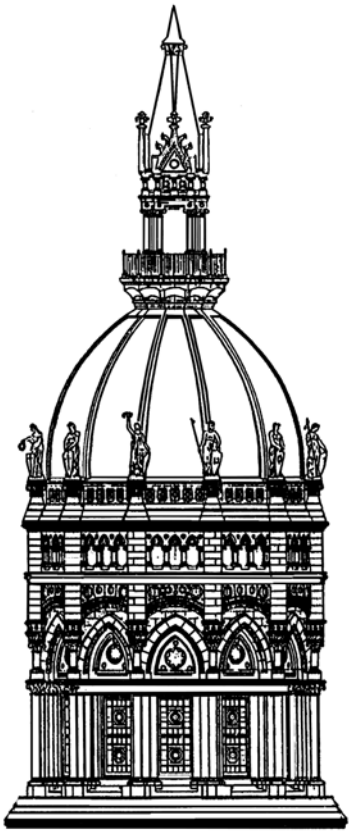
FY2008 – FY2009 BIENNIUM

ECONOMIC REPORT OF THE GOVERNOR



M. JODI RELL, GOVERNOR

CONNECTICUT

February 7, 2007

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ECONOMIC REPORT OF THE GOVERNOR 2007 - 2009

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 projects completed in 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 85 persons per square mile of land for the United States (3,536,338 square miles), based on 2006 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 west to New Britain and Bristol, and south to the coast in New Haven, is typified by highly skilled precision metal products manufacturing. In addition, a large submarine-building firm, a major pharmaceutical research and development facility, 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, and 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 slower growth. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. According to projections released by the U.S. Bureau of the Census in 2005, 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	3,405,56	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
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	282,217	1.1	13,954	0.8	3,413	0.8
2001	285,226	1.1	14,056	0.7	3,433	0.6
2002	288,126	1.0	14,145	0.6	3,458	0.7
2003	290,796	0.9	14,208	0.4	3,482	0.7
2004	293,638	1.0	14,241	0.2	3,494	0.3
2005	296,507	1.0	14,255	0.1	3,501	0.2
2006	299,398	1.0	14,270	0.1	3,505	0.1

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

Natural Change Rates

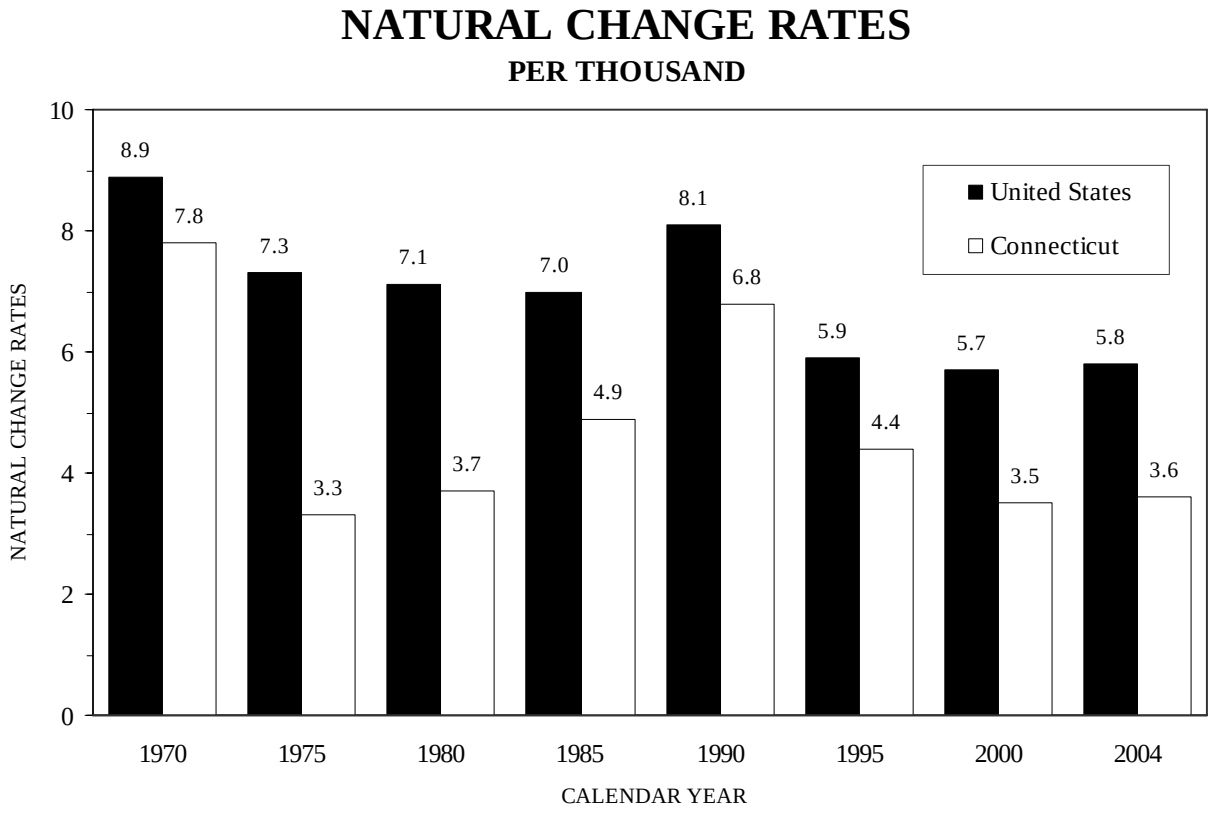
The natural change rate is defined as the difference between birth and death rates. The birth rate in Connecticut has consistently remained below the national average, declining during the 1960s and 1970s and then slowly reversing itself, increasing gradually since the early 1980s and finally peaking 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 2004, the Connecticut birth rate was approximately 12.0 per 1,000, compared to the national average of 14.0. This is a decrease from the 12.6 in 2000 and 12.3 in 2003. The mortality rate for both Connecticut and the nation for several years had been fairly stable, while the death rate for both appears to be on a downward trend. This has occurred because of improvements in medicine and health care and has led 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	2004
Birth Rates:								
United States	18.4	16.1	15.9	15.8	16.7	14.6	14.4	14.0
Connecticut	16.7	11.6	12.5	13.7	15.2	13.3	12.6	12.0
Death Rates:								
United States	9.5	8.8	8.8	8.8	8.6	8.7	8.7	8.2
Connecticut	8.9	8.3	8.8	8.8	8.4	8.9	9.1	8.4
Natural Change Rates:								
United States	8.9	7.3	7.1	7.0	8.1	5.9	5.7	5.8
Connecticut	7.8	3.3	3.7	4.9	6.8	4.4	3.5	3.6

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

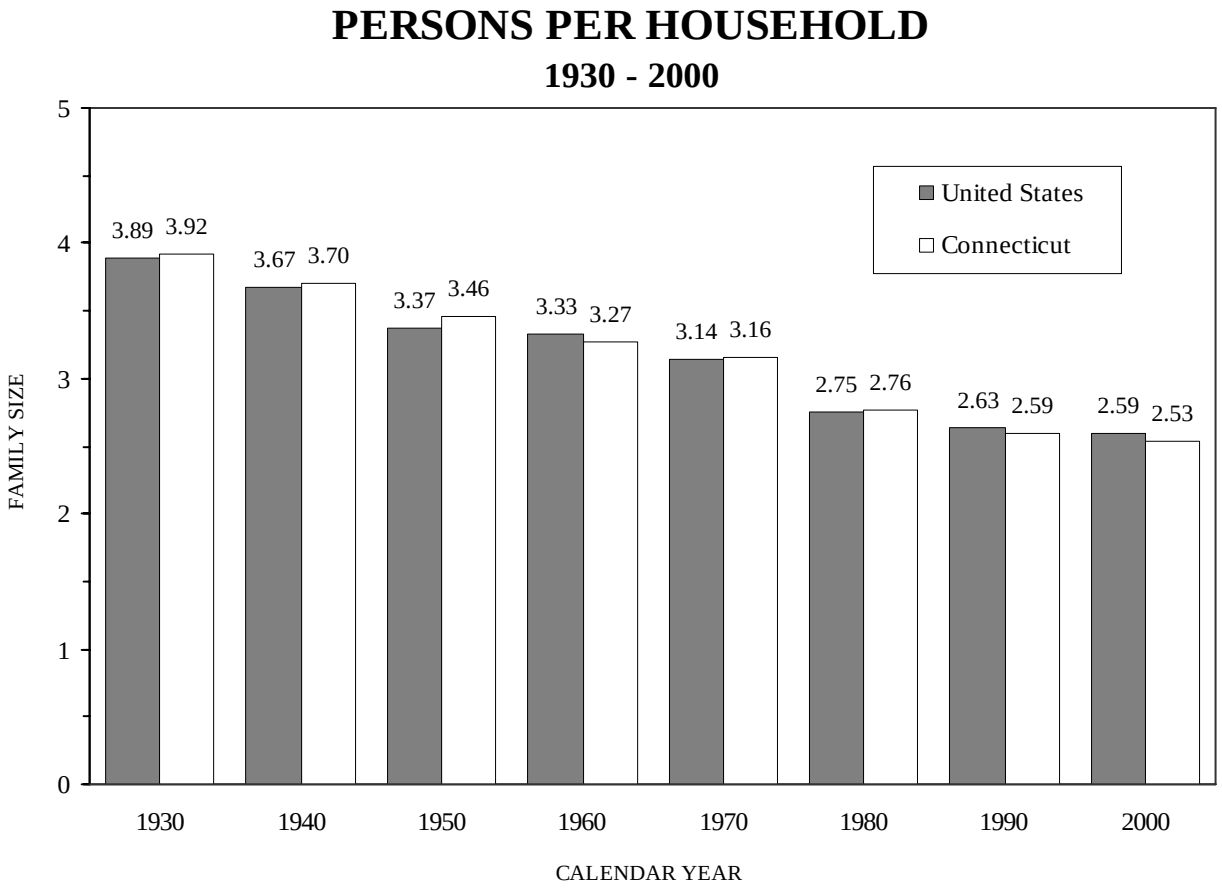
contributed significantly to the dip in overall household growth. As the economy improved, growth trends improved during the later 1990's, especially at the state level.

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 2000, the relatively stable population, the increasing number of households, and the changing mix in the types of households in Connecticut resulted in a decrease in average population per household in the state. The following Chart shows that household size has generally been edging downward in the state and for the nation. This relationship is important in forecasting Connecticut's household size.



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

According to the latest data available, the distribution of Connecticut's population between 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 (especially 85 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 77.9 years in 2004, 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 2005
(In Thousands)

	17 & Less	18 to 24	25 to 44	45 to 64	65 +	85 +	Total
United States	74,211	29,603	84,852	73,752	37,161	5,147	299,398
% of Total	24.8	9.9	28.3	24.6	12.4	1.7	100.0
New England	3,252	1,327	4,005	3,742	1,915	318	14,240
% of Total	22.8	9.3	28.1	26.3	13.4	2.2	100.0
Connecticut	835	316	956	930	474	86	3,510
% of Total	23.8	9.0	27.2	26.5	13.5	2.5	100.0

Source: U.S. Bureau of the Census.

Population Projections

The U.S. Department of Commerce, Bureau of the Census, has published population projections for the United States and the 50 states.

TABLE 7
PROJECTIONS OF THE POPULATION IN CONNECTICUT
(Mid-Year Resident Population In Thousands)

	1990	2000	Projections			% Change
Age Group	Census	Census	2010	2020	2030	2000-2030
Total	3,287.1	3,405.6	3,577.5	3,675.7	3,688.6	8.3%
0-17	737.6	841.7	814.0	816.3	823.4	(2.2%)
18-44	1,452.3	1,304.3	1,257.5	1,258.5	1,217.9	(6.6%)
45-64	651.3	789.4	990.4	958.2	852.9	8.0%
65 & Over	445.9	470.2	515.6	642.5	794.4	68.9%
85 & Over	47.1	64.3	93.7	105.6	132.4	105.9%
Ratio 18-64/65+	4.7	4.5	4.4	3.5	2.6	(41.5%)
Median Age	34.4	37.4	39.6	39.7	41.1	9.9%

Source: U.S. Department of Commerce, Bureau of the Census, April 2005.

Based on these projections, the elderly population (defined as those 65 years and over) continues to grow substantially. For every person over the age of 65, the number of workers, aged 18 to 64, is expected to decrease 41.5 percent, from 4.5 workers in 2000 to 2.6 workers in 2030. The size of this cohort is not only growing rapidly, the average age is also increasing. The

most senior subset, which are those aged 85 and older, is increasing at a faster rate than the total elderly population in Connecticut. This significant growth will impact both the size and complexity of the demand for services required by this segment of Connecticut's population. There will be increased demand for health care facilities, public transportation, elderly housing, etc. The burden of caring for the elderly may become much greater as the baby boom generation begin to reach the age of sixty-five in the year 2011.

More specifically, the following three Tables call attention to some significant trends with particular implications to be considered as resource allocation decisions are made for the future. First, as shown in the following Table, Connecticut is and will remain 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 8
POPULATION DENSITY BY YEAR
(Persons per Square Mile)

	1990 Census	2000 Census	2006 Estimate	2010 Projection	2020 Projection	2030 Projection
United States	70.3	79.6	84.7	87.4	95.0	102.8
Northeast	313.1	330.3	337.3	343.8	352.1	355.4
Connecticut	678.4	702.8	723.0	738.3	758.6	761.3

Source: U.S. Bureau of the Census

In addition, a change is occurring in the age distribution of the population. As shown in Table 9, 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 to provide social and support services for the young and the elderly, particularly for the elderly.

TABLE 9
DEPENDENCY RATIOS*
(Number of Dependent Population per 100 Provider Population)

Dependency Ratio	1980	1990	2000	2010	2020	2030
United States	65.1	61.5	61.6	59.0	67.2	76.1
Northeast	63.9	59.0	61.6	57.7	64.9	75.4
Connecticut	61.9	57.0	62.7	59.2	65.8	78.1
Youth Dependency						
United States	46.5	41.3	41.5	38.3	40.0	41.5
Northeast	43.6	37.3	39.3	35.4	36.3	38.4
Connecticut	42.9	35.8	40.2	36.2	36.8	39.8
Aged Dependency						
United States	18.6	20.2	20.1	20.7	27.2	34.6
Northeast	20.3	21.7	22.2	22.4	28.6	37.0
Connecticut	19.0	21.2	22.5	22.9	29.0	38.4
Aged Female Dependency Ratio						
United States	11.1	12.1	11.8	12.0	15.4	19.4
Northeast	12.3	13.3	13.3	13.2	16.6	21.3
Connecticut	11.5	12.8	13.4	13.6	17.0	22.5

* 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 17 and less than 65 years of age.

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

Finally, as shown in Table 10, 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 10
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 2006, the national housing market continued its positive performance. Overall, housing starts in the U.S. rose 1.0% with 2.04 million starts being recorded nationally during fiscal 2006.

