSABLE PERSONAL INCOME BY STATE
(Fiscal 2004)

State	Per Capita Disposable Income	Rank	State	Per Capita Disposable Income	Rank
Connecticut	$37,668	1	Kansas	$27,765	26
New Jersey	36,168	2	Michigan	27,648	27
Massachusetts	35,750	3	Iowa	27,544	28
Maryland	33,364	4	Ohio	27,265	29
New York	32,411	5	Texas	27,251	30
New Hampshire	31,997	6	Georgia	26,832	31
Minnesota	31,178	7	Tennessee	26,817	32
Colorado	31,170	8	Missouri	26,740	33
Illinois	30,746	9	Oregon	26,656	34
Alaska	30,740	10	Indiana	26,527	35
Washington	30,718	11	Maine	26,379	36
Wyoming	30,575	12	North Carolina	25,653	37
California	30,433	13	Oklahoma	24,718	38
Virginia	30,355	14	Alabama	24,572	39
Delaware	29,370	15	Louisiana	24,492	40
Pennsylvania	29,135	16	Arizona	24,476	41
Rhode Island	29,034	17	South Carolina	24,113	42
Hawaii	28,619	18	Montana	24,077	43
Nebraska	28,567	19	Kentucky	24,034	44
Vermont	28,541	20	Idaho	23,892	45
South Dakota	28,274	21	New Mexico	23,713	46
Nevada	28,231	22	Utah	22,901	47
North Dakota	28,228	23	West Virginia	22,763	48
Wisconsin	28,054	24	Arkansas	22,682	49
Florida	27,920	25	Mississippi	22,205	50

U.S. Average $28,595

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Disposable Personal Income}}{\text{Population}}$

Per capita disposable income is defined as the income available to an individual for spending or saving. It is per capita personal income less personal tax and nontax payments. Personal taxes are composed of federal, state and local income taxes, as well as, personal property taxes and estate and gift taxes. Nontax payments are made up of fines and fees for certain services such as education and hospitals.

Inflation and Its Effect On Personal Income

Inflation is defined as a rise in the general price level (or average level of prices) of all goods and services, or equivalently a decline in the purchasing power of a unit of money. The general price level varies inversely with the purchasing power of a unit of money. Hence, when prices increase purchasing power declines.

To take into account the erosion of income due to increasing prices, income is deflated by a consumer price index. The Consumer Price Index (CPI) is a measure of the average change in prices over time for a fixed market basket of goods and services. The Bureau of Labor Statistics publishes CPI's for two population groups: a CPI for All Urban Consumers (CPI-U) which covers approximately 80 percent of the total population; and a CPI for Urban Wage Earners and Clerical Workers (CPI-W) which covers 32 percent of the total population. The CPI-U includes, in addition to wage earners and clerical workers, groups such as professional, managerial and technical workers, the self employed, short-term workers, the unemployed, retirees and others not in the labor force.

The following Table shows the Consumer Price Index for All Urban Consumers and its growth over a ten fiscal year period.

TABLE 64
THE U.S. CONSUMER PRICE INDEX
(1982-84=100)

Fiscal Year	C.P.I.	% Growth
1994-95	150.4	2.85
1995-96	154.5	2.73
1996-97	158.9	2.84
1997-98	161.8	1.79
1998-99	164.5	1.73
1999-00	169.3	2.88
2000-01	175.1	3.42
2001-02	178.2	1.76
2002-03	182.1	2.22
2003-04	186.1	2.17

Source: U.S. Bureau of Labor Statistics

The CPI is based on prices of food, clothing, shelter, fuels, transportation fares, and charges for doctors' and dentists' services, drugs, and the other goods that people buy for day-to-day living. In addition, all taxes directly associated with the purchase and use of items and services

are included in the index. In calculating the index, price changes for the various items in 85 urban areas across the country are averaged together with weights which represent their importance in the spending of the appropriate population group. Local data is then combined to obtain a U.S. city average. Movements of the indexes from one month to another are usually expressed as percentage changes rather than changes in index points, because index point changes are effected by the level of the index in relation to its base period while percent changes are not.

Real Personal Income

Real personal income is total personal income deflated by the Consumer Price Index, a measure of personal income that usually includes adjustments for changes in prices since the base period of 1982-84. The following Table shows real personal income growth for the United States, the New England Region and Connecticut. These figures, because they take into account the effects of inflation, provide a better perspective of overall gains in personal income.

TABLE 65
REAL PERSONAL INCOME
(In Millions)

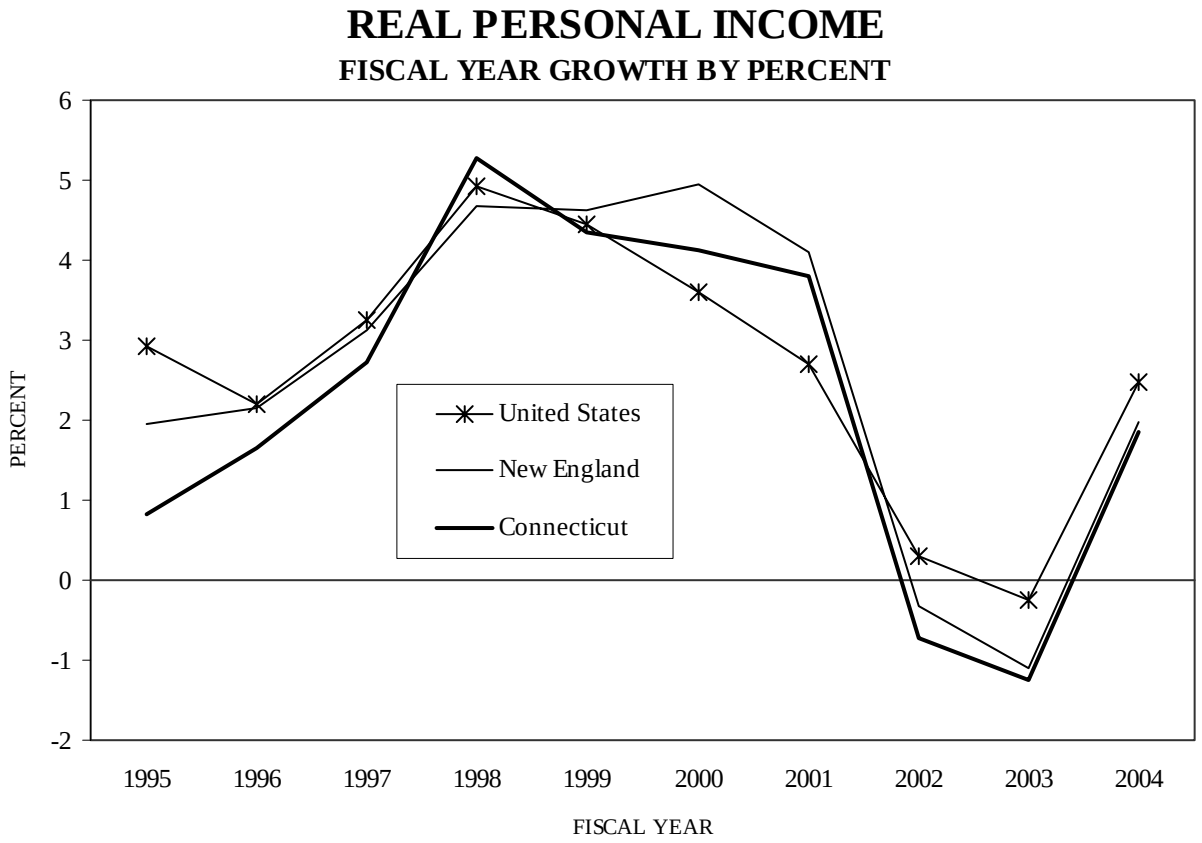
Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1994-95	3,997,093	2.93	235,052	1.95	67,151	0.83
1995-96	4,085,297	2.21	240,071	2.14	68,268	1.66
1996-97	4,217,845	3.24	247,580	3.13	70,135	2.73
1997-98	4,425,545	4.92	259,153	4.67	73,834	5.27
1998-99	4,622,919	4.46	271,149	4.63	77,040	4.34
1999-00	4,790,538	3.63	284,582	4.95	80,210	4.12
2000-01	4,920,050	2.70	296,220	4.09	83,269	3.81
2001-02	4,934,921	0.30	295,229	(0.33)	82,668	(0.72)
2002-03	4,923,264	(0.24)	291,982	(1.10)	81,623	(1.26)
2003-04	5,044,680	2.47	297,775	1.98	83,141	1.86

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

All figures derived by: $\frac{\text{Total Personal Income}}{\text{CPI}}$

It is necessary to point out that there exist regional differences in prices. Local area CPI indexes are by-products of the national CPI program. Because each local index is a small subset of the national index, it has a smaller sample size and is therefore subject to substantially more sampling and other measurement error than the national index. Therefore, local area indexes show greater volatility than the national index in the short run, although their long-term trends are quite similar. Therefore, the National Consumer Price Index was utilized in the Table above to provide the comparison among the United States, the New England Region and Connecticut.

The following Chart provides a graphic presentation of the growth in real personal income for the three entities over a ten fiscal year period.



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Real Per Capita Personal Income

Real per capita personal income is per capita personal income deflated by the Consumer Price Index and shows how individuals comprising a geographical entity have fared after adjusting for the effects of inflation. A comparison of the growth rates measures the relative economic performance of each entity as it adjusts personal income growth by population changes.

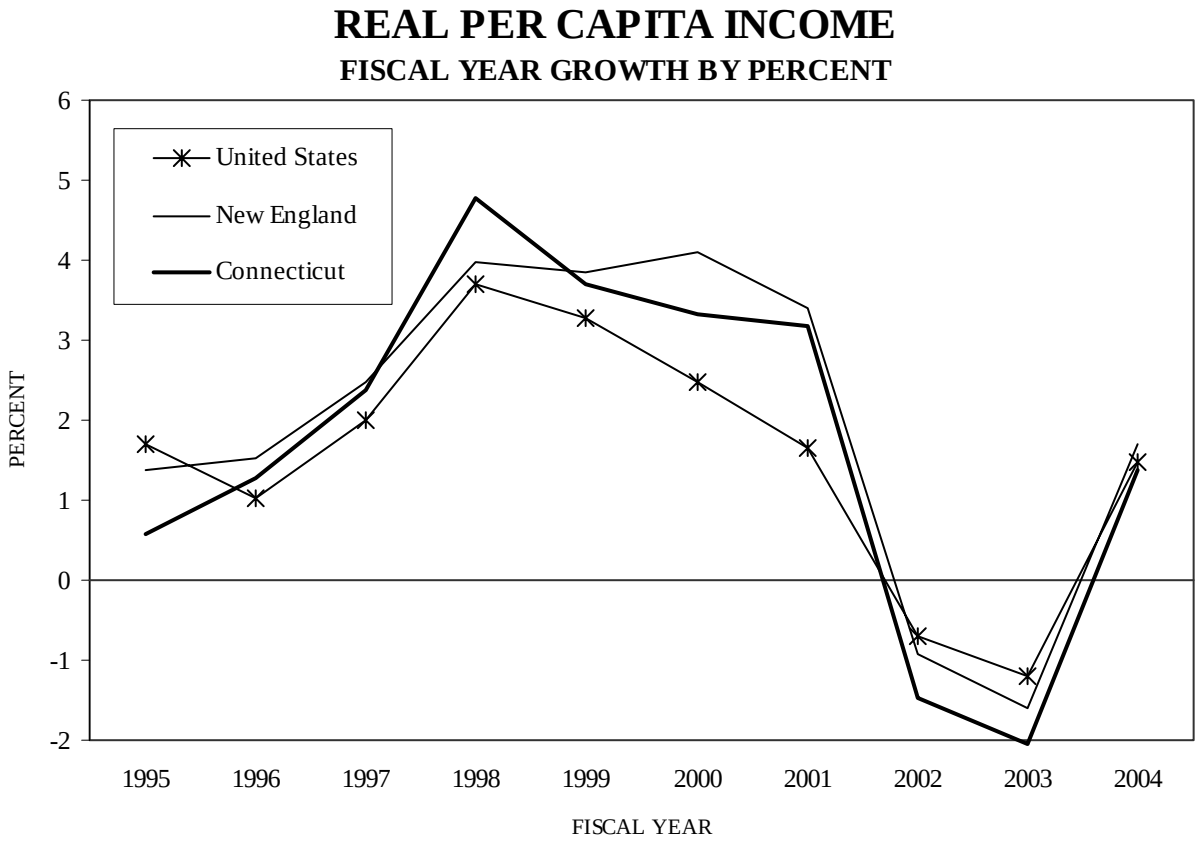
The Table on the following page shows the growth in real per capita personal income for the United States, the New England Region, and Connecticut. The Chart following the Table provides a graphic presentation of the growth in real per capita personal income for the three entities over a ten fiscal year period.

TABLE 66
REAL PER CAPITA PERSONAL INCOME

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1994-95	15,011	1.71	17,446	1.37	20,202	0.58
1995-96	15,165	1.02	17,711	1.52	20,458	1.27
1996-97	15,470	2.01	18,148	2.47	20,942	2.37
1997-98	16,043	3.70	18,869	3.97	21,942	4.77
1998-99	16,567	3.27	19,595	3.84	22,752	3.69
1999-00	16,976	2.47	20,396	4.09	23,508	3.32
2000-01	17,257	1.66	21,089	3.40	24,255	3.18
2001-02	17,139	(0.69)	20,894	(0.93)	23,900	(1.47)
2002-03	16,931	(1.21)	20,561	(1.59)	23,408	(2.06)
2003-04	17,179	1.47	20,913	1.71	23,730	1.38

Source: U.S. Department of Commerce, Bureau of Economic Analysis

All figures derived by: $\frac{\text{Total Personal Income}}{\text{CPI X Population}}$



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Cost of Living Index

Statistics regarding inflation and the cost of living for Connecticut are frequently requested by the public. The two indicators are not the same. The inflation index is used to measure purchasing power relative to its historical performance, while the cost of living index is used to measure purchasing power relative to one's geographical peers. In other words, the cost of living index is produced to measure the relative price level of consumer goods and services for a specific area relative to other jurisdictions at a given time.

A Cost of Living Index, produced by the American Chamber of Commerce Research Association (ACCRA), is available for approximately 300 Metropolitan Statistical Areas (MTSAs), Metropolitan Divisions (MDs), and Micropolitan Statistical Areas (MPSAs). In addition to the original MTSA, four new statistical areas (MD, MPSA, Combined Statistical Area, and Metropolitan New England City and Town Area) were defined and published on December 27, 2000 by the U.S. Office of Management and Budget (OMB). Pursuant to U.S. laws, the OMB is required to conduct reviews of statistical area standards and definitions once a decade. On June 6, 2003, OMB announced lists of statistical areas based on 2000 Census Bureau Data. In Connecticut, the ACCRA survey includes the following four MTSAs: Bridgeport-Stamford-Norwalk MTSA, Hartford-West Hartford-East Hartford MTSA, New Haven-Milford MTSA, and Norwich-New London MTSA.

The following Table shows the cost of living comparison for three neighboring cities: Boston-Quincy MD, Hartford MTSA, and New York (Manhattan) MD in the second quarter of 2004.

TABLE 67
COMPARISON OF COST OF LIVING

2nd Quarter 2004 MTSA / MD	Composite Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc.
Hartford, CT	121.7	126.7	138.1	118.1	111.4	113.2	110.4
Boston, MA	137.1	111.5	181.2	152.4	103.2	129.4	114.3
New York, NY	215.0	137.2	399.8	144.4	117.8	141.2	137.0
Index Weights	100%	13%	30%	9%	9%	4%	35%

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2004

The Cost of Living Composite Index is weighed by a "market basket" of approximately 60 goods and services for the typical mid-management household. It is further broken down into six categories including grocery items, housing, utilities, transportation, health care, and other. The index for the Hartford MTSA, for example, for the second quarter of 2004 was 121.7 compared to the national average of 100. This index demonstrates that the overall living cost in the Hartford MTSA was higher than the national average by 21.7%. Among the six categories, the cost of housing in the Hartford MTSA was the most expensive item, a full 38.1% higher than

the national average, while the miscellaneous goods and services is approximately 10% higher than the national average. The index, updated quarterly, does not measure tax differentials.

In the second quarter of 2004, numerous cities had a relatively higher cost of living than the Hartford MTSA. These include, for example, New York City (Manhattan) MD at 215.0; San Francisco MD, California at 181.5; Boston MD, Massachusetts at 137.1; and Chicago MD, Illinois at 131.1. The cost of living in the Hartford MTSA was collectively on par with the Edison MPSA, New Jersey and Philadelphia MD, Pennsylvania, which registered 125.1 and 120.4, respectively. The cost of living index can provide useful information for relocation decisions. If someone is contemplating a job offer in a certain area, he or she may use this index as a guide to evaluate the financial merits of the move. For example, if a Hartford resident is considering a move to New York City (Manhattan) and wants to maintain his current mid-management lifestyle, other things being equal, his or her after-tax income level has to increase by 76.7%, (215.0 / 121.7) / 121.7, in order to compensate for the higher cost of living. On the contrary, if a New York City resident is contemplating a move to Hartford, his or her after-tax income level can be reduced by 43.4%, (121.7-215.0) / 215.0, in order to sustain the same current life style.

The cost of living for metropolitan statistical areas within Connecticut also varies. For the second quarter of 2004, ACCRA recorded the cost of living for the Bridgeport-Stamford-Norwalk MTSA at 157.0, New Haven-Milford MTSA at 120.5, and Norwich-New London MTSA at 117.6, compared to 121.7 for Hartford-West Hartford-East Hartford MTSA. These four statistical areas accounted for 70% of the state's total population. The following Table demonstrates the relative index of the components for these four Connecticut regions.

TABLE 68
COMPARISON OF COST OF LIVING IN CONNECTICUT
Hartford, New Haven, New London, and Stamford MTSAs

2nd Quarter 2004 MTSA	Composite Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc.
Hartford	121.7	126.7	138.1	118.1	111.4	113.2	110.4
New Haven	120.5	104.8	140.4	117.4	115.7	136.6	109.4
New-London	117.6	103.5	137.7	117.9	107.2	111.7	108.8
Stamford	157.0	110.5	249.0	119.2	117.8	132.5	118.0

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2004

THE MAJOR REVENUE RAISING TAXES IN THE STATE OF CONNECTICUT

In fiscal 2004, Connecticut's General Fund derived 71 percent of its revenue from the collection of taxes. To provide an analysis of the overall tax burden on the individuals of each state, the following Table was prepared for fiscal 2002. The Table shows overall state tax collections as a percentage of personal income. In the Table, note that Connecticut ranks 28th, signifying that in 27 other states a greater percentage of an individual's income is going for state taxes than in Connecticut.

TABLE 69
STATE TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2002

State	Percentage	Rank	State	Percentage	Rank
Hawaii	9.53	1	Kansas	6.16	26
Vermont	8.44	2	Ohio	6.13	27
Delaware	8.38	3	Connecticut	6.13	28
Arkansas	8.31	4	Nebraska	6.04	29
West Virginia	8.31	5	Nevada	6.02	30
Minnesota	8.04	6	Indiana	6.02	31
New Mexico	8.02	7	Arizona	5.99	32
Kentucky	7.77	8	Massachusetts	5.95	33
Mississippi	7.43	9	South Carolina	5.90	34
Wisconsin	7.36	10	Pennsylvania	5.89	35
Maine	7.36	11	Alabama	5.73	36
Michigan	7.30	12	Georgia	5.63	37
Wyoming	7.16	13	Maryland	5.54	38
Utah	6.87	14	Missouri	5.52	39
California	6.82	15	Illinois	5.48	40
North Carolina	6.81	16	New Jersey	5.45	41
Idaho	6.76	17	Virginia	5.40	42
North Dakota	6.71	18	Florida	5.22	43
Oklahoma	6.70	19	Alaska	5.21	44
Louisiana	6.56	20	Oregon	5.19	45
Rhode Island	6.51	21	Tennessee	4.96	46
Washington	6.44	22	South Dakota	4.81	47
Montana	6.41	23	Texas	4.61	48
New York	6.35	24	Colorado	4.53	49
Iowa	6.19	25	New Hampshire	4.41	50
U.S. Average	6.41				

Source: U.S. Department of Commerce, "State Government Finances, 2002"

Following is a discussion of the major revenue raising taxes in the State of Connecticut.

Personal Income Tax

For income years commencing on or after January 1, 1991, a personal income tax was imposed upon income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. For tax years commencing on or after January 1, 1991, and prior to January 1, 1992, the tax was imposed at the rate of 1.5% on Connecticut taxable income. For tax years commencing on or after January 1, 1992, the separate tax on capital gains, dividends and interest was repealed, and the tax was imposed at the rate of 4.5% of Connecticut taxable income. Beginning with tax years commencing on or after January 1, 1996, a second, lower tax rate of 3% was introduced for a certain portion of taxable income. Beginning with tax years commencing January 1, 2003 the 4.5% rate was increased to 5.0%. The amount of taxable income subject to the lower tax rate has been expanded as set forth in the Table below. Depending on federal income tax filing status and Connecticut adjusted gross income, personal exemptions ranging from $12,625 to $24,000 are available to taxpayers, with such exemptions phased out at certain higher income levels. Legislation enacted in 1999 increases the exemption amount for single filers over a certain number of years from $12,000 to $15,000. In addition, tax credits ranging from 75% to 1% of a taxpayer's Connecticut tax liability are also available, again dependent upon federal income tax filing status and Connecticut adjusted gross income (See Table 72 for more details). Neither the personal exemption nor the tax credit is available to a trust or an estate. Also commencing in income year 1996, personal income taxpayers were eligible for up to a $100 credit for property taxes paid on their primary residence or on their motor vehicle. This credit increased to $215 for income year 1997, $350 for income year 1998, $425 for income year 1999, and to $500 for income years 2000 through 2002, with amounts above the initial $100 phased-out at higher income levels. Beginning with income year 2003, the credit was reduced to $350.

The Personal Income Tax generated $4,943.4 million in fiscal year 2003-04, $4,263.1 million in fiscal year 2002-03 and $4,265.9 million in fiscal year 2001-02. In fiscal year 2003-04, this tax accounted for 38.1% of total revenue and 50.2% of total tax collections while in fiscal 2002-03 it accounted for 35.5% of total revenue and 47.1% of total tax collections.

TABLE 70
TAXABLE INCOME AMOUNTS SUBJECT TO THE LOWER RATE WITH THE REMAINDER SUBJECT TO THE HIGHER RATE

			Amount At Low Rate By Filing Status		
Income Year	Low Rate	High Rate	Single	Joint	Head of Household
1996	3.0%	4.5%	$ 2,250	$ 4,500	$ 3,500
1997	3.0%	4.5%	$ 6,250	$12,500	$10,000
1998	3.0%	4.5%	$ 7,500	$15,000	$12,000
1999 - 2002	3.0%	4.5%	$10,000	$20,000	$16,000
2003	3.0%	5.0%	$10,000	$20,000	$16,000

The following Table compares the personal income tax collections as a percentage of personal income for the fifty states for fiscal 2002.

TABLE 71
STATE INCOME TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2002

State	Percentage	Rank	State	Percentage	Rank
New York	3.76	1	Kansas	2.38	23
Oregon	3.69	2	Nebraska	2.33	24
Minnesota	3.31	3	Montana	2.30	25
North Carolina	3.18	4	South Carolina	2.28	26
Massachusetts	3.17	5	Colorado	2.27	27
Wisconsin	3.10	6	Missouri	2.27	28
Hawaii	3.10	7	Vermont	2.27	29
Maine	3.00	8	Iowa	2.19	30
California	2.90	9	New Mexico	2.17	31
Virginia	2.84	10	Indiana	2.09	32
Utah	2.81	11	Michigan	2.04	33
Delaware	2.76	12	New Jersey	2.03	34
Georgia	2.65	13	Illinois	1.82	35
Kentucky	2.61	14	Pennsylvania	1.79	36
Ohio	2.54	15	Alabama	1.79	37
Oklahoma	2.53	16	Louisiana	1.60	38
Rhode Island	2.52	17	Mississippi	1.55	39
Idaho	2.51	18	Arizona	1.48	40
Connecticut	2.50	19	North Dakota	1.20	41
Arkansas	2.49	20	New Hampshire	0.17	42
West Virginia	2.42	21	Tennessee	0.09	43
Maryland	2.41	22			
U.S. Average	2.35				

Note: The following states do not levy an income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

Source: U.S. Department of Commerce, "State Government Finances, 2002"

The following Table shows Connecticut personal income tax exemptions ranging from $12,625 to $24,000 including the phase out as income levels rise depending on adjusted gross income for each income tax filing status.

TABLE 72
CONNECTICUT PERSONAL INCOME TAX CREDITS & EXEMPTIONS
Income Year 2004

Single			Married Filing Jointly			Head of Household		
Exemption: $12,625			Exemption: $24,000			Exemption: $19,000		
Phase Out: $1K of exemption for each $1K from $25,250 to $37,250			Phase Out: $1K of exemption for each $1K from $48K to $72K			Phase Out: $1K of exemption for each $1K from $38K to $57K		
AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax	AGI From	AGI To	% of Tax
$12,625	$15,750	75%	$24,000	$30,000	75%	$19,000	$24,000	75%
$15,750	$16,250	70%	$30,000	$30,500	70%	$24,000	$24,500	70%
$16,250	$16,750	65%	$30,500	$31,000	65%	$24,500	$25,000	65%
$16,750	$17,250	60%	$31,000	$31,500	60%	$25,000	$25,500	60%
$17,250	$17,750	55%	$31,500	$32,000	55%	$25,500	$26,000	55%
$17,750	$18,250	50%	$32,000	$32,500	50%	$26,000	$26,500	50%
$18,250	$18,750	45%	$32,500	$33,000	45%	$26,500	$27,000	45%
$18,750	$19,250	40%	$33,000	$33,500	40%	$27,000	$27,500	40%
$19,250	$21,050	35%	$33,500	$40,000	35%	$27,500	$34,000	35%
$21,050	$21,550	30%	$40,000	$40,500	30%	$34,000	$34,500	30%
$21,550	$22,050	25%	$40,500	$41,000	25%	$34,500	$35,000	25%
$22,050	$22,550	20%	$41,000	$41,500	20%	$35,000	$35,500	20%
$22,550	$26,300	15%	$41,500	$50,000	15%	$35,500	$44,000	15%
$26,300	$26,800	14%	$50,000	$50,500	14%	$44,000	$44,500	14%
$26,800	$27,300	13%	$50,500	$51,000	13%	$44,500	$45,000	13%
$27,300	$27,800	12%	$51,000	$51,500	12%	$45,000	$45,500	12%
$27,800	$28,300	11%	$51,500	$52,000	11%	$45,500	$46,000	11%
$28,300	$50,500	10%	$52,000	$96,000	10%	$46,000	$74,000	10%
$50,500	$51,000	9%	$96,000	$96,500	9%	$74,000	$74,500	9%
$51,000	$51,500	8%	$96,500	$97,000	8%	$74,500	$75,000	8%
$51,500	$52,000	7%	$97,000	$97,500	7%	$75,000	$75,500	7%
$52,000	$52,500	6%	$97,500	$98,000	6%	$75,500	$76,000	6%
$52,500	$53,000	5%	$98,000	$98,500	5%	$76,000	$76,500	5%
$53,000	$53,500	4%	$98,500	$99,000	4%	$76,500	$77,000	4%
$53,500	$54,000	3%	$99,000	$99,500	3%	$77,000	$77,500	3%
$54,000	$54,500	2%	$99,500	$100,000	2%	$77,500	$78,000	2%
$54,500	$55,000	1%	$100,000	$100,500	1%	$78,000	$78,500	1%

Source: General Statutes of the State of Connecticut
The following Table shows whether state and local governmental obligations are included in the definition of state income for tax purposes.

TABLE 73
STATE AND LOCAL GOVERNMENT OBLIGATIONS EXEMPTIONS FOR DETERMINING INDIVIDUAL'S STATE INCOME

State	Own Securities	Other State's Securities	State	Own Securities	Other State's Securities
Alabama	E	T	Montana	E	T
Alaska (no tax)			Nebraska	E	T
Arizona	E	T	Nevada (no tax)		
Arkansas	E	T	New Hampshire	E	T
California	E	T	New Jersey	E	T
Colorado	E	T	New Mexico	E	T
Connecticut	E	T	New York	E	T
Delaware	E	T	North Carolina	E	T
Florida (no tax)			North Dakota	E	T
Georgia	E	T	Ohio	E	E
Hawaii	E	T	Oklahoma	T (2)	T
Idaho	E	T	Oregon	E	T
Illinois	T (1)	T	Pennsylvania	E	T
Indiana	E	E	Rhode Island	E	T
Iowa	T (1)	T	South Carolina	E	T
Kansas	E	T	South Dakota (no tax)		
Kentucky	E	T	Tennessee	E	T
Louisiana	E	T	Texas (no tax)		
Maine	E	T	Utah	E	E
Maryland	E	T	Vermont	E	T
Massachusetts	E	T	Virginia	E	T
Michigan	E	T	Washington (no tax)		
Minnesota	E	T	West Virginia	E	T
Mississippi	E	T	Wisconsin	T (1)	T
Missouri	E	T	Wyoming (no tax)		

T = Taxable / E = Exempt

(1) Interest earned from some qualified obligations is exempt from the tax.
(2) Some bonds may be exempt by state law.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

The following Table compares the personal income tax rates and bases for the fifty states and the District of Columbia.

TABLE 74
PERSONAL INCOME TAX BY STATE*

	Low Bracket		High Bracket			Low Bracket		High Bracket	
		To Net		From Net			To Net		From Net
State	Rate	Income	Rate	Income	State	Rate	Income	Rat	Income
Alabama (2)	2.0	1,000	5.0	6,000	Missouri (1)	1.5	1,000	6.0	9,000
Arizona (1)	2.87	20,000	5.1	300,001	Montana (1)	2.0	2,200	11.0	77,800
Arkansas (4)	1.0	3,299	7.0	27,900	Nebraska (1)	2.56	4,000	6.84	46,750
California (1)	1.0	12,294	9.3	80,692	New Hampshire	(b)			
Colorado (2)	4.63	All			New Jersey (4)	1.4	20,000	8.97	500,000
Connecticut (1)	3.0	20,000	5.0	20,000	New Mexico (1)	1.7	8,000	6.8	40,000
Delaware (1)	2.2	5,000	5.95	60,000	New York (1)	4.0	16,000	7.7	500,000
Georgia (1)	1.0	1,000	6.0	10,000	N. Carolina (2)	6.0	21,250	8.25	200,000
Hawaii (2)	1.4	4,000	8.25	80,000	N. Dakota (2)	2.1	47,450	5.54	311,950
Idaho (2)	1.6	2,208	7.8	44,148	Ohio (1)	0.7	5,000	7.5	200,000
Illinois (1)	3.0	All			Oklahoma (1)	0.5	2,000	6.65	21,000
Indiana (1)	3.4	All			Oregon (2)	5.0	5,100	9.0	12,700
Iowa (1)	0.36	1,224	8.98	55,080	Pennsylvania (4)	3.07	All		
Kansas (1)	3.5	30,000	6.45	60,000	Rhode Island (3)	25.0	All		
Kentucky (1)	2.0	3,000	6.0	8,000	S. Carolina (2)	2.5	2,460	7.0	12,300
Louisiana (1)	2.0	12,500	6.0	25,000	Tennessee	(b)			
Maine (1)	2.0	8,700	8.5	34,700	Utah (2)	2.3	1,726	7.0	8,626
Maryland (1)	2.0	1,000	4.75	3,000	Vermont (3)	3.6	47,450	9.5	311,950
Massachusetts (1)	5.3	All	(a)		Virginia (1)	2.0	3,000	5.75	17,000
Michigan (1)	3.9	All			W. Virginia (1)	3.0	10,000	6.5	60,000
Minnesota (2)	5.35	28,420	7.85	112,910	Wisconsin (1)	4.6	11,480	6.75	172,200
Mississippi (4)	3.0	5,000	5.0	10,000	Dist. of Col. (1)	5.0	10,000	9.0	30,000

* The following states do not levy an income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington & Wyoming.

Note: Tax rates are for married filers filing joint returns and do not include income taxes levied at the local level.

Base: (1) – Modified Federal Adjusted Gross Income
(2) – Modified Federal Taxable Income
(3) – Federal Tax Liability
(4) – State's Individual Definition of Taxable Income

(a) The rate is 12% for interest, dividends, and net capital gains.
(b) Income taxes are limited to interest and dividends: 5.0% in New Hampshire and 6.0% in Tennessee.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

Sales and Use Tax

The sales tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the state including: 1) retail sales of tangible personal property; 2) the sale of certain services; 3) the leasing or rental of tangible personal property; 4) the producing, fabricating, processing, printing, or imprinting of tangible personal property to special order or with material furnished by the consumer; 5) the furnishing, preparing or serving of food, meals or drinks; and 6) the occupancy of hotels or lodging house rooms for a period not exceeding thirty consecutive calendar days.

The use tax is imposed on the consideration paid for certain services or purchases or rentals of tangible personal property used within the state and not subject to the sales tax.

Both the sales and use taxes are levied at a rate of six percent. Various exemptions from the tax are provided, based on the nature, use, or price of the property or services involved or the identity of the purchaser. Hotel rooms are taxed at 12%.

The sales and use tax is an important source of revenue for the State of Connecticut. In fiscal 2003-04, sales and use taxes accounted for 24.2% of total revenue and 34.1% of total tax collections, compared to 25.2% and 36.8%, respectively, in fiscal 2002-03.

When analyzing sales taxes, a simple comparison of rates is not an effective way to measure the tax burden imposed. An analysis of the tax base must be included to provide a more meaningful comparison.

In an attempt to provide a more relevant comparison of the sales tax burden, two studies are presented. The first study shows sales tax collections as a percentage of personal income. The larger the percentage of personal income going to sales tax collections, the heavier the burden of that tax. The Table on the following page shows sales tax collections as a percentage of personal income and the corresponding ranking of the states. Note that Connecticut's tax burden is less than 28 other states. The comparison is based on fiscal year 2002 data. From fiscal 1991 to fiscal 2002, Connecticut's sales tax collections as a percentage of personal income dropped from 3.15% with a rank of ninth to 2.07% with a rank of 29th. This change was primarily due to the reduction in Connecticut's sales tax rate from 8% to 6% and an expansion of the exemptions on certain services and goods.

The second study provides an analysis of major sales tax exemptions by state. Connecticut excludes from its sales tax such major items as food products for human consumption, drugs and medicines used by humans, clothing and footwear up to $50, machinery, professional services, residential utilities and motor fuels. Table Number 76 shows the comparison for major sales tax exemptions.

TABLE 75
SALES TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2002

State	Sales Tax Rate	%	Rank	State	Sales Tax Rate	%	Rank
Hawaii	4.0*	4.49	1	Rhode Island	7.0	2.24	24
Washington	6.5*	4.03	2	Iowa	5.0*	2.16	25
Mississippi	7.0	3.68	3	Nebraska	5.5*	2.16	26
Nevada	6.5**	3.16	4	California	6.25*	2.09	27
Arkansas	6.0*	3.10	5	Louisiana	4.0*	2.08	28
Arizona	5.6*	3.03	6	Connecticut	6.0	2.07	29
Tennessee	7.0*	2.97	7	North Dakota	5.0*	2.02	30
Florida	6.0*	2.97	8	Georgia	4.0*	1.98	31
New Mexico	5.0	2.96	9	Pennsylvania	6.0*	1.95	32
Wyoming	4.0*	2.92	10	Ohio	6.0*	1.95	33
Utah	4.75*	2.62	11	Missouri	4.225*	1.79	34
Michigan	6.0	2.60	12	New Jersey	6.0	1.78	35
South Dakota	4.0*	2.58	13	Oklahoma	4.5*	1.69	36
Idaho	6.0	2.37	14	North Carolina	4.5*	1.64	37
Texas	6.25*	2.34	15	Illinois	6.25*	1.61	38
Maine	5.0	2.34	16	Alabama	4.0*	1.54	39
Kansas	5.3*	2.31	17	Massachusetts	5.0	1.48	40
Wisconsin	5.0*	2.30	18	Maryland	5.0	1.38	41
Minnesota	6.5*	2.28	19	New York	4.25*	1.26	42
South Carolina	5.0*	2.26	20	Colorado	2.9*	1.24	43
West Virginia	6.0	2.25	21	Vermont	6.0	1.19	44
Kentucky	6.0*	2.25	22	Virginia	4.0*	1.18	45
Indiana	6.0	2.24	23				
U.S. Average		2.28					

* Local tax rates are additional.
** Tax rate includes a composite of a 2% state rate plus a 4.5% state-mandated county rate.

Note: Alaska, Delaware, Montana, New Hampshire, and Oregon do not levy a sales tax. The state of Delaware imposes a merchants' and manufacturers' license tax and a use tax on leases.

Source: Commerce Clearing House, Inc., State Tax Guide;
U.S. Department of Commerce, "State Government Finances", 2002;
U.S. Department of Commerce, Bureau of Economic Analysis

TABLE 76
MAJOR SALES TAX EXEMPTIONS BY STATE

State	Food	Prescription Drugs	Motor Fuels	Services	Clothes	Cig's	Computer Software (Canned)	Computer Software (Custom)
Alabama	T	E	E	E	T	T	E	E
Arizona	E	E	T	T	T	T	E	E
Arkansas	T	E	E	T	T	T	T	T
California	E	E	T	E	T	T	E	E
Colorado	E	E	E	E	T	T	E	E
Connecticut	E	E	E	T	E (2)	T	T	T
Florida	E	E	T	T	T	T	E	E
Georgia	E	E	T (1)	E	T	T	T	E
Hawaii	T	E	T	T	T	T	T	T
Idaho	T	E	E	E	T	T	E	E
Illinois	T (1)	T (1)	T	E	T	T	E	E
Indiana	E	E	T	E	T	T	T	E
Iowa	E	E	E	T	T	T	E	E
Kansas	T (7)	E	E	T	T	T	T	T
Kentucky	E	E	E	E	T	T	E	E
Louisiana	E	E	E	E	T	T	T	T(6)
Maine	E	E	E	E	T	T	E	E
Maryland	E	E	E	E	T	T	E	E
Massachusetts	E	E	T	E	E (3)	T	E	E
Michigan	E	E	T	E	T	T	E	E
Minnesota	E	E	T	T	E	T	E	E
Mississippi	T	E	E	T	T	T	T	T
Missouri	T (1)	E	E	E	T	T	T	E
Nebraska	E	E	E	E	T	T	T	T
Nevada	E	E	E	E	T	T	E	E
New Jersey	E	E	T	E	E	T	E	E
New Mexico	T	E	E	T	T	T	T	T
New York	E	E	T	T	T	T	E	E
North Carolina	E	E	E	E	T	T	E	E
North Dakota	E	E	E	E	T	T	E	E
Ohio	E	E	E	T	T	T	T	T (5)
Oklahoma	T	E	E	T	T	T	T	E
Pennsylvania	E	E	E	T	E	T	T	E
Rhode Island	E	E	E	E	E	T	T	E
South Carolina	T	E	E	E	T	T	T	T
South Dakota	T	E	E	T	T	T	T	T
Tennessee	T (1)	E	E	E	T	T	T	T
Texas	E	E	E	T	T	T	T	T
Utah	T	E	E	T	T	T	E	E
Vermont	E	E	E	E	E (4)	T	E	E
Virginia	T	E	E	E	T	T	E	E
Washington	E	E	T	T	T	T	E	E
West Virginia	T	E	T	T	T	T	T	T
Wisconsin	E	E	E	T	T	T	E	E
Wyoming	T	E	E	E	T	T	T	E
Total Taxable	17	1	14	20	38	45	21	14

Note: These states do not levy a sales tax: Alaska, Delaware, Montana, New Hampshire & Oregon.

T = Taxable under the sales tax, E = Exempt from the sales tax

(1) Taxed at a reduced rate. (2) Up to a sales price of $50 per item. (3) Up to a sales price of $175 per item. (4) Up to a sales price of $110 per item. (5) Custom systems software sold to a business is taxable, but custom application software is not taxable. (6) FY 04: 50% taxed, FY 05: 25% taxed, and FY 06 and thereafter, exempt. (7) Refund available for disabled, elderly and low-income households.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

Corporation Business Tax

The Corporation Business Tax is imposed on any corporation, joint stock company or association or fiduciary of any of the foregoing which carries on or has the right to carry on business within the state or owns or leases property or maintains an office within the state. The Corporation Business Tax consists of three components. The taxpayer's liability is the greatest amount computed under any of the three components. The first is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income (with limited variations) less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. In fiscal 2003-04, the Corporation Business Tax accounted for 4.0% of total revenue and 5.6% of total tax collections, while in fiscal 2002-03 they were 4.2% and 5.6%, respectively.

If a taxpayer is taxable solely within the state, the Income-Base Tax is measured by, and based upon, its entire net income. If a taxpayer is taxable in another state in which it conducts business, the base against which the Income-Base Tax is measured is the portion of the taxpayer's entire net income assigned to the state, pursuant to a statutory formula designed to identify the proportion of the taxpayer's trade or business conducted within the state. Currently, the Income-Base Tax is levied at the rate of seven and one half percent. In income year 2003 a 20% surcharge was imposed and for income year 2004 a 25% surcharge has been imposed.

The second part of the Corporation Business Tax is an additional tax on capital (the "Additional Tax"). The additional tax base is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or part to its capital stock and balance sheet surplus, profit and deficit. If a taxpayer is also taxable in another state in which it conducts business, the defined base is apportioned most often to the value of certain assets having tax situs within the state. The third component of the Corporation Business Tax is the Minimum Tax, which is $250. Corporations must compute their tax under all three bases and then pay the tax under the highest computation.

Numerous tax credits are also available to corporations including, but not limited to, research and development credits of 1% to 6%, credits for property taxes paid on electronic and data processing equipment, and a 5% credit for investments in fixed and human capital.

The Table on the following page provides a comparison of the assessed rates for the corporation business tax for the fifty states and the District of Columbia.

TABLE 77
CORPORATION TAX BY STATE

State	Low Bracket % Rate	Low Bracket To Net Income	High Bracket % Rate	High Bracket From Net Income
Alabama	6.5	All		
Alaska	1.0	10,000	9.4	90,000
Arizona	6.96	All		
Arkansas	1.0	3,000	6.5	100,000
California (1)	8.84	All		
Colorado	4.63	All		
Connecticut (4)	7.5	All		
Delaware	8.7	All		
Florida (1)	5.5	All		
Georgia	6.0	All		
Hawaii	4.4	25,000	6.4	100,000
Idaho (2)	7.6	All		
Illinois (3)	4.8	All		
Indiana (4)	8.5	All		
Iowa	6.0	25,000	12.0	250,000
Kansas (5)	4.0	All		
Kentucky	4.0	25,000	8.25	250,000
Louisiana	4.0	25,000	8.0	200,000
Maine	3.5	25,000	8.93	250,000
Maryland	7.0	All		
Massachusetts (4)	9.5	All		
Michigan	1.9	All		
Minnesota	9.8	All		
Mississippi	3.0	5,000	5.0	10,000
Missouri	6.25	All		
Montana	6.75	All		
Nebraska	5.58	50,000	7.81	50,000
New Hampshire	8.5	All		
New Jersey (6)	9.0	All		
New Mexico	4.8	500,000	7.6	1.0M
New York	7.5	All		
N. Carolina	6.9	All		
N. Dakota	2.6	3,000	7.0	50,000
Ohio	5.1	50,000	8.5	50,000
Oklahoma	6.0	All		
Oregon	6.6	All		
Pennsylvania	9.99	All		
Rhode Island	9.0	All		
S. Carolina	5.0	All		
Tennessee (7)	6.5	All		
Utah	5.0	All		
Vermont	7.0	10,000	9.75	250,000
Virginia	6.0	All		
West Virginia	9.0	All		
Wisconsin (4)	7.9	All		
District of Col.	9.9	All		

Note: The table does not include corporate income taxes levied at the local level. These states do not levy a corporate income tax: Nevada, South Dakota, Texas, Washington & Wyoming. The following states require a minimum tax: Arizona $50; California $800; Connecticut $250; Idaho $20; Massachusetts $456; New Jersey $500; New York $100-$1,500; Ohio $50; Oregon $10; Rhode Island $250; Utah $100; Vermont $250; and District of Columbia $100.

(1) An alternative minimum tax imposed: 6.65% in California and 3.3% in Florida.

(2) Plus an additional $10.00 on each corporation filing a return.

(3) Additional personal property replacement tax is imposed at the rate of 2.5% of net income.

(4) A surtax is imposed: Connecticut 20% for income year 2003 and 25% in income year 2004, Indiana 4.5% on net income, 14% in Massachusetts on tax liability, and in Wisconsin the surcharge rate is set annually.

(5) A surtax of 3.35% on taxable incomes in excess of $50,000 is imposed.

(6) Foreign corporations with income from New Jersey sources are subject to the corporation income tax at a rate of 7.25% on entire net income allocable to New Jersey.

(7) Corporations are also subject to the tax on interest and dividends.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Motor Fuels Tax

The state imposes a tax, subject to certain limitations, (1) on gasoline and certain other liquids which are prepared, advertised, offered for sale, sold for use as, or commonly and commercially used as, a fuel in internal combustion engines ("gasoline" or "gasohol") and (2) on all combustible gases and liquids which are suitable and used for generation of power to propel motor vehicles ("special fuels"). 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.

The Gasoline Tax is imposed on each gallon of gasoline or gasohol sold (other than to another distributor) or used within the state by a distributor. The tax on special fuels (the "Special Fuel Tax") is assessed on each gallon of special fuels used within the State in a motor vehicle licensed, or required to be licensed, to operate upon the public highways of the state.

The Special Fuels Tax is paid by vehicle users, and is generally collected by retail dealers of special fuels (primarily diesel fuel). Various exemptions from both taxes are provided, among which are sales to, or use by the United States, the state or its municipalities.

The Motor Carrier Road Tax is imposed upon gallons of fuel (again, primarily diesel 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 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.

The Gasoline Tax is twenty-five cents per gallon. The Special Fuels and Motor Carrier Taxes are twenty-six cents per gallon. The 1983 session of the General Assembly enacted a Special Transportation Fund for highway construction and maintenance and 1¢ per gallon of the motor fuels tax, or a total of $14.2 million, was dedicated to this fund. Beginning July 1, 1984, the Special Transportation Fund was expanded to include all collections from the motor fuels tax.

In future years, consumption of motor fuels will continue to be affected by the Conservation Act of 1975 (see section on "Automotive Fuel Economy") which required motor companies to drastically increase the miles per gallon that each motor vehicle attains and by the Clean Air Act of 1990 which requires metropolitan areas to significantly reduce noxious emissions from automobiles.

The Table on the following page shows the comparative rates for Motor Fuel Taxes for the 50 states.

TABLE 78
MOTOR FUEL TAXES BY STATE

State	Excise Tax	Sales Tax Rate	Total Tax*	State	Excise Tax	Sales Tax Rate	Total Tax*
Alabama	16.0¢	-	16.0¢	Montana	27.0¢	-	27.0¢
Alaska	8.0	-	8.0	Nebraska (e)	24.8	-	24.8
Arizona	18.0	-	18.0	Nevada	23.0	-	23.0
Arkansas	21.5	-	21.5	New Hampshire	18.0	-	18.0
California	18.0	6.25	28.6	New Jersey	10.5	6.00	20.7
Colorado	22.0	-	22.0	New Mexico	17.0	-	17.0
Connecticut	25.0	-	25.0	New York	8.0	4.25	15.2
Delaware	23.0	-	23.0	North Carolina (f)	24.3	-	24.3
Florida	14.3	6.00	24.5	North Dakota	21.0	-	21.0
Georgia (a)	7.5	1.00	9.2	Ohio	26.0	-	26.0
Hawaii (b)	30.1	-	30.1	Oklahoma	16.0	-	16.0
Idaho	25.0	-	25.0	Oregon	24.0	-	24.0
Illinois	19.0	6.25	29.6	Pennsylvania	26.2	-	26.2
Indiana (c)	18.0	6.00	28.2	Rhode Island	30.0	-	30.0
Iowa	20.5	-	20.5	South Carolina	16.0	-	16.0
Kansas	24.0	-	24.0	South Dakota	22.0	-	22.0
Kentucky (d)	15.0	-	15.0	Tennessee (g)	21.4	-	21.4
Louisiana	20.0	-	20.0	Texas	20.0	-	20.0
Maine	25.2	-	25.2	Utah (h)	24.5	-	24.5
Maryland	23.5	-	23.5	Vermont	19.0	-	19.0
Massachusetts	21.0	-	21.0	Virginia	17.5	-	17.5
Michigan	19.0	6.00	29.2	Washington	28.0	6.50	39.1
Minnesota	20.0	6.50	31.1	West Virginia (c)	20.5	6.00	30.7
Mississippi	18.0	-	18.0	Wisconsin	29.1	-	29.1
Missouri	17.0	-	17.0	Wyoming	13.0	-	13.0

* The total column in the above table is the sum of the per gallon state tax and sales taxes or additional taxes where applicable. The price used to estimate the effect of the sales tax, which excludes state taxes, was $1.70 per gallon.

(a) Motor fuel is exempt from 3%, but subject to the remaining 1% of the tax.
(b) County taxes between 8.8¢ and 18¢ per gallon are levied in addition to the state tax of 16¢ per gallon. An average of 14.07¢ was used in calculating the excise tax.
(c) The sales tax is not calculated on the excise portion of the cost per gallon.
(d) Tax is 9% of the average wholesale price plus a highway user tax.
(e) Includes additional tax based on statewide average cost of fuel and a second additional tax at 2¢ per gallon; plus the amount of any "ethanol adjustment."
(f) Includes an additional tax based on the average wholesale price of motor fuel.
(g) Plus an optional one-cent-per-gallon special tax imposed by certain counties on petroleum products and an environmental assurance fee at the rate of .4¢ per gallon.
(h) An environmental surcharge of one-half cent per gallon is imposed on all petroleum sold.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

Other Sources

The following Tables show the most recent comparative rates or exemptions for some of the other taxes and fees collected by the states.

TABLE 79
CIGARETTE TAXES BY STATE

State	Rate	State	Rate
Alabama	42.5 ¢	Montana	70.0 ¢
Alaska	$1.00	Nebraska	64.0 ¢
Arizona	$1.18	Nevada	80.0 ¢
Arkansas (1)	59.0 ¢	New Hampshire	52.0 ¢
California	87.0 ¢	New Jersey	$2.40
Colorado	20.0 ¢	New Mexico	91.0 ¢
Connecticut	$1.51	New York	$1.50
Delaware	55.0 ¢	North Carolina	5.0 ¢
Florida	33.9 ¢	North Dakota	44.0 ¢
Georgia	37.0 ¢	Ohio	55.0 ¢
Hawaii	$1.40	Oklahoma	23.0 ¢
Idaho	57.0 ¢	Oregon	$1.28
Illinois	98.0 ¢	Pennsylvania	$1.35
Indiana	55.5 ¢	Rhode Island	$2.46
Iowa	36.0 ¢	South Carolina	7.0 ¢
Kansas	79.0 ¢	South Dakota	53.0 ¢
Kentucky (2)	3.0 ¢	Tennessee	20.0 ¢
Louisiana	36.0 ¢	Texas	41.0 ¢
Maine	$1.00	Utah (3)	69.5 ¢
Maryland	$1.00	Vermont	$1.19
Massachusetts	$1.51	Virginia (4)	20.0 ¢
Michigan	$2.00	Washington	$1.43
Minnesota	48.0 ¢	West Virginia	55.0 ¢
Mississippi (3)	18.0 ¢	Wisconsin (5)	77.0 ¢
Missouri	17.0 ¢	Wyoming	60.0 ¢

Note: The tax is based on a pack of 20 cigarettes.