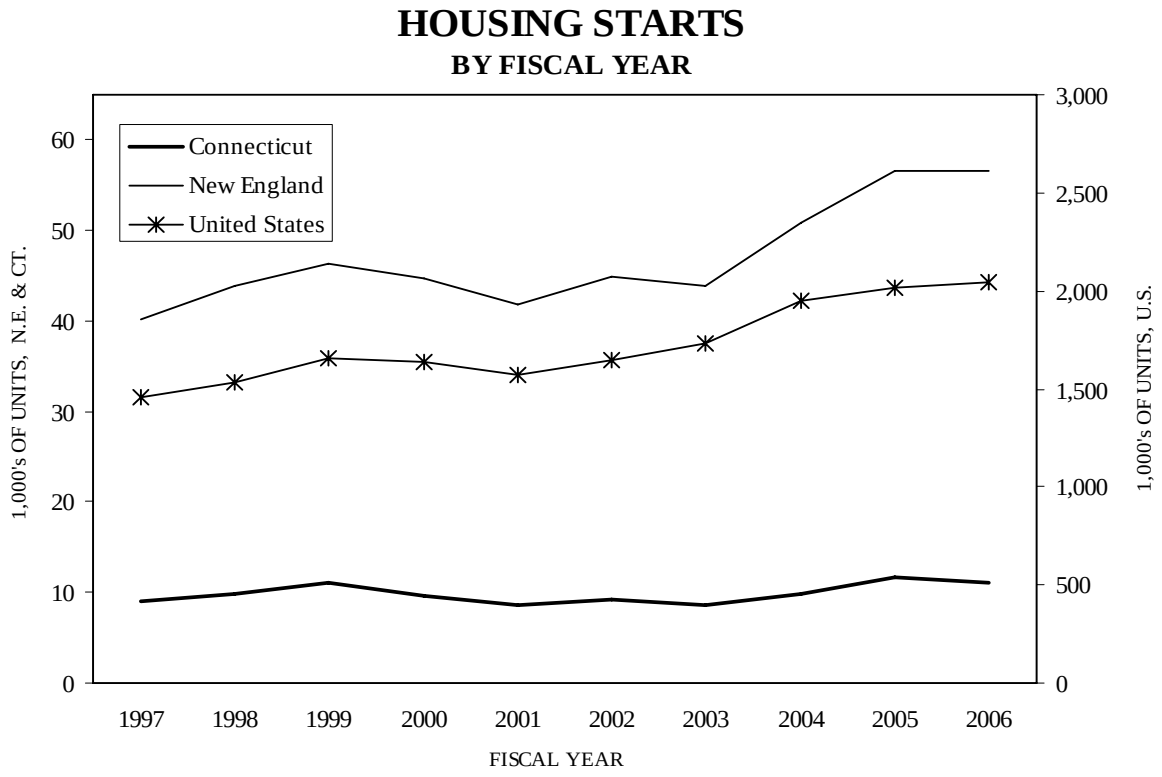
The continued strength in the housing sector has been one of the important pillars of the economy during this economic cycle. Low interest rates, strong house price gains, and the increase in homeowner equity have offset the effects of the sluggish economy and weak labor market. Potential negative factors 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.

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

TABLE 11
HOUSING STARTS
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1996-97	1,456.8	0.7	40.2	8.6	8.9	12.3
1997-98	1,530.2	5.0	43.8	8.9	9.9	11.3
1998-99	1,659.3	8.4	46.3	5.7	11.1	11.8
1999-00	1,637.8	(1.3)	44.6	(3.7)	9.6	(14.2)
2000-01	1,570.7	(4.1)	41.8	(6.2)	8.6	(10.0)
2001-02	1,645.9	4.8	44.9	7.3	9.2	6.7
2002-03	1,729.2	5.1	43.8	(2.5)	8.5	(7.1)
2003-04	1,945.3	12.5	50.8	16.2	9.9	15.8
2004-05	2,018.7	3.8	56.6	11.3	11.7	18.9
2005-06	2,039.8	1.0	56.6	0.1	11.1	(5.5)

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



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

In Connecticut, starts for new dwelling units decreased in fiscal 2006 to an annual rate of 11,096 units, still well above the ten-year average of 9,859 units. While housing activity in Connecticut has weakened somewhat in the near term, any decline should be limited. Low mortgage rates, an expanding economy, 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.

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 below shows the Connecticut counties in which privately owned housing permits were issued in calendar 2005, indicating the geographic distribution of housing construction activity.

According to the report, calendar 2005 registered a 0.4% increase in housing permit activity. Permit activity totaling 11,885 units, up from 11,837 in 2004, was authorized and added to the state's housing unit inventory. The town of Danbury led all Connecticut communities with 598 permits issued, followed by Shelton and Hartford.

TABLE 12
CONNECTICUT HOUSING PERMIT ACTIVITY
Calendar Year 2005

County	Total Units Authorized	% of Total	% Growth
Fairfield	3,119	26.3	25.0
Hartford	2,487	20.9	4.1
Litchfield	678	5.7	(16.3)
Middlesex	795	6.7	(17.4)
New Haven	2,251	18.9	(11.2)
New London	1,208	10.2	(10.4)
Tolland	754	6.3	6.8
Windham	593	5.0	0.2
State Total	11,885	100.0	0.4

Source: Connecticut State Department of Economic and Community Development

In addition, residential demolition permits issued during calendar 2005 totaled 1,386. Greenwich issued the most demolition permits with 183, followed by Bridgeport and Westport.

These three cities accounted for 29.6% of all demolition permits**.** As a result, the net gain to Connecticut's housing inventory totaled 10,499 units in calendar 2005. This was an increase of 3.9% from 2004's net gain of 10,108 units. At the end of 2005, an estimated 1,431,569 housing units existed in Connecticut. The following Table shows changes in Connecticut's housing unit inventory on a calendar basis from 2004 to 2005.

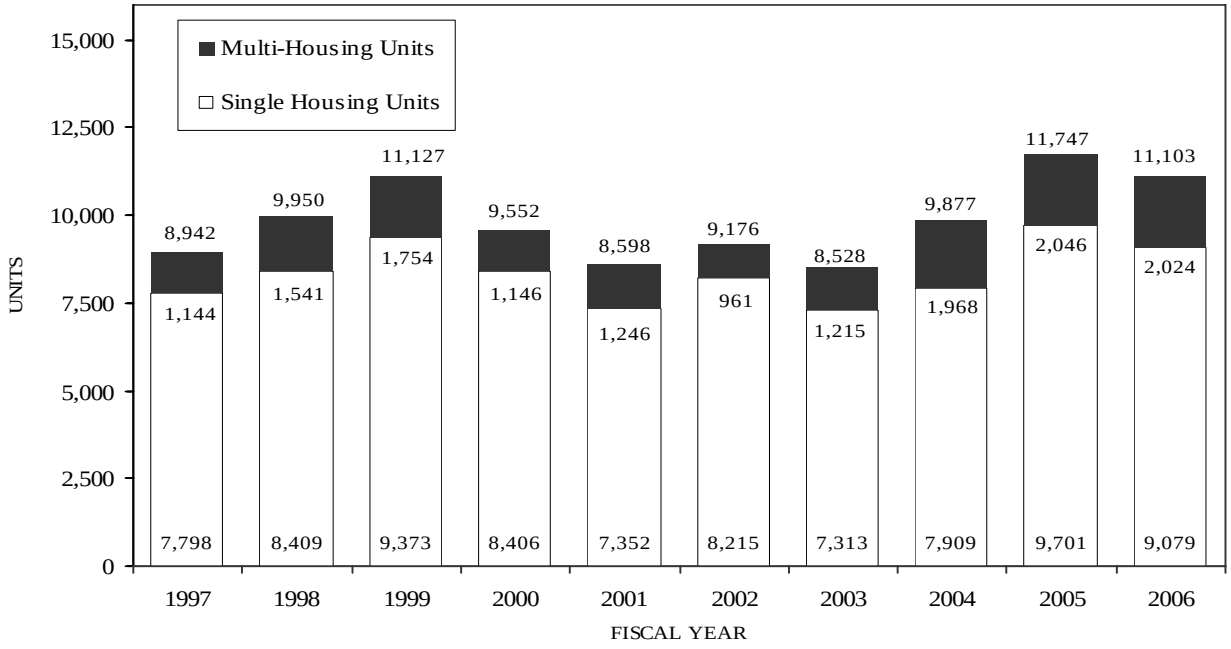
TABLE 13
CONNECTICUT HOUSING INVENTORY

Structure Type	Inventory 2004	% of Total	Inventory 2005	% of Total	Net Gain	Growth Rate
One-Unit	918,190	64.6	925,962	64.7	7,772	0.8%
Two-Unit	119,793	8.4	119,901	8.4	108	0.1%
Three & Four-	126,924	8.9	126,951	8.8	27	0.0%
Five Or More	243,969	17.2	246,561	17.2	2,592	1.1%
Other	12,194	0.9	12,194	0.9	0	0.0%
Total Inventory	1,421,070	100.0	1,431,569	100.0	10,499	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 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

As Table 7 demonstrates, current population projections anticipate a decline in the 18-44 year old age group of 3.6% between 2000 and 2010, a decline of 3.2% between 2010 and 2030, and an overall decline of 6.6% between the years 2000 and 2030. 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.

Table 7 also illustrates that the age group of citizens 65 and older grew during the 1990s, at a healthy rate of 5.6%. This age group is projected to grow rapidly during the next twenty-five years. Projected growth rates of the 65 and older age group are: 9.7% from 2000 to 2010, 24.6% from 2010 to 2020, and 68.9% between the years 2000 and 2030. 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.

Changes in the Mortgage Market

Fiscal year 2006 began with averages for the thirty-year fixed and one-year adjustable rate mortgages of 5.8% and 4.7% respectively. Throughout fiscal year 2006, thirty-year fixed rates rose. By fiscal year end, rates averaged 6.8%. At the same time, one-year adjustable rate mortgages (ARM's) also rose, ending fiscal year 2006 at 6.0%. With the significant increase in ARM interest rates, more potential buyers are being priced out of the market, thus overall housing affordability weakens.

Higher interest rates also negatively impact homeowners' discretionary spending. Homeowners face higher monthly mortgage costs and a drop in cash-out and general rate reduction refinancing opportunities. Refinancing as a percentage of total mortgage applications has dropped from a high of 82.5% in March of 2003 to 46.7% in October 2006. The reduction in the number of refinancing applications suggests that consumers who could benefit from the record low interest rates have already refinanced, and thus no additional consumer savings in this area is anticipated in the near future. Refinancing applications are not expected to drop to zero as consumers look to move to fixed rate mortgages from their rapidly rising adjustable rate mortgages.

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

below, the median sales price in 2005 was $305,760, up 55% since 2000. 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 9.6% in 2005.

To interpret the housing affordability index, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20% down payment. The chart below indicates that overall housing affordability has fallen in the U.S. and Connecticut over the past 6 years, indicating that housing prices are outpacing income increases, which may be an indication of an impending correction in the housing market.

TABLE 14
Sales Price Of Homes In Connecticut And U.S.

Calendar Year	2000	2001	2002	2003	2004	2005	2000-05 (Change)
CT Median Price	$197,270	$204,000	$224,760	$253,330	$278,830	$305,760	$86,490
% Change	*2.6%*	*3.4%*	*10.2%*	*12.7%*	*10.1%*	*9.6%*	*55.0%*
U.S. Median Price	$138,720	$147,150	$159,300	$172,620	$192,300	$216,850	$62,900
% Change	*6.2%*	*6.1%*	*8.3%*	*8.4%*	*11.4%*	*12.8%*	*56.3%*
CT as a % of U.S.	142	139	141	147	145	141	
CT Affordability Index	122.16	127.93	123.66	122.14	117.91	110.82	(11.34)
% Change	*(1.0%)*	*4.7%*	*(3.3%)*	*(1.2%)*	*(3.5%)*	*(6.0%)*	*(9.3%)*
U.S. Affordability Index	136.66	144.40	144.16	147.6	141.49	131.46	(5.20)
% Change	*(8.5%)*	*5.7%*	*(0.2%)*	*2.4%*	*(4.1%)*	*(7.1%)*	*(3.8%)*

Source: Moody's Economy.Com

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 2006 increased by 21,100 jobs. Likewise, the level of establishment employment based on the survey response increased by 31,100 jobs in fiscal 2006.

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

TABLE 15
CONNECTICUT SURVEY EMPLOYMENT COMPARISONS
(In Thousands)

Fiscal Year	Residential Employment	% Growth	Establishment Employment	% Growth
1996-97	1,667.0	0.64	1,599.6	1.98
1997-98	1,680.3	0.80	1,627.6	1.75
1998-99	1,691.0	0.64	1,657.2	1.82
1999-00	1,697.4	0.38	1,682.1	1.50
2000-01	1,698.4	0.06	1,690.1	0.48
2001-02	1,702.7	0.25	1,675.3	(0.88)
2002-03	1,706.4	0.22	1,652.4	(1.37)
2003-04	1,709.7	0.20	1,643.7	(0.52)
2004-05	1,720.4	0.62	1,657.2	0.82
2005-06	1,741.5	1.23	1,688.3	0.67

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 16
NONAGRICULTURAL EMPLOYMENT
(In Thousands)