(1) An additional $12.50 per 1,000 cigarettes is imposed.
(2) Plus a 0.001¢ enforcement tax on each package of cigarettes.
(3) The tax rate is increased by the same amount of any reduction in the federal excise tax.
(4) The tax rate increases to 30¢ per pack on July 1, 2005.
(5) An additional tax of 0.8¢ per pack of 20 cigarettes is imposed minus the federal cigarette tax.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

TABLE 80
INSURANCE COMPANIES TAX BY STATE

State	Domestic Tax Rate %	Foreign Tax Rate %	State	Domestic Tax Rate %	Foreign Tax Rate %
Alabama (1,2)	1.00-2.30	1.00-4.00	Montana (1)	2.75-4.25	2.75-4.25
Alaska (1)	1.00-6.00	1.00-6.00	Nebraska (1,4)	1.00-1.375	1.00-1.375
Arizona (1,3)	1.00-3.00	1.00-3.00	Nevada	3.50	3.50
Arkansas (1,3)	1.00-2.50	1.00-2.50	New Hampshire (9)	2.00	2.00
California (1)	0.50-2.35	0.50-2.35	New Jersey (1)	1.05-2.10	1.05-2.10
Colorado (2)	1.00	2.00	New Mexico (2)	3.003	3.003
Connecticut	1.75	1.75	New York (1,10)	0.80-1.80	0.80-2.00
Delaware (3)	1.75	1.75	North Carolina (1,4)	1.00-2.50	1.00-2.50
Florida (1,4)	0.75-1.75	0.75-1.75	North Dakota (1)	1.75-2.00	1.75-2.00
Georgia (1,2)	2.25-3.25	2.25-3.25	Ohio (4,9)	1.00-1.40	1.00-1.40
Hawaii (1)	0.8775-4.265	0.8775-4.265	Oklahoma (4)	2.25	2.25
Idaho (1,2)	1.50-2.75	1.50-2.75	Oregon	(11)	(11)
Illinois (4,5)	2.00	2.00	Pennsylvania (1)	2.00-5.00	2.00-5.00
Indiana (1)	1.50-2.00	1.50-2.00	Rhode Island	2.00	2.00
Iowa	1.50-2.00	1.50-2.00	South Carolina (1,3)	0.75-1.35	0.75-1.35
Kansas (4)	2.00	2.00	South Dakota (1)	2.50	2.50
Kentucky (1,6)	2.00-2.75	2.00-2.75	Tennessee (1,2,9)	1.75-3.25	1.75-3.25
Louisiana (4)	(7)	(7)	Texas (1,2)	1.60-3.50	1.60-3.50
Maine (1)	1.00-2.55	1.00-2.55	Utah	2.26	2.26
Maryland	2.00	2.00	Vermont	2.00	2.00
Massachusetts (3)	2.00	2.00	Virginia (1)	0.75-2.25	0.75-2.25
Michigan	(8)	(8)	Washington	2.00	2.00
Minnesota (4)	1.00-2.00	1.00-2.00	W. Virginia (1,4,9)	2.00-4.00	2.00-4.00
Mississippi (1,4)	3.00	3.00	Wisconsin (1)	2.00-3.50	2.00-2.375
Missouri (1)	2.00	2.00	Wyoming (1)	0.75	0.75

Note: The tax is based on the net premiums of authorized insurers, excludes surplus line rates.

(1) Depending upon the type of insurance issued or the type of organization formed.
(2) Rate is reduced depending upon the percentage of premiums or assets invested in the State or the State's securities.
(3) Plus a surtax of 0.4312% on vehicles in Arizona, 0.25% in Delaware, 1% on fire insurance in South Carolina and 14% of investment income in Massachusetts.
(4) Plus a fire marshal's tax not to exceed 1%, 1.25% in Kansas and Louisiana, 2.5% in Minnesota.
(5) Domestic insurance companies whose principal place of business is in Illinois pay no tax.
(6) Plus a surcharge or $1.50 per $100 of premiums on Kentucky risks other than health & life.
(7) Life & health related premiums of $7,000 or less, $140; over $7,000, $140 plus $225 per $10,000; other premiums of $6,000 or less, $180; over $6,000, $180 plus $300 per $10,000.
(8) Subject to the greater of the single business tax or the retaliatory tax.
(9) With minimum tax of $200 in New Hampshire & West Virginia, $150 in Tennessee and $25 in Ohio.
(10) Depending upon the type and date insurance was issued.
(11) After 2001, foreign and alien insurers are no longer subject to gross premium tax, but are subject to the corporate excise tax.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

TABLE 81
ALCOHOLIC BEVERAGE TAXES BY STATE
(Dollars Per Gallon)
As of July 2004

State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer	State	Distilled Spirits	Wines 14% or Less	Wines 14% to 21%	Beer
Alabama (1,2)	58%	1.70	58%	.53	Montana (1,2)	16%	1.02	1.02	.14
Alaska	12.80	2.50	2.50	1.07	Nebraska	3.00	.75	1.35	.31
Arizona	3.00	.84	.84	.16	Nevada	3.60	.70	1.30	.16
Arkansas	2.50	.25	.75	.20	New Hampshire (1)	.30	.30	.30	.30
California	3.30	.21	.20	.20	New Jersey	4.40	.70	.70	.12
Colorado	2.28	.28	.28	.08	New Mexico	6.06	1.70	1.70	.41
Connecticut	4.50	.60	.60	.20	New York	6.43	.19	.19	.11
Delaware	3.75	.97	.97	.16	N. Carolina (1,2)	25%	.79	.91	.53
Florida	9.53	2.25	3.00	.48	N. Dakota	2.50	.50	.60	.08
Georgia	4.54	.41	1.02	.32	Ohio (1)	1.20	.30	.98	.18
Hawaii	5.98	1.38	2.12	.93	Oklahoma	5.56	1.40	2.08	.40
Idaho (1,2)	15%	.45	.45	.15	Oregon (1)		.67	.77	.08
Illinois	4.5	.73	.73	.19	Pennsylvania (1,2)	1.00	.07	.11	.08
Indiana	2.68	.47	.47	.12	Rhode Island	3.75	.60	.75	.10
Iowa (1)	1.75	1.75	1.75	.19	S. Carolina (3)	1.92	.90	.90	.77
Kansas	2.50	.30	.75	.18	S. Dakota	3.93	.93	1.45	.27
Kentucky	1.92	.50	.50	.08	Tennessee (4)	4.40	1.21	1.21	.13
Louisiana	2.50	.11	.23	.32	Texas	2.40	.20	.41	.20
Maine (1)	1.25	.60	1.24	.35	Utah (1,2)	13%	13%	13%	.41
Maryland	1.50	.40	.40	.09	Vermont (1,2)	25%	.55	25%	.27
Massachusetts	4.05	.55	.70	.11	Virginia (1,2,5)	20%	1.51	1.51	.01
Michigan (1,2)	9.9%	.51	.76	.20	Washington (1)(8)		2.06	2.06	.15
Minnesota	5.03	.30	.95	.15	W. Virginia (2,6)	5%	1.00	1.00	.18
Mississippi (1)	2.50	.35	1.00	.43	Wisconsin (7)	3.25	.25	.45	.06
Missouri	2.00	.30	.30	.06	Wyoming (1)	1.14	.95	.95	.02

(1) Monopoly state, receives most or all of revenue through markup. Tax rates shown are in addition to any price markup.
(2) Of the retail price.
(3) Additional surtaxes of 9% on alcoholic beverages and 18¢ for wine are applied.
(4) Tennessee levies a 17% surcharge on the wholesale price of malt beverages.
(5) Additional tax of 4% of retail imposed on all wine.
(6) A 5% tax is imposed on sales of liquor outside municipalities.
(7) An administration fee of 3¢ per gallon is imposed on intoxicating liquors.
(8) A surcharge of $1.59 per gallon on distilled spirits is imposed, the surcharge will be eliminated when $14 million is generated or on 6/30/05 whichever is earlier.

Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition

The Tables on the next two pages list individual General Fund Revenue sources and Special Transportation Fund sources as a percentage of total collections for a five fiscal year period.

TABLE 82
GENERAL FUND REVENUES

TAXES ($K)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (1)
Personal Income	$4,238,228	$4,744,233	$4,265,912	$4,263,070	$4,943,430
Sales and Use	3,096,780	3,125,078	2,997,766	3,025,743	3,134,015
Corporation	587,756	550,509	380,985	507,975	518,009
Hospital Gross Earnings	69,180	-	38	-	-
Public Service Corporation	166,263	180,547	166,597	197,959	193,643
Insurance Companies	201,225	191,107	217,371	239,358	233,412
Inheritance & Estate	228,072	252,802	153,092	184,321	147,614
Cigarettes	122,045	119,476	160,904	256,052	279,572
Oil Companies	54,285	64,497	24,309	117,451	106,894
Real Estate Conveyance	114,565	112,282	120,717	149,317	176,743
Alcoholic Beverages	40,965	41,146	41,619	42,490	44,044
Admissions, Dues, Cabaret	26,716	25,811	26,905	31,696	31,662
Miscellaneous	40,227	35,088	26,229	33,731	34,846
Total - Taxes	8,986,307	9,442,576	8,582,444	9,049,163	9,843,884
Less Refunds of Taxes	(713,359)	(735,483)	(829,558)	(808,209)	(650,844)
Less Refunds of R&D Credit	-	-	(21,933)	(11,148)	(10,378)
Total - Taxes Less Refunds	8,272,948	8,707,093	7,730,953	8,229,806	9,182,662
OTHER REVENUE					
Transfer-Special Revenue	259,785	258,181	277,589	262,776	286,699
Indian Gaming Payments	318,986	332,418	368,954	387,255	402,733
Licenses, Permits & Fees	127,544	124,331	137,518	125,179	154,163
Sales of Commodities & Services	32,941	31,312	30,479	32,869	40,991
Investment Income	53,371	67,868	23,848	7,083	1,779
Rents, Fines & Escheats	45,659	48,228	47,620	81,490	117,719
Miscellaneous	125,498	125,594	114,273	182,364	111,111
Less Refunds of Payments	-	-	(373)	(396)	(574)
Total - Other Revenue	963,784	987,932	999,908	1,078,621	1,114,621
OTHER SOURCES					
Federal Grants	2,078,914	2,237,045	2,142,270	2,318,421	2,563,670
Transfer from Special Funds	78,000	138,800	120,000	489,486	114,600
Transfer to Other Funds	(180,000)	(85,400)	(147,686)	(93,009)	(3,000)
Total - Other Sources	1,976,914	2,290,445	2,114,584	2,714,898	2,675,270
GRAND TOTAL	$11,213,646	$11,985,470	$10,845,445	$12,023,325	$12,972,553
TAXES	**% of Total**	**% of Total**	**% of Total**	**% of Total**	**% of Total**
Personal Income	37.80%	39.58%	39.33%	35.46%	38.11%
Sales and Use	27.62	26.07	27.64	25.17	24.16
Corporation	5.24	4.59	3.51	4.22	3.99
Hospital Gross Earnings	0.62	0.00	0.00	0.00	0.00
Public Service Corporation	1.48	1.51	1.54	1.65	1.49
Insurance Companies	1.79	1.59	2.00	1.99	1.80
Inheritance & Estate	2.03	2.11	1.42	1.53	1.14
Cigarettes	1.09	1.00	1.48	2.13	2.16
Oil Companies	0.48	0.54	0.22	0.98	0.82
Real Estate Conveyance	1.02	0.94	1.12	1.24	1.36
Alcoholic Beverages	0.37	0.34	0.38	0.35	0.34
Admissions, Dues, Cabaret	0.24	0.22	0.25	0.26	0.24
Miscellaneous	0.36	0.29	0.24	0.28	0.27
Total - Taxes	80.14	78.78	79.13	75.26	75.88
Less Refunds of Taxes	(6.36)	(6.14)	(7.65)	(6.72)	(5.02)
Less Refunds of R&D Credit	-	-	(0.20)	(0.09)	(0.08)
Total – Taxes Less Refunds	73.78	72.65	71.28	68.44	70.79
OTHER REVENUE					
Transfer-Special Revenue	2.32	2.15	2.56	2.19	2.21
Indian Gaming Payments	2.84	2.77	3.40	3.22	3.10
Licenses, Permits & Fees	1.14	1.04	1.27	1.04	1.19
Sales of Commodities & Services	0.29	0.26	0.28	0.27	0.32
Investment Income	0.47	0.57	0.22	0.06	0.01
Rents, Fines & Escheats	0.41	0.40	0.44	0.68	0.91
Miscellaneous	1.12	1.05	1.05	1.52	0.86
Less Refunds of Payments	-	-	0.00	0.00	0.00
Total - Other Revenue	8.59	8.24	9.22	8.97	8.59
OTHER SOURCES					
Federal Grants	18.54	18.66	19.75	19.28	19.76
Transfer from Special Funds	0.70	1.16	1.11	4.07	0.88
Transfer to Other Funds	(1.61)	(0.71)	(1.36)	(0.77)	(0.02)

Total - Other Sources	17.63	19.11	19.50	22.58	20.62
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

TABLE 83
SPECIAL TRANSPORTATION FUND REVENUES

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (1)
TAXES ($K)					
Motor Fuels	$506,426	$417,523	$430,287	$457,991	$464,481
Oil Companies	36,000	46,000	46,000	-	10,500
DMV Sales	10,000	60,106	65,224	65,523	70,558
Less Refunds of Taxes	(5,398)	(7,556)	(7,777)	(8,518)	(10,096)
Total - Taxes Less Refunds	547,028	516,073	533,734	514,996	535,443
OTHER REVENUE					
Motor Vehicle Receipts	190,324	196,340	200,690	204,824	219,719
Licenses, Permits & Fees	112,618	115,224	130,710	136,597	154,511
Interest Income	37,728	43,888	40,480	27,399	24,524
Federal Transit Administration	2,974	3,305	3,305	3,305	-
Transfer from Other Funds	16,770	-	-	2,634	3,730
Transfer to Other Funds	(2,000)	(3,000)	(9,500)	(60,500)	(8,500)
Transfer to TSB	-	-	-	-	(22,850)
Less Refunds of Payments	-	-	(2,525)	(2,150)	(2,507)
Total – Other Revenue	358,414	355,757	363,160	312,109	368,627
GRAND TOTAL	$905,442	$871,830	$896,894	$827,105	$904,070
	% of Total	**% of Total**	**% of Total**	**% of Total**	**% of Total**
TAXES					
Motor Fuels	55.94%	47.89%	47.98%	55.37%	51.38%
Oil Companies	3.98	5.28	5.13	0.00	1.16
DMV Sales	1.10	6.89	7.27	7.92	7.80
Less Refunds of Taxes	(0.60)	(0.87)	(0.87)	(1.03)	(1.12)
Total – Taxes Less Refunds	60.42	59.19	59.51	62.26	59.23
OTHER REVENUE					
Motor Vehicle Receipts	21.02	22.52	22.38	24.76	23.44
Licenses, Permits & Fees	12.44	13.22	14.57	16.52	16.54
Interest Income	4.16	5.03	4.51	3.31	2.71
Federal Transit Administration	0.33	0.38	0.37	0.40	0.00
Transfer from Other Funds	1.85	-	-	0.32	0.41
Transfer to Other Funds	(0.22)	(0.34)	(1.06)	(7.31)	(2.05)
Less Refunds of Payments	-	-	(0.28)	(0.26)	(0.28)
Total - Other Revenue	39.58	40.81	40.49	37.74	40.77
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

(1) FY 2004: as estimated by the Office of Policy and Management

ECONOMIC ASSUMPTIONS OF THE GOVERNOR'S BUDGET

The Foreign Sector

As the economy continues to become more globalized, the U.S. economy is impacted by the rest of the world through increasingly integrated flows of trade, finance, technology diffusion, information networking, and cross-cultural exchanges. During the past two decades, total U.S. imports and exports in both goods and services, as measured in 2000 dollars, have increased from $1,352.1 billion in 1993 to $2,582.1 billion in 2003, an increase of 91% versus only a 38% increase for real Gross Domestic Product (GDP). This shows that the growing interaction between the U.S. economy and the world economic system has been more than two times as fast as the growth in domestic economic activity. As globalization continues to proceed rapidly, when forecasting the U.S. and Connecticut economies, the interaction with international economic policies, monetary and fiscal policies, financial markets, and currency movements must be taken into consideration.

The U.S. economy ended its tenth-year of expansion in early 2001. That recession spread into other countries, affecting the overall world economy and, in turn, the U.S.'s exports. Real world GDP grew 1.3% in 2001 and 1.8% in 2002, down from 4.0% in 2000. U.S. exports declined by 9.0% and 3.9%, respectively, in 2001 and 2002. The worldwide economy started to recover in 2003 with U.S. exports increasing by 5.8%. The momentum carried into 2004 and is expected to continue. Worldwide real GDP is estimated to have grown 3.8% in 2004, and is anticipated to expand 3.2% in 2005 and 3.3% in 2006. Asian and emerging European economies should grow faster than other areas, led by a strong average growth of 6.2% for 2005 and 2006 in the Pacific basin area. Real GDP growth in Japan, the world's second largest economy, is estimated to be 3.9% in 2004 but forecast to slow to 1.4% in 2005 and 1.9% in 2006, after expanding 2.5% in 2003 and declining 0.3% in 2002. This slowdown is due to a weakness in personal consumption and exports. High oil prices, a strong yen that rose to a five-year high against the U.S. dollar, and lower exports to China are taking a toll on economic growth. The economy of European Union (EU) is improving. Its real GDP is expected to grow 1.9% in 2005 from 1.8% in 2004, after expanding only a tepid 0.9% in 2002 and 0.4% in 2003. This 25-member economic bloc has a larger population (450 million versus 295 million in the U.S.) that produces roughly 90% of the U.S.'s GDP. Exports for the U.S. bode well, enhanced by the depreciation of the dollar that fell about 29% to a 9-year low against a basket of foreign currencies from its peak value in early 2002.

The continuing expansion of major multilateral trade systems also provides for a much freer flow of resources, helping stimulate economic activity and facilitate trade growth. This favorable development will create a more open, efficient, and uniform market, adding opportunities for U.S. trade. The World Trade Organization (WTO) has nearly 150 member countries that account for over 97% of total world trade. The admission of big traders such as China and Taiwan will play a vital role in the global trade arena. Obligated to the WTO and fueled by strong demand, China has revised laws and regulations to bring more transparency to its policy making and has lifted restrictions on the import of items such as steel, natural rubber, wool, plywood and acrylic fibers. Trade reforms also have helped end the monopoly of state-owned enterprises over foreign trade. To extend free trade beyond the North American Free Trade Agreement (NAFTA) to cover the whole of the Americas, the U.S signed a free trade agreement (FTA) with Chile, effective January 1, 2004. The agreement will eliminate tariffs on 90% of U.S. exports and is intended to ultimately include other countries in South America. In the Asian area, the

conclusion of FTAs with Singapore and Australia, and a bilateral trade deal with Vietnam will help U.S. trade growth in the entire Pacific Rim. The agreement with Singapore, a member of the Association of South East Asian Nations (ASEAN) that includes 10 countries such as Thailand, Malaysia, and Indonesia with a population of about 500 million, a combined GDP of $737 billion, and a total trade of $720 billion, will help the U.S. achieve free trade with the whole ASEAN region. Elsewhere, continuing trade liberalization during a period of steady growth in Eastern Europe will augment trade in the world economy.

Integration between the U.S. and the world economy has been facilitated by the U.S.'s increased participation in the global capital market. Bilateral increases of both direct and indirect investments have become vital for U.S. as well as world economic expansion. A coordinated fiscal and monetary policy between the U.S. and other major industrial countries has been undertaken in an effort to sustain economic growth with low inflation for the world economy as a whole. The coalition has attempted to realign exchange rates and strengthen fiscal conditions, stabilize the international monetary system, and facilitate the expansion and balanced growth of international trade. The coalition also promotes international economic growth through world organizations such as the IMF, the World Bank, the Organization for Economic Cooperation and Development (OECD), and the organization for Asia Pacific Economic Cooperation (APEC). These organizations have increasingly helped member countries in strengthening their financial foothold and enhancing economic growth, thereby further facilitating U.S. foreign trade. Our country's continued commitment to a cooperative and coordinated international effort should contribute to a favorable world economic climate.

As trade competition has intensified worldwide, the U.S. industrial sector has been affected as many industries lost shares of domestic and global markets. U.S. firms that were accustomed to controlling the domestic market for basic manufactured goods were not competitive enough to repel the aggressive foreign firms determined to claim a share of the U.S. market. Over the past decade, however, U.S. exports have gradually improved with the dedication of firms to quality improvement, a better control over costs, higher productivity through greater efficiencies and incorporation of advanced technologies, as well as concerted efforts to expand international markets. In spite of the vigorous promotional efforts and aggressive pricing strategies employed by our competitors, the Nation's exports continue to expand while employment in the manufacturing sector has only been moderately impacted. Nonetheless, U.S. exports will confront more challenges in the future as new technology continues to improve and spread while the global market becomes more open. As communication technology advances, digital data can move more freely and effectively beyond national borders, increasing the pressure on the traditionally job-secure service sector. Outsourcing of financial and medical related back-office services such as billing and pathological mapping analysis overseas not seen a few years ago is becoming more common. Outsourcing of manufacturing products is also occurring. Following China, countries in Eastern Europe and Southeast Asia as well as Russia will become big players in this area. Continuing improvement in communication technology will also provide a more transparent and efficient market, creating a more competitive environment. Transportation innovations will allow products to flow faster and more efficiently, shrinking trading time and distance. As new trade pacts and agreements are reached in the WTO and other regional trade agreements, global competition only gets more intense.

As stated in Section 3, the Sector Analysis, the U.S. balance of trade is significantly affected by the world economy, improving during recessionary years when exports grew faster than imports

and deteriorating during recovery and expansionary periods when exports fell behind the growth in imports. The following Table lists actual real growth in GDP/GNP for the past decade, as well as the estimated and projected growths for the G-7 countries (United States, Canada, the European Big Four, and Japan), Mexico, the Pacific Basin, and the overall world economy. World GDP grew 2.6% in 2003 and is estimated to improve to 3.8%. in 2004. The outlook for real world GDP growth is expected to expand into the foreseeable future, but at a slower rate.

TABLE 84
ECONOMIC GROWTH OF MAJOR TRADING PARTNERS
(GNP/GDP Growth)

Calendar Year	U.S.	Canada	Japan	Germany (a)	U.K.	France	Italy	Mexico	Pacific Basin(b)	World (c)	CT Export Weighted Growth(d)
1996	3.7	1.6	3.6	0.8	2.7	1.1	1.1	5.1	7.6	3.3	3.3
1997	4.5	4.2	1.8	1.4	3.3	1.9	2.0	6.8	6.1	3.5	3.9
1998	4.2	4.1	(1.2)	2.0	3.1	3.4	1.8	4.9	(1.0)	2.1	2.3
1999	4.4	5.5	0.2	2.0	2.8	3.2	1.7	3.7	6.3	3.0	3.8
2000	3.7	5.2	2.8	3.1	3.8	4.2	3.1	6.6	7.6	4.0	4.8
2001	0.8	1.8	0.4	1.0	2.1	2.1	1.8	(0.1)	3.7	1.3	1.8
2002	1.9	3.4	(0.3)	0.2	1.0	1.2	0.4	0.7	6.1	1.8	2.2
2003	3.0	2.0	2.5	(0.1)	1.6	0.2	0.7	1.3	5.7	2.6	2.2
2004 (E)	4.3	3.0	3.9	1.4	3.4	2.5	1.3	3.4	6.4	3.8	3.6
2005 (P)	3.4	2.9	1.4	1.6	2.7	2.1	1.8	4.0	6.1	3.2	3.2
2006 (P)	3.4	2.4	1.9	1.8	2.0	1.9	1.5	3.4	6.3	3.3	3.1
Average (05&06)	3.4	2.7	1.7	1.7	2.4	2.0	1.7	3.7	6.2	3.3	3.1
% of CT's Exports											
1999		24.1	6.9	5.5	5.9	12.8	1.9	4.7	12.8		
2000		22.6	6.1	6.8	5.8	13.4	1.8	5.1	13.5		
2001		20.1	7.2	7.8	5.4	16.4	1.9	3.8	13.7		
2002		18.0	7.3	7.9	6.0	14.2	1.8	4.8	17.0		
2003		16.6	7.9	9.3	6.3	13.5	1.8	5.9	15.9		
2004*		15.5	6.6	9.2	6.2	12.7	1.5	6.3	16.3		

* For first three quarters of 2004

(a) The data reflects a united Germany.
(b) Includes China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Thailand, Taiwan and Vietnam.
(c) World growth rate weighted by the size of economies and measured in Purchasing Power Parity terms.
(d) Economic growth rate weighted by Connecticut's share of exports to trade partners.
(E) Estimated
(P) Projected

Source: Economy.com & U.S. Dept. of Commerce and University of Massachusetts (MISER)
Connecticut's exports hinge upon our trade partners' economic conditions. The weighted economic growth can be used as a reference to measure worldwide economic conditions and to predict Connecticut's export potential. Connecticut's export weighted growth rates as shown on the above table are constructed by weighing Connecticut's share of exports to our trade partner countries. Weak economic growth in our major trade partner countries forced the weighted growth down to 1.8% in 2001, 2.2% in 2002 and 2003, the lowest three years in the past decade. As the worldwide economy improved, growth in 2004 is estimated to increase by 3.6%. The outlook for Connecticut's exports is projected to grow 3.2% and 3.1%, respectively, in 2005 and 2006. Collectively, the Big 7 nations, Mexico and the countries in the Pacific Basin area account for approximately 75% of Connecticut's total exports.

Despite a continued bright outlook for trade in 2005 and 2006, actual economic growth and trade performance hinge more upon smooth and orderly market conditions. Any unexpected disturbances, either domestically or elsewhere, may send the world economy into a tailspin. Any regional financial or non-financial shocks have the potential not only to interrupt an individual country's own economic stability but also disturb the international economic landscape. Regional tensions in the Middle East, instability in Iraq, and terrorist attacks anywhere in the world may also result in a setback. There were major financial tremors in the past decade that had profoundly affected the world economy in a disorderly way and detrimentally hampered trade: for example, the Asian financial crisis in 1997, the U.S.'s collapse of Long Term Capital Management and the Russian debt default in 1998, the Brazilian default on international debt and sharp devaluation of its currency in 1999, the equity market's plunge and widespread bankruptcy filings in the telecommunication and some high-tech sectors in 2000, the September 11th attacks in 2001 and the U.S. corporation accounting scandal in 2002.