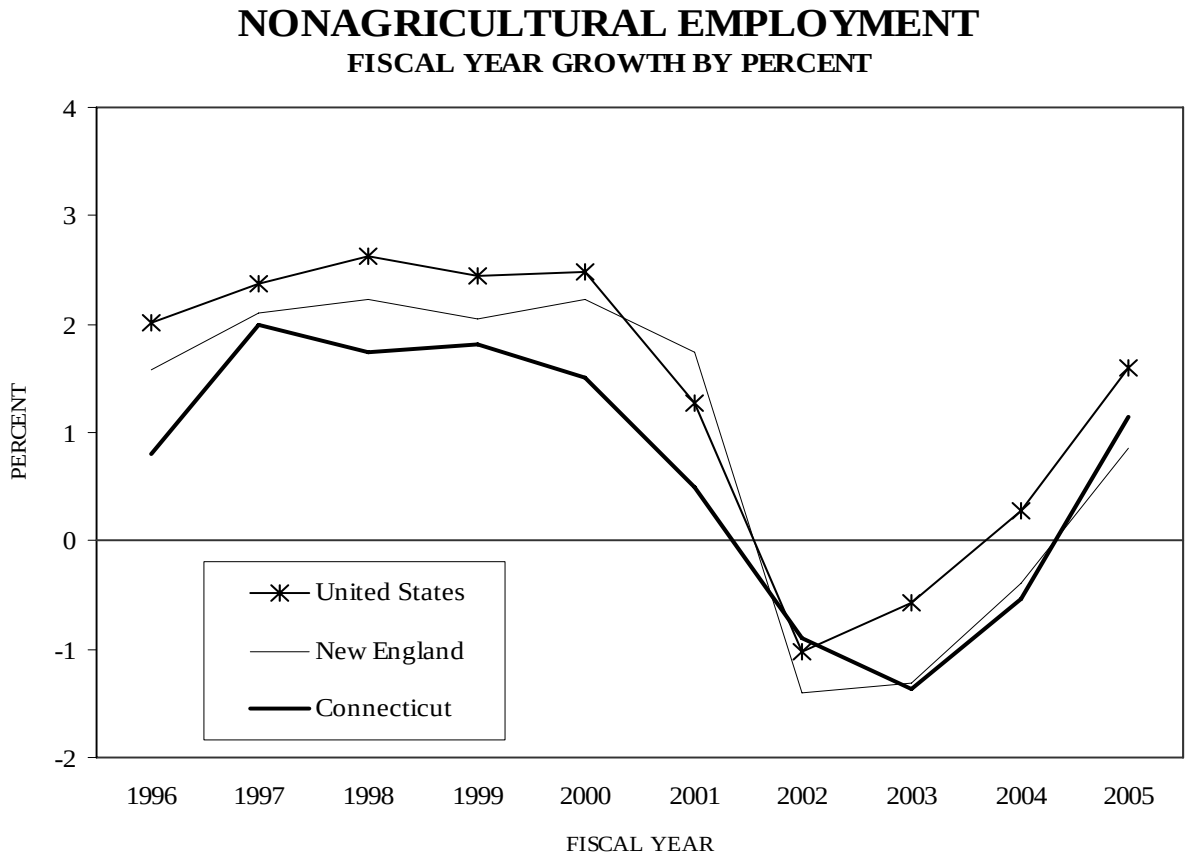
Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1996-97	121,199	2.38	6,540.0	2.65	1,599.6	1.98
1997-98	124,380	2.62	6,689.0	2.28	1,627.6	1.75
1998-99	127,427	2.45	6,820.4	1.96	1,657.2	1.82
1999-00	130,598	2.49	6,977.3	2.30	1,682.1	1.50
2000-01	132,250	1.27	7,050.5	1.05	1,690.1	0.48
2001-02	130,882	(1.04)	6,934.4	(1.65)	1,675.3	(0.88)
2002-03	130,115	(0.59)	6,849.3	(1.23)	1,652.4	(1.37)
2003-04	130,469	0.27	6,849.9	0.01	1,643.7	(0.52)
2004-05	132,443	1.51	6,892.4	0.62	1,657.2	0.82
2005-06	134,440	1.51	6,937.6	0.66	1,668.3	0.67

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

In Connecticut, approximately 55% 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. From 2001 to 2004, nonagricultural employment experienced negative growth rates. In fiscal 2005, Connecticut reversed the three year trend and experienced its largest growth in nonagricultural employment since fiscal 2000 with an

increase of 13,500 jobs. The positive growth in nonagricultural employment continued in fiscal 2006 with an increase of 11,100 jobs. 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

TABLE 17
NONAGRICULTURAL EMPLOYMENT
LONG- TERM HISTORIC GROWTH RATES

	Growth Rates		Cumulative Growth Rates	
Fiscal Year	United States	Connecticut	United States	Connecticut
1950-1960	23.4%	24.6%	23.4%	24.6%
1960-1970	31.6%	31.9%	62.4%	64.4%
1970-1980	27.3%	17.8%	106.7%	93.6%
1980-1990	20.4%	16.3%	148.8%	125.0%
1990-2000	19.8%	2.1%	198.2%	129.7%
2000-2005	1.4%	(1.5%)	202.4%	126.3%

The previous Table shows historic employment growth rates for the United States and the State of Connecticut over five decades beginning in state fiscal year 1950. This table highlights the robust growth in nonagricultural employment for Connecticut prior to 1990 as emphasized by the modest 2.1% growth between 1990 and 2000. While the United States did not show the

same decline in growth in that period, the U.S. growth did slow in the 2000-2005 period with only a 1.4% growth rate.

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 fiscal 2005, 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 $122.2 billion in calendar 2005. Of the $122.2 billion, $17.7 billion or approximately 14.5% is derived from Connecticut residents. The other 85.5% is derived from sales outside of the state. This provides an additional source of incoming funds to bolster the economy of the state.

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

TABLE 18
CONNECTICUT RATIO OF MANUFACTURING EMPLOYMENT TO TOTAL EMPLOYMENT
(In Thousands)

Fiscal 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	1,682.1	236.7	1,445.4	14.1
2005	1,668.3	193.9	1,474.3	11.6

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 twenty-first 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 employer in this industry is United Technologies Corporation, including its Pratt & Whitney Aircraft Division in East Hartford. Defense-related businesses like United Technologies fall under the transportation equipment classification.

In federal fiscal year 2005, Connecticut ranked seventh in total defense dollars awarded and third 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.

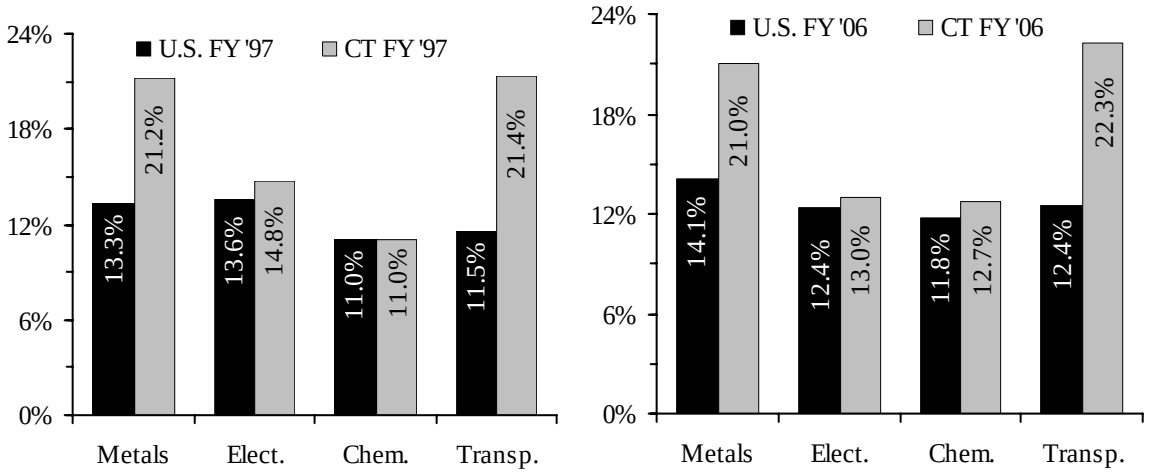
TABLE 19
CONNECTICUT MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal Year	Transportation Equipment	Metals Manufacturing	Electronic & Electrical Manufacturing	Chemical, Plastics & Rubber Mfg.
1996-97	52.4	52.0	36.2	27.0
1997-98	51.7	51.8	38.0	27.3
1998-99	51.7	51.6	36.4	28.1
1999-00	47.9	50.0	35.1	28.7
2000-01	47.0	49.1	35.4	29.5
2001-02	46.3	44.8	31.3	28.0
2002-03	44.2	41.9	27.6	26.6
2003-04	43.1	40.7	25.9	25.5
2004-05	43.3	41.3	25.8	25.2
2005-06	43.2	40.9	25.3	24.7

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

Over the last decade the state's distribution of manufacturing employment has remained relatively stable. Rising defense expenditures has stabilized the Transportation Equipment sector as evidenced by its level percentage of total state manufacturing employment at 21.4% in fiscal 1997 and 22.3% in fiscal 2006. Similarly, the Metals Manufacturing sector employment figures have remained approximately level at 21.2% of total state manufacturing employment in fiscal 1997 and 21.1% of total employment in fiscal 2006. The other major manufacturing sectors, Electronic and Electrical Manufacturing and Chemical, Plastics, and Rubber have only increased or decreased their percentage of total state manufacturing by less than two percentage points. The distribution of employment figures within the manufacturing sector highlights that Connecticut manufacturing is diversified, but has a greater reliance on the Metals and Transportation Equipment sectors.

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.

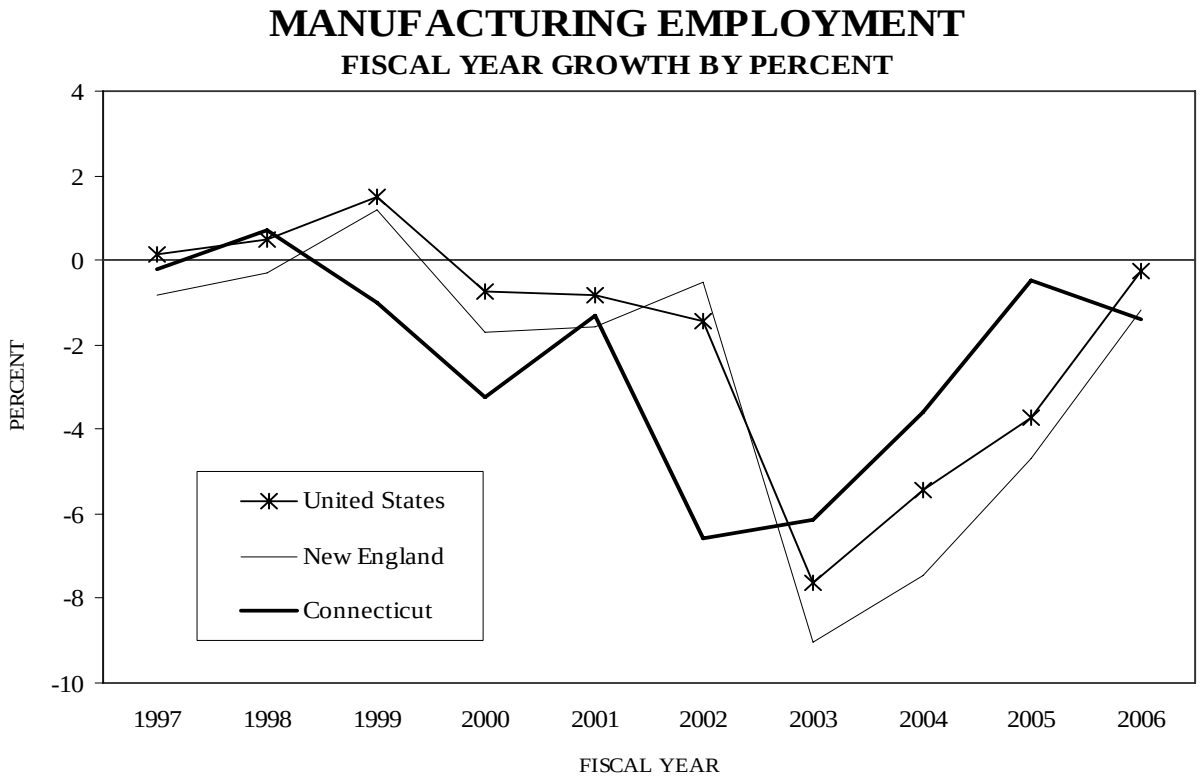
TABLE 20
MANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1996-97	17,301	0.49	961.0	(0.30)	245.4	(0.22)
1997-98	17,559	1.49	972.5	1.20	247.1	0.72
1998-99	17,427	(0.76)	956.1	(1.69)	244.7	(1.01)
1999-00	17,289	(0.81)	941.2	(1.55)	236.7	(3.27)
2000-01	17,041	(1.43)	936.2	(0.54)	233.5	(1.30)
2001-02	15,734	(7.65)	851.6	(9.03)	218.3	(6.51)
2002-03	14,879	(5.43)	788.3	(7.44)	205.0	(6.13)
2003-04	14,325	(3.71)	751.2	(4.70)	197.6	(3.59)
2004-05	14,290	(0.24)	742.5	(1.17)	196.7	(0.48)
2005-06	14,223	(0.46)	727.4	(2.03)	193.9	(1.38)

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 approximately 21% of its employment from fiscal 1997 through fiscal 2006, a loss of approximately 51,500 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 declined slightly from fiscal year 2005 with a decline in the manufacturing workforce by 1.4% in fiscal year 2006. The reduction in manufacturing employment that Connecticut experienced in fiscal year 2006 was less compared to the New England area which realized a 2.0% reduction in manufacturing workforce.

The 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. 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 11.6% of all nonfarm payroll jobs, compared to 10.6% in the U.S. through fiscal 2006. 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 21
CONNECTICUT MANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

				Percent Change	
Industry	F.Y. 1996-97	F.Y. 2004-05	F.Y. 2005-06	FY 2005 to FY 2006	FY 1997 to FY 2006
Transportation Equipment	52.38	43.31	43.23	(0.2)	(17.5)
Metal Manufacturing	52.00	41.29	40.88	(1.0)	(21.4)
Electronic & Electrical	36.19	25.78	25.34	(1.7)	(30.0)
Chemical, Plastics & Rubber	26.95	25.20	24.72	(1.9)	(8.3)
Printing, Publishing & Textile	27.01	18.50	17.69	(4.4)	(34.5)
Industrial Machinery	24.84	18.34	17.90	(2.4)	(28.0)
Food, Beverage & Tobacco	8.86	8.41	8.60	2.3	(2.9)
Miscellaneous	17.12	15.83	15.58	(1.6)	(9.0)
Total Mfg. Employment	245.35	196.66	193.94	(1.4)	(21.0)

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

In fiscal 2006, total manufacturing employment in Connecticut remained relatively level with fiscal 2005 with a small 1.4% reduction in the manufacturing workforce. The manufacturing sector that experienced the largest decline in the number employed in fiscal 2006 was the printing, publishing and textile sector with an overall reduction of 4.4% from the fiscal 2005 level. While it is the smallest manufacturing sector, the food, beverage and tobacco industry experienced a 2.3% growth between fiscal 2005 and 2006. The percent change from fiscal 1997 to 2006 demonstrates the overall decline in manufacturing employment over the last ten years.

The Table on the following page ranks the 50 states in terms of their relative dependence on manufacturing wages as a percentage of total personal income.

TABLE 22
MANUFACTURING WAGES AS A PERCENT OF PERSONAL INCOME BY STATE
(In Millions of Dollars)

State	Personal Income	Mfg. Wages	%	FY 06 Rank	State	Personal Income	Mfg. Wages	%	FY 06 Rank
Indiana	$200,777	$28,498	14.19	1	Georgia	292,228	19,745	6.76	26
Wisconsin	188,831	23,209	12.29	2	Louisiana	114,486	7,668	6.70	27
Michigan	336,488	38,570	11.46	3	Idaho	42,289	2,826	6.68	28
Ohio	373,797	39,851	10.66	4	Texas	776,350	51,452	6.63	29
Iowa	97,238	10,168	10.46	5	Nebraska	59,585	3,902	6.55	30
Kentucky	121,038	11,894	9.83	6	Maine	41,769	2,649	6.34	31
Tennessee	190,170	17,981	9.46	7	Rhode Island	38,864	2,323	5.98	32
Arkansas	76,364	7,050	9.23	8	West Virginia	48,566	2,723	5.61	33
South Carolina	123,893	11,331	9.15	9	Arizona	187,458	10,456	5.58	34
Alabama	139,599	12,610	9.03	10	South Dakota	25,974	1,447	5.57	35
North Carolina	276,864	24,940	9.01	11	Delaware	32,415	1,792	5.53	36
Kansas	93,274	8,314	8.91	12	Oklahoma	110,662	5,995	5.42	37
Minnesota	196,188	17,478	8.91	13	New Jersey	394,433	20,957	5.31	38
N. Hampshire	50,876	4,308	9.47	14	North Dakota	20,378	985	4.83	39
Oregon	120,794	10,140	8.39	15	Colorado	180,017	8,468	4.70	40
Mississippi	75,083	6,284	8.37	16	Virginia	292,515	13,224	4.52	41
Vermont	20,857	1,737	8.33	17	New York	797,099	30,587	3.84	42
Illinois	477,927	36,076	7.55	18	Maryland	242,310	7,759	3.20	43
Missouri	186,731	14,049	7.52	19	New Mexico	55,752	1,624	2.91	44
Pennsylvania	444,296	33,364	7.51	20	Florida	630,195	18,204	2.89	45
Connecticut	171,496	12,656	7.38	21	Montana	27,936	756	2.71	46
Washington	229,426	16,209	7.07	22	Nevada	89,436	2,188	2.45	47
Utah	70,890	4,919	6.94	23	Wyoming	19,881	414	2.08	48
California	1,378,896	94,553	6.86	24	Alaska	24,198	485	2.00	49
Massachusetts	288,086	19,660	6.82	25	Hawaii	45,208	529	1.17	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.