On the economic and financial front, constrained spending in the EU and a restrictive credit policy intended to tame the overheating economy in China may cause uncertainty. China, the world's most dynamic economy, is expected to decelerate its vigorous expansion with GDP slowing from 9.2% in 2004 to 7.8% in 2005. Facing inflation that reached a 7-year high of 5.2% in September 2004 and a red-hot economy, China's central bank raised interest rates for the first time in nine years in late October 2004. If over-restrained, it might have a profound consequence on the world economy. The EU represents a significant trade opportunity for the U.S. However, this giant economic body is very weak and has been a global growth laggard. Real economic activity in Germany, the biggest economy in the EU, is expected to grow 1.6% in 2005 after expanding 1.4% in 2004 while the economy in France, Italy, and the Netherlands is expected to grow at a rate averaging below 2% for 2005 and 2006. The expected growth rate by "*Blue Chip Economic Indicators*" for Euroland in 2005 is 2.0%, after expanding 1.9% in 2004 and 0.4% in 2003. Governmental operating budgets of the EU area are in a deficit of a negative 2.9% of GDP with its major members well above its limitation of a negative 3%: Germany at -3.9% and France at -3.7%. The depreciation of the dollar may further slow economic growth there. The U.S. dollar has depreciated approximately 60% against the Euro from its high in late 2000. Research shows that a 10% depreciation of the dollar will lower GDP growth by approximately 0.7% and cut corporate earnings from 6% to 3% in the Euro-area. In addition, the EU's unemployment rates held steady at a high of 8.9% in late 2004. Any derailment of its economy and a turn-around to a depreciation of the Euro might be detrimental to the U.S.'s export growth.

Unstable oil prices are also a damaging factor. Oil is the largest internationally traded commodity. The world crude oil market will continue to influence the U.S. economy, despite the fact that oil plays a less significant role in the economy than it did decades ago. The increasing use of substitutes and alternatives, as well as the improvement in efficiency, has reduced its importance in the economy. However, with U.S. domestic production less than 50% of total demand and the expansion of just-in-time inventory strategies, the stability of world oil prices will remain vital to the U.S. economy. Significant and abrupt increases in oil prices can create inflationary pressure and erode consumers' purchasing power, contributing to a possible setback in the economy. A host of factors could move oil prices in an unfavorable direction. These factors include changes in the production capacity and policies of OPEC, the status of non-OPEC output, political, and economic uncertainties in certain geographic regions of the world, violence, and severe weather. Escalating violence in Iraq and attacks on Saudi oil facilities or major shipping lanes used by oil tankers could affect supply and send prices back to record highs experienced in late 2004.

The U.S. Economy (History)

The Table on the following page compares the original forecast figures to actual for fiscal years 1995-96 to 2003-04 and the current estimates for fiscal year 2004-05. Beginning in 1996-97, the forecast for new car sales also includes minivans and light trucks. As the demand for minivans and light trucks has increased and now comprises a significant portion of total vehicle sales, this new indicator better reflects actual vehicle sales in the automobile industry.

The December 2002 forecast for fiscal 2004 anticipated a better than the average long-term economic growth rate of 2.5%, a continued increase in housing starts and new car sales, and a slightly higher rate of inflation with an improvement in the unemployment rate. However, the economy actually performed better than expected with real GDP growing 4.4% and the CPI rising only by 2.2%. To sustain economic growth, the Federal Reserve Bank kept the federal funds rate at a 46-year low of 1.00% for fiscal 2004. The stimulative monetary policy created a substantially favorable financial condition for interest-sensitive markets, pushing annual housing starts to 1.95 million units, the highest since 1978. Mortgage rates in fiscal 2004 have been the lowest since Freddie Mac began tracking them in 1971. Conventional mortgage rates on 30-year instruments fell to 5.92% in fiscal 2004, compared to 6.88% in fiscal 2002 and 7.25% in fiscal 2001. Rapid increases in home prices propped up consumer spending and generated increased residential investment. In addition, household net assets including home and stocks continued to improve after reaching a low in the fourth quarter of 2002, enabling a sustained and healthy boost in consumer spending. U.S. net household assets in the second quarter of 2004 increased to $18.2 trillion, up 22.7% from a low of $14.8 trillion in the fourth quarter of 2002. Consumer spending, which accounts for two thirds of GDP, remained the strong supporting pillar of the economy, up 3.8% in fiscal 2004 compared to 3.0% in 2003 and 2.7% in 2002. Business equipment and software investment, which had been a driver for the economy in the 1990s, but declined 8.4% in fiscal 2002 and was flat in fiscal 2003, grew 11.9% in fiscal 2004. As productivity rose, businesses produced more products without adding workers. Increasing competition in the domestic and global markets and outsourcing offshore also added pressure on the job market.

Total non-farm employment edged up 0.2% to 130,330,000 in fiscal 2004 from 130,120,000 in fiscal 2003. However, it was still down 1.92 million jobs from the recent high of 132.25 million jobs recorded in fiscal 2001. The average of the past five recessions shows that U.S. total employment

rebounds after 16 months of contraction, falling 1.2% on average from its peak level of employment. The recent decline ended in July of 2004, or 41 months after the recession began.

TABLE 85
HISTORICAL COMPARISON OF U.S. ECONOMIC INDICATORS

Fiscal		GDP	Real GDP	GDP Deflator	Housing Starts	Unempl. Rate	New* Car Sales	CPI
1995-96	12/94 Forecast	5.4%	2.6%	2.8%	1.32M	5.8%	9.7M	3.0%
	Actual	4.7%	2.7%	2.0%	1.45M	5.6%	8.7M	2.7%
	Difference	(0.7%)	0.1%	(0.8%)	0.13M	(0.2%)	(1.0)M	(0.3%)
1996-97	12/95 Forecast	4.6%	2.3%	2.2%	1.41M	5.9%	14.9M	2.5%
	Actual	6.2%	4.3%	1.8%	1.46M	5.2%	15.0M	2.8%
	Difference	1.6%	2.0%	(0.4%)	0.05M	(0.7%)	0.1M	0.3%
1997-98	12/96 Forecast	4.6%	2.1%	2.5%	1.42M	5.6%	14.8M	2.6%
	Actual	5.8%	4.4%	1.3%	1.53M	4.6%	15.4M	1.8%
	Difference	1.2%	2.3%	(1.2%)	0.11M	(1.0%)	0.6M	(0.8%)
1998-99	12/97 Forecast	4.6%	2.1%	2.4%	1.42M	4.7%	14.3M	2.6%
	Actual	5.5%	4.2%	1.3%	1.66M	4.4%	16.1M	1.7%
	Difference	0.9%	2.1%	(1.1%)	0.24M	(0.3%)	1.8M	(0.9%)
1999-00	12/98 Forecast	3.9%	2.0%	1.9%	1.44M	4.6%	14.9M	2.0%
	Actual	6.4%	4.5%	1.8%	1.64M	4.1%	17.5M	2.9%
	Difference	2.5%	2.5%	(0.1%)	0.20M	(0.5%)	2.6M	0.9%
2000-01	12/99 Forecast	4.2%	2.5%	1.7%	1.41M	4.5%	15.3M	2.5%
	Actual	4.4%	2.0%	2.3%	1.57M	4.1%	16.9M	3.4%
	Difference	0.2%	(0.5%)	0.6%	0.16M	(0.4%)	1.6M	0.9%
2001-02	12/00 Forecast	5.0%	3.2%	1.7%	1.44M	4.6%	16.0M	2.4%
	Actual	3.0%	0.8%	2.1%	1.65M	5.5%	16.9M	1.8%
	Difference	(2.0%)	(2.4%)	0.4%	0.21M	0.9%	0.9M	(0.6%)
2002-03	12/01 Forecast	4.1%	2.5%	1.5%	1.54M	6.2%	16.1M	2.4%
	Actual	4.0%	2.3%	1.7%	1.73M	5.9%	16.6M	2.2%
	Difference	(0.1%)	(0.2%)	0.2%	0.19M	(0.3%)	0.5M	(0.2%)
2003-04	12/02 Forecast	6.3%	3.9%	2.2%	1.62M	5.6%	17.4M	2.4%
	Actual	6.4%	4.4%	1.8%	1.95M	5.8%	16.8M	2.2%
	Difference	0.1%	0.5%	(0.4%)	0.33M	0.2%	(0.6M)	(0.2%)
2004-05	12/03 Forecast	5.9%	3.0%	2.8%	1.48M	6.3%	17.4M	2.8%
	12/04 Estimate	6.0%	3.8%	2.1%	1.91M	5.5%	16.6M	2.7%
	Difference	0.1%	0.8%	(0.7%)	0.43M	(0.8%)	(0.8M)	(0.1%)

* New Car Sales in Fiscal Years 1996-97 through 2002-03 represent U.S. vehicle sales for automobiles and light vehicles (trucks).

M denotes Millions of Units.

The U.S. Economy (Forecast)

The real GDP growth rate for fiscal 2006 and fiscal 2007 is forecasted at 3.1% and 3.4%, respectively, better than the long-term growth trend of 2.5%. These expected growth rates are slower than the 3.8% estimated for fiscal 2005 and the 4.4% achieved in fiscal 2004 due to a tighter monetary policy that will be accompanied by a less stimulative fiscal policy. The Fed is expected to raise interest rates at a measured pace. After raising the Federal funds rate from 1% to 2.25% near the end of 2004, the Federal Reserve is anticipated to raise the rate to 3.5% by the yearend of 2005. This rate is still considered favorably low when compared to the current consumer price inflation rate of 2.7% and its historical standard. Current long-term rates measured by the 10-year Treasury note also remained tame, at 4.22% at yearend of 2004. As the stimulative effects of the low federal interest rates and tax cuts fade, consumer and business spending may slow, thereby lowering real GDP growth. Depreciation of the dollar and continued economic growth abroad should continue to help U.S. exports.

As the economy continues to improve, the unemployment rate is anticipated to edge down to 5.4% for fiscal 2006 and 5.3% for fiscal 2007, down from 5.5% in fiscal 2005 as workweek hours and temporary employment increase that will ultimately lead employers to hire more people. Encouraged by the need for more productive capacity and the gain in profitability, businesses should increase investment and manpower. Total quarterly non-agricultural employment that had reached 132.1 million by yearend of 2004 has almost recovered to the recent high registered in the first quarter of 2001. The job recovery, however, has been slower than that experienced in 1993. Employment would have increased by an additional one million jobs if it had grown at the same rate as in 1993. Employment in manufacturing is expected to improve moderately as the deprecation of the dollar should help boost the competitiveness of U.S. products, although the impact of intensified global competition, higher raw material and health care costs, and productivity gains continue to suppress any fast increase in employment in this sector.

Consumer spending should continue to expand in fiscal 2006 and fiscal 2007, but at a slower pace. Increases in disposable income from wages and salaries, federal income tax cuts on capital gains and dividends, as well as improved equity markets should uphold spending. However, hefty consumer spending will be unlikely as there is a lack of any new stimulative fiscal and monetary policies. Households will continue to increase savings to pay down the debt that they incurred after aggressive spending over the past several years. The increase in interest rates will continue to put weight on consumption, especially durable goods such as cars and other big items. Sales of new vehicles are expected to cool down to below 15.8 million units in fiscal 2006 and 2007, falling from 16.6 million units in fiscal 2005. Housing starts should drop as conventional 30-year mortgage rates edge up. Housing starts are expected to fall to 1.60 million units in fiscal 2006 and further to 1.50 million units in fiscal 2007, down from 1.91 million units in fiscal 2005. 30-year mortgage rates are anticipated to reach 6.85% by the end of 2005 and 7.50% by the end of 2006, up from the current 6.20%. Business investment spending, which recovered in 2004, had been boosted by the federal corporation depreciation incentive program that ended in 2004, and should slow but still remain on a growth track. Continued economic growth, improved corporate balance sheets, and increased productivity will allow companies to continue to expand. Pent-up demand for upgrading antiquated equipment and software in order to boost competition and profitability will also require investment. In addition, the depreciation of the dollar should encourage exports and, therefore, augment manufacturing capacity.

Inflation for consumer goods and services in fiscal 2005 is anticipated to be 2.0% for fiscal 2006 and 2.4% for fiscal 2007, down from 2.7% in fiscal 2005. Energy prices are expected to return to normal price ranges after crude oil reached a high of $56 per barrel in October 2004. The inflation rate of 2.7% in fiscal 2005 already reflected the impact of the spike in energy costs and a deep depreciation of the U.S. dollar. The deceleration of inflation in fiscal 2006 and 2007 reflects stable or lower energy prices and a continued improvement in economic conditions that should moderately expand capacity utilization and improve labor market conditions. Thanks to technological advancements, aided by innovations in computer and information technology, efficiency and productivity should continue to rise, helping bring down inflationary pressure. Industrial commodity prices, such as steel and others, that jumped substantially in the world market over the past few years will return to normal levels as global production continues to increase while the demand in crucial markets such as China will slow down. Inflation pressures in the service sector, which accounts for 70% of the core CPI-U index, should increase moderately. Labor costs that include wages and salaries and benefits compensation will edge higher as the economy expands.

The forecast for the most widely used economic indicators for the U.S. economy is shown below. Growth in real GDP is based on 1996 chained dollars to measure real output growth. The Consumer Price Index (CPI) is also based on a traditional fixed weight method with 1982-84 =100. New car sales include traditional passenger cars as well as minivans and light trucks.

12/04 Forecast	Fiscal Year 2005-06	Fiscal Year 2006-07
Gross Domestic Product	5.4%	5.8%
Real Gross Domestic	3.1%	3.4%
G.D.P. Deflator	2.2%	2.3%
Consumer Price Index	2.0%	2.4%
Unemployment Rate	5.4%	5.3%
Housing Starts	1.60 Million	1.50 Million
New Vehicle Sales	15.73 Million	15.77 Million

Forecast Caveats

The projection of 3.1% and 3.4% for fiscal 2006 and 2007, respectively, in real output growth, with modest inflation, assumes there is a tighter but still favorable monetary policy, improved employment, continued appreciation in the equity markets, an increase in business investment and consumer spending, a normal range of energy prices, and a weaker U.S. dollar along with conducive global financial and economic conditions. This would maintain personal income growth that in turn would support consumer spending, trigger investment, and stimulate the economy. However, there are a slew of uncertainties that may affect growth projections, including a weaker than expected job market, continued instability in the stock market, a slow recovery in business investment, tighter-than-expected monetary policy, an unexpected economic or financial turmoil in a major country, the unfavorable outcome of any regional conflict, unstable foreign geopolitical conditions, and even an unexpected natural disaster. Any major disturbance could steer the forecast in either direction.

The continued economic recovery is expected to support consumer and investment consumption. However, the consumer and business sectors continue to face significant uncertainty. For the

consumer, risk factors include unexpected higher inflation, brought about by rising energy or import prices, and weaker than expected employment growth. A tighter than expected "measured" monetary policy could eat up the savings planned for debt payments and stifle consumption on interest-sensitive items. Consumers, who took advantage of low mortgage rates to refinance in past years, may find themselves saddled with unsupportable monthly payments in a higher interest rate environment. Growth in consumption could be further curbed as consumers become more conscientious about their inadequate level of savings. Personal savings as a percentage of disposable personal income dropped to 2.0% in 2002, 1.4% in 2003, and further to 0.5% in the 3rd quarter of 2004, significantly down from 7.7% in 1992 and over 10% in the early 1980s. Growth in personal consumption spending has been outpacing the growth in personal income over the past two decades. The higher interest rate monetary policy is intended to prevent the economy from overheating and curtailing any nascent inflation. However, higher interest rates may even be aggravated by the alarmingly high budget and trade deficits. The U.S. budget deficit for 2004, according to *The Economist*, reached 4.4% of GDP. This deficit was second only to Japan's 6.5% among all major industrial countries. As the U.S. government seeks more and more financing from the global market to fill the gap, it will place upward pressure on world interest rates and detrimentally affect the global economy. U.S. Treasury bonds are mostly held by foreign central banks, notably in Asia by the Japanese and the Chinese, in an effort to avoid their own currencies from moving upward. If demand for U.S. Treasury bonds sharply weakens, interest rates could be forced upward. The U.S. trade deficit fared even worse relative to GDP. The deficit in the current account balance in 2004 is estimated to account for 5.5% of GDP, up from 4.4% in 2003 and is expected to climb to 5.6% in 2005. Continuing increases in the trade deficit have foreign countries investing in the U.S., forcing the U.S. to borrow from the rest of world and putting the U.S. in a negative net direct investment position. Persistent deficits in the trade balance create uncertainty for the dollar and, therefore, inflation. There are few indications that in the near future the U.S. government can effectively get its budget or trade deficits under control.

For business consumption, risk factors include unexpected higher prices in energy or import materials and a disorderly decline in the dollar that could disrupt financial markets and their operating environment. Healthy productivity growth has been enhancing profits and cash flow, supporting capital spending over the past year. An unexpected slowdown in productivity or business confidence may add uncertainty to the investment outlook. The impact of the end of the bonus depreciation incentive in 2004 is not clear; it may create an investment cliff in the business sector.

After three difficult years, state and local governments' revenues have started to show signs of improvement in fiscal 2004. Nonetheless, they are still confronting short-term cyclical and long-term structural problems. While state revenue increases may be limited by slow employment growth or tighter monetary policy, medical expenditures, and transportation infrastructure improvement needs are still growing at a rapid pace. After rounds of tax or fee increases, spending cuts, amnesty programs, borrowing against the tobacco settlement payments and pension funds, and the use of one-time revenue funding, there is less flexibility to raise revenues. There are 49 states that mandate a balanced budget. If the poor fiscal condition persists and spending is constrained, this may reduce aggregate demand and be a drag on the economy.

The Connecticut Economy (History)

A comparison of the original forecasts for Connecticut's personal income, nonagricultural employment and unemployment with actual figures for fiscal 1995-96 through 2003-04 and the current forecast for fiscal 2004-05 are presented in the following Table.

TABLE 86
HISTORICAL COMPARISON OF CONNECTICUT ECONOMIC INDICATORS

Fiscal Year		Personal Income	Nonagricultural Employment	Unemployment Rate
1995-96	12/94 Forecast	$103.1 Billion		5.2%
	Actual	$105.5 Billion	1,568.5 Thousand	5.7%
	Difference	$2.4 Billion		0.5%
1996-97	12/95 Forecast	$106.6 Billion		5.4%
	Actual	$111.4 Billion	1,599.6 Thousand	5.6%
	Difference	$4.8 Billion		0.2%
1997-98	12/96 Forecast	$116.6 Billion		5.2%
	Actual	$119.4 Billion	1,627.6 Thousand	4.1%
	Difference	$2.8 Billion		(1.1%)
1998-99	12/97 Forecast	$127.0 Billion	1,652.4 Thousand	4.5%
	Actual	$126.8 Billion	1,657.2 Thousand	3.3%
	Difference	($0.2) Billion	4.8 Thousand	(1.2%)
1999-00	12/98 Forecast	$130.1 Billion	1,664.5 Thousand	4.1%
	Actual	$135.8 Billion	1,682.1 Thousand	2.6%
	Difference	$5.7 Billion	17.6 Thousand	(1.5%)
2000-01	12/99 Forecast	$140.0 Billion	1,695.0 Thousand	3.3%
	Actual	$145.8 Billion	1,690.3 Thousand	2.5%
	Difference	$5.8 Billion	(4.7) Thousand	(0.8%)
2001-02	12/00 Forecast	$146.9 Billion	1,722.3 Thousand	3.3%
	Actual	$147.3 Billion	1,675.3 Thousand	3.9%
	Difference	$0.4 Billion	(47.0) Thousand	0.6%
2002-03	12/01 Forecast	$155.5 Billion	1,686.5 Thousand	4.4%
	Actual	$148.7 Billion	1,652.6 Thousand	5.1%
	Difference	($6.8) Billion	(33.9) Thousand	0.7%
2003-04	12/02 Forecast	$157.1 Billion	1,669.7 Thousand	4.4%
	Actual	$154.7 Billion	1,640.4 Thousand	5.1%
	Difference	($2.4) Billion	(29.3) Thousand	0.7%
2004-05	12/03 Forecast	$162.9 Billion	1,662.5 Thousand	5.0%
	Latest Forecast	$161.6 Billion	1,647.7 Thousand	4.6%
	Difference	($1.3) Billion	(14.8) Thousand	(0.4%)

After three consecutive years of improvement, the national economic recovery is well entrenched but still geographically uneven. As the nation's financial engine gains power, Connecticut's progress towards economic growth should become more apparent over the next several quarters. While there have been encouraging signs of improvement in the labor market, the path to job growth remains sub par. Providing some evidence that much of the weakness may now be in the past, Connecticut experienced job growth in December representing the fifth straight month of gains for calendar 2004. While the state works its way back to positive year-over-year employment growth, total nonagricultural employment decreased by 12,200 in fiscal 2004. Moreover, if past-experience provides some parallels, Connecticut's job recovery will be forthcoming because the state tends to lead the nation going into recession and lags behind the subsequent economic rebound. This current business cycle is no different. Nonagricultural employment in the state started to decline nearly three quarters before the start of the national recession in March 2001. Consequently, over the span of 48 months nonagricultural employment declined nearly 3.7%, ebbing to its lowest level this past July. Since then, the state's economy has gained some traction, albeit slowly, adding 5,300 jobs since the start of the new fiscal year. Nonetheless, the health of employment growth in Connecticut is tenuous compared with that of the nation. Since the onset of the economic slowdown, manufacturing employment in Connecticut has contracted more severely than the corresponding losses nationwide. In addition, the nation's nonmanufacturing sector, when judged against the state's, reveals the nation's nonmanufacturing sector has weathered the unsteady nature of the economy better than Connecticut's. Nationwide nonmanufacturing employmemt levels increased 2.1% since the start of the economic slowdown, whereas Connecticut declined 0.9%. The following Table compares nonagricultural employment and its two major components for the U.S. and Connecticut since each entered the recession through December of 2004.

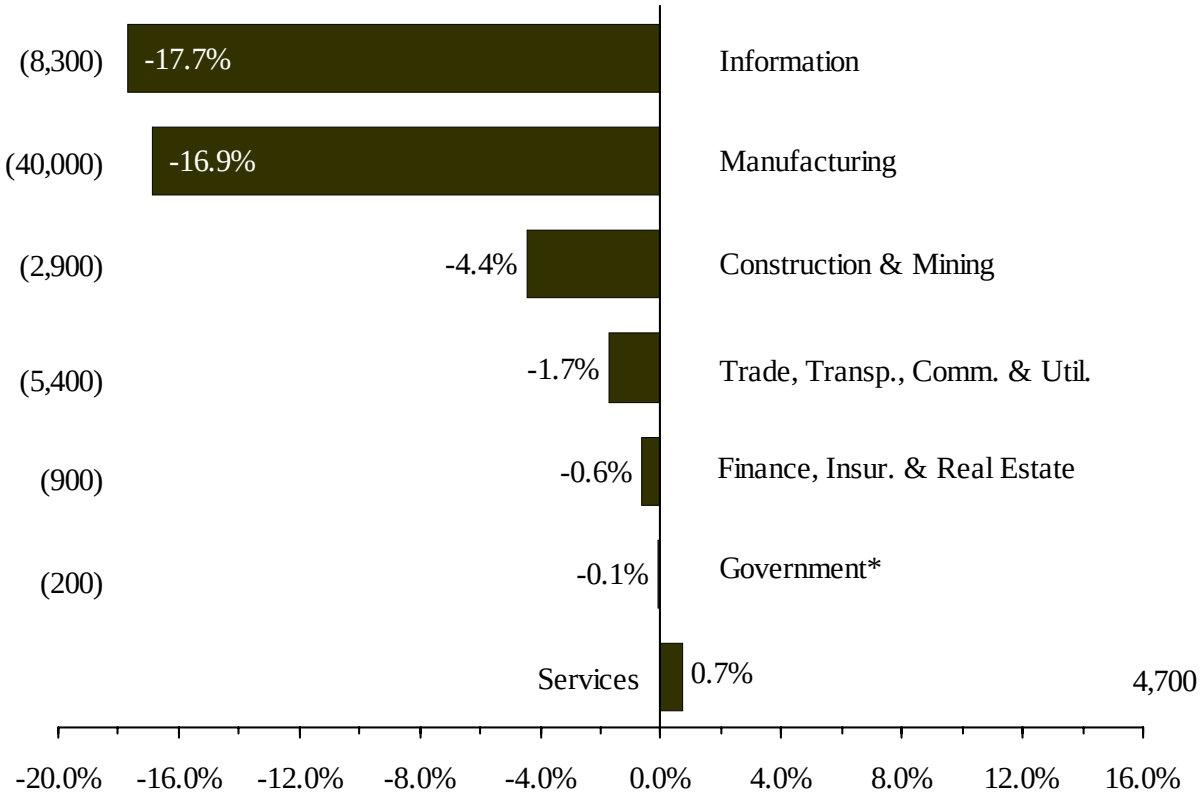
United States & Connecticut Change In Employment
(In Thousands)

	United States				Connecticut			
	2/01	12/04	Change	% Chg.	7/00	12/04	Change	% Chg.
Mfg. Empl.	17,023	14,400	(2,623)	(15.4%)	237	197	(40)	(16.9%)
NonMfg. Empl.	115,469	117,866	2,397	2.1%	1,464	1,451	(13)	(0.9%)
NonAgr. Empl.	132,492	132,266	(226)	(0.2%)	1,701	1,648	(53)	(3.1%)

Specifically, Connecticut's manufacturing sector continued to fare the worst among the state's industries. Manufacturers were not contributors to job growth during the economic boom of the late 1990s, and since its abrupt end, factory employment has fallen by 9,950 jobs annually, on average from fiscal 1999 to fiscal 2003. Thus, the decline of 9,000 jobs in manufacturing over the past fiscal year comes as no surprise as more jobs get shifted to other states, overseas, or are lost due to greater efficiencies. Since the onset of the last recession, manufacturing employment in the state has declined by 40,000 workers. The majority of the job cuts occurred in durable goods industries, primarily in electronic & electrical products and industrial machinery. At one time, a good number of the idle workforce in the manufacturing sector was absorbed by Connecticut's tight labor markets. Sadly, employment growth abated; the nonmanufacturing sector, after posting nine uninterrupted years of growth finally fell victim to the uneven economy and has

contracted by 0.9% since July of 2000. Most of the state's nonmanufacturing industries declined as economic activity faltered. Also, the information sector, comprising establishments engaged in telecommunications, broadcasting and data processing continued to weigh on the economy because of lingering overcapacity and fierce global competition. The state's economy would have performed much worse but for the steady growth in the education and health service sectors, which helped the overall service sector post a respectable gain. The following Chart covering the period from July 2000 through December 2004 shows the state sectors that have been hardest hit by the lingering impact of the last recession.

CONNECTICUT EMPLOYMENT
Percent Change In Employment By Sector And Jobs Gained/(Lost)
(From July 2000 To December 2004)



* Includes workers at the Foxwoods & Mohegan Sun Casinos

Adding to the state's lackluster economic performance, growth in the construction sector, despite being helped by a relatively robust residential housing market, was hindered again by a weak commercial real estate market. Consequently, employment in the sector barely held steady. In response to the uninspiring economy, a number of state companies announced layoffs or closed up business altogether. One example, Dana Engine in Branford announced it was eliminating 355 manufacturing jobs by shutting down its Connecticut plant. On the other hand, not all of the announcements were unpromising. IKEA, the Swedish furniture retailer, in July opened a mega-store on the old Armstrong/Perelli tire site in New Haven creating 500 jobs. Nonetheless, the state's job losses outweigh its gains. The Tables on the following page provide a breakdown of

the employment totals lost by each sector and the corresponding impact on the unemployment rate in each of state's ten labor market areas (LMA).

Connecticut Employment
(Seasonally Adjusted)

Sectors	Jul. '00	Dec. '04	Chg.
Manufacturing	237.0	197.0	(40.0)
Information	46.9	38.6	(8.3)
Construction & Mining	65.2	62.3	(2.9)
Trade, Transp. & Utilities	317.9	312.5	(5.4)
Fin., Ins. & Real Estate	143.5	142.6	(0.9)
Government	243.4	243.2	(0.2)
Services	646.8	651.5	4.7
Total	1,700.7	1,647.7	(53.0)

LMA Unemployment Rates
(Not Seasonally Adjusted)

LMA	Jul. '00	Dec. '04	Chg.
Waterbury	3.1%	5.2%	2.1%
Bridgeport	3.0%	4.6%	1.6%
Hartford	2.5%	4.3%	1.8%
Danielson	2.9%	3.9%	1.0%
Torrington	1.9%	4.5%	2.6%
Lower River	1.5%	2.5%	1.0%
New London	2.3%	3.5%	1.2%
Stamford	1.4%	2.4%	1.0%
New Haven	2.5%	3.9%	1.4%
Danbury	1.7%	2.5%	0.8%

Compared against last December the unemployment rate looks improved. The rate fell more than a full point from 5.5% to 4.3%, and the number of unemployed fell by 13.5%. Regrettably, most of the progress in unemployment occurred not from people finding jobs but rather they became discouraged and gave up searching, thus leaving the state pool of eligible seekers. On average, there were nearly 83,300 persons out of work in calendar 2004, a reduction of 15,900 compared to 2003. On a year-over-year basis, the state added 8,000 jobs since last December. Unfortunately, only half of the displaced workers had success in finding new employment. Even so, an encouraging signal for the state's economy was the 14.1% drop in initial (first-time) claims for unemployment insurance over last year. In addition, continuing claims edged lower, falling 18.0% year-over-year, likely suggesting that more long-time job seekers are finding work.

One of the surest signs that the state's economy has stabilized and is poised for recovery is in the gradual acceleration of total personal income growth. Personal income in Connecticut grew by 4.1% in fiscal 2004, the fastest pace in more than three fiscal years. Examining its components, proprietors' income and other labor income had growth rates of 8.9% and 6.1% during the year, followed by wage and salary growth of 3.9%. Particularly notable, manufacturing wage growth turned positive after declining for two consecutive years, confirming that employment growth, which eventually shows up in rising wage and salary payments, was transitioning to renewed growth. As proof of the upside in personal income gains, after adjusting for the effects of inflation, Connecticut's real per capita personal income increased by 1.4%. This means, residents saw their incomes rise faster than inflation for the first time since fiscal 2001. Furthermore, Connecticut per capita personal income still remains well above the U.S. average by 38%.

As usual, low mortgage rates were the key driver to last year's housing market. Connecticut's surprising strength stems primarily from the failure of long term interest rates to rise as widely expected, together with a tight housing supply, combined to boost the state's housing sector in calendar 2004. In addition, the lack of any substantial overbuilding anywhere in the state has placed a solid floor under the market. As a result, the severe real estate downturn of the early 1990s is unlikely to repeat itself. Underpinning this view, year-to-date new housing permits through November 2004 were up a remarkable 19.7% compared to last year, which demonstrates there is still plenty of demand out there. Also, the redevelopment of Hartford's downtown as

part of the Governor's Six Pillars of Progress was much more evident in 2004 as the city center's transformation continues to take shape. Signs of progress are obvious at the riverfront, on the construction site of the convention center/hotel and in and around the fringes of downtown Hartford. Officials say the convention venue is on target to attract 250,000 guests in its first 12 months. Both plan to open in July 2005. Just how well the state's housing sector holds up will be a valuable determinant of whether the economy continues on its slow, but steady expansion.

Finally, Connecticut's personal income tax revenues, after declining 5.7% the previous year, grew 11.1% in fiscal 2004, as estimated payments, which include capital gains, rose 21.9% compared to last year. When combined with a sizable increase of 18.4% in real estate conveyance taxes, and 19.5% in petroleum gross receipts tax, total tax receipts grew year-over year by 11.6%. This coupled with overall expenditure restraints, and the economy's remarkable resiliency were the key reasons the state ended with a budget surplus of approximately $300 million.

The Connecticut Economy (Forecast)

The past fiscal year has been both unexceptional and noteworthy for the state's economy. A year ago, it was still unclear how Connecticut households and businesses would react to the forces restraining economic growth. Today, the uncertainties heading into the new biennium do not seem as elusive. The state is expected to see the recovery broaden as economists are generally upbeat in their assessments of the economy's prospects. Risks still exist, and unfortunately, some of them hamper economic growth rather than provide a lift. However, this risk will be tempered as Connecticut's economy is well diversified and stands to benefit from increasing economic activity throughout the nation, and unemployment is relatively low. Moreover, some economic indicators are signaling Connecticut has finally embarked on the path to steady growth. As fiscal 2005 progresses the state's economy will show further signs that it is rebounding in earnest.

The state's economy is expected to gain momentum this winter, bringing to an end its 4½-year bout of below-capacity growth. Total nonagricultural employment is projected to grow 0.4% this fiscal year. The state's nonmanufacturing sector is expected to post a comparable increase of 0.5% as job creation among the major industry groups strengthens. Surprisingly, manufacturing employment, where the vast majority of jobs losses were concentrated during the recession and subsequent weak recovery, is expected to generate a modest gain of 0.1%, eliminating its drag on employment growth that has prevailed since 1999. With the recession having run its course, total nonagricultural employment declined by roughly 62,600 jobs relative to its peak. Nonetheless, recent state labor employment reports indicate that the job market recovery is underway, ever since July 2004 when the trough was reached with regard to employment losses.

Employment levels in Connecticut are expected to rise over the coming quarters as the recovery broadens. However, the expansion will not be consistent across all sectors. Manufacturing is projected to recover from the negative and weak employment levels of the recent past, but the number of new jobs to be created will be small. Nonetheless, the state's economic engine will get a boost as the combination of healthy productivity gains, higher household net worth, and strong corporate earnings provide support for the state's economy to stay on track and enjoy solid growth. The recipe of low federal taxes, more disposable income, and a more competitive exchange rate are some of the factors that will allow consumers and businesses to pick up their spending pace, making it possible for the state's economy build momentum heading into next year. Therefore, for the duration of fiscal 2005, expect the pace of economic activity in

Connecticut to hold up as the improved outlook spurs consumer spending, business investment, and in particular, an upswing in job creation. In fiscal 2006, the tempo of employment growth is forecasted to accelerate with nonagricultural employment expanding by 1.1%, resulting in 17,900 jobs. The state will add these new jobs in high skill, high-income fields such as professional and business services, information technology and health services along with lower paying jobs in retail trade. Even with the state's economy showing signs of expanding at a solid rate, the unemployment rate in Connecticut should remain unchanged through the remainder of fiscal 2005. This will take place because as the economy strengthens during coming months discouraged workers, not counted in the current unemployment statistics, are expected to reenter the state's labor force. This will persist in the fiscal year ahead, continuing the trend of a slow improvement in the unemployment rate even as the economy expands.

Connecticut's population growth during the forecast period is estimated to be moderate, based upon the trend of the last five years. Demand for skilled workers will have to be met by a rise in the state's labor force which remains stubbornly low. The lack of skilled workers represents one of the biggest challenges the state faces during the next several years because many lack the skills to take the jobs that are or will be available. If the situation persists, this could impact economic growth in the long term. However, nonmanufacturing employment is forecasted to grow by 17,900 jobs in fiscal 2006. The job growth leader in the state will be the educational and health services industry. Ongoing demand for health care and social services will underpin growth in the sector. As the state's population ages, healthcare employment will rise. Furthermore, firms across the state registered solid gains in earnings. Having restored profitability, businesses will soon focus their attention on hiring which should spur growth in the state's professional and business services sector. Also, the information sector could again become a net generator of jobs as new telecom services are developed around the state and the need for workers to install and maintain broadband connections keeps growing. Finally, one important sign that the economy is getting back on track is the renewed economic strength in the industrial sector. Manufacturing employment levels are forecasted not to decline in fiscal 2006. This has positive implications for the state; it means the labor market is generating enough jobs to keep the economy moving in the right direction. The forecast for the most widely used economic indicators for the Connecticut's economy is shown below.

12/04 Forecast	**Fiscal Year 2005-06**	**Fiscal Year 2006-07**
Personal Income	$168.7 Billion	$176.2 Billion
Nonagricultural	1,665.6 Thousand	1,680.0 Thousand
Unemployment	4.5%	4.4%

Finally, the state's highly skilled workforce, strong presence of high-tech industries, and high per capita income provide a solid economic footing. In addition, these fundamental drivers buffer the state in times of economic uncertainty. Therefore, it is projected that healthy income growth will accompany the expected rise in employment. Personal income for Connecticut residents is estimated to increase 4.5% this fiscal year, followed by nearly identical growth in fiscal 2006. This is in stark contrast to income growth of 0.9% just two short years ago. This growth in personal income will provide households with the means to maintain their spending patterns. Steady gains in spending will supply ongoing support for the broadening expansion. Mix in historically low inflation and you have the wherewithal to sustain economic activity. Furthermore, the housing market, another prop for consumer spending shows no sign of unraveling in the state as

mortgage rates remain low enough to keep housing affordable. Year-ending data suggest that the underlying demand for housing remains strong. Notwithstanding, the negative impact of rising interest rates will slow housing activity. A firming economy, however, will help keep a floor under housing. And given the continued availability of low mortgage rates, stronger job and income growth, and a belief that housing is a good long-term investment, housing activity in Connecticut is projected to hold up well.

The biggest risks that may impede the state's economic recovery are: (1) the persistent weakness in job growth, debt-ridden consumers, rising inflation, and higher energy costs, increases the uncertainty about the future course of the state's economy. Should consumer confidence erode and the pace of consumer spending deteriorate, the probability of a solid rebound will diminish. (2) The prospect of another terrorist attack against the United States. What it means for the economy depends on whether or not it occurs on U.S. soil. An attack on a U.S. installation overseas will still cause a spike in oil prices and hurt business and consumer confidence, however, an act of aggression aimed at the U.S. directly will have a much larger impact on oil prices, the stock market and the economy. It could severely limit the extent of the recovery. (3) The lengthy correction in the equity market has limited the incentive to invest. Scores of investors have held off moving back into the market, hampering both consumer and business sentiment. If businesses turn pessimistic about their expectations for profits, stock prices could weaken after a healthy run-up in the last quarter of 2004, encouraging investor disenchantment with equities. The risk of this scenario to the state is twofold. First is equity ownership by Connecticut residents, which by nature of our very wealth have a greater proportion of their asset's allocated to stocks. Second, Connecticut has a higher proportion of workers employed in the financial services industry which, combined with our geographical proximity to the world's financial capital, exposes our employment mix to the vagaries of the markets centered on Wall Street. (4) Finally, by the time each of the last five recessions had run its course, the number of Connecticut jobs fell from 1.4% to as much as 9.4%, relative to its peak. Regrettably, the state's recent downturn will not be soon forgotten. The data indicates that the bottom was reached in July of 2004, not before claiming 3.7% of the state's workforce. In view of that, based on all the cited risks, there are reasons to worry that state's job market will remain weak. In retrospect, it took the state's labor market 48 months to reach bottom. The '89-'92 recession racked up job losses for 46 months. Recovering these loses took another 85 months. If sustained job growth continues to elude the state, the performance of the state's labor market during the early 1990s will not be an historical anomaly. The following Table shows that the current downturn compared to prior recessionary periods in state history.

RECESSIONS IMPACT ON CONNECTICUT'S LABOR MARKET

Recession Peak To Trough	Jobs Lost As A Percent Of Total Jobs	Months From Peak To Trough	Months From Peak To Regaining Peak
Feb. '70 - Jun. '71	4.0%	16	34
Aug. '74 - Sept. '75	4.4%	13	32
Mar. '80- Aug. '80	1.4%	5	11
Oct. '81 - Feb. '83	1.5%	16	21
Feb. '89 - Dec. '92	9.4%	46	131
Average	**4.1%**	**19**	**46**
Jul. '00 - Jul. '04	3.7%	48*	na

* Assumes that the trough of the labor market was reached in July of 2004.

Tables 87 through 90 on the following pages provide historical and forecasted values for the major economic variables used in revenue forecasting for the United States and Connecticut.

TABLE 87
UNEMPLOYMENT RATES
Seasonally Adjusted

Fiscal Year	Quarters	United States	Connecticut	
2003-04	1	6.1%	5.6%	
	2	5.9%	5.5%	
	3	5.6%	4.8%	
	4	5.6%	4.6%	
2004-05	1	5.4%	4.5%	
	2	5.5%	4.6%	**Start of Forecast**
	3	5.5%	4.6%	
	4	5.5%	4.6%	
2005-06	1	5.5%	4.6%	
	2	5.4%	4.5%	
	3	5.4%	4.5%	
	4	5.4%	4.5%	
2006-07	1	5.4%	4.5%	
	2	5.4%	4.4%	
	3	5.4%	4.4%	
	4	5.3%	4.4%	

Source of Historical Data: U.S. Bureau of Labor Statistics, Connecticut State Labor Department

TABLE 88
Comparison of Connecticut's Personal Income Versus U.S. GDP and Personal Income
(Seasonally Adjusted in Billions of Dollars)

	Connecticut		United States		United States	
	Personal	% Change	Personal	% Change		% Change
Fiscal Year	Income	Year Ago	Income	Year Ago	GDP	Year Ago
1996-97	111.444	5.7	6,702.2	6.2	8,057.7	6.2
1997-98	119.426	7.2	7,158.3	6.8	8,524.4	5.8
1998-99	126.769	6.1	7,607.0	6.3	8,996.0	5.5
1999-00	135.783	7.1	8,109.6	6.6	9,571.3	6.4
2000-01	145.783	7.4	8,613.8	6.2	9,991.5	4.4
2001-02	147.281	1.0	8,792.0	2.1	10,286.3	3.0
2002-03	148.649	0.9	8,966.1	2.0	10,698.2	4.0
2003-04	154.705	4.1	9,386.9	4.7	11,379.4	6.4
2004-05 (E)	161.610	4.5	9,810.7	4.5	12,058.9	6.0
2005-06 (P)	168.706	4.4	10,234.5	4.3	12,707.5	5.4
2006-07 (P)	176.223	4.5	10,702.9	4.6	13,442.2	5.8

(E) = Estimated / (P) = Projected

Source of Historical Data: U.S. Bureau of Economic Analysis

TABLE 89
STATE OF CONNECTICUT
Annualized Personal Income & Nonagricultural Employment
(In Millions)

Fiscal Year		Personal Income	% Change Year Ago	Nonagricultural Employment	% Change Year Ago	
2003-04	1	151,350	2.1	1,639.4	(1.3)	
	2	152,864	3.7	1,639.6	(0.9)	
	3	156,856	5.2	1,639.2	(0.7)	
	4	157,751	5.3	1,643.6	0.0	
	Average	**154,705**	**4.1**	**1,640.4**	**(0.7)**	
2004-05	1	159,030	5.1	1,641.6	0.1	
	2	160,666	5.1	1,646.3	0.4	**Start of Forecast**
	3	162,464	3.6	1,648.8	0.6	
	4	164,279	4.1	1,654.4	0.7	
	Average	**161,610**	**4.5**	**1,647.7**	**0.5**	
2005-06	1	166,101	4.4	1,659.8	1.1	
	2	167,802	4.4	1,664.7	1.1	
	3	169,577	4.4	1,667.2	1.1	
	4	171,344	4.3	1,670.8	1.0	
	Average	**168,706**	**4.4**	**1,665.6**	**1.1**	
2006-07	1	173,270	4.4	1,674.6	0.9	
	2	175,156	4.4	1,678.2	0.8	
	3	177,205	4.5	1,681.8	0.9	
	4	179,261	4.6	1,685.5	0.9	
	Average	**176,223**	**4.5**	**1,680.0**	**0.9**	

TABLE 90
U.S. CONSUMER PRICE INDEX
(1982-84 = 100)

Fiscal Year		Consumer Price Index	% Change Year Ago	
2003-04	1	184.5	2.2	
	2	184.8	1.9	
	3	186.4	1.8	
	4	188.6	2.8	
	Average	**186.1**	**2.2**	
2004-05	1	189.5	2.7	
	2	190.8	3.3	**Start of Forecast**
	3	191.7	2.8	
	4	192.7	2.2	
	Average	**191.2**	**2.7**	
2005-06	1	193.6	2.2	
	2	194.4	1.9	
	3	195.5	2.0	
	4	196.6	2.0	
	Average	**195.0**	**2.0**	
2006-07	1	197.8	2.2	

2	199.0	2.4
3	200.3	2.4
4	201.4	2.5
Average	**199.6**	**2.4**

Source of Historical Data: U.S. Bureau of Labor Statistics

REVENUE FORECAST

The following Table shows the General Fund Revenue collections for fiscal 2003-04 as estimated by the Office of Policy and Management, and estimated revenue collections for fiscal 2004-05 and projected revenue collections for fiscal 2005-06 and fiscal 2006-07 by major sources.

TABLE 91
STATE OF CONNECTICUT - GENERAL FUND REVENUES
(In Millions of Dollars)

	Actual Revenue 2003-04	Estimated Revenue 2004-05	Projected Revenue At Current Rates 2005-06	Proposed Revenue Changes 2005-06	Net Projected Revenue 2005-06
Taxes					
Personal Income Tax	$ 4,943.4	$ 5,370.0	$ 5,654.0	$ 115.0	$ 5,769.0
Sales & Use Tax	3,134.0	3,278.8	3,447.6	7.5	3,455.1
Corporation Tax	518.0	570.3	538.4	74.5	612.9
Public Service Tax	193.7	206.0	197.4	-	197.4
Inheritance & Estate Tax	147.6	165.0	73.6	11.0	84.6
Insurance Companies Tax	233.4	239.0	244.9	-	244.9
Cigarette Tax	279.6	267.6	245.6	112.9	358.5
Real Estate Conveyance Tax	176.7	176.5	164.0	-	164.0
Oil Companies Tax	106.9	137.4	118.0	(12.0)	106.0
Alcoholic Beverages	44.0	44.1	44.5	7.4	51.9
Admissions and Dues	31.7	32.3	32.9	-	32.9
Miscellaneous	34.9	36.6	37.0	158.7	195.7
Total Taxes	$ 9,843.9	$ 10,523.6	$ 10,797.9	$ 475.0	$ 11,272.9
Less Refunds of Taxes	(650.8)	(720.0)	(855.0)	-	(855.0)
Less R&D Credit Exchange	(10.4)	(14.0)	(17.0)	-	(17.0)
TOTAL - Taxes Less Refunds	$ 9,182.7	$ 9,789.6	$ 9,925.9	$ 475.0	$ 10,400.9
Other Revenues					
Transfers Special Revenue	$ 286.7	$ 266.6	$ 272.0	$ -	$ 272.0
Indian Gaming Payments	402.7	420.0	436.8	-	436.8
License, Permits, Fees	154.2	140.5	154.8	-	154.8
Sales of Commodities & Services	41.0	37.0	38.3	-	38.3
Rents, Fines & Escheats	117.7	180.0	87.1	20.0	107.1
Investment Income	1.8	12.0	25.0	-	25.0
Miscellaneous	111.1	111.8	113.3	(0.3)	113.0
Less Refunds of Payments	(0.6)	(0.6)	(0.6)	-	(0.6)
TOTAL - Other Revenues	$ 1,114.6	$ 1,167.3	$ 1,126.7	$ 19.7	$ 1,146.4
Other Sources					
Federal Grants	$ 2,563.7	$ 2,497.2	$ 2,544.7	$ 42.0	$ 2,586.7
Transfers to the Resources of G.F.	82.0	179.8	17.0	(44.0)	(27.0)
Transfer From Tobacco Settlement	114.6	88.3 *	92.0	12.0	104.0
Transfers From (To) Other Funds	(85.0)	(85.0)	(135.0)	48.7	(86.3)
TOTAL - Other Sources	$ 2,675.3	$ 2,680.3	$ 2,518.7	$ 58.7	$ 2,577.4
TOTAL - General Fund	$ 12,972.6	$ 13,637.2	$ 13,571.3	$ 553.4	$ 14,124.7

***** Denotes funding of $20 million for the Governor's Stem Cell Initiative in fiscal 2004-05.

	Projected Revenue At Current Rates 2006-07	Proposed Revenue Changes 2006-07	Net Projected Revenue 2006-07
$	5,906.0	$ 128.0	$ 6,034.0
	3,586.6	6.6	3,593.2
	573.4	28.8	602.2
	200.1	-	200.1
	39.0	26.0	65.0
	251.0	-	251.0
	226.0	97.1	323.1
	152.4	-	152.4
	121.0	(12.0)	109.0
	45.0	6.6	51.6
	33.6	-	33.6
	37.3	169.8	207.1
$	11,171.4	$ 450.9	$ 11,622.3
	(884.4)	-	(884.4)
	(20.0)	20.0	-
$	10,267.0	$ 470.9	$ 10,737.9
$	277.4	$ -	$ 277.4
	454.3	-	454.3
	142.6	-	142.6
	39.7	-	39.7
	90.8	20.0	110.8
	27.0	-	27.0
	116.1	(0.3)	115.8
	(0.6)	-	(0.6)
$	1,147.3	$ 19.7	$ 1,167.0
$	2,591.8	$ 49.6	$ 2,641.4
	17.0	101.0	118.0
	91.0	12.0	103.0
	(135.0)	48.7	(86.3)
$	2,564.8	$ 211.3	$ 2,776.1
$	13,979.1	$ 701.9	$ 14,681.0

Explanation of Changes

Personal Income Tax
Delay the restoration of the $500 property tax credit and the singles exemption increase for 2 years. Exempt 50% of military pensions and tax nonresident gambling winnings.

Sales & Use Tax
Impose tax on aviation services and additional revenue due to change in Cigarette and Alcohol Taxes.

Corporation Tax
Impose 15% surcharge on corporate entities for income year 2005 and a 10% surcharge for income year 2006. Reduce net operating loss carry forward period from 20 years to 5 years.

Inheritance Tax
Defer scheduled phase-down of tax by two years.

Cigarette Tax
Increase tax from $1.51 per pack to $2.25 per pack. Raise excise tax on the wholesale price of non-cigarette tobacco products from 20% to 90%, and increase the tax on tobacco products sold by the ounce from 40¢ to $1.80 per ounce.

Oil Companies Tax
Intercept funds for the Emergency Spill Response Fund.

Alcohol Tax
Increase all tax rates by 15%.

Miscellaneous Taxes
Impose a gross receipts tax on nursing homes and defer phase-down of the Gift Tax by 2 years.

R&D Credit Exchange
Eliminate R&D credit exchange.

Rent, Fines and Escheats
Escheat unclaimed bottle deposits to the state.

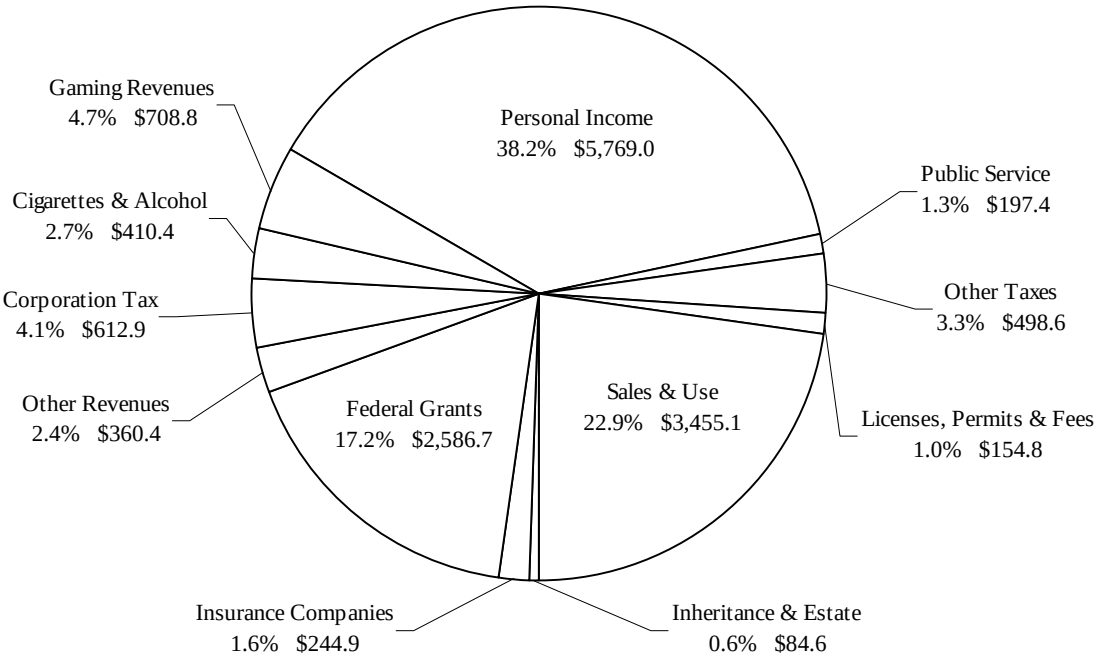
Federal Grants
Reflects impact of recommended expenditure changes.

Transfers To The Resources Of The General Fund
Transfers from various state entities; the ECLM Fund, the securitization of future unclaimed property, and the deferral of GAAP accounting.