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 23
CONNECTICUT NONMANUFACTURING EMPLOYMENT BY INDUSTRY
(In Thousands)

Industry	F.Y. 1996-97	F.Y. 2004-05	F.Y. 2005-06	Percent Change FY 2005 to FY 2006	Percent Change FY 1997 to FY 2006
Construction & Mining	55.27	67.25	66.17	(1.6)	19.7
Information	44.34	38.67	37.90	(2.0)	(14.5)
Transp., Trade & Utilities	300.06	310.17	312.12	0.6	5.2
Transp., & Warehousing	39.65	42.72	44.45	4.0	12.1
Utilities	9.62	8.68	8.50	(2.1)	(11.7)
Wholesale	64.22	65.97	66.92	1.4	4.2
Retail	186.57	192.79	192.24	(0.3)	3.0
Finance (FIRE)	128.60	141.27	143.35	1.5	11.5
Finance & Insurance	108.76	120.74	122.42	1.4	12.6
Real Estate	19.84	20.53	20.93	1.9	5.5
Services	601.40	660.35	669.16	1.3	11.3
Professional & Business	191.42	198.01	201.20	1.6	5.1
Education & Health	233.23	270.92	274.47	1.3	17.7
Leisure & Hospitality	116.92	128.73	130.57	1.4	11.7
All Other Services	59.83	62.69	62.92	0.4	5.2
Government	224.60	242.83	245.64	1.2	9.4
Federal	23.03	19.98	19.80	(0.9)	(14.0)
State	65.41	63.86	65.52	2.6	0.2
Local	136.14	159.01	160.23	0.8	17.7
Total Nonmanufacturing Employment	1,354.27	1,460.54	1,474.33	0.9	8.9

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

Source: Connecticut State Labor Department

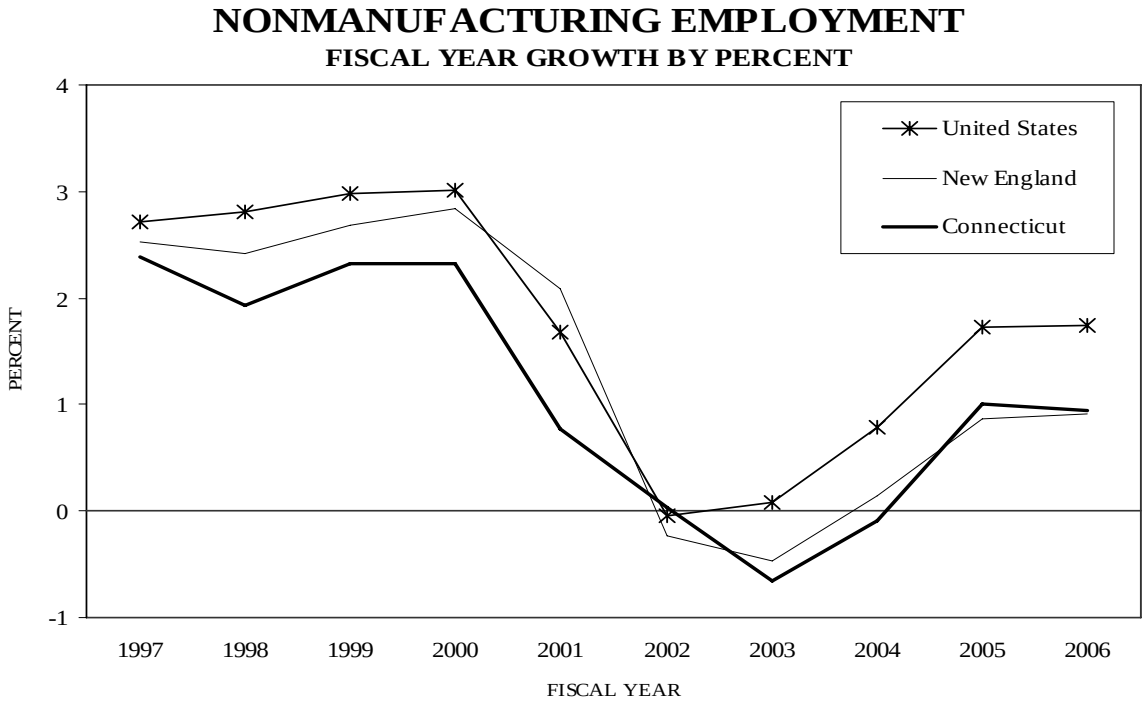
Unlike manufacturing employment, nonmanufacturing employment grew slightly in fiscal 2006. Overall, nonmanufacturing employment grew by 0.9% in fiscal 2006, as approximately 13,790 jobs were added through the end of the fiscal year. The trade and warehousing sector experienced the strongest growth from fiscal 2005 to 2006 with 4.0% growth over that period. Construction and mining which in fiscal 2005 had a 4.3% growth from fiscal 2004, experienced a negative 1.6% growth in 2006. This reduction in the workforce is attributable to the nationwide slowing of the housing market. While fiscal 2006 did see a reduction in this sector, construction and mining is still 19.7% larger than the levels employed in this sector in fiscal 1997.

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

TABLE 24
NONMANUFACTURING EMPLOYMENT
(In Thousands)

Fiscal	United States		New England		Connecticut	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1996-97	103,898	2.71	5,544.2	2.53	1,354.3	2.39
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	113,309	3.01	5,996.1	2.84	1,445.4	2.33
2000-01	115,211	1.68	6,121.6	2.09	1,456.6	0.77
2001-02	115,148	(0.05)	6,107.6	(0.23)	1,457.0	0.03
2002-03	115,236	0.08	6,079.4	(0.46)	1,447.4	(0.65)
2003-04	116,144	0.79	6,088.8	0.15	1,446.1	(0.10)
2004-05	118,152	1.73	6,141.1	0.86	1,460.5	1.00
2005-06	120,218	1.74	6,197.6	0.92	1,474.3	0.94

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



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

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 25
CONNECTICUT NONMANUFACTURING ANNUAL SALARIES

Industry	F.Y. 1996-97	F.Y. 2004-05	F.Y. 2005-06	Percent Change FY '05 to FY '06	Percent Change FY '97 to FY '06
Construction	$39,984	$51,481	$54,738	6.3%	36.9%
Information	42,910	62,039	65,149	5.0%	51.8%
Transp., Trade & Utilities	30,468	41,421	43,395	4.8%	42.4%
Wholesale Trade	53,862	70,914	76,977	8.5%	42.9%
Retail Trade	19,208	29,304	30,272	3.3%	57.6%
Finance, Ins. & Real Estate	71,900	114,655	120,556	5.1%	67.7%
Professional & Business Services	44,319	64,444	67,897	5.4%	53.2%
Education & Health Services	33,228	42,217	44,205	4.7%	33.0%
Leisure & Hospitality Services	13,873	19,758	20,574	4.1%	48.3%
Government	38,039	49,480	49,588	0.2%	30.4%
Federal	58,279	82,122	82,092	0.0%	40.9%
State and Local	35,731	46,552	46,757	0.4%	30.9%

Source: U.S. Bureau of Economic Analysis

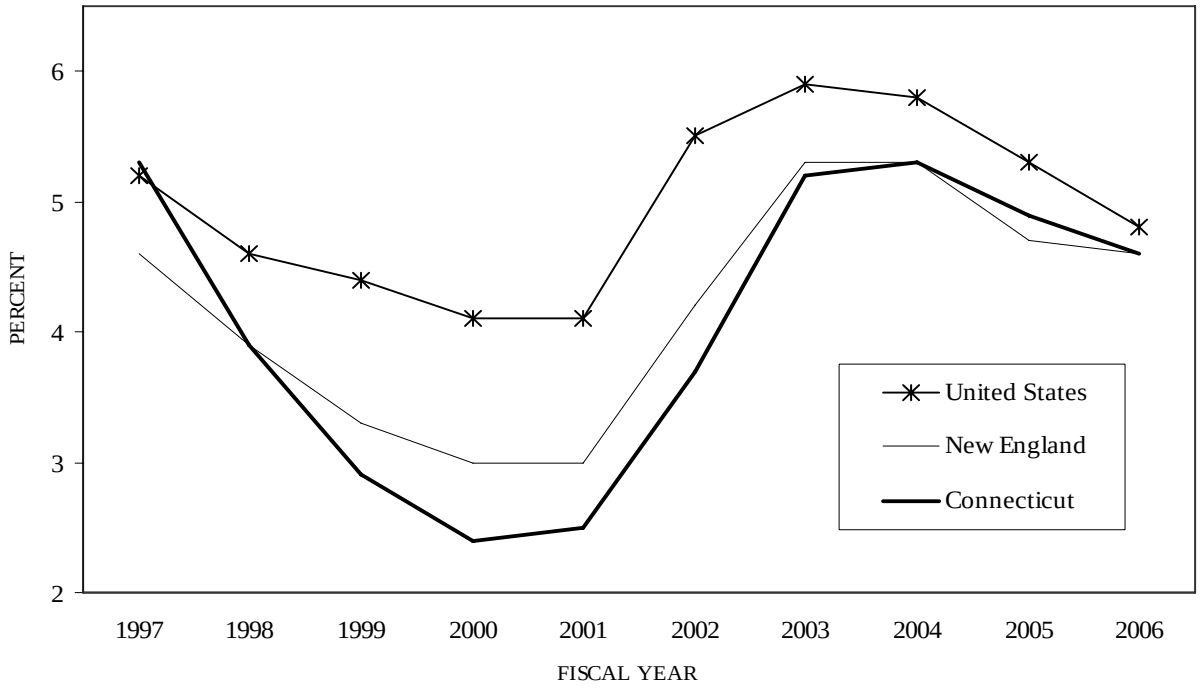
Unemployment Rate

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 Connecticut over a ten year period.

TABLE 26
UNEMPLOYMENT RATES

Fiscal Year	United States	New England	Connecticut
1996-97	5.2	4.6	5.3
1997-98	4.6	3.9	3.9
1998-99	4.4	3.3	2.9
1999-00	4.1	3.0	2.4
2000-01	4.1	3.0	2.5
2001-02	5.5	4.2	3.7
2002-03	5.9	5.3	5.2
2003-04	5.8	5.3	5.3
2004-05	5.3	4.7	4.9
2005-06	4.8	4.6	4.6

UNEMPLOYMENT RATES
BY FISCAL YEAR



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 35 years, all of the nation's five 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 most recent 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 then record high of $37.80 per barrel, the highest since the Gulf War of 1991. Oil prices climbed sharply to $70.85 per barrel in late August of 2005 from the aftermath of hurricane Katrina in the Gulf of Mexico. Oil prices reached a fresh high of $78.40 per barrel in mid July of 2006 due primarily to the fear of an escalation in a regional war in the Middle East and the potential for a summertime supply disruption in the Gulf of Mexico. Although higher energy prices are taking their toll on consumer and investment spending and have negatively affected economic growth, a poll of 50 business economists in January of 2007 indicates only a 25.4% chance of a recession over the next 12 months due to higher energy prices, according to *Blue Chip Economic Indicators*.

The United States, like the rest of the industrialized world, relies heavily on three fossil fuels: crude oil, coal, and natural gas. In 2005, 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 following Table 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 34.22 million barrels per day (MBPD) in 2005 and consumed roughly 7.20 MBPD, leaving a 27.02 MBPD surplus. The Organization for Economic Cooperation and Development (OECD), on the contrary, consumed more than it supplied. In 2005, the OECD consumed 49.57 MBPD, while supplying only 21.89 MBPD, registering a 27.68 MBPD deficit.

The United States consumed 20.80 MBPD in 2005, representing almost a quarter of total world demand, compared to a production of 8.32 MBPD, or approximately 10% of world supply, reflecting a 60% dependency on foreign oil supplies. 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 2005, China consumed 6.90 MBPD while supplying 3.76 MBPD, leaving a 3.14 MBPD deficit, up from a deficit of 2.89 MBPD in 2004 and a deficit of 1.99 MBPD in 2003. Demand for petroleum in China, one of the world's fastest growing economies, is the world's second largest oil consumer. 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. Demand for petroleum in India also soared, just trailing Germany and ranked the 5th largest oil consumer in the world. Faced with soaring demand, China and India teamed up to control a Syrian oil field in 2005. More cooperation could happen in the future. The countries making up the former USSR supplied more oil than they required. In 2005, the former USSR consumed 4.19 MBPD while supplying 11.71 MBPD, registering a 7.52 MBPD surplus, up from 7.13 MBPD in 2004 and 6.13 MBPD in 2003.

TABLE 27
WORLD OIL SUPPLY AND DEMAND
Calendar 2005

	Supply			Demand	
	Millions of Barrels Per Day	% of Total		Millions of Barrels Per Day	% of Total
Total OECD (a)	21.89	25.9%	Total OECD	49.57	59.0%
United States	8.32	9.9	United States	20.80	24.8
Canada	3.09	3.7	Canada	2.27	2.7
North Sea (b)	5.17	6.1	Japan	5.35	6.4
Other OECD	5.31	6.3	Germany	2.62	3.1
			France	2.00	2.4
Total OPEC (c)	34.22	40.5	Italy	1.73	2.1
Saudi Arabia	9.55	11.3	United Kingdom	1.81	2.2
Iran	4.14	4.9	Other OECD	12.99	15.5
Iraq	1.88	2.2			
Other OPEC	18.65	22.1	Total Non-OECD	34.42	41.0
			Former USSR	4.19	5.0
Total Non-OECD	28.30	33.5	China	6.90	8.2
Former USSR	11.71	13.9	India (d)	2.45	2.9
China	3.76	4.5	OPEC	7.20	8.6
Other	12.83	15.2	Other	13.68	16.3
Total Supply	84.41	100.0%	**Total Demand**	83.99	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.
(d) Demand in 2004 per *Annual Energy Review 2004*

Source: U.S. Department of Energy, Energy Information Administration, *International Petroleum Monthly* and *Annual Energy Review 2005*

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. 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 approximately one-quarter of the total, followed by Iraq's 10.9%. While the Middle East countries dominate crude oil reserves, they hold only 37.3% of natural gas reserves.