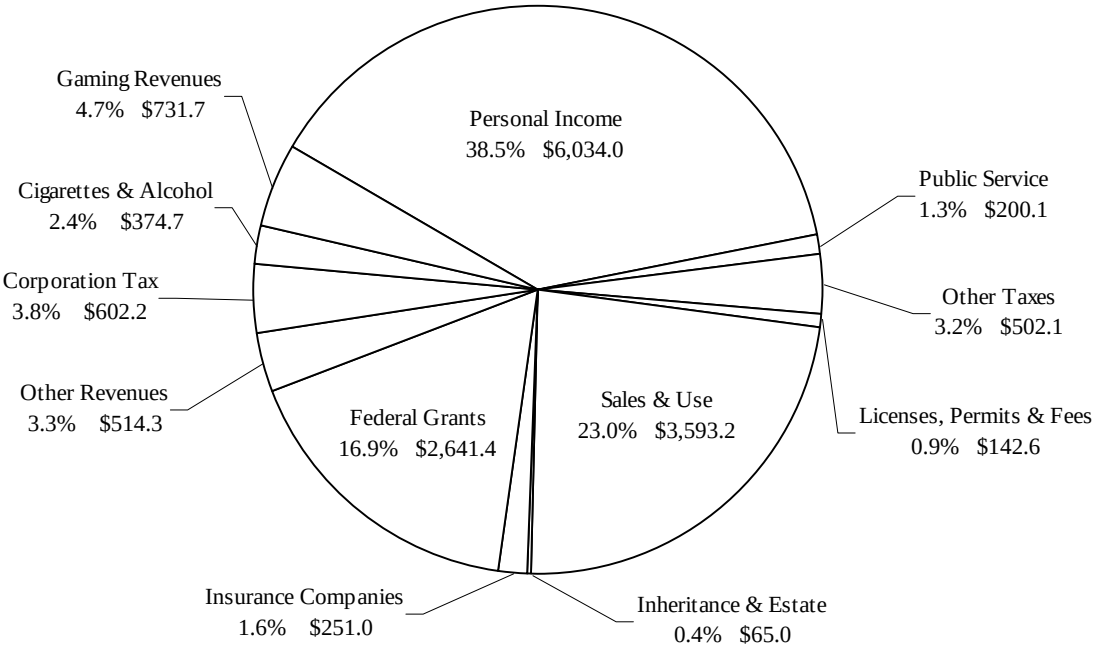
Transfers From The Tobacco Settlement Fund
Redirect transfers to the General Fund for two years.

Transfers From (To) Other Funds
Reduce Mashantucket Pequot & Mohegan Grant transfer.

FISCAL YEAR 2005-06 – TOTAL $14,124.7 MILLION*



FISCAL YEAR 2006-07 – TOTAL $14,681.0 MILLION*

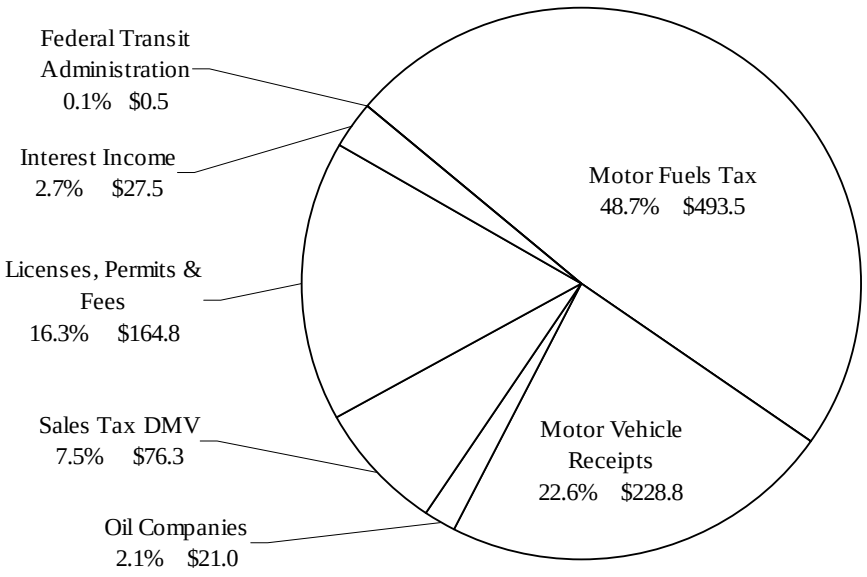


* Refunds of Taxes are estimated at $855.0M for FY 2005-06 and $884.4M for FY 2006-07, R&D Credit Exchange are estimated at $17.0M for FY 2005-06 and $0.0M for FY 2006-07, Refunds of Payments are estimated at $0.6M for both FY 2005-06 and FY 2006-07, and Transfers To Other Funds are estimated at $86.3M for both FY 2005-06 and FY 2006-07.

TABLE 92
STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND REVENUES
(In Millions of Dollars)

	Actual Revenue 2003-04	Estimated Revenue 2004-05	Projected Revenue Current Rates 2005-06	Proposed Revenue Changes 2005-06	Net Projected Revenue 2005-06
Taxes					
Motor Fuels Tax	$ 464.5	$ 472.0	$ 477.9	$ 15.6	$ 493.5
Oil Companies Tax	10.5	13.0	21.0	-	21.0
Sales Tax DMV	70.5	72.6	76.3	-	76.3
Less Refunds of Taxes	(10.1)	(8.8)	(8.9)	(0.1)	(9.0)
TOTAL - Taxes Less Refunds	$ 535.4	$ 548.8	$ 566.3	$ 15.5	$ 581.8
Other Sources					
Motor Vehicle Receipts	$ 219.7	$ 232.2	$ 228.8	$ -	$ 228.8
Licenses, Permits & Fees	154.5	160.4	163.4	1.4	164.8
Interest Income	24.5	27.0	27.5	-	27.5
Federal Transit Admin. (FTA)	-	0.5	0.5	-	0.5
Transfers From (To) Other Funds	(8.5)	(8.5)	(9.5)	5.9	(3.6)
Transfer To TSB	(22.8)	(31.0)	(29.3)	9.0	(20.3)
Release From Debt Service	3.7	-	-	-	-
Less Refunds of Payments	(2.5)	(2.8)	(3.1)	-	(3.1)
TOTAL - Other Sources	$ 368.6	$ 377.8	$ 378.3	$ 16.3	$ 394.6
TOTAL – S.T.F.	$ 904.0	$ 926.6	$ 944.6	$ 31.8	$ 976.4

FISCAL YEAR 2005-06 - TOTAL $ 976.4 MILLION*



* Refunds of Taxes are estimated at $9.0M, Transfers to Other Funds are estimated at $3.6 M, Refunds of Payments are estimated at $3.1M and Transfers to Transportation Strategy Board are estimated at $20.3M in fiscal 2005-06.

	Projected Revenue Current Rates 2006-07	Proposed Revenue Changes 2006-07	Net Projected Revenue 2006-07
	$ 483.9	$ 31.0	$ 514.9
	21.0	-	21.0
	80.1	-	80.1
	(9.0)	(0.2)	(9.2)
	$ 576.0	$ 30.8	$ 606.8
	$ 233.1	$ -	$ 233.1
	166.5	0.4	166.9
	29.0	-	29.0
	0.5	-	0.5
	(9.5)	3.5	(6.0)
	(24.3)	9.0	(15.3)
	-	-	-
	(3.2)	-	(3.2)
	$ 392.1	$ 12.9	$ 405.0
	$ 968.1	$ 43.7	$ 1,011.8

Explanation of Changes

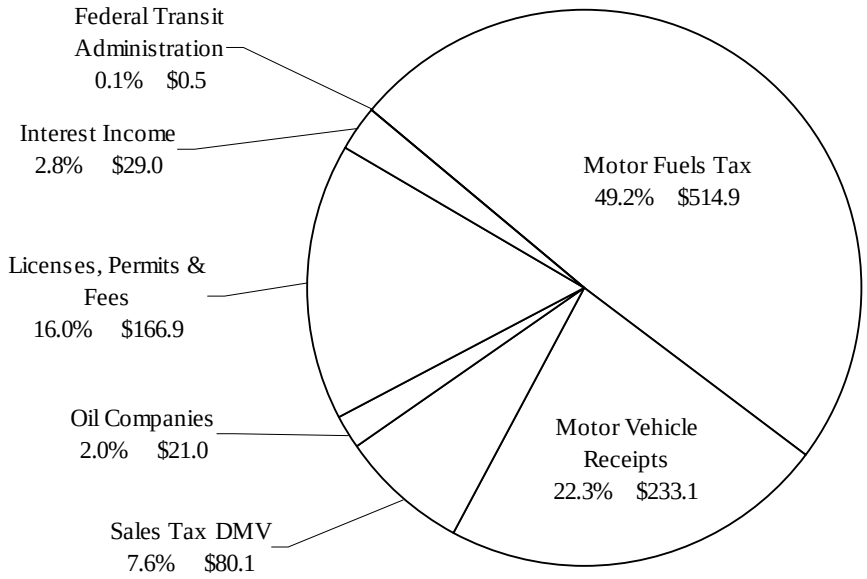
Motor Fuels Tax
Increase the 25¢ per gallon tax on gasoline to:
26¢ on 7/1/2005
27¢ on 7/1/2006
29¢ on 7/1/2007
30¢ on 7/1/2008
31¢ on 7/1/2013

License, Permits & Fees
Various minor changes.

Transfers From (To) Other Funds
Reduce the transfer to the Conservation Fund and the Emission Enterprise Fund.

Transfer To The Transportation Strategy Board
Reduce the transfer to TSB and use funds for the Transportation Revitalization Program.

FISCAL YEAR 2006-07 - TOTAL $ 1,011.8 MILLION*



* Refunds of Taxes are estimated at $9.2M, Transfers to Other Funds are estimated at $6.0M, Refunds of Payments are estimated at $3.2M and Transfers to Transportation Strategy Board are estimated at $15.3M in fiscal 2006-07.

IMPACT OF THE GOVERNOR'S BUDGET ON THE STATE'S ECONOMY

The traditional purpose of a governmental budget is threefold: it outlines necessary and desirable public services; it defines the resources that are required to provide these services; and it estimates how much these services will cost. The budget is the fundamental policy document of every level of government. As proposed, enacted and implemented, it represents a consensus on what government realistically can and ought to do.

The economic implications of governmental budgets are significant. The government sector including federal and local governments is an important dimension of the national economy, accounting for 18.6% of the Gross Domestic Product. The spending and tax policies of government profoundly influence the performance of the economy. Because the Governor's budget accounts for more than 7.0% of the Gross State Product, it is inevitable that state government's expenditure and revenue actions influence the State's economy.

The economy has undergone significant change over the past several years and along with it, so has the state's budget. The result is a budget recommendation that proposes very limited tax increases while refusing to undo those important structural changes that have been implemented on the expenditure side of the ledger. This budget is part of the vision of the Governor to ultimately bring state finances back into structural balance. Governor Rell believes this budget will maintain the positive impact previous budgets have had on the economy, while preserving the most important aspects of our quality of life.

Expenditure Actions

Education

In order for Connecticut to prosper in the 21st century's global economy, the state must provide its future workers with an exceptional, technologically-sophisticated education that will prepare them for the rigors of the new world economy. Governor Rell's budget has recommended bold, dramatic and innovative programs that will: 1) Examine the way the state finances its education system, 2) Restructure and expand state-funded preschool education, 3) Invest in education technology to ensure that every child educated in Connecticut has modern academic competencies and 4) Improve the education of children who live in urban areas. Connecticut, with its vast individual wealth and large corporate presence, needs to combine the talents of its citizens to create the best public schools in the country. Governor Rell will bring together individuals from both the private and public sectors in a Commission on Educational Finance and Accountability to create the schools Connecticut's children need to lead them into the productive adulthoods that our economy demands.

For residents of non-School Readiness communities, Governor Rell's budget is recommending $5.5 million for a new program for parents who have not been able to access the program unless they lived in one of the state's poorest and academically challenged communities. As the No Child Left Behind assessments have demonstrated, achievement gaps exist in communities not traditionally believed to have such gaps. This program, in partnership with $1.0 million in debt service financing (and $250,000 for technical assistance) will lead to the creation of up to 1,000 more slots in communities with needy, underserved preschool

populations. To measure how well the state's preschool programs are working, Governor Rell's budget includes $400,000 to finance a developmentally appropriate kindergarten assessment program.

Governor Rell has long championed the use of technology in Connecticut schools to train all of the state's students in 21st century workforce competencies. The budget includes two initiatives to expand the use of technology in the state's schools. As Lieutenant Governor, Governor Rell helped create the Connecticut Education Network (CEN), a statewide information technology infrastructure initiative created to link public school districts, college and university campuses and libraries with one another using a state of the art network. Bond funds of approximately $10.0 million over the biennium will be matched with federal funds, to complete annual payments 3 and 4 of a five-year contract for fiber optic leases. Additionally, for the first time, the operation of the CEN will be budgeted. Initially, the network included 20 year bond-eligible leases for fiber-optic cable, and funding has included structured monthly telecommunications service fees, matched by federal E-Rate dollars. Governor Rell is recommending $3.4 million in fiscal year 2006 and $3.7 million in fiscal year 2007 to finance the operations of the CEN. Governor Rell is also recommending significant funding to make laptop computers available to every ninth and tenth grade student in the state's public high schools with $6.0 million in fiscal year 2006 and $9.5 million in fiscal year 2007.

Connecticut's economic future depends on its ability to produce skilled workers from the ranks of those who traditionally have not gone to or finished college. Connecticut's economy needs college-educated workers who are increasingly finding public colleges and universities unaffordable and financial aid unavailable. To encourage this, Governor Rell is proposing an absolute tuition freeze for UCONN, CSU and the CTCs for the biennium.

The Workforce Initiative: Preparing Connecticut Workers and Future Workers for the 21st Century

Governor Rell's workforce initiative includes a number of no-cost options and about $8 million in additional funding to strategically invest in programs to help today's workers and prepare tomorrow's workers for Connecticut's 21st century economy. The no-cost initiatives are:

- Use existing Manufacturing Assistance Act (MAA) funding for a "Next Generation Manufacturing" initiative to retrain older manufacturing workers, reclaim tech-talent dislocated through outsourcing, and provide technical assistance to small/medium manufacturers to promote market growth.
- Use existing Connecticut Employment and Training Commission (CETC) funding in the Office of Workforce Competitiveness (OWC) to develop an educational program for employers to retain (and possibly retrain) older workers in the workforce.
- Use existing CETC funding to expand the availability of workplace literacy programs.
- Create an integrated marketing program among the Department of Economic Development (DECD), Connecticut Development Authority (CDA), and Connecticut Innovations Inc. (CII) so they all speak with "one voice" to target marketing and program materials and develop an aggressive marketing campaign to compete for business in the global marketplace.

The $8 million in additional funding is divided among four agencies as follows:

- $2.55 million for the Office of Workforce Competitiveness' Jobs Funnel, Connecticut Career Choices, Connecticut Career Ladder and the Small Business Innovation Research Initiative;
- $3.0 million for the Department of Labor's 21st Century Skills Fund;
- $500,000 for the Office of Policy and Management's Connecticut Licensing Information Center (CT-CLIC) to begin the process of electronic licensing activities; and
- $1.75 million for the Department of Higher Education's Loan Forgiveness and Education and Health Initiatives.

Health and Human Services

Significant changes are proposed in the health and human services areas as a result of financial and population trends. Across the United States, health care spending continues to rise sharply. According to the federal Centers for Medicare and Medicaid Services, overall health care spending increased 9.3% in 2002, while Medicaid growth was even higher at 11.7% in 2002. Increases in pharmaceutical spending and inpatient and outpatient hospital costs have been major cost drivers.

Like spending, Medicaid enrollment also saw significant increases nationally. Enrollment grew 8.3% in fiscal year 2001, 9.8% in 2002, 5.9% in 2003, and 5.2% in 2004, and is expected to grow by 4.7% in fiscal year 2005. The economic downturn increased the number of low-income families as well as the number of uninsured, resulting in an increase in families and children on Medicaid. Enrollment among seniors and people with disabilities whose health care needs are greater and substantially more costly than low-income families also saw growth. The elderly and disabled populations account for more than 70% of Medicaid's program costs while making up only about 25% of the enrollees. The combination of the demographic trends that reflect the aging of the nation and state tax revenues that have declined or not kept pace with health care growth has forced states to implement cost control measures.

While policy decisions enacted in Connecticut over the last several legislative sessions have resulted in reductions to Medicaid and other human services programs, those reductions have been far less draconian than in other states. Nevertheless, changes in Connecticut were very controversial and painful. These changes were and continue to be essential if the state is to continue to provide quality services to the most needy. The demands of a balanced budget mean that even the programs that serve those in greatest need must bear a share of the burden. The Governor's Budget proposes a number of reductions which, while modest in comparison to those made in previous years, are still difficult.

Among the most significant reductions proposed in the Budget are:

- Restructuring transitional Medicaid from 24 months to 12 months for persons served in the HUSKY managed care program, yielding savings in FY 2007;
- Freezing rates and COLAs under the Aid to the Aged, Blind and Disabled program;
- Instituting copays for those enrolled in Medicaid fee-for-service;
- Increasing premiums for those enrolled in HUSKY B;
- Eliminating state-funded medical assistance and certain other benefits for non-citizens;

- Reducing a variety of hospital grants.

Pharmacy services continue to have one of the largest rates of growth in the Budget. The Governor, therefore, is proposing: A reduction in the dispensing fee; a revision in the reimbursement of drugs relative to the average wholesale price (AWP); and an expansion in the number of drugs subject to maximum allowable cost (MAC) pricing.

This Budget also contains a number of bright notes in the areas of nursing home rate increases, supportive housing, funding to address services for abused and neglected children, and in reducing the waiting list for and serving those citizens with mental retardation most in need.

A nursing home provider tax is proposed to provide a substantial rate increase through maximization of federal Medicaid reimbursements. Nursing homes will be taxed 6% of their gross patient care revenues. Also, nursing homes will then receive a significant Medicaid rate increase, financed through these tax revenues and increased federal Medicaid reimbursement. Nursing homes with rates below the median will receive larger increases than above-median homes, but all Medicaid rates will be increased. In addition to nursing homes, some of the new federal reimbursement will be used to support a four percent rate increase for other certain services and providers. A 4% cost of living adjustment will also be supported for grant-funded private providers under certain departments.

The Governor is also making a significant commitment to supportive housing. Over the past ten years, Connecticut has been a leader in pioneering the use of supportive housing as a cost-effective solution to chronic homelessness. The state has established over 1,000 units since 1994 as a result of this initiative. The Governor recommends the creation of an additional 1,000 units over the next several years, with 500 of those units funded in the biennium at a cost of $1.6 million in FY 2006 and $5.3 million in FY 2007.

Considerable new funding is proposed by Governor Rell for the Department of Children and Families. Over $44.6 million is being added in FY 2006 and an additional $19.2 million is proposed in FY 2007 to address social work staffing and training needs and related services. These funds are important to the state's effort to improve outcomes for children and are aimed at ensuring that the state can exit from court oversight related to the *Juan F.* consent decree.

The Governor has also proposed $22.5 million in FY 2006 and an additional $21.1 million in FY 2007 in new funding for the Department of Mental Retardation to continue the initiative begun last year to address unserved and underserved persons currently on DMR's waiting list and other issues. The Governor also proposes adding 20 more case managers at a cost of $1 million to help make caseloads more manageable.

Additional new initiatives include:

- Providing $5 million for mental health services;
- Dedicating $20 million to stem cells research; and
- Making the ConnPACE program a wraparound benefit to the new Medicare Part D prescription drug benefit which is slated to begin in January 2006. ConnPACE recipients will be required to enroll in Medicare Part D if eligible. The state will cover all Part D premiums and deductibles, as well as any co-insurance requirements above

the current ConnPACE co-pay of $16.25, thereby ensuring that ConnPACE clients pay no more than under the current ConnPACE program.

Public Safety and Criminal Justice

As of January 1, 2005, the Department of Emergency Management and Homeland Security (DEMHS) is the new agency which is designated the emergency management and homeland security agency for the State of Connecticut. The establishment of this new agency of approximately 80 employees creates an opportunity to:

- Strengthen planning and coordination between emergency management and homeland security
- Improve communication and collaboration with other state, federal and local entities
- Establish a clear chain of command when responding to all disasters
- Streamline organizational structure.

To foster the growth of homeland security measures which protect the state and contributes to the security of the country, the Governor has included initiatives to increase the accuracy of information used for issuing license and identification cards as well as building an Information Technology infrastructure that will link all the necessary state agencies in real-time so as to carry out the duties of safety and security more effectively and expeditiously. Governor Rell has announced her support for harsher penalties for those convicted of certain identity-related violations. These revisions will contribute to Homeland Security by better protecting the integrity of the process and maintaining the accuracy of records, as well as strengthen the enforcement of municipal property tax laws. Governor Rell has also proposed a comprehensive license-fraud prevention plan which includes the issuance of temporary licenses and identification cards while detailed background checks are completed.

The FY 2006 budget includes funding for an additional trooper training class, the size of which will be determined by the number of sworn personnel at that time. The goal of the FY 2006 class will be to graduate the number of troopers necessary to meet the goal of 1,248 sworn staff.

Our state has experienced the deployment of members of the Connecticut National Guard to Southwest Asia. To recognize the contributions of the National Guard members who have served as part of these deployments, a veteran bonus of $50 per month, up to a total of $1,000, will be provided to members at the end of their service. In addition, death benefits will be provided to the family of Connecticut residents killed while deployed to honor the sacrifices these individuals have made.

In order to sustain critical services, four positions in the Division of Criminal Justice that were federally funded will be paid with general funds. These positions will enable the agency to continue to provide services through the Elder Abuse Unit and Community Prosecution Program. Also, the Department of Correction has returned all inmates back to Connecticut from out of state. This will allow the department to more fully utilize correctional facilities and personnel in Connecticut, and the department is also strengthening it's commitment to supporting successful offender reintegration into society.

General Government

In order to sustain fair and proper conduct by Connecticut State Government entities, the State Ethics Commission has been converted into the Citizens Ethics and Government Integrity Commission, a result of a bipartisan effort to strengthen the ethical standards and enforcement in the State of Connecticut. The commission is made of three separate levels, each playing a critical role in the enforcement of the state Ethics Code; the three levels are comprised of the nine-member commission, a panel of judge trial referees and commission office staff.

Governor Rell has announced the formation of the Governor's Task Force on Contracting Reform to review and recommend improvements in the procedures used by the State of Connecticut to purchase goods and services. The task force focused its recommendations on several key areas as directed by Governor Rell. With these areas of focus the task force developed the following recommendations and submitted them in their final report to the Governor on September 1, 2004:

- Adopt a statewide uniform procurement and contract code and create a Contract Standards and Properties Review Board to administer this. (The Board will be created effective July 1, 2005.)
- Elevate the state's commitment to ethical conduct for public officials, state employees and for contractors.
- Improve professional development opportunities for state employees.
- Adopt a False Claims Act with the Chief State's Attorney given full subpoena power and shared Civil Investigative Demand (CID) power for the Attorney General in conjunction with the Contract Standards and Properties Review Board.
- Implement a single purchasing portal for all state bid and contract information.
- Restrict or eliminate the legislature's authority to enact special legislation.
- Convene a follow-up work group to develop a detailed plan for submittal to the legislature in January 2005.

Changes to Connecticut's campaign finance laws have been included in Governor Rell's proposed reform package. The changes would affect contributions and reporting and ban the use of "ad books." Governor Rell is also proposing a $100 state income tax deduction for contributions to campaigns that agree to voluntary spending limits to increase public participation in financing campaigns without resorting to taxpayer financing.

Also, one way of controlling the costs of Workers' Compensation Claims is to close claims by using Full and Final Settlements. Included in each year of the biennium is $2,000,000 to use towards the payments of these settlements. By employing a targeted claim settlement strategy, the maximum impact of the increased funding would be realized.

The Governor's proposed budget also includes a major investment in the state's transportation infrastructure, including almost one billion dollars for rail cars and maintenance facilities for the New Haven Line commuter rail service. Specific initiatives recommended by the Governor, to be paid for through a combination of gas tax increases, a surcharge on commuter rail fares and reprogramming of existing funding and grants, include:

- $300.0 million for New Haven Line maintenance facilities expected to be constructed over the next six years.
- $667.0 million for 342 new self-propelled rail cars for use on the New Haven Line to be delivered between the years 2009 and 2015.
- $187.0 million for improvements to Interstate 95 from Greenwich to North Stonington.
- $7.5 million for additional transit buses.
- $150.0 million for highway improvements on highways other than Interstate 95.

The Governor is also recommending increasing bus fares on September 1, 2005 to offset the increasing subsidies necessary to operate this service. Bus fares will increase from $1.25 to $1.50 for zone-one fares to generate approximately $4,500,000 in FY 2006 and $5,500,000 when fully annualized.

Revenue Actions

The proportion of the State's revenue that must be raised through taxes directly affects the State's economy, impacting both citizens and businesses who must assume the tax burden necessary to provide essential state services. Recognizing this, Governor Rell's administration stands for the continuation of significant tax reform measures targeted at making Connecticut more competitive from the perspectives of both the private individual and business. However, Governor Rell also recognizes the harsh reality of our times and is not proposing any sweeping tax reductions. Neither does the Governor wish to significantly undo those changes that have led to the revitalization of the state's economy, including tax cuts previously enacted. However, only through the prudent use of expenditure reductions and the judicious use of necessary but limited revenue enhancements can fiscal stability be maintained for state government finances and not impede any positive economic activity.

The changes proposed by Governor Rell, as outlined below, will increase General Fund revenues in fiscal years 2006 and 2007, respectively, by $553.4 million, and $701.9 million. Some of the changes are not new tax increases, but simply reductions to transfers out of the general fund, transfers from other funds, and an increase in federal revenue.

Governor Rell is proposing changes to the personal income tax for a total increase in revenue of $115.0 million and $128.0 million, respectively, in fiscal years 2006 and 2007. A total of $105.0 million additional revenue will be generated each year of the biennium by delaying two years the restoration of the property tax credit from $350 to $500. This initiative will also delay the increase in the singles exemption for an additional $7.0 million and $20.0 million, respectively, in fiscal years 2006 and 2007, and generate $6.0 million each year by withholding the tax on non-resident gambling proceeds. Finally, by exempting fifty percent of military pensions and initiating a deduction for contributions to political campaigns meeting certain requirements, revenue will be reduced by a total of $3.0 million each year.

This budget also contains an additional $139.2 million each year from the establishment of a nursing home provider tax, which will bring in almost an additional $120.0 million in federal matching funds as described above under "Health and Human Services".