TABLE 28
WORLD OIL & NATURAL GAS RESERVES
January 1, 2004

	Oil		Gas	
	Billions of Barrels	% of Total	Trillions of Cubic Feet	% of Total
North America	**41.5**	**3.9%**	**268.9**	**4.0%**
United States	21.9	2.1	189.0	2.8
Mexico	14.6	1.4	20.7	0.3
Canada	5.0	0.5	59.1	0.9
Central & South America	**75.2**	**7.2**	**240.9**	**3.5**
Venezuela	52.5	5.0	149.2	2.2
Western Europe	**16.4**	**1.6**	**170.1**	**2.5**
E. Europe & Former USSR	**89.0**	**8.5**	**2,693.2**	**39.6**
Middle East	**686.4**	**65.3**	**2,539.7**	**37.3**
Saudi Arabia	261.8	24.9	238.5	3.5
Iraq	115.0	10.9	112.6	1.7
Iran	105.0	10.0	935.0	13.7
Kuwait	99.4	9.5	56.6	0.8
Other Mid. East	105.2	10.0	1,197.0	17.6
Africa	**104.6**	**10.0**	**443.2**	**6.5**
Far East & Others	**37.7**	**3.6**	**449.9**	**6.6**
Total	**1,050.7**	**100.0**	**6,805.8**	**100.0**

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *International Energy Annual*

As the economy grows, the United States continues to deplete its energy reserves. U.S. crude oil and natural gas reserves in 2004 were estimated at 21.9 billion barrels and 189.0 trillion cubic feet, or 2.1% and 2.8%, 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. By employing advanced technologies, Jack Field, a deep-sea oil field in the Gulf of Mexico, was found in September 2006. This field, located some

270 miles off New Orleans, is estimated to hold as much as 15 billion barrels of oil and may potentially boost national oil supplies by as much as 50%. This field, the deepest to date in the Gulf of Mexico, is located in waters nearly 7,000 feet deep and is 28,175 feet below the ocean floor, an equivalent to some seven miles below the surface of the earth.

United States

The nation has long been a net energy importer. According to the *Annual Energy Review 2005*, the U.S. consumed 99.89 quadrillion British Thermal Units (QBTU's) of energy, 2.2 times the 1960 level. Whereas the U.S. produced only 69.17 QBTU's and exported 4.64 QBTU's in 2005, it required net imports of 29.62 QBTU's, which represented 29.7% of total national energy consumption, up from 16.6% in 1990 and 6.0% in 1960. 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 2005, fossil fuels accounted for about 80% of total energy production with coal accounting for 32.3%; natural gas, 27.1%; crude oil, 15.7%; and natural gas plant liquids, 3.4%.

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 2005 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 2005, the U.S. consumed 99.89 QBTU's of energy. The 40.45 quadrillion petroleum generated BTU's accounted for 40.5% of U.S. fuel consumption, followed by coal of 22.86 QBTU's and natural gas of 22.64 QBTU's. These three fuel sources together accounted for 86% of U.S. fuel consumption. Nuclear and hydroelectric power were distant followers.

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, consuming 31.98 QBTU's in 2005, followed by transportation of 28.07 QBTU's, residential of 21.87 QBTU's, and commercial of 17.97 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.

TABLE 29
U.S. ENERGY CONSUMPTION IN 2005
(Quadrillion BTU's)

Fuels	Residential	Commercial	Industrial	Trans-portation	Electric Generation	Total	% of Total
Natural Gas	4.98	3.15	7.94	0.60	5.97	22.64	22.7%
Petroleum	1.54	0.77	9.53	27.38	1.23	40.45	40.5%
Coal	0.01	0.10	2.00	0.00	20.75	22.86	22.9%
Nuclear	0.00	0.00	0.00	0.00	8.13	8.13	8.1%
Hydroelectric	0.00	0.00	0.03	0.00	2.68	2.71	2.7%
Other	0.49	0.13	1.39	0.00	1.00	3.01	3.0%
Electricity	4.64	4.32	3.47	0.03	0.09	12.54	12.6%
Electric Losses	10.21	9.50	7.62	0.06	(39.85)	(12.46)	(12.5)%
Total Demand	21.87	17.97	31.98	28.07	0.00	99.89	100.0%
% of Total	*22.3%*	*18.3%*	*32.6%*	*28.6%*	*0.0%*	*100.0%*	

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2005*

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.

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 the mid-$20 range until mid-2003. Crude oil prices started to creep up above $30 per barrel in late 2003 and continued to soar to above $36 in early 2004 as world oil demand picked up, Iraqi oil flow bogged down, and crude stocks in the U.S. were below comfortable levels. The rising trend in prices was exacerbated in summer of 2005 and into 2006 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, the supply of oil has become limited due to manmade or natural disasters affecting pipelines and related facilities in the Middle East and the Gulf of Mexico, as well as civil unrest in the Middle East and in OPEC member countries such as Nigeria and Venezuela. The average price of crude oil in 2005 was at an historical peak of $50.23 per barrel. This equated to an inflation adjusted $44.79 per barrel that was still below the all-time peak set in 1981 at $59.61 per barrel. Prices of crude oil continued to gyrate in 2006. After jumping to an

all-time high of $78.40 per barrel in mid 2006 on fears of a supply disruption, oil prices then declined to hover around $60 at 2006 year end.

TABLE 30
CRUDE OIL PRICES AND U.S. DEPENDENCE ON IMPORTED OIL

	Refiners' Crude Oil Acquisition Costs*			Import as a % Share of U.S. Petroleum Consumption**				
	($/Barrel)	($/Barrel) Chained		Persian Gulf	Other OPEC	Non-OPEC	Total Imports	Consump-tion
Year	Current $	2000$	Year	(%)	(%)	(%)	(%)	(TBPD)***
1970	3.40	12.35	1970	0.9	9.2	15.7	25.8	13,250
1975	10.38	27.31	1975	7.6	15.8	15.9	32.8	15,415
1980	28.07	51.94	1980	9.4	17.2	16.2	42.8	16,146
1985	26.75	38.37	1985	2.1	10.2	21.7	34.0	14,887
1990	22.22	27.23	1990	12.1	14.4	23.0	49.5	16,196
1995	17.23	18.71	1995	9.2	14.2	28.3	51.7	17,090
2000	28.26	28.26	2000	13.2	14.4	33.3	60.9	18,803
2001	22.95	22.41	2001	14.7	14.7	33.8	63.2	18,770
2002	24.10	23.13	2002	12.0	12.3	36.6	61.0	18,917
2003	28.53	26.84	2003	13.0	13.9	37.0	64.0	19,177
2004	36.98	33.90	2004	12.6	16.2	37.5	66.2	19,849
2005	50.23	44.79	2005	11.6	16.2	40.5	68.4	19,787

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.
** Includes consumption for the residential, commercial, industrial, transportation, and electric power sectors.
*** Thousand Barrels Per Day

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2005*

Long-term oil prices are expected to trend up as world demand grows faster than the rate of discovery of new supplies. As the world economy continues to grow, the increasing demand from India and China will more than offset any savings gained from efficiency and conservation. The world rate of replenishment of oil reserves relative to their rate of supply, the so-called Reserve Replenishment Ratio (RRR), has been declining and is expected to move below the healthy ratio of 100% for the next five years. Although the discovery of Jack Field in the Gulf of Mexico may help increase the RRR ratio, actual meaningful production may not happen for years to come.

Crude Oil Consumption

Petroleum consumption in the United States has steadily grown from 13.3 MBPD in 1970 to 19.79 MBPD in 2005. As shown in Table 29 on U.S. Energy Consumption, in 2005 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 a shift in driving tastes from traditional vehicles to light utility trucks, added to the demand for oil. Nonetheless, per capita oil consumption has remained relatively steady at 24.4 barrels in 2005; slightly up from 23.8 barrels in 1970.

Oil Imports Share

The share of imported oil to total U.S. consumption declined to 34% in 1985 after reaching a high of 42.8% in 1980. 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 $51.94 in real dollars per barrel in 1980 to $12.98 per barrel in 1998. The share of total U.S. consumption attributable to imported oil has consistently risen since then, reaching 68.4% in 2005 compared to approximately 50% a decade ago.

Efficiency

Increasing efficiency has spearheaded the nation's energy conservation policy. Energy regulatory agencies have been aggressively protecting the environment by 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 now covers 50 product categories applicable to appliances, heating and cooling equipment, home electronics, office equipment, lighting, and commercial food services, totaling thousands of models, and saved $12 billion on U.S. residents' energy bills. 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 is the amount of energy used to produce a dollar of Gross Domestic Product (GDP). The Table on the following page compares U.S. consumption of fuel sources and illustrates the nation's improvement in energy efficiency.

TABLE 31
U.S. PRIMARY ENERGY CONSUMPTION & ENERGY EFFICIENCY

Calendar Year	U.S. Energy Consumption: Total Quadrillion BTU's	U.S. Energy Consumption: Percent Change	GDP Billion (In 2000$)	BTU Per $1 GDP (In 2000$)	Percent Change
1975	72.00		4,311	16,700	
1980	78.28	8.7%	5,162	15,166	(9.2%)
1985	76.58	(2.2%)	6,054	12,650	(16.6%)
1990	84.73	10.6%	7,113	11,913	(5.8%)
1995	91.20	7.6%	8,032	11,355	(4.7%)
2000	98.98	2.2%	9,817	10,082	(11.2%)
2001	96.50	(2.5%)	9,891	9,756	(3.2%)
2002	97.97	1.5%	10,049	9,749	(0.1%)
2003	98.27	0.3%	10,301	9,540	(2.1%)
2004	100.41	2.2%	10,704	9,381	(1.7%)
2005	99.89	(0.5%)	11,049	9,041	(3.6%)

Source: U.S. Department of Energy, Energy Information Administration, *Annual Energy Review 2005*

U.S. Department of Labor, Bureau of Labor Statistics

In 1980, it required 15,166 BTU's of energy to produce $1 of GDP measured in 2000 dollars; by 2005, it gradually fell to 9,041 BTU's. This reflects that energy efficiency has increased at an average annual rate of 2.04% over the past two and a half decades. The number of BTU's used per constant dollar of GDP declined 15.4% between 1990 and 2000, compared to a 21.4% reduction between 1980 and 1990. The number of BTU's per dollar of real GDP declined 10.3% between 2000 and 2005, compared to an 11.2% reduction between 1995 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. To maximize long-term protection against oil supply disruptions, President George W. Bush in late 2001 directed the Secretary of Energy to fill the SPR up to its 700 million barrel capacity. As of November 24, 2006, the reserve held 688.5 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. 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 5,220 BTU's per current dollar of Gross State Product in 2003, the latest available data, 43% less than the national average of 9,114 BTU's. When compared to the national per person consumption, Connecticut residents are moderate energy users. Connecticut consumed 254.9 million BTU's of energy per person in 2003, ranking it 42nd among the 50 states and 25% less than the national average of 339.0 million BTU's. These figures were far less than Alaska's consumption of 1,174.9 million BTU'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 27% higher than the national average. Connecticut residents in 2003 spent $14.47 per million BTU, compared to $11.40 for the Nation.

The Table below shows a breakdown of the amount and percentage share of total energy consumed in Connecticut by fuel in 2003, 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.

TABLE 32
CONNECTICUT ENERGY CONSUMPTION IN 2003
(Trillion BTU's)

Fuels	Resi-dential	Com-mercial	In-dustrial	Trans-portation	Electric Generation	CT Total	% of CT Total	% of US Total
Natural Gas	45.9	39.0	23.7	3.6	42.9	155.1	17.5%	22.7%
Petroleum	97.3	36.3	39.0	242.3	21.3	436.2	49.1%	40.5%
Coal	0.0	0.1	0.0	0.0	41.8	41.9	4.7%	22.9%
Nuclear	0.0	0.0	0.0	0.0	167.5	167.5	18.8%	8.1%
Hydroelectric	0.0	0.0	0.0	0.0	5.8	5.8	0.7%	2.7%
Other	6.9	1.1	3.6	0.0	28.6	40.1	4.5%	3.0%
Deliv. Elec.	45.0	44.7	18.3	0.7	0.0	108.7	12.2%	12.6%
Deliv. Losses	99.9	99.2	40.7	1.5	(307.9)	(66.6)	(7.5)%	(12.5)%
Total Demand	295.0	220.4	125.3	248.0	0.0	888.7	100.0%	100.0%
% of Total	33.2%	24.8%	14.1%	27.9%	0.0%	100.0%		

Note: Totals may not add due to rounding.

Source: U.S. Department of Energy, Energy Information Administration, *State Data, 2003*

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. There were originally four nuclear plants located in the state. In 1997, two plants were decommissioned. In 2004, the latest available data, the state generated 32,633.4 gigawatt hours of electricity mostly using gas, petroleum, and nuclear, and sold 32,214.6 gigawatt hours of electricity. This implies that, in 2004, the state was electricity self-sufficient. Unlike 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.

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.

In 2004, the latest available data, there were 1,577,792 electricity consumers in Connecticut, with residential units accounting for 90.2%; commercial units, 9.1%; industrial units, 0.4%; and others, 0.3%. Approximately 95% of the electricity was sold by two investor-owned companies: Connecticut Light & Power Company and United Illuminating Company.

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 compares various prices to the national average for natural gas, motor gasoline, residential heating oil, residential electricity, and total average energy that included taxes paid by consumers.

TABLE 33
CONSUMER ENERGY PRICES IN THE UNITED STATES AND CONNECTICUT
Nominal Dollars Per Million BTU in 2003

	Natural Gas	Motor Gasoline	Residential Heating Fuel	All * Petroleum	Retail Electricity	Total Energy
Connecticut	$9.43	$13.02	$4.26	$11.19	$29.78	$14.47
United States	$6.99	$12.34	$4.76	$10.32	$21.81	$11.40
CT as a % of the U.S.	*135%*	*106%*	*89%*	*108%*	*137%*	*127%*

* includes motor gasoline, residential and distillate fuel oil, liquefied petroleum gases, and jet fuel, etc.

Source: U.S. Department of Energy, Energy Information Administration, *State Data*

As can be seen, the price of electricity in 2003 was 37% higher than the national norm while the price of residential heating oil was 11% below the national average. Electricity prices in Connecticut are higher than in other states due to transmission constraints that limit the flow of cheaper supplies. Transmission constraints in the southwestern region are especially

limited because of the lack of high-voltage transmission lines. Southwestern Connecticut represents about 50% of total state demand with 70% of the generation capacity over 40 years old in the Norwalk-Stamford area. Overall energy prices in Connecticut as mentioned before, however, have been higher than the national average by 27%.

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 Department of Public Utility Control (DPUC), and requires electric utilities to separate their electric generation function from their transmission and distribution functions.