Under this proposal the corporation tax will also generate an additional $74.5 million and $48.8 million, respectively, in fiscal years 2006 and 2007. The 20% surcharge will expire and the surcharge will be set at the 15% rate for income year 2005 and at 10% for 2006. This will generate $67.1 million in fiscal year 2006 and $10.9 million in fiscal year 2007. The net operating loss carryforward period will be reduced from 20 years to 5 years for an additional $7.4 million and $17.9 million, respectively, in fiscal years 2006 and 2007. The Research and Development Credit Exchange program will also be eliminated for an additional $20.0 million in fiscal year 2007.

An increase of 15% in the alcoholic beverage tax will result in an additional $7.9 million and $7.1 million, respectively, in fiscal years 2006 and 2007, and changes in the cigarette and tobacco products tax will bring in an additional $119.7 million and $103.0, respectively, in fiscal years 2006 and 2007, including residual increases in the sales tax on the additional cigarette tax amounts. Of these totals, the cigarette tax will be increased from $1.51 to $2.25 per pack, for an additional $104.0 million and $87.6 million, respectively, in fiscal years 2006 and 2007. The tax on snuff, unchanged since cigarettes were taxed at the rate of 50 cents per pack, will be increased from 40 cents per ounce to $1.80 per ounce, for $3.5 million and $3.4 million, respectively, in fiscal years 2006 and 2007. The tax on other tobacco products, also unchanged since cigarettes were taxed at the rate of 50 cents per pack, will be increased from 20% of the wholesale price to 90% of the wholesale price, for $12.2 million and $12.0 million, respectively, in fiscal years 2006 and 2007.

Other changes include the inheritance and estate and gift taxes. The phase down of the succession tax will be deferred for two years for an additional $11.0 million and $26.0 million, respectively, in fiscal years 2006 and 2007. Also, the deferral of the scheduled phase down of the gift tax will bring in $6.0 million in fiscal year 2007.

A number of other initiatives are included. The escheating of unclaimed bottle deposits will raise an additional $20.0 million each year. A number of various initiatives, including an increase in federal reimbursement for the nursing home provider tax discussed above, will result in net additional federal revenue of $42.0 million and $49.6 million, respectively, in fiscal years 2006 and 2007. Finally, a number of transfers and other measures will result in a revenue increase of $23.9 million and $174.0 million, respectively, in fiscal years 2006 and 2007.

In the Transportation Fund the Governor is proposing a major investment in the state's transportation infrastructure to encourage the use of public transportation and ease highway congestion, as discussed above under "General Government". This initiative will be partially funded by an increase in the gas tax which will generate an additional $15.6 million and $31.0 million, respectively, in fiscal years 2006 and 2007.

These proposals, taken all together, demonstrate Governor Rell's recognition of the reality of a challenging fiscal climate for the state. This budget also demonstrates a pragmatic response to this environment. The Governor has attempted to maintain the fiscal stability already established without impeding the economic recovery.

A P P E N D I X

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2003 DPH* Est.
Total	3,287,116		3,405,565		118,449	3.6	3,483,390
Andover	2,540	149	3,036	147	496	19.5	3,165
Ansonia	18,403	52	18,554	57	151	0.8	18,818
Ashford	3,765	138	4,098	135	333	8.8	4,294
Avon	13,937	72	15,832	68	1,895	13.6	16,709
Barkhamsted	3,369	140	3,494	143	125	3.7	3,656
Beacon Falls	5,083	124	5,246	125	163	3.2	5,524
Berlin	16,787	60	18,215	59	1,428	8.5	19,322
Bethany	4,608	128	5,040	126	432	9.4	5,331
Bethel	17,541	56	18,067	61	526	3.0	18,566
Bethlehem	3,071	144	3,422	144	351	11.4	3,579
Bloomfield	19,483	51	19,587	52	104	0.5	19,803
Bolton	4,575	129	5,017	127	442	9.7	5,199
Bozrah	2,297	152	2,357	153	60	2.6	2,423
Branford	27,603	35	28,683	32	1,080	3.9	29,136
Bridgeport	141,686	1	139,529	1	-2,157	-1.5	139,664
Bridgewater	1,654	161	1,824	160	170	10.3	1,882
Bristol	60,640	9	60,062	11	-578	-1.0	60,722
Brookfield	14,113	71	15,664	69	1,551	11.0	16,037
Brooklyn	6,681	110	7,173	113	492	7.4	7,487
Burlington	7,026	107	8,190	108	1,164	16.6	8,808
Canaan	1,057	168	1,081	168	24	2.3	1,099
Canterbury	4,467	131	4,692	130	225	5.0	4,918
Canton	8,268	101	8,840	101	572	6.9	9,413
Chaplin	2,048	155	2,250	156	202	9.9	2,372
Cheshire	25,684	37	28,543	33	2,859	11.1	29,187
Chester	3,417	139	3,743	141	326	9.5	3,839
Clinton	12,767	77	13,094	81	327	2.6	13,645
Colchester	10,980	87	14,551	74	3,571	32.5	15,158
Colebrook	1,365	164	1,471	165	106	7.8	1,522
Columbia	4,510	130	4,971	129	461	10.2	5,228
Cornwall	1,414	163	1,434	166	20	1.4	1,464
Coventry	10,063	91	11,504	87	1,441	14.3	12,108
Cromwell	12,286	79	12,871	83	585	4.8	13,471
Danbury	65,585	8	74,848	7	9,263	14.1	77,353
Darien	18,196	53	19,607	51	1,411	7.8	19,921
Deep River	4,332	132	4,610	133	278	6.4	4,746
Derby	12,199	80	12,391	84	192	1.6	12,593
Durham	5,732	120	6,627	116	895	15.6	7,134
East Granby	4,302	133	4,745	132	443	10.3	4,977
East Haddam	6,676	111	8,333	105	1,657	24.8	8,711
East Hampton	10,428	88	13,352	78	2,924	28.0	11,660
East Hartford	50,452	17	49,575	19	-877	-1.7	49,596
East Haven	26,144	36	28,189	35	2,045	7.8	28,710
East Lyme	15,340	67	18,118	60	2,778	18.1	18,537

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2003 DPH*Est.
East Windsor	10,081	90	9,818	94	-263	-2.6	10,185
Eastford	1,314	165	1,618	163	304	23.1	1,676
Easton	6,303	113	7,272	111	969	15.4	7,482
Ellington	11,197	84	12,921	82	1,724	15.4	13,952
Enfield	45,532	20	45,212	20	-320	-0.7	45,539
Essex	5,904	118	6,505	117	601	10.2	6,800
Fairfield	53,418	14	57,340	13	3,922	7.3	58,407
Farmington	20,608	48	23,641	45	3,033	14.7	24,507
Franklin	1,810	160	1,835	159	25	1.4	1,906
Glastonbury	27,901	33	31,876	29	3,975	14.2	32,789
Goshen	2,329	151	2,697	151	368	15.8	2,928
Granby	9,369	93	10,347	93	978	10.4	10,869
Greenwich	58,441	12	61,101	9	2,660	4.6	61,972
Griswold	10,384	89	10,807	89	423	4.1	11,087
Groton	45,144	21	39,907	23	-5,237	-11.6	40,020
Guilford	19,848	50	21,398	49	1,550	7.8	22,082
Haddam	6,769	109	7,157	114	388	5.7	7,459
Hamden	52,434	15	56,913	14	4,479	8.5	58,476
Hampton	1,578	162	1,758	161	180	11.4	1,912
Hartford	139,739	2	124,121	2	-15,618	-11.2	124,387
Hartland	1,866	158	2,012	158	146	7.8	2,068
Harwinton	5,228	123	5,283	124	55	1.1	5,495
Hebron	7,079	106	8,610	104	1,531	21.6	9,047
Kent	2,918	147	2,858	150	-60	-2.1	2,920
Killingly	15,889	64	16,472	67	583	3.7	16,940
Killingworth	4,814	127	6,018	121	1,204	25.0	6,373
Lebanon	6,041	115	6,907	115	866	14.3	7,145
Ledyard	14,913	68	14,687	72	-226	-1.5	15,003
Lisbon	3,790	137	4,069	136	279	7.4	4,204
Litchfield	8,365	100	8,316	106	-49	-0.6	8,531
Lyme	1,949	157	2,016	157	67	3.4	2,094
Madison	15,485	66	17,858	64	2,373	15.3	18,698
Manchester	51,618	16	54,740	15	3,122	6.0	55,390
Mansfield	21,103	45	20,720	50	-383	-1.8	23,324
Marlborough	5,535	121	5,709	123	174	3.1	6,094
Meriden	59,479	11	58,244	12	-1,235	-2.1	58,962
Middlebury	6,145	114	6,451	118	306	5.0	6,745
Middlefield	3,925	135	4,203	134	278	7.1	4,301
Middletown	42,762	22	43,167	21	405	0.9	46,918
Milford	49,938	18	52,305	17	2,367	4.7	53,869
Monroe	16,896	59	19,247	54	2,351	13.9	19,614
Montville	16,673	61	18,546	58	1,873	11.2	19,718
Morris	2,039	156	2,301	155	262	12.8	2,388
Naugatuck	30,625	29	30,989	30	364	1.2	31,700
New Britain	75,491	7	71,538	8	-3,953	-5.2	71,572
New Canaan	17,864	55	19,395	53	1,531	8.6	19,839

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2003 DPH* Est.
New Fairfield	12,911	75	13,953	75	1,042	8.1	14,179
New Hartford	5,769	119	6,088	120	319	5.5	6,548
New Haven	130,474	3	123,626	3	-6,848	-5.2	124,662
New London	28,540	32	25,671	41	-2,869	-10.1	26,201
New Milford	23,629	40	27,121	37	3,492	14.8	28,211
Newington	29,208	31	29,306	31	98	0.3	29,695
Newtown	20,779	47	25,031	42	4,252	20.5	26,299
Norfolk	2,060	154	1,660	162	-400	-19.4	1,670
North Branford	12,996	74	13,906	76	910	7.0	14,228
North Canaan	3,284	142	3,350	145	66	2.0	3,375
North Haven	22,247	41	23,035	39	788	3.5	23,628
North Stonington	4,884	126	4,991	128	107	2.2	5,165
Norwalk	78,331	6	82,951	6	4,620	5.9	84,170
Norwich	37,391	25	36,117	26	-1,274	-3.4	36,227
Old Lyme	6,535	112	7,406	110	871	13.3	7,483
Old Saybrook	9,552	92	10,367	92	815	8.5	10,535
Orange	12,830	76	13,233	79	403	3.1	13,572
Oxford	8,685	96	9,821	96	1,136	13.1	10,729
Plainfield	14,363	69	14,619	73	256	1.8	15,174
Plainville	17,392	57	17,328	66	-64	-0.4	17,461
Plymouth	11,822	81	11,634	86	-188	-1.6	12,067
Pomfret	3,102	143	3,798	140	696	22.4	3,996
Portland	8,418	99	8,732	102	314	3.7	9,264
Preston	5,006	125	4,688	131	-318	-6.4	4,801
Prospect	7,775	105	8,707	103	932	12.0	9,161
Putnam	9,031	95	9,002	98	-29	-0.3	9,079
Redding	7,927	103	8,270	107	343	4.3	8,572
Ridgefield	20,919	46	23,643	44	2,724	13.0	24,131
Rocky Hill	16,554	62	17,966	62	1,412	8.5	18,528
Roxbury	1,825	159	2,136	154	311	17.0	2,279
Salem	3,310	141	3,858	138	548	16.6	4,008
Salisbury	4,090	134	3,977	137	-113	-2.8	4,033
Scotland	1,215	167	1,556	164	341	28.1	1,640
Seymour	14,288	70	15,454	70	1,166	8.2	16,045
Sharon	2,928	146	2,968	149	40	1.4	3,011
Shelton	35,418	26	38,101	25	2,683	7.6	39,121
Sherman	2,809	148	3,827	139	1,018	36.2	4,055
Simsbury	22,023	44	23,234	47	1,211	5.5	23,496
Somers	9,108	94	10,417	91	1,309	14.4	10,870
South Windsor	22,090	42	24,412	43	2,322	10.5	25,270
Southbury	15,818	65	18,567	56	2,749	17.4	19,279
Southington	38,518	24	39,728	24	1,210	3.1	41,397
Sprague	3,008	145	2,971	148	-37	-1.2	2,989
Stafford	11,091	85	11,307	88	216	1.9	11,743
Stamford	108,056	5	117,083	4	9,027	8.4	120,107
Sterling	2,357	150	3,099	146	742	31.5	3,278

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2003 DPH* Est.
Stonington	16,919	58	17,906	63	987	5.8	18,206
Stratford	49,389	19	49,976	18	587	1.2	50,182
Suffield	11,427	83	13,552	77	2,125	18.6	14,217
Thomaston	6,947	108	7,503	109	556	8.0	7,857
Thompson	8,668	97	8,878	100	210	2.4	9,157
Tolland	11,001	86	13,146	80	2,145	19.5	14,264
Torrington	33,687	27	35,202	27	1,515	4.5	35,756
Trumbull	32,016	28	34,243	28	2,227	7.0	35,013
Union	612	169	693	169	81	13.2	735
Vernon	29,841	30	28,063	36	-1,778	-6.0	29,206
Voluntown	2,113	153	2,528	152	415	19.6	2,598
Wallingford	40,822	23	43,026	22	2,204	5.4	44,331
Warren	1,226	166	1,254	167	28	2.3	1,317
Washington	3,905	136	3,596	142	-309	-7.9	3,697
Waterbury	108,961	4	107,271	5	-1,690	-1.6	108,130
Waterford	17,930	54	19,152	55	1,222	6.8	19,034
Watertown	20,456	49	21,661	48	1,205	5.9	22,178
West Hartford	60,110	10	61,046	10	936	1.6	61,424
West Haven	54,021	13	52,360	16	-1,661	-3.1	53,004
Westbrook	5,414	122	6,292	119	878	16.2	6,583
Weston	8,648	98	10,037	95	1,389	16.1	10,239
Westport	24,410	39	25,749	40	1,339	5.5	26,320
Wethersfield	25,651	38	26,271	38	620	2.4	26,398
Willington	5,979	117	5,959	122	-20	-0.3	6,198
Wilton	15,989	63	17,633	65	1,644	10.3	17,909
Winchester	11,524	82	10,664	90	-860	-7.5	10,781
Windham	22,039	43	22,857	46	818	3.7	23,014
Windsor	27,817	34	28,237	34	420	1.5	28,565
Windsor Locks	12,358	78	12,043	85	-315	-2.5	12,256
Wolcott	13,700	73	15,215	71	1,515	11.1	16,024
Woodbridge	7,924	104	8,983	99	1,059	13.4	9,249
Woodbury	8,131	102	9,198	97	1,067	13.1	9,557
Woodstock	6,008	116	7,221	112	1,213	20.2	7,685

* DPH stands for the Connecticut Department of Public Health

Source: U.S. Bureau of the Census, April 1, 1990 & 2000
Department of Public Health, "Est. Population in Connecticut as of July 1, 2002"

Money Income and Housing Affordability

Per Capita Money Income

Money income, as defined by the Bureau of the Census (BOC) is the sum of wage or salary income; net farm self-employment income; net nonfarm self-employment income; interest, net rental and dividends income; Social Security and railroad retirement income and all other received income such as Veteran's payments, pensions, unemployment compensation and alimony. This differs from the Bureau of Economic Analysis (BEA) personal income figures, which appear annually in the *Survey of Current Business*, as the BEA's figures include non-cash items received in lieu of cash; e.g., transfer payments (such as food stamps, lodging, Medicare and Medicaid) and employer contributions to private welfare and compensation funds.

The exclusion of non-cash income, such as transfer payments and employer contributions, makes BOC's estimated per capita money income (PCMI) lower than that of BEA's per capita personal income (PCPI). In 1999, the latest available year, PCMI accounted for 75.6% of PCPI, decreasing from 78.6% in 1989. The increase in the margin between PCPI and PCMI was due to slower growth in money income accompanied by an increase in non-cash compensation. PCPI was estimated at $38,044 in 1999, an increase of 48% from $25,687 in 1989. PCMI was estimated at $28,766 in 1999, an increase of 42% from $20,189 in 1989 while non-cash compensation increased 113% during the period. The Table below shows Connecticut's PCMI and PCPI for 1989 and 1999.

Connecticut Per Capita Money Income

	1989	1999	Growth
Per Capita Money Income (PCMI)	$20,189	$28,766	42%
Per Capita Non-Money Income	$4,359	$9,278	113%
Per Capita Personal Income (PCPI)	$25,687	$38,044	48%
PCMI / PCPI (%)	78.6%	75.6%	

Source: U.S. Bureau of Census and Bureau of Economic Analysis

Median Sales Price Of Housing

Median sales price is the sales price at which half of the sales are above and half below the price. The median sales price data is for the sale of single-family homes. As shown in the Table on the following page, the median sales price in 2004 was $222,370, up nearly 53% since 1999. The rise in housing prices is partially attributed to historically low interest rates. Since 1997, capital gains of up to $250,000 ($500,000 for married couples) resulting from the sale of a primary residence have been tax exempt. Furthermore, steady population growth has kept homes in short supply, driving up demand. As a result, home price appreciation in Connecticut accelerated 9.9% in 2004.

As national sales prices have continued to increase, Connecticut's median sales price has grown more rapidly over the same time horizon. However, in 2004 Connecticut's median sales price as a percentage of the U.S. declined for the first time since 2000. By way of comparison, the ratio is reasonably low versus the high set in 1989. Finally, the convergence of housing affordability with the national norm in 2004 demonstrates a more competitive economic environment for the state to attract businesses to locate or expand here.

Sales Price Of Homes In Connecticut And U.S.

Calendar Year	1999	2000	2001	2002	2003	2004	1999-04 (Change)
CT Median Price	$145,580	$153,190	$162,740	$179,500	$202,310	$222,370	$76,790
% Change	*5.3%*	*5.2%*	*6.2%*	*10.3%*	*12.7%*	*9.9%*	*52.8%*
U.S. Median Price	$128,350	$136,640	$144,510	$155,000	$167,760	185,060	$56,710
% Change	*5.4%*	*6.5%*	*5.8%*	*7.3%*	*8.2%*	*10.3%*	*44.2%*
CT as a % of U.S.	113	112	113	116	121	120	
CT Affordability Index	163.04	157.29	160.40	157.94	154.96	151.82	(11.22)
% Change	*(7.1%)*	*(3.5%)*	*2.0%*	*(1.5%)*	*(1.9%)*	*(2.0%)*	*(6.9%)*
U.S. Affordability Index	151.15	137.26	145.61	149.23	156.30	151.07	(0.08)
% Change	*(3.6%)*	*(9.2%)*	*6.1%*	*2.5%*	*4.7%*	*(3.3%)*	*(0.1%)*