As electricity prices vary from state to state in the U.S., so do prices between districts within Connecticut, depending upon the rates charged by their electricity providers. The average retail price for residential electricity as of August of 2006 in Connecticut was 17.4 cents per kilowatt hour, the third highest state in the nation. This trailed Hawaii's 24.5 cents and New York's 17.5 cents, and was followed by Massachusetts' 17.1 cents. The national average was 10.9 cents. During this period, residents in Connecticut Light & Power's operating area paid 18.3 cents per kilowatt hour, compared to 15.7 cents in the United Illuminating operating area and an average of 14.1 cents in the State's seven municipally owned utilities.

Connecticut is situated far from sources of natural gas supply and it must rely on pipelines that have capacity limitations during periods of peak demand. Since 1996, the DPUC 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 natural 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 2003, gasoline consumption in the U.S. totaled 139.1 billion gallons, the equivalent of 9.07 million barrels per day. The following Table shows gasoline consumption during the past ten years for the U.S. and Connecticut.

In Connecticut, gasoline consumption totaled 1.65 billion gallons or 39.2 million barrels during 2003. Consumption rose by 3.5%, compared to 1.0% for the nation in 2003. This converts to

consumption of 429 gallons per Connecticut resident versus 461 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.

TABLE 34
GASOLINE CONSUMPTION IN THE UNITED STATES & CONNECTICUT

Calendar Year	U.S. Consumption Gallons (000's)	Percent Change	Connecticut Gallons (000's)	Percent Change
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	137,664,309	2.7%	1,589,580	6.2%
2003	139,065,057	1.0%	1,645,268	3.5%

Source: U. S. Department of Transportation, Office of Highway Information Management, *Highway Statistics 2003*

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. There is no gasoline refinery located in Connecticut. In 2005, Connecticut had 1,524 gasoline stations, accounting for some 0.9% of U.S. total.

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 20.1 MPG in model year (MY) 1979 to 24.6 MPG in MY 2004, a 22.4% improvement in CAFE. The increase in fuel efficiency varied over the past three decades: accelerating during the 1970s and 1980s, but have remained relatively constant since the mid 1990s. This reflects the change in driver's tastes and reduced consciousness of 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, and larger, heavier, less fuel-efficient models increased, reducing the average MPG rating for new vehicles. The minivan emerged in the early 1980s and the SUVs popularity rose in the 1990s. In 1987, the total fleet fuel economy peaked at 26.2 MPG when light trucks made up 31.6% of the market. By 2004, with light trucks making up 55.5% of market sales, fuel economy fell to 24.6 MPG. Despite recently introduced high mileage vehicles powered by hybrid-electricity, they only accounted for a fraction of the improvement in the whole auto-industry. Domestic manufacturers continued to introduce new technologies and more fuel-efficient models, in combination with larger,

more powerful, and less fuel-efficient models. CAFE for domestic cars in MY 2004 improved to 29.9 MPG. The following Table details the CAFE standards along with fleet wide average miles per gallon by model year.

TABLE 35
AUTOMOTIVE FUEL ECONOMY
Domestic vs. Imported Passenger Cars & Trucks
(Model Year, Average Miles Per Gallon)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
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	20.6	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Cars Produced	28.6	28.5	28.7	28.8	28.3	28.5	28.8	29.0	29.5	29.5
Domestic Cars	27.7	28.1	27.8	28.6	28.0	28.7	28.7	29.1	29.1	29.9
Import Cars	30.3	29.6	30.1	29.2	29.0	28.3	29.0	28.8	29.9	28.7
Light Truck Produced										
(Up to 8,500 lbs.)	20.5	20.8	20.6	21.1	20.9	21.3	20.9	21.4	21.7	21.5
Total Fleet	24.9	24.9	24.6	24.7	24.5	24.8	24.5	24.7	25.0	24.6
Light Truck Share of Fleet *	41.3%	43.5%	45.3%	47.6%	48.5%	49.0%	50.8%	51.8%	54.2%	55.5%

* Light trucks weigh up to 10,000 pounds in gross vehicle weight and include pickups, vans, truck-based station wagons, and utility vehicles that are generally less efficient than cars.

Source: U.S. Dept. of Transportation, National Highway Traffic Safety Administration, *"Automotive Fuel Economy Program, Annual Update Calendar Year 2004"*
U.S. Department of Commerce, BEA

The Table above also shows the fluctuation in the gap in average MPG between foreign imports and American cars. While the fuel economy performance of domestic passenger cars continued to improve at a slow, steady rate, imported cars oscillated. It declined to a recent low of 28.3 MPG in MY 2000 from 30.3 MPG in MY 1995 and then recovered to 29.9 MPG in MY 2003, but declined again to 28.7 MPG in MY 2004. Foreign cars with higher performance features that reduce fuel economy continued to be imported as demand increased.

Fuel economy for passenger cars varies depending upon the car size, type of transmission, or variation in travel. For MY 2006, the two-seater Honda Insight, for example, using a hybrid electric system with 5-speed manual transmission gets 66 MPG on the highway and 60 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. The federal law sets forth a civil penalty of $5.50 for each tenth of an MPG by which a manufacturer's CAFE level falls short of the standard, multiplied by the total number of passenger automobiles or light truck produced by the manufacturer in that model year.

To date, hybrid-electric vehicles, which combine the best features of internal combustion engines and electric motors, attain the highest fuel economy. 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. 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. In 2004, the State Public Act 04-2 further exempts from the sales tax any passenger cars utilizing hybrid technology that runs more than 40 miles per gallon.

The current system to measure fuel economy became effective in 1975 and then was revised in 1984 by the U.S. Environmental Protection Agency. A new test method that takes additional factors into account will be applied to MY 2008 cars and is supposed to be more reflective of the actual mileage. The new estimated Mile Per Gallon numbers will likely be 5% to 25% lower than current estimates. In addition, medium-sized vehicles including vans, pickup trucks, and sport utility cars weighing from 8,500 to 10,000 pounds that currently are exempt from being rated will be required to be tested starting in MY 2011. These vehicles that once were considered primarily for commercial purposes have gradually been used by families.

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 3.934% relative weight to this single component to calculate the CPI-U index, the consumer price index for all urban consumers in 2006. 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 short periods of time. Average retail gasoline prices for all grades in the U.S. in October 2006, for example, were $2.32 per gallon, compared to $2.83 the same month a year ago and down from its all time high of $3.05 in July 2006. Monthly prices fluctuated 36.7% from $2.23 to $3.05 within 10 months of 2006. The daily price in 2006 started at $2.29 in early January and climbed to a record high of $3.10 in the first week of August, then moved back down to $2.28 in mid October. Gasoline prices vary from region to region with the West Coast higher than the national average due to its higher taxes and refining costs that are associated with environmental requirements. Gasoline price fluctuations are caused by many factors, but are basically determined by the cost of crude oil, 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. The April 2006 retail price of gasoline of $2.74 per gallon, for example, according to the Energy Information Administration, can be broken down into four

categories as follows: crude oil ($1.48, 54%), refining costs & profits ($0.71, 26%), federal & state taxes ($0.47, 17%), and distribution and marketing ($0.08, 3%) when crude oil registered $62.97 per barrel. Since the last three categories are relatively stable, the cost of crude oil, which accounts for more than 50% of the price of gasoline, is the major driving force in gasoline prices.

The long run nominal 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 $2.30 a gallon in 2005. To remove the effects of inflation, the use of inflation-adjusted prices for comparison can better reflect the real price changes. The Table below shows that the average real gasoline price for the past five decades was $1.44 per gallon, with the 1980s much higher and the 1990s lower than the norm. The average real price in 2005 reached a two-decade high at $2.05 per gallon; however, it was still below the all-time high of $2.22 set in 1981.

TABLE 36
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	1.70
1990	1.16	1.43	1.27
1999	1.17	1.19	-
2000	1.51	1.51	-
2001	1.46	1.43	-
2002	1.36	1.31	-
2003	1.59	1.50	-
2004	1.88	1.74	-
2005	2.30	2.05	-
Average			$1.44

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 Administration, *Annual Energy Review*

Gasoline Prices In Developed Countries

Gasoline prices in the U.S. may rank among the lowest in the world for oil-importing countries. Average gasoline prices in the European countries are about 2.5 times that of the U.S., and twice in Japan, 1.3 times in Canada. The following Table shows the retail price of gasoline among selected countries in October of 2006.

TABLE 37
END-USER GASOLINE PRICES AMONG DEVELOPED COUNTRIES
Unleaded Premium Gasoline, October 2006

Country	Before Tax ($)	Tax *($)	End-User Price ($)	Tax As a % of Price	U.S. End-User Price as a % of Other Country
France	1.83	3.72	5.55	67.1%	41%
Germany	1.86	3.92	5.78	67.8%	39%
Italy	2.17	3.67	5.84	62.8%	39%
Spain	2.04	2.52	4.56	55.3%	49%
United Kingdom	1.88	4.26	6.13	69.4%	37%
Average of Above	**1.95**	**3.62**	**5.57**	**64.9%**	**40%**
Japan	2.57	1.93	4.50	42.9%	50%
Canada	1.93	1.02	2.94	34.5%	77%
USA	1.86	0.40	2.25	17.6%	

* excise tax only

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

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 17.6% of the retail price, compared to 69.4% in the U.K. and 67.1% in France.

Of the 40-cent excise tax in the U.S., 18.4 cents per gallon was the federal fuel tax with the remainder attributable to state taxes. The Federal and most states' fuel taxes are levied on a volume basis, rather than a price basis. As gasoline prices increase, consumption fell and so did the taxes collected. Gasoline prices averaged $2.60 per gallon in fiscal 2006, up 26.7% from $2.06 in fiscal 2005. Given the same tax rates, Connecticut received $395.4 million in gasoline taxes in fiscal 2006, down 1.4% from $401.1 million in fiscal 2005. This translates into a price elasticity of -0.05, reflecting that gasoline is a necessary commodity in daily life. Facing an increasing operating deficit in the Federal Highway Trust Fund and the need to encourage fuel efficiency, the federal gasoline tax is expected to increase in next few years and some states may abandon their per-gallon levy system and base the tax on mileage traveled or institute other taxing measures.

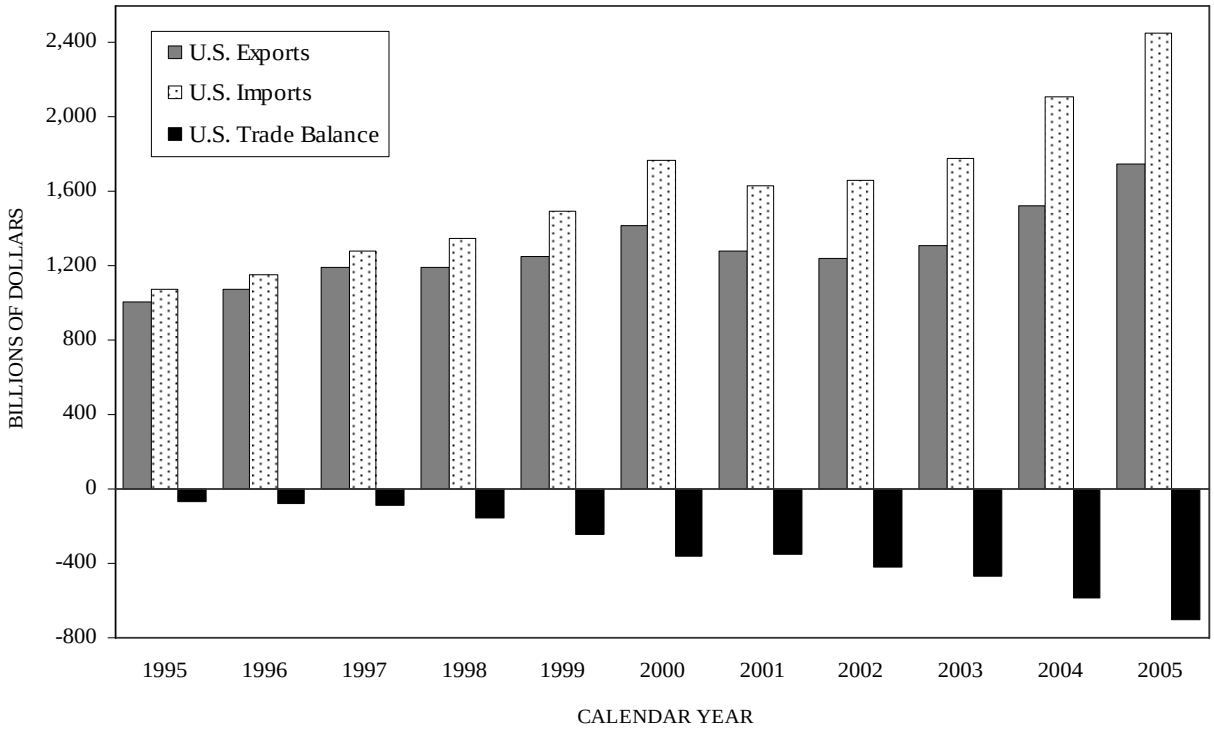
Export Sector

The United States is increasingly becoming a world trade-oriented economy. U.S. real exports and imports accounted for 29.6% of Gross Domestic Product (GDP) in 2005, up from 26.2% in

2000, 16.3% in 1990, 12.3% in 1980, 9.9% in 1970, and 7.8% in 1960. The increase in 2005 is attributed to the growth in the U.S. and worldwide economies which accelerated export and import 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. Real exports grew at an unprecedented level of 14.1% in 2005. As explained further in this section, the large growth in exports was still lower than the 15.9% growth in real imports, thereby furthering the total trade deficit.

The following graph 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 then record high of $357.8 billion by 2000 due to rapid growth in imports over exports. In 2005, the deficit grew further to $705.6 billion, brought about by an increase in the deficit on goods combined with a decline in the surplus in investment income. Despite the continued increase in the total trade deficit, trade in services improved in 2005.

U.S. TRADE BALANCE
BY CALENDAR YEAR



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. The surplus in services improved in 2005 rising from $54.1 billion in 2004 to $66.0 billion in 2005. The surplus in investment income fell in 2005 to $11.2 billion from $27.6 billion in 2004. The deficit in merchandise expanded from $665.4 billion in 2004 to $782.8 billion in 2005 from a low of $76.9 billion in 1991. The total trade deficit registered $705.6 billion in 2005, up from $583.7 billion in 2004. A two-year detailed listing of these three categories is broken down in Table 38.

Merchandise Trade

There are six subcategories within merchandise trade including: foods and beverages; industrial supplies and materials; capital goods excluding autos; autos; consumer goods and others. The deficit in merchandise trade registered $782.8 billion in 2005, up from $665.4 billion in 2004 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 2005 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 13.9% in 2005 compared to an increase of 10.8% in exports.

United States merchandise imports have been concentrated 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 67% 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 $782.8 billion, consumer goods and industrial supplies and materials accounted for the largest portions of the deficit, reaching $291.6 billion and $291.5 billion respectively in 2005. 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. This category registered a 9.2% increase after growth of 11.7% in 2004 and 9.2% in 2003.