Source: Economy.Com

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 1
U.S. ECONOMIC VARIABLES

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Domestic Product ($B)	7,245.8	7,588.8	8,057.7	8,524.4	8,996.0	9,571.3	9,991.5	10,286.3	10,698.2	11,379.4
Percent Change	5.7%	4.7%	6.2%	5.8%	5.5%	6.4%	4.4%	3.0%	4.0%	6.4%
Real GDP	7,943.2	8,159.3	8,511.3	8,885.9	9,261.0	9,679.2	9,876.4	9,956.8	10,181.3	10,633.9
Percent Change	3.5%	2.7%	4.3%	4.4%	4.2%	4.5%	2.0%	0.8%	2.3%	4.4%
GDP Deflator ('96=100)	91.2	93.0	94.7	95.9	97.1	98.9	101.2	103.3	105.1	107.0
Percent Change	2.2%	2.0%	1.8%	1.3%	1.3%	1.8%	2.3%	2.1%	1.7%	1.8%
Housing Starts (K)	1,384.4	1,447.3	1,456.8	1,530.2	1,659.3	1,637.8	1,570.7	1,645.9	1,729.8	1,945.2
Percent Change	-0.9%	4.5%	0.7%	5.0%	8.4%	-1.3%	-4.1%	4.8%	5.1%	12.5%
Unemployment Rate	5.7%	5.6%	5.2%	4.6%	4.4%	4.1%	4.1%	5.5%	5.9%	5.8%
New Vehicle Sales (M)	14.81	15.04	14.95	15.40	16.06	17.54	16.89	16.93	16.61	16.77
Percent Change	1.7%	1.6%	-0.6%	3.0%	4.3%	9.2%	-3.7%	0.2%	-1.8%	0.9%
Consumer Price Index ('82-'84=100)	150.4	154.5	158.9	161.8	164.5	169.3	175.1	178.2	182.1	186.1
Percent Change	2.8%	2.7%	2.8%	1.8%	1.7%	2.9%	3.4%	1.8%	2.2%	2.2%
Industrial Production Index ('97=100)	87.5	90.8	96.3	103.4	108.1	113.6	114.3	110.3	110.9	113.5
Percent Change	6.0%	3.7%	6.1%	7.3%	4.5%	5.1%	0.7%	-3.5%	0.5%	2.3%
Personal Income ($B)	6,012.0	6,312.1	6,702.2	7,158.3	7,607.0	8,109.6	8,613.8	8,792.0	8,966.1	9,386.9
Percent Change	5.9%	5.0%	6.2%	6.8%	6.3%	6.6%	6.2%	2.1%	2.0%	4.7%
Real Personal Income ($B)	3,997.1	4,085.3	4,217.8	4,425.5	4,622.9	4,790.5	4,920.1	4,934.9	4,923.3	5,044.7
Percent Change	2.9%	2.2%	3.2%	4.9%	4.5%	3.6%	2.7%	0.3%	-0.2%	2.5%
Disposable Personal Income ($B)	5,304.5	5,534.2	5,834.2	6,188.8	6,548.9	6,938.7	7,343.9	7,682.7	7,944.9	8,397.2
Percent Change	5.8%	4.3%	5.4%	6.1%	5.8%	6.0%	5.8%	4.6%	3.4%	5.7%
Disposable Personal Income ($B in 1996$)	5,847.4	5,981.3	6,176.8	6,478.0	6,777.2	7,019.7	7,261.0	7,481.1	7,593.9	7,880.3
Percent Change	3.3%	2.3%	3.3%	4.9%	4.6%	3.6%	3.4%	3.0%	1.5%	3.8%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 2
U.S. PERSONAL INCOME
(BILLIONS OF DOLLARS)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Personal Income	6,012.0	6,312.1	6,702.2	7,158.3	7,607.0	8,109.6	8,613.8	8,792.0	8,966.1	9,386.9
Percent Change	5.9%	5.0%	6.2%	6.8%	6.3%	6.6%	6.2%	2.1%	2.0%	4.7%
Wages & Salaries	3,327.5	3,506.2	3,739.7	4,025.6	4,323.3	4,651.3	4,917.3	4,944.4	5,008.9	5,208.7
Percent Change	5.4%	5.4%	6.7%	7.6%	7.4%	7.6%	5.7%	0.6%	1.3%	4.0%
Manufacturing Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	681.6	668.6	674.0
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-1.9%	0.8%
Nonmanufacturing Inc.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,262.8	4,340.3	4,534.7
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.8%	4.5%
Other Labor Income	749.9	757.1	769.5	804.9	855.7	914.2	973.2	1,033.9	1,131.5	1,222.7
Percent Change	3.1%	1.0%	1.6%	4.6%	6.3%	6.8%	6.4%	6.2%	9.4%	8.1%
Proprietor's Income	481.3	518.6	558.8	598.3	655.5	703.2	754.5	769.7	791.7	872.6
Percent Change	4.0%	7.7%	7.8%	7.1%	9.6%	7.3%	7.3%	2.0%	2.9%	10.2%
Farm Income	24.7	32.9	34.4	31.3	31.1	24.3	21.2	14.7	13.9	21.6
Percent Change	-28.2%	32.9%	4.6%	-8.9%	-0.6%	-21.9%	-12.8%	-30.5%	-5.9%	55.8%
Nonfarm Income	456.6	485.8	524.5	567.0	624.4	678.9	733.3	755.0	777.9	851.0
Percent Change	6.6%	6.4%	8.0%	8.1%	10.1%	8.7%	8.0%	3.0%	3.0%	9.4%
Rental Income	124.2	126.4	130.9	130.6	144.0	149.7	153.9	179.3	154.7	165.3
Percent Change	17.6%	1.7%	3.6%	-0.2%	10.2%	4.0%	2.8%	16.4%	-13.7%	6.9%
Personal Dividend Inc.	246.7	272.3	314.7	345.7	342.6	351.6	379.0	373.5	393.4	399.2
Percent Change	14.0%	10.4%	15.6%	9.8%	-0.9%	2.6%	7.8%	-1.4%	5.3%	1.5%
Personal Interest Income	749.7	771.8	821.0	893.4	930.5	970.3	1,020.7	979.4	934.3	933.2
Percent Change	8.4%	2.9%	6.4%	8.8%	4.1%	4.3%	5.2%	-4.1%	-4.6%	-0.1%
Transfer Payments	852.8	771.8	937.5	964.5	997.9	1,050.2	1,134.0	1,246.0	1,307.9	1,369.1
Percent Change	5.2%	5.8%	3.9%	2.9%	3.5%	5.2%	8.0%	9.9%	5.0%	4.7%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 3
U.S. PERSONAL INCOME AND ITS DISPOSITION
(BILLIONS OF DOLLARS)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Less:										
Contributions to										
Social Insurance	520.9	543.0	570.6	605.5	643.7	682.0	719.9	739.6	757.4	794.9
Percent Change	5.7%	4.2%	5.1%	6.1%	6.3%	5.9%	5.6%	2.7%	2.4%	5.0%
Equals:										
Personal Income	6,012.0	6,312.1	6,702.2	7,158.3	7,607.0	8,109.6	8,613.8	8,792.0	8,966.1	9,386.9
Percent Change	5.9%	5.0%	6.2%	6.8%	6.3%	6.6%	6.2%	2.1%	2.0%	4.7%
Less:										
Personal Taxes	715.3	785.6	876.0	977.2	1,065.2	1,176.5	1,278.4	1,114.6	1,035.9	997.1
Percent Change	6.2%	9.8%	11.5%	11.5%	9.0%	10.5%	8.7%	-12.8%	-7.1%	-3.7%
Equals:										
Disposable Personal Inc.	5,304.5	5,534.2	5,834.2	6,188.8	6,548.9	6,938.7	7,343.9	7,682.7	7,944.9	8,397.2
Percent Change	5.8%	4.3%	5.4%	6.1%	5.8%	6.0%	5.8%	4.6%	3.4%	5.7%
Less:										
Personal Outlays	5,031.6	5,307.3	5,609.6	5,937.2	6,319.0	6,791.9	7,204.2	7,502.3	7,847.6	8,279.4
Percent Change	5.7%	5.5%	5.7%	5.8%	6.4%	7.5%	6.1%	4.1%	4.6%	5.5%
Equals:										
Personal Savings	272.9	226.9	224.6	251.5	229.9	146.8	139.7	180.3	97.2	117.8
Percent Change	6.8%	-16.9%	-1.0%	12.0%	-8.6%	-36.2%	-4.8%	29.1%	-46.1%	21.1%
Personal Savings Rate	5.1%	4.1%	3.9%	4.1%	3.5%	2.1%	1.9%	2.3%	1.2%	1.4%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 4
U.S. EMPLOYMENT AND THE LABOR FORCE
(TENS OF THOUSANDS OF JOBS)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Establishment Employ.	11,604.6	11,837.9	12,119.9	12,438.0	12,742.7	13,059.8	13,225.0	13,088.4	13,011.5	13,032.8
Percent Change	3.2%	2.0%	2.4%	2.6%	2.4%	2.5%	1.3%	-1.0%	-0.6%	0.2%
Manufacturing	1,719.6	1,722.0	1,730.1	1,755.9	1,742.7	1,729.0	1,704.0	1,573.4	1,488.0	1,436.5
Percent Change	2.1%	0.1%	0.5%	1.5%	-0.8%	-0.8%	-1.4%	-7.7%	-5.4%	-3.5%
Nonmanufacturing	9,885.1	10,116.0	10,389.8	10,682.1	10,999.9	11,330.8	11,521.0	11,515.0	11,523.5	11,596.3
Percent Change	3.4%	2.3%	2.7%	2.8%	3.0%	3.0%	1.7%	-0.1%	0.1%	0.6%
Construction & Mining	585.3	602.4	633.0	661.2	697.6	729.8	742.9	737.1	726.8	738.0
Percent Change	4.7%	2.9%	5.1%	4.4%	5.5%	4.6%	1.8%	-0.8%	-1.4%	1.6%
Information	279.1	288.7	301.1	315.2	330.3	353.9	367.6	350.7	328.2	317.4
Percent Change	3.5%	3.4%	4.3%	4.7%	4.8%	7.1%	3.9%	-4.6%	-6.4%	-3.3%
Public Utility, Trade & Transportation	2,356.2	2,400.8	2,448.3	2,493.9	2,546.3	2,605.3	2,620.9	2,568.2	2,538.5	2,532.7
Percent Change	3.9%	1.9%	2.0%	1.9%	2.1%	2.3%	0.6%	-2.0%	-1.2%	-0.2%
Finance, Insurance & Real Estate	683.6	688.1	706.5	731.8	757.7	767.1	774.9	782.8	791.1	800.1
Percent Change	0.2%	0.7%	2.7%	3.6%	3.6%	1.2%	1.0%	1.0%	1.1%	1.1%
Services	4,042.7	4,188.2	4,342.8	4,503.7	4,658.5	4,813.6	4,926.5	4,940.1	4,980.6	5,053.1
Percent Change	4.6%	3.6%	3.7%	3.7%	3.4%	3.3%	2.3%	0.3%	0.8%	1.5%
Professional & Business	1,254.8	1,313.2	1,387.6	1,475.9	1,553.2	1,635.7	1,674.2	1,614.1	1,593.0	1,618.9
Percent Change	6.4%	4.7%	5.7%	6.4%	5.2%	5.3%	2.4%	-3.6%	-1.3%	1.6%
Education & Health	1,307.1	1,348.3	1,388.7	1,426.8	1,463.3	1,493.7	1,534.8	1,593.9	1,642.0	1,673.7
Percent Change	4.2%	3.2%	3.0%	2.7%	2.6%	2.1%	2.8%	3.9%	3.0%	1.9%
Leisure & Hospitality	1,029.9	1,063.8	1,091.2	1,110.6	1,138.5	1,170.9	1,197.6	1,199.3	1,206.6	1,221.4
Percent Change	3.8%	3.3%	2.6%	1.8%	2.5%	2.8%	2.3%	0.1%	0.6%	1.2%
Other Services	450.9	462.9	475.3	490.4	503.4	513.4	519.9	532.9	539.0	539.1
Percent Change	3.1%	2.7%	2.7%	3.2%	2.7%	2.0%	1.3%	2.5%	1.2%	0.0%
Government	1,938.1	1,947.7	1,958.1	1,976.4	2,009.4	2,061.2	2,088.2	2,136.0	2,158.3	2,154.9
Percent Change	1.3%	0.5%	0.5%	0.9%	1.7%	2.6%	1.3%	2.3%	1.0%	-0.2%
Civilian Labor Force	13,179.9	13,288.8	13,524.9	13,699.5	13,856.9	14,110.5	14,314.5	14,424.6	14,572.4	14,681.8
Percent Change	1.3%	0.8%	1.8%	1.3%	1.1%	1.8%	1.4%	0.8%	1.0%	0.8%
Unemployment Rate	5.7%	5.6%	5.2%	4.6%	4.4%	4.1%	4.1%	5.5%	5.9%	5.8%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 5
CONSUMER PRICE INDEXES
(1982-1984 = 100)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
All Items – Urban Consumers	150.4	154.5	158.9	161.8	164.5	169.3	175.1	178.2	182.1	186.1
Percent Change	2.8%	2.7%	2.8%	1.8%	1.7%	2.9%	3.4%	1.8%	2.2%	2.2%
Food & Beverages	147.0	150.8	156.1	159.4	162.9	166.2	170.9	175.6	178.1	183.6
Percent Change	2.7%	2.6%	3.5%	2.1%	2.2%	2.0%	2.8%	2.8%	1.4%	3.1%
Housing	146.5	150.6	154.9	158.5	162.1	166.4	173.4	178.2	182.6	186.8
Percent Change	2.4%	2.8%	2.8%	2.4%	2.2%	2.6%	4.2%	2.8%	2.5%	2.3%
Energy	105.8	107.0	111.6	107.5	102.0	115.9	131.6	121.0	130.5	142.0
Percent Change	2.1%	1.1%	4.3%	-3.6%	-5.2%	13.6%	13.6%	-8.1%	7.9%	8.8%
Commodities	135.4	138.0	141.2	141.8	142.7	147.0	150.6	149.7	150.7	152.4
Percent Change	2.3%	1.9%	2.3%	0.5%	0.6%	3.0%	2.5%	-0.6%	0.7%	1.1%
Apparel	132.5	132.1	132.1	132.9	132.2	130.6	128.9	125.3	122.1	120.7
Percent Change	-1.0%	-0.3%	0.0%	0.6%	-0.5%	-1.2%	-1.3%	-2.8%	-2.5%	-1.2%
Transportation	137.5	140.7	144.2	142.9	141.6	149.4	155.3	151.9	156.2	159.2
Percent Change	4.3%	2.4%	2.5%	-0.9%	-0.9%	5.5%	3.9%	-2.2%	2.9%	1.9%
Services	165.8	171.3	176.9	181.9	186.4	191.7	199.6	206.5	213.2	219.5
Percent Change	3.2%	3.3%	3.3%	2.8%	2.5%	2.8%	4.1%	3.5%	3.3%	3.0%
Medical Care	215.9	224.6	231.6	238.0	246.3	255.4	266.7	278.9	291.6	303.5
Percent Change	4.7%	4.0%	3.1%	2.8%	3.5%	3.7%	4.4%	4.6%	4.6%	4.1%
Other Goods & Services	202.6	211.3	219.7	230.8	248.2	264.9	276.3	288.6	296.7	301.5
Percent Change	4.0%	4.3%	4.0%	5.0%	7.6%	6.7%	4.3%	4.5%	2.8%	1.6%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 6
PERSONAL INCOME
(BILLIONS $-SAAR)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Personal Income	101.00	105.48	111.44	119.43	126.77	135.78	145.78	147.28	148.65	154.71
Percent Change	3.7%	4.4%	5.7%	7.2%	6.1%	7.1%	7.4%	1.0%	0.9%	4.1%
Disposable Personal Income	86.44	88.96	92.52	97.95	103.27	109.87	115.99	120.10	124.75	131.97
Percent Change	3.6%	2.9%	4.0%	5.9%	5.4%	6.4%	5.6%	3.5%	3.9%	5.8%
Total Wages	58.39	61.98	66.25	71.44	76.42	81.55	86.14	84.88	84.59	87.85
Percent Change	3.4%	6.2%	6.9%	7.8%	7.0%	6.7%	5.6%	-1.5%	-0.3%	3.9%
Manufacturing Wages	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.75	12.24	12.40
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-3.9%	1.3%
Nonmanufacturing Wages	n/a	n/a	n/a	n/a	n/a	n/a	n/a	72.14	72.35	75.45
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.3%	4.3%
Other Labor Income	12.15	12.65	12.79	13.28	14.04	14.90	15.91	16.91	18.49	19.62
Percent Change	0.7%	4.1%	1.1%	3.9%	5.7%	6.1%	6.8%	6.3%	9.3%	6.1%
Proprietor's Income	7.94	7.88	8.31	9.32	10.44	12.18	14.37	15.43	15.94	17.36
Percent Change	5.9%	-0.7%	5.4%	12.2%	12.0%	16.7%	18.0%	7.3%	3.3%	8.9%
Property Income	18.69	19.03	20.26	21.80	22.64	23.91	25.81	25.57	24.71	24.86
Percent Change	5.0%	1.8%	6.5%	7.6%	3.8%	5.6%	7.9%	-0.9%	-3.4%	0.6%
Transfer Payments Less Social Insurance	3.83	3.93	3.83	3.58	3.23	3.23	3.55	4.49	4.92	5.02
Percent Change	7.2%	2.6%	-2.7%	-6.5%	-9.9%	0.2%	10.0%	26.4%	9.6%	2.0%
Transfer Payments	12.46	13.04	13.41	13.71	13.96	14.47	15.27	16.42	17.15	17.66
Percent Change	5.1%	4.7%	2.8%	2.3%	1.8%	3.7%	5.5%	7.5%	4.5%	2.9%
Social Insurance	8.63	9.11	9.58	10.13	10.73	11.24	11.71	11.93	12.23	12.64
Percent Change	4.2%	5.6%	5.1%	5.8%	5.9%	4.7%	4.2%	1.8%	2.5%	3.3%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 7
DEFLATED PERSONAL INCOME
(BILLIONS '00$-SAAR)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Personal Income	110.72	113.42	117.72	124.49	130.51	137.33	144.11	142.57	141.47	144.58
Percent Change	1.5%	2.4%	3.8%	5.8%	4.8%	5.2%	4.9%	-1.1%	-0.8%	2.2%
Disposable Personal Income	94.77	95.66	97.74	102.10	106.32	111.12	114.66	116.26	118.73	123.34
Percent Change	1.4%	0.9%	2.2%	4.5%	4.1%	4.5%	3.2%	1.4%	2.1%	3.9%
Total Wages	64.01	66.65	69.99	74.47	78.68	82.48	85.15	82.17	80.51	82.10
Percent Change	1.2%	4.1%	5.0%	6.4%	5.7%	4.8%	3.2%	-3.5%	-2.0%	2.0%
Manufacturing Wages	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.34	11.65	11.59
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-5.6%	-0.5%
Nonmanufacturing Wages	n/a	n/a	n/a	n/a	n/a	n/a	n/a	69.83	68.85	70.51
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-1.4%	2.4%
Other Labor Income	13.32	13.60	13.51	13.85	14.45	15.07	15.73	16.37	17.60	18.33
Percent Change	-1.4%	2.1%	-0.7%	2.5%	4.4%	4.3%	4.4%	4.1%	7.5%	4.2%
Proprietor's Income	8.70	8.47	8.78	9.72	10.75	12.32	14.21	14.93	15.17	16.22
Percent Change	3.6%	-2.6%	3.6%	10.7%	10.6%	14.6%	15.3%	5.1%	1.6%	6.9%
Property Income	20.49	20.46	21.41	22.73	23.30	24.19	25.51	24.75	23.52	23.23
Percent Change	2.8%	-0.1%	4.6%	6.2%	2.5%	3.8%	5.5%	-3.0%	-5.0%	-1.2%
Transfer Payments Less Social Insurance	4.20	4.23	4.04	3.73	3.32	3.27	3.51	4.35	4.68	4.69
Percent Change	4.9%	0.6%	-4.4%	-7.7%	-11.0%	-1.6%	7.5%	23.8%	7.7%	0.2%
Transfer Payments	13.66	14.02	14.16	14.29	14.37	14.63	15.09	15.89	16.32	16.50
Percent Change	2.9%	2.7%	1.0%	0.9%	0.5%	1.8%	3.1%	5.3%	2.7%	1.1%
Social Insurance	9.46	9.80	10.12	10.56	11.05	11.37	11.58	11.55	11.64	11.81
Percent Change	2.0%	3.6%	3.3%	4.4%	4.6%	2.9%	1.9%	-0.3%	0.8%	1.5%

Note: All categories are deflated by GDP Price Index (2000 = 100).

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 8
MANUFACTURING EMPLOYMENT
(THOUSANDS -SA)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Manufacturing	251.78	245.90	245.35	247.13	244.69	236.70	233.65	218.32	204.91	195.85
Percent Change	-1.8%	-2.3%	-0.2%	0.7%	-1.0%	-3.3%	-1.3%	-6.6%	-6.1%	-4.4%
Electronic & Electrical	36.30	35.85	36.19	37.96	36.38	35.06	35.39	31.26	27.61	25.88
Percent Change	-1.0%	-1.2%	1.0%	4.9%	-4.1%	-3.6%	1.0%	-11.7%	-11.7%	-6.2%
Metals Manufacturing	50.09	49.95	51.14	51.24	51.22	49.79	49.03	44.76	42.03	40.50
Percent Change	2.3%	-0.3%	2.4%	0.2%	0.0%	-2.8%	-1.5%	-8.7%	-6.1%	-3.6%
Industrial Machinery	24.92	24.80	24.84	25.83	24.69	23.70	23.32	21.23	19.48	17.83
Percent Change	-0.4%	-0.5%	0.2%	4.0%	-4.4%	-4.0%	-1.6%	-9.0%	-8.3%	-8.5%
Transportation Equip.	57.73	54.34	52.38	51.65	51.74	47.93	46.95	46.34	44.18	42.71
Percent Change	-7.0%	-5.9%	-3.6%	-1.4%	0.2%	-7.4%	-2.0%	-1.3%	-4.7%	-3.3%
Chemical, Plast. & Rub.	26.97	26.78	26.98	27.32	28.13	28.69	29.47	27.96	26.66	25.74
Percent Change	1.0%	-0.7%	0.7%	1.3%	3.0%	2.0%	2.7%	-5.1%	-4.7%	-3.5%
Printing, Publ. & Textile	27.56	26.87	26.85	26.67	26.13	25.36	24.14	21.83	20.06	18.97
Percent Change	0.1%	-2.5%	-0.1%	-0.7%	-2.0%	-2.9%	-4.8%	-9.6%	-8.1%	-5.5%
Food, Bev. & Tobacco	9.99	9.47	9.19	8.69	8.65	8.70	8.38	8.57	8.82	8.73
Percent Change	-2.8%	-5.2%	-3.0%	-5.4%	-0.5%	0.6%	-3.7%	2.2%	2.9%	-1.0%
Miscellaneous	18.22	17.84	17.79	17.76	17.75	17.47	16.97	16.39	16.07	15.48
Percent Change	-4.8%	-2.1%	-0.3%	-0.2%	0.0%	-1.6%	-2.9%	-3.4%	-1.9%	-3.7%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 9
NONMANUFACTURING EMPLOYMENT
(THOUSANDS -SA)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Nonmanufacturing	1,304.1	1,322.6	1,354.3	1,380.4	1,412.5	1,445.4	1,456.7	1,457.0	1,447.7	1,444.6
Percent Change	2.1%	1.4%	2.4%	1.9%	2.3%	2.3%	0.8%	0.0%	-0.6%	-0.2%
Construction & Mining	51.32	51.27	55.27	57.92	60.44	63.62	65.88	65.78	62.35	62.36
Percent Change	5.5%	-0.1%	7.8%	4.8%	4.4%	5.3%	3.6%	-0.2%	-5.2%	0.0%
Information	41.02	42.10	44.34	44.41	44.23	45.37	46.44	42.68	40.05	39.18
Percent Change	2.8%	2.6%	5.3%	0.2%	-0.4%	2.6%	2.4%	-8.1%	-6.2%	-2.2%
Utilities	10.08	9.86	9.63	9.72	9.79	9.72	9.48	9.07	8.92	8.70
Percent Change	-5.6%	-2.1%	-2.4%	0.9%	0.8%	-0.7%	-2.4%	-4.3%	-1.7%	-2.4%
Transportation	39.40	39.75	39.68	39.95	41.26	41.73	41.99	40.32	39.86	40.01
Percent Change	3.1%	0.9%	-0.2%	0.7%	3.3%	1.1%	0.6%	-4.0%	-1.1%	0.4%
Wholesale Trade	63.26	64.18	64.20	65.47	66.34	67.05	68.11	66.58	65.75	65.40
Percent Change	0.7%	1.4%	0.0%	2.0%	1.3%	1.1%	1.6%	-2.3%	-1.2%	-0.5%
Retail Trade	180.58	182.99	186.54	191.16	192.81	196.60	195.64	195.14	192.54	191.20
Percent Change	2.2%	1.3%	1.9%	2.5%	0.9%	2.0%	-0.5%	-0.3%	-1.3%	-0.7%
Finance & Insurance	114.03	111.60	108.76	112.93	119.16	120.48	121.68	122.21	122.58	123.13
Percent Change	-4.3%	-2.1%	-2.5%	3.8%	5.5%	1.1%	1.0%	0.4%	0.3%	0.5%
Real Estate	18.84	19.53	19.84	20.12	20.68	21.33	21.56	20.68	20.28	20.31
Percent Change	-1.4%	3.7%	1.6%	1.4%	2.8%	3.1%	1.1%	-4.1%	-1.9%	0.1%
Professional & Business	174.52	181.39	191.42	199.23	207.51	214.32	214.09	205.80	199.06	194.68
Percent Change	3.9%	3.9%	5.5%	4.1%	4.2%	3.3%	-0.1%	-3.9%	-3.3%	-2.2%
Education & Health	223.73	226.84	233.27	235.57	240.02	244.47	247.77	256.61	262.11	264.54
Percent Change	2.5%	1.4%	2.8%	1.0%	1.9%	1.9%	1.3%	3.6%	2.1%	0.9%
Leisure & Hospitality	108.57	111.75	116.93	117.71	118.08	120.52	120.46	121.09	123.57	127.65
Percent Change	3.9%	2.9%	4.6%	0.7%	0.3%	2.1%	0.0%	0.5%	2.1%	3.3%
Other Services	58.77	59.63	59.79	60.39	60.45	60.67	61.51	62.84	62.39	62.73
Percent Change	1.9%	1.5%	0.3%	1.0%	0.1%	0.4%	1.4%	2.1%	-0.7%	0.5%
Federal Government	24.04	23.78	23.03	22.34	22.45	23.36	22.07	21.38	21.16	20.61
Percent Change	-1.9%	-1.1%	-3.2%	-3.0%	0.5%	4.0%	-5.5%	-3.1%	-1.1%	-2.6%
State & Local Gov't.	195.93	197.87	201.57	203.55	209.28	216.16	219.99	226.82	227.04	224.08
Percent Change	3.9%	1.0%	1.9%	1.0%	2.8%	3.3%	1.8%	3.1%	0.1%	-1.3%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 10
LABOR FORCE & OTHER ECONOMIC INDICATORS
(THOUSANDS -SA)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Labor Force	1,738.3	1,735.7	1,753.5	1,744.7	1,736.7	1,768.6	1,779.4	1,777.1	1,802.2	1,796.0
Percent Change	-2.0%	-0.1%	1.0%	-0.5%	-0.5%	1.8%	0.6%	-0.1%	1.4%	-0.3%
Nonagricultural Employment	1,555.9	1,568.5	1,599.6	1,627.6	1,657.2	1,682.1	1,690.3	1,675.3	1,652.6	1,640.4
Percent Change	1.5%	0.8%	2.0%	1.7%	1.8%	1.5%	0.5%	-0.9%	-1.4%	-0.7%
Residential Employment	1,643.6	1,636.9	1,654.8	1,673.9	1,679.6	1,722.1	1,734.5	1,708.5	1,710.9	1,704.2
Percent Change	-1.5%	-0.4%	1.1%	1.2%	0.3%	2.5%	0.7%	-1.5%	0.1%	-0.4%
Unemployed	94.7	98.8	98.7	70.8	57.1	46.5	44.9	68.5	91.3	91.7
Percent Change	-8.6%	4.4%	-0.2%	-28.2%	-19.4%	-18.6%	-3.3%	52.6%	33.2%	0.5%
Unemployment Rate	5.4%	5.7%	5.6%	4.1%	3.3%	2.6%	2.5%	3.9%	5.1%	5.1%
Households	1,255.1	1,261.9	1,269.3	1,277.5	1,287.4	1,299.6	1,309.1	1,318.0	1,328.1	1,336.3
Percent Change	0.4%	0.5%	0.6%	0.6%	0.8%	0.9%	0.7%	0.7%	0.8%	0.6%
Housing Starts	9,625.1	7,919.7	8,844.8	10,026.6	11,214.0	9,603.9	8,647.3	9,231.3	8,612.2	9,106.7
Percent Change	15.2%	-17.7%	11.7%	13.4%	11.8%	-14.4%	-10.0%	6.8%	-6.7%	5.7%
Single Family	8,020.8	7,429.4	7,815.9	8,423.2	9,434.4	8,506.5	7,359.3	8,169.1	7,378.5	7,102.9
Percent Change	5.8%	-7.4%	5.2%	7.8%	12.0%	-9.8%	-13.5%	11.0%	-9.7%	-3.7%
Multi Family	1,604.3	490.3	1,028.8	1,603.3	1,779.6	1,097.4	1,288.0	1,062.3	1,233.8	2,003.8
Percent Change	108.3%	-69.4%	109.8%	55.8%	11.0%	-38.3%	17.4%	-17.5%	16.1%	62.4%
New Car Registrations	210.5	180.3	193.3	187.2	224.6	233.8	245.0	231.8	227.4	254.8
Percent Change	15.4%	-14.3%	7.2%	-3.1%	20.0%	4.1%	4.8%	-5.4%	-1.9%	12.0%
Industrial Performance Indicator (1997=100)	86.0	89.6	95.9	104.5	109.5	112.3	113.0	108.8	107.7	109.2
Percent Change	4.2%	4.2%	7.1%	8.9%	4.9%	2.5%	0.7%	-3.7%	-1.0%	1.4%

Note: Connecticut housing starts are already in thousands.

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 11
ANALYTICS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Wages/Total Income	57.81%	58.76%	59.45%	59.82%	60.29%	60.06%	59.09%	57.63%	56.91%	56.79%
Other Labor Income /Total Income	12.03%	11.99%	11.48%	11.12%	11.07%	10.97%	10.91%	11.48%	12.44%	12.68%
Social Insurance /Total Income	8.55%	8.64%	8.60%	8.49%	8.47%	8.28%	8.03%	8.10%	8.23%	8.17%
Transfer Payments /Total Income	12.34%	12.37%	12.03%	11.48%	11.01%	10.66%	10.47%	11.15%	11.54%	11.41%
Proprietor's Income /Total Income	7.86%	7.47%	7.46%	7.81%	8.24%	8.97%	9.86%	10.47%	10.72%	11.22%
Property Income /Total Income	18.51%	18.04%	18.18%	18.26%	17.86%	17.61%	17.70%	17.36%	16.62%	16.07%
Average Wages (Thousands in 2000 $)	41.14	42.49	43.75	45.75	47.48	49.03	50.37	49.05	48.72	50.05
Average Mfg. Wages (Thousands in 2000 $)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	56.52	56.88	59.18
Average Nonmfg. Wages (Thousands in 2000 $)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	47.93	47.56	48.81
Manufacturing Share of Employment	16.18%	15.68%	15.34%	15.18%	14.77%	14.07%	13.82%	13.03%	12.40%	11.94%
Residential Employment /Total Nonagricultural	1.056	1.044	1.034	1.028	1.014	1.024	1.026	1.020	1.035	1.039

MAJOR CONNECTICUT REGIONAL ECONOMIC INDICATORS - CALENDAR YEAR BASIS

TABLE 12
PERSONAL & DISPOSABLE INCOME (MILLIONS-SAAR)

NEW HAVEN-BRIDGEPORT-STAMFORD-WATERBURY-DANBURY

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Personal Income	52,680.2	54,041.6	57,469.0	60,648.0	64,515.1	70,151.7	73,739.0	80,560.7	83,342.9	82,965.1
Percent Change	2.4%	2.6%	6.3%	5.5%	6.4%	8.7%	5.1%	9.3%	3.5%	-0.5%
Total Wages	26,767.6	27,430.6	29,337.3	31,391.8	34,500.1	37,200.0	39,594.9	43,030.2	43,916.3	42,835.5
Percent Change	2.8%	2.5%	7.0%	7.0%	9.9%	7.8%	6.4%	8.7%	2.1%	-2.5%

HARTFORD-NEW BRITAIN-MIDDLETOWN-BRISTOL

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Personal Income	30,248.0	30,890.3	31,695.1	32,945.7	35,038.1	37,298.7	38,896.4	42,563.4	43,659.6	44,397.3
Percent Change	2.2%	2.1%	2.6%	3.9%	6.4%	6.5%	4.3%	9.4%	2.6%	1.7%
Total Wages	19,539.1	19,905.5	20,424.8	21,137.5	22,551.1	23,988.6	25,425.5	27,291.6	28,154.9	28,128.4
Percent Change	1.3%	1.9%	2.6%	3.5%	6.7%	6.4%	6.0%	7.3%	3.2%	-0.1%

NEW LONDON-NORWICH, CT-RI

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Personal Income	6,087.0	6,380.7	6,614.9	6,850.9	7,288.4	7,716.3	8,010.8	8,512.9	8,872.9	9,201.7
Percent Change	3.0%	4.8%	3.7%	3.6%	6.4%	5.9%	3.8%	6.3%	4.2%	3.7%
Total Wages	3,441.6	3,747.0	3,966.4	4,147.5	4,434.2	4,632.5	4,786.1	4,992.3	5,308.5	5,492.6
Percent Change	3.2%	8.9%	5.9%	4.6%	6.9%	4.5%	3.3%	4.3%	6.3%	3.5%