TABLE 38
U.S. TRADE DEFICIT BY CATEGORY
(In Billions of Dollars)

	2004			2005		
	Exports	Imports	Balance	Exports	Imports	Balance
Total Trade	**1,526.8**	**2,110.5**	**(583.7)**	**1,749.8**	**2,455.4**	**(705.6)**
Merchandise	**807.5**	**1,472.9**	**(665.4)**	**894.6**	**1,677.4**	**(782.8)**
Foods/Beverages	56.6	62.1	(5.5)	59.0	68.1	(9.1)
Industrial Supplies & Materials	204.0	413.0	(209.0)	233.1	524.6	(291.5)
Capital Goods, Excluding Autos	331.6	343.5	(11.9)	362.7	379.2	(16.5)
Autos	89.2	228.2	(139.0)	98.6	239.5	(140.9)
Consumer Goods	103.1	373.1	(270.0)	115.7	407.3	(291.6)
Others	23.1	53.0	(29.9)	25.5	58.7	(33.2)
Services	**344.4**	**290.3**	**54.1**	**380.6**	**314.6**	**66.0**
Travel & Transportation	130.8	143.7	(12.9)	144.8	157.4	(12.6)
Royalties, License fees, etc.	197.2	111.6	85.6	215.6	123.2	92.4
Other Services	16.4	35.0	(18.6)	20.2	34.0	(13.8)
Investment Income	**374.9**	**347.3**	**27.6**	**474.6**	**463.4**	**11.2**
Direct Investment	226.2	102.4	123.8	251.4	117.0	134.4
Other Private Investment	142.8	147.6	(4.8)	217.6	223.6	(6.0)
U.S. Gov't Receipts/Payments	3.0	88.4	(85.4)	2.7	113.6	(110.9)
Compensation of Employees	2.9	8.9	(6.0)	2.9	9.2	(6.3)
		Percent Change From Previous Year				
Total Trade	**14.5**	**18.5**	**30.3**	**14.6**	**16.3**	**20.9**
Merchandise	**13.2**	**16.8**	**21.6**	**10.8**	**13.9**	**17.6**
Foods/Beverages	2.8	11.3	592.5	4.3	9.7	64.3
Industrial Supplies & Materials	17.8	31.3	47.8	14.3	27.0	39.5
Capital Goods, Excluding Autos	12.9	16.1	440.9	9.4	10.4	38.7
Autos	10.5	8.6	7.3	10.5	5.0	1.4
Consumer Goods	14.7	11.7	10.6	12.2	9.2	8.0
Others	9.4	5.2	2.2	10.5	10.7	10.9
Services	**11.2**	**15.3**	**1.9**	**10.5**	**8.4**	**22.0**
Travel & Transportation	17.4	16.6	10.3	10.7	9.5	(2.3)
Royalties, License fees, etc.	7.1	13.2	9.2	9.3	10.4	7.9
Other Services	14.7	18.3	36.8	23.2	(2.9)	(25.8)
Investment Income	**21.0**	**31.8**	**(40.4)**	**26.6**	**33.4**	**(59.4)**
Direct Investment	17.0	43.4	1.6	11.1	14.3	8.6
Other Private Investment	31.3	34.1	269.2	52.4	51.5	25.0
U.S. Gov't Receipts/Payments	(36.2)	20.3	24.1	(10.0)	28.5	29.9
Compensation of Employees	(3.3)	4.7	9.1	0.0	3.4	5.0

Note: Percent changes were derived before rounding to billions.

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2006

The second largest portion of the deficit occurred in the industrial supplies and materials category at $291.5 billion, a 39.5% increase from 2004's deficit of $209.0 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. The increase in imports coupled with a decrease in export volumes of petroleum and chemicals from the U.S. due to the damage caused by Hurricanes Katrina and Rita had hampered the production of petroleum and chemicals in the U.S. Gulf Coast region in the second half of 2005.

The third largest portion of the merchandise trade deficit occurred in the auto category at $140.9 billion, a 1.4% increase from 2004's deficit of $139.0 billion. Exports increased 10.5% while imports increased 5.0%. This growth is extremely modest compared to the 9.1% increase from 2001. An increase in exports of passenger cars, trucks, and other vehicles, mainly to Canada and Europe, was partially offset by a decrease in other parts and accessories, mainly to Canada. A small decrease in imports from Canada was more than offset by a large increase from other areas, mainly passenger cars from Japan and Korea.

For the third year, capital goods posted a deficit of $16.5 billion compared to a deficit of $11.9 billion in 2004 and the first deficit of $2.2 billion in 2003. For comparative purposes, this category posted a surplus of $7.2 billion in 2002. This sector, which excludes autos, includes machine tools, telecommunications equipment, hospital and scientific instruments, industrial engines, and oil drilling and mining equipment. Exports increased 9.4% to $362.7 billion in 2005, compared to a 10.4% increase in imports to $379.2 billion. Imports from China and Malaysia of computers, peripherals, and parts as well as civilian aircraft, engines, and parts, mainly from France and Europe, contributed to the trade deficit in this category.

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 royalties and license fees. The surplus in service transactions increased to $66.0 billion in 2005, up from a surplus of $54.1 billion in 2004. This category has witnessed a gradual decline in surpluses from a peak of $90.4 billion in 1997. Imports increased 8.4% to $314.6 billion while exports of services increased 10.5% to $380.6 billion. Of the $66.0 billion total surplus in 2005, $92.4 billion was attributable to royalty and license fees, which more than offset the deficits in travel and other services.

Investment Income

The balance in investment income registered a surplus of $11.2 billion, a 59.4% decrease from 2004. 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.

As described above and listed in the following table, 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

TABLE 39
INTERNATIONAL INVESTMENT
(Millions of Dollars At Current Cost)

	2004	2005	Change	Percent Change
A. U.S.-Owned Assets Abroad				
1. Governmental Assets				
U.S. Official Reserve Assets	$189,591	$188,043	($1,548)	(0.8%)
U.S. Governmental Assets	83,062	77,523	(5,539)	(6.7%)
Total U.S. Governmental Assets	272,653	265,566	(7,087)	(2.6%)
2. U.S. Private Assets				
Foreign Securities				
Bonds	992,969	987,543	(5,426)	(0.5%)
Stocks	2,560,418	3,086,454	526,036	20.5%
Total Foreign Securities	3,553,387	4,073,997	520,610	14.7%
Financial Instruments	2,961,397	3,215,180	253,783	8.6%
Direct Investment	2,399,224	2,453,933	54,709	2.3%
Total U.S. Private Assets	8,914,008	9,743,110	829,102	9.3%
Total U.S.-Owned Assets Abroad	**$9,186,661**	**$10,008,676**	**$822,015**	**8.9%**
B. Foreign-Owned Assets in the U.S.				
1. Foreign Official Assets				
U.S. Treasury Securities	$1,241,250	$1,288,881	$47,631	3.8%
Others	760,157	927,242	167,085	22.0%
Total Foreign Official Assets in the U.S.	2,001,407	2,216,123	214,716	10.7%
2. Foreign Private Assets				
Foreign Securities				
Treasury Securities & Currency	562,288	704,875	142,587	25.4%
Corporate & Municipal Bonds	2,035,149	2,275,197	240,048	11.8%
Stocks	1,960,357	2,115,485	155,128	7.9%
Total Foreign Securities	4,557,794	5,095,557	537,763	11.8%
Financial Instruments	3,261,183	3,516,532	255,349	7.8%
Direct Investment	1,727,062	1,874,263	147,201	8.5%
Total Foreign Private Assets	9,546,039	10,486,352	940,313	9.9%
Total Foreign-Owned Assets	**$11,547,446**	**$12,702,475**	**$1,155,029**	**10.0%**
C. Net U.S. Position (A-B)				
Net Governmental Liabilities	(1,728,754)	(1,950,557)	(221,803)	12.8%
Net Foreign Securities	(1,004,407)	(1,021,560)	(17,153)	1.7%
Net Financial Instruments	(299,786)	(301,352)	(1,566)	0.5%
Net Direct Investment	672,162	579,670	(92,492)	(13.8%)
Net U.S. Total Investment Position	**($2,360,785)**	**($2,693,799)**	**($333,014)**	**14.1%**

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2006

According to the U.S. Department of Commerce, in calendar 2005 foreign assets in the U.S., measured at current cost increased by $1,155.0 billion, or 10.0%, to $12,702.5 billion, compared to an increase of $822.0 billion, or 8.9%, to $10,008.7 billion for U.S. assets abroad. This placed U.S. international investment at a net negative of $2,693.8 billion. U.S. direct investment in assets abroad continues to exceed foreign direct investment in the U.S. In 2005, the U.S.'s direct investment abroad was $2,453.9 billion and foreign direct investment in the U.S. was $1,874.3 billion, registering $579.7 billion in net investment, down from $672.2 billion in 2004. Foreign assets in the United States are mostly in securities such as bonds and stocks issued by the U.S. Treasury and corporations. Net foreign purchases of U.S. securities in 2005 posted a 1.7% increase to $1,021.6 billion down from $1,004.4 billion in 2004.

The following table shows U.S. trade transactions by area for 2005. The deficit on goods and services in 2005 was $705.6 billion, an increase of $121.9 billion. The United States continues to import more from Europe, Canada, Japan, Latin America, Asia and Africa than it exports to those countries. In addition, the 2005 trade deficit with Canada, Mexico, the European Union, and China were records. Due to the changing nature and ever-present dominating forces in international transactions, specifically the ever-growing trade deficit with China, the following table has been modified to highlight international trade in specific areas.

TABLE 40
U.S. INTERNATIONAL TRANSACTIONS
(By Area, In Billions of Dollars)

	2005		
	Exports	Imports	Balance
Total Trade	**$1,749.8**	**$2,455.4**	**($705.6)**
Western Europe	568.7	718.9	(150.2)
European Union (1)	495.7	633.4	(137.7)
Canada	280.8	332.4	(51.6)
Latin America (2)	353.3	431.6	(78.3)
Mexico	152.5	197.9	(45.4)
Asia and Pacific (3)	417.1	792.6	(375.5)
Australia	32.6	18.8	13.8
China	55.1	273.3	(218.2)
Japan	118.7	218.1	(99.4)
Middle East	55.3	87.6	(32.3)
Africa	30.5	70.8	(40.3)
Others (4)	44.1	21.5	22.6

(1) Includes 25 member states: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, The Netherlands, & United Kingdom
(2) Includes Brazil, Mexico, Venezuela, and other Western Hemisphere countries
(3) Includes Australia, China, Hong Kong, India, Japan, Republic of Korea, Singapore, Taiwan, and other Asia and Pacific countries
(4) Includes figures for International Organizations and unallocated areas

Source: U.S. Department of Commerce, "*Survey of Current Business*", July 2006

In 2005, the United States imported $273.3 billion worth of goods and services from China while only exporting only $55.1 billion to that country. The resulting record breaking negative trade balance of $218.2 billion with China continues to grow at alarming rates. The growth of the negative trade balance with China has produced scrutiny and outcry from Congressmen across the nation and has prompted the United States Secretary of Commerce to travel to China to discuss ways to resolve key bilateral trade issues present between the countries. The top five U.S. imports from China in 2005 are electrical machinery and equipment at $53,009.7 million, power generation equipment at $52,732.7 million, toys and games at $19,140.7 million, furniture at $17,054.7 million, and apparel at $16,807.9 million. To further illustrate the disparity in trade between the two countries; while the amount of electrical machinery and equipment imported into the U.S. from China is $53,009.7 million in 2005, that same commodity was number one on the top U.S. exports to China at only $6,850.5 million.

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 4.13% 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 $9,687.3 million in 2005. 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 $4.1 billion and income receipts of approximately $5.1 billion on Connecticut direct investment abroad also play a vital role in Connecticut. These bring Connecticut's total export related receipts to approximately $18.9 billion, or approximately 9.8% 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 7,185 foreign students attending Connecticut colleges in the 2005-06 school year, accounting for 1.3% of the national total, the same percentage as the 2004-05 school year and compared to the national decrease of 0.05%, according to the *Institute of International Education*. It is estimated that foreign students and their dependents spend $203.2 million on tuition, room and board and the other incidentals of everyday life. Tourism receipts to the State of Connecticut have also

steadily increased as evidenced by an increase in the tourism hotel occupancy tax generated despite the fact that occupancy rates have remained flat. In addition, the gaming revenue generated by the two Connecticut casinos has also grown steadily, and it is anticipated that with the planned expansions at both casinos that there will be a significant expansion of the tourism industry, leading to increased jobs, visitors, collateral spending and payments to the state.

TABLE 41
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY PRODUCT
(In Millions of Dollars)

NAICS	Industry	2001	2002	2003	2004	2005	% of 2005 Total	Average Growth 01-05
322	Paper	139.5	174.9	188.6	165.8	219.8	2.3%	13.4%
325	Chemicals	567.3	499.9	749.0	608.2	590.4	6.1%	4.1%
326	Plastics & Rubber	152.0	141.2	137.6	179.6	178.4	1.8%	5.0%
331	Primary Metal	210.1	167.6	203.1	275.7	325.9	3.4%	13.7%
332	Fabricated Metal	391.5	427.4	440.5	406.5	408.2	4.2%	1.2%
333	Machinery, exc. Elec.	898.0	669.8	784.4	1,106.8	1,129.2	11.7%	8.7%
334	Computer & Electronic	804.4	760.0	789.5	803.6	885.4	9.1%	2.6%
335	Electrical Equipment	259.8	316.3	336.1	469.7	433.0	4.5%	15.0%
336	Transportation Equip.	3,988.3	4,098.7	3,298.1	3,177.8	3,937.0	40.6%	0.9%
339	Miscellaneous MFG	430.3	393.6	486.4	606.2	562.1	5.8%	8.1%
	Others	769.1	664.0	723.0	759.3	1,017.9	10.5%	
Total Commodity Exports		8,610.4	8,313.4	8,136.4	8,559.2	9,687.3	100%	3.2%
	% Growth	7.0%	(3.4%)	(2.1%)	5.2%	13.2%		
Gross State Product ($M)		165,030	166,070	170,230	182,470	193,740		4.1%
	% Growth	2.86%	0.63%	2.50%	7.19%	6.18%		
Exports as a % of GSP		5.22%	5.01%	4.78%	4.69%	5.00%		

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

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 82.0% of Connecticut's foreign sales. The following table shows the breakdown of major products by NAICS code for the past five years. In 2005, transportation equipment, which includes aircraft engines and spare parts, gas turbines, and helicopters, spacecraft, etc. accounted for 40.6% of total exports up from 37.1% of exports in 2004. Transportation equipment is followed by nonelectrical machinery at 11.7%, computer & electronic at 9.1%, chemicals at 6.1%, miscellaneous manufacturing at 5.8%, electrical equipment and appliances at 4.5%, and fabricated metal at 4.2%. The industrial

machinery and equipment related sector, which includes NAICS 332, 333, 334 and 335, accounts for 29.5% of total. In terms of average annual growth from 2001 to 2005, electrical equipment and appliances posted the strongest growth at 15.0%, followed by primary metal manufacturing at 13.7%, paper at 13.4%, nonelectrical machinery at 8.7% and miscellaneous manufacturing at 8.1%.

Overall growth in exports of commodities for the past five years averaged 3.2%. Exports of $9.7 billion is estimated to account for 5.0% 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 4.6% 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.

The bulk of Connecticut's exports are shipped by air from Bradley International Airport and by sea from the port of New Haven. In 2005, exports originating from Connecticut totaled $9.7 billion, with 59.9% of the total being shipped by air, 17.6% being delivered by sea, and the remaining 22.5% 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 table on the following page shows the ten major foreign countries to which state firms export their products. In 2005, Canada remained the largest destination country at 17.4%, followed by France, Germany, the United Kingdom, and Mexico. These five countries accounted for 55.5% of total state exports in 2005. Exports to Canada increased 14.4% to $1.68 billion in 2005. 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. Another major partner, Belgium, experienced a 15.4% growth from 2004 purchasing $262.9 million of the state's exports. In addition, exports to China increased 64.9% from the 2004 level of $204.5 million to re-enter the top ten destinations by purchasing $337.2 million of the state's exports. China has become a major partner with Connecticut, showing 31.7% growth from 2001-2005.

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 (2003), manufacturing and non-manufacturing foreign affiliates in Connecticut employed 104,900 workers with $12.68 billion of investment, down from 111,000 workers with $12.79 billion of investment in 2002. A foreign affiliate is defined as a single foreign person owning or controlling, directly or indirectly, 10% or more of the voting securities.

TABLE 42
COMMODITY EXPORTS ORIGINATING IN CONNECTICUT BY COUNTRY
(In Millions of Dollars)

Destination	2005 Rank	2001	2002	2003	2004	2005	Percent of 2005 Total	2001-05 Average Growth Rate
Canada	1	1,728.8	1,492.4	1,352.3	1,472.5	1,681.0	17.4%	0.0%
France	2	1,416.3	1,178.4	1,095.7	1,181.7	1,602.0	16.5%	4.9%
Germany	3	675.4	654.1	760.1	762.2	832.2	8.6%	5.6%
United Kingdom	4	462.4	499.9	512.8	547.8	697.0	7.2%	11.2%
Mexico	5	326.6	402.0	478.0	586.3	559.8	5.8%	15.0%
Japan	6	616.6	606.5	639.0	501.5	436.8	4.5%	(7.7%)
Netherlands	7	75.2	229.8	198.6	270.1	364.5	3.8%	26.7%
China	8	119.5	119.2	157.4	204.5	337.2	3.5%	31.7%
Belgium	9	159.2	212.8	162.6	227.9	262.9	2.7%	16.4%
Singapore	10	413.5	407.3	436.9	340.9	246.6	2.6%	(11.0%)
Other Areas		2,545.7	2,330.1	2,217.4	2441.0	2,667.3	27.4%	1.7%
TOTAL		8,610.4	8,313.4	8,136.4	8,559.2	9,687.3	100.0%	3.2%

Source: Connecticut Department of Economic Development

In 2003, Germany comprised 21.6% of total foreign investment at $2.74 billion, followed by the United Kingdom at $1.76 billion, the Netherlands at $1.70 billion, France at $0.89 billion, and Australia at $0.70 billion. 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 $813 million in 2003, a decrease from $982 million in 2002 and $884 million in 2001 and well below the peak of $1,270 million in 1992.

The International Division of the Department of Economic and Community Development continues to promote international trade to increase Connecticut's global competitiveness. The methods employed to promote international trade includes providing export assistance to Connecticut companies as well as providing assistance to foreign companies interested in expanding or relocating in Connecticut. 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. The state almost experienced a major economic blow, however, as the New London Submarine Base in Groton was put on the Base Realignment and Closure (BRAC) base closure list by the U.S. Department of Defense in May of 2005. Throughout the summer, a coalition of local leaders and businesses, state agencies and officials, and the state's congressional delegation, led by Governor Rell, worked to save the base and was successful in getting the base removed from the closure list. The next step is to prepare the base for the challenges that will be faced in the future.

In FFY 2005, contractors in the state were awarded $8.75 billion worth of defense-related prime contracts, with the heaviest concentration in the state's transportation equipment sector. This was down 2.3% from the $8.96 billion received in awards in FFY 2004. Of the total awarded, $7.6 billion, or 86.5%, went to the following five Connecticut companies listed below primarily for the described areas of work:

1.	United Technologies Corp.	$4,792,177,000	Aircraft Rotary Wing
2.	General Dynamics Corp.	$2,432,126,000	Submarines
3.	Engineered Electric Company	$129,483,000	Power Generation and Distribution Equipment
4.	Colt Defense LLC	$114,198,000	Military Arms
5.	Select Energy, Inc.	$107,072,000	Energy Efficiency Products And Services

The following Table shows the distribution of prime defense contracts in the state by program or type of work, with a heavy reliance on aircraft components and ships, to be different from the national distribution of all contracts awarded.

TABLE 43
VALUE OF PRIME CONTRACT AWARDS BY PROGRAM IN FFY 2005
(In Thousands of Dollars)

	United States		Connecticut	
Program	Value	Percent	Value	Percent
Services	$63,820,423	26.9%	$286,279	3.3%
Aircraft Engines, Airframes, and Other Aircraft Equipment	42,473,077	17.9%	4,980,066	56.9%
Electronics and Communication Equipment	25,141,172	10.6%	245,360	2.8%
Missile and Space Systems	16,650,215	7.0%	5,648	0.1%
Construction, Construction Equipment and Building Supplies	16,545,095	7.0%	52,525	0.6%
Ships	12,290,429	5.2%	2,413,367	27.6%
All Other	60,065,355	25.3%	769,818	8.8%
Total	$236,985,766	100.0%	$8,753,063	100.0%

Source: U.S. Department of Defense

Connecticut's difference shown in the prior table from the national distribution is playing a role in the increased volatility of awards to state companies compared to total awards.

The following Table displays the geographic distribution of prime defense contracts within the state, with the majority of the work in Hartford, New London and Fairfield Counties.

TABLE 44
GEOGRAPHIC DISTRIBUTION OF CONNECTICUT PRIME CONTRACT AWARDS

Value of Defense Contracts (In Thousands of Dollars)

County of Contractor	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005
Fairfield	1,455,876	1,117,511	1,576,426	2,379,342	2,269,412
Hartford	920,660	2,309,360	3,124,295	3,000,410	2,604,761
Litchfield	31,321	25,579	36,374	33,407	43,463
Middlesex	17,404	24,453	353,036	52,631	1,070,150
New Haven	65,506	111,434	114,653	100,322	131,515
New London	1,763,037	2,028,163	2,838,701	3,376,736	2,572,537
Tolland	9,755	12,878	6,794	5,894	52,776
Windham	5,978	9,205	14,515	10,675	8,450
State Total	4,269,536	5,638,582	8,064,794	8,959,416	8,753,063

Percentage Distribution of Value of Defense Contracts

County of Contractor	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005
Fairfield	34.1%	19.8%	19.5%	26.6%	25.9%
Hartford	21.6%	41.0%	38.7%	33.5%	29.8%
Litchfield	0.7%	0.5%	0.5%	0.4%	0.5%
Middlesex	0.4%	0.4%	4.4%	0.6%	12.2%
New Haven	1.5%	2.0%	1.4%	1.1%	1.5%
New London	41.3%	36.0%	35.2%	37.7%	29.4%
Tolland	0.2%	0.2%	0.1%	0.1%	0.6%
Windham	0.1%	0.2%	0.2%	0.1%	0.1%
State Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Department of Defense

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 0.479 compared with 0.083 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 45
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 in 2000 Dollars (000's)	% Growth
1995-96	2,638,260	(2.9)	54.33	(5.9)	2,894,683	(5.6)
1996-97	2,535,981	(3.9)	52.38	(3.6)	2,709,726	(6.4)
1997-98	3,408,719	34.4	51.65	(1.4)	3,583,992	32.3
1998-99	3,169,394	(7.0)	51.73	0.2	3,269,609	(8.8)
1999-00	2,177,465	(31.3)	47.93	(7.3)	2,177,465	(33.4)
2000-01	4,269,544	96.1	46.95	(2.1)	4,136,695	90.0
2001-02	5,638,585	32.1	46.34	(1.3)	5,382,453	30.1
2002-03	8,064,809	43.0	44.18	(4.7)	7,520,133	39.7
2003-04	8,959,424	11.1	43.06	(2.5)	8,165,909	8.6
2004-05	8,753,063	(2.3)	43.31	0.6	7,724,244	(5.4)
Coefficient of Variation	0.544		0.085		0.479	

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 $2.9 billion in FFY 1996, real defense contract awards increased to $7.7 billion in FFY 2005. This represents an average growth of 11.5% per year from FFY 1996 to FFY 2005, with virtually all of the growth occurring since 2000, 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 0.544,

compared to 0.313 for the U.S., reflecting the fluctuations in the state's annual levels of defense contract awards.

TABLE 46
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
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
2003-04	8,959	11.1	7,554	26.1	203,389	6.4	184,449	14.0
2004-05	8,753	(2.3)	8,592	13.7	236,986	16.5	210,532	14.1
Coefficient of Variation	0.544				0.313			

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 several years.

Connecticut's total defense awards, based on a three year moving average, have increased at an average annual rate of 14.2% during this time, compared to an average growth of 7.5% for the nation. Most of this growth has come in the last few years because Connecticut has been much more dependent on contracts which include 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. 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. Defense contracts under the Bush Administration, however, have reversed this trend, given the level of awards for the last few years.

During the 1990s, defense contract projects had become fewer in number, larger in size and the market became much more competitive than it had 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 this period.

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 2.1% in FFY 1996 to 1.8% in FFY 2000, and came back up to 4.4% in FFY 2005. (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 47
CONNECTICUT DEFENSE CONTRACT AWARDS AND GSP

Federal Fiscal Year	Connecticut Defense Contract Awards (Millions)	U.S. Defense Contract Awards (Millions)	CT as % of U.S.	Cal. Year CT GSP Current Dollars (Millions)	3-year Average CT Awards (Millions)	CT Awards as % of CT GSP
1995-96	2,638	109,408	2.4	126,744	2,602	2.1
1996-97	2,536	106,561	2.4	137,662	2,631	1.9
1997-98	3,409	109,386	3.1	145,365	2,861	2.0
1998-99	3,169	114,875	2.8	150,284	3,038	2.0
1999-00	2,177	123,295	1.8	160,424	2,918	1.8
2000-01	4,270	135,225	3.2	165,021	3,205	1.9
2001-02	5,639	158,737	3.6	166,070	4,029	2.4
2002-03	8,065	191,222	4.2	170,216	5,991	3.5
2003-04	8,959	203,389	4.4	182,448	7,554	4.1
2004-05	8,753	236,986	3.7	193,728	8,592	4.4
Coefficient of Variation	0.544	0.313				

Note: GSP beginning in 1997 is updated based on the North American Industry Classification System (NAICS).

Source: United States Department of Defense and Department of Commerce

In federal fiscal 2005, while Connecticut ranked seventh in total defense contracts awarded, it ranked third in per capita defense dollars awarded with a figure of $2,494. This figure was

more than three times the national average of $800. In 2004, Connecticut ranked fifth in total defense contracts awarded and second in per capita defense dollars awarded with a figure of $2,557. This was more than 3.5 times the national average of $693 for that year.

The following Table shows, by state, federal fiscal year 2005 total awards, per capita awards and their corresponding rank.

TABLE 48
COMPARISON OF STATE PRIME CONTRACT AWARDS
Federal Fiscal Year 2005

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	26,809,779	2	3,543	1	New Mexico	1,154,139	35	599	26
Alaska	1,923,979	31	2,899	2	Florida	10,317,531	5	580	27
Connecticut	8,753,063	7	2,494	3	Oklahoma	1,993,817	29	562	28
Maryland	10,863,496	4	1,940	4	Ohio	5,460,279	15	476	29
Arizona	9,354,636	6	1,575	5	South Dakota	368,424	45	475	30
Hawaii	1,990,796	30	1,561	6	South Carolina	2,001,336	28	470	31
Alabama	7,069,164	10	1,551	7	Tennessee	2,803,624	25	470	32
Maine	1,744,038	33	1,320	8	Wisconsin	2,563,235	26	463	33
Massachusetts	8,332,647	8	1,302	9	North Dakota	270,211	46	424	34
Missouri	6,981,282	11	1,204	10	Michigan	3,961,911	19	391	35
Mississippi	3,293,577	22	1,128	11	Rhode Island	417,873	42	388	36
Kentucky	4,299,757	18	1,030	12	Wyoming	184,392	48	362	37
Texas	20,696,564	3	905	13	North Carolina	2,948,583	24	340	38
Utah	2,180,590	27	883	14	Minnesota	1,703,252	34	332	39
California	31,064,642	1	860	15	New York	5,961,800	13	310	40
New Hampsh.	1,048,366	36	800	16	Iowa	867,365	37	292	41
Colorado	3,689,869	20	791	17	Arkansas	797,144	38	287	42
Washington	4,452,521	16	708	18	Illinois	3,571,591	21	280	43
Indiana	4,428,469	17	706	19	Nebraska	479,328	41	273	44
New Jersey	6,101,129	12	700	20	Montana	232,709	47	249	45
Kansas	1,880,541	32	685	21	West Virginia	393,902	44	217	46
Louisiana	3,029,052	23	670	22	Nevada	514,361	40	213	47
Vermont	403,262	43	647	23	Delaware	174,385	49	207	48
Georgia	5,740,593	14	633	24	Oregon	589,051	39	162	49
Pennsylvania	7,483,342	9	602	25	Idaho	154,641	50	108	50
U.S. Total	236,985,766		800						

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 2007.

TABLE 49
SAMPLES OF U.S. DEFENSE PROGRAMS OF INTEREST TO CONNECTICUT

Item	Contractor	Component	Budget FFY 2006 ($M)	Proposed 2007 by DoD ($M)	Quantity	
UH-60 Blackhawk Hel.	Sikorsky Aircraft	Prime Contractor for production	$680.9	$740.4	49 in 2006 & 38 in 2007	(a)
MH-60R Helicopter	Sikorsky Aircraft	Prime Contractor for airframe dev. and production	$600.1	$935.1	12 in 2006 & 25 in 2007	(a)
MH-60S-Helicopter	Sikorsky Aircraft	Prime Contractor for production	$660.3	$628.9	26 in 2006 & 18 in 2007	(a)
C-17 Airlift Aircraft	Pratt & Whitney	Engine production	$3,642.1	$3,061.4	15 in 2006 & 12 in 2007	(a) (b)
F-15E Eagle Fighter	Pratt & Whitney	Prime Contractor for engine	$429.9	$218.0	1 in 2006	(a)
F-16 Falcon Fighter	Pratt & Whitney	Prime Contractor for engine (R&D)	$568.9	$500.5	N/A	(c)
F-22A Raptor Fighter	Pratt & Whitney	Engine Dev & production	$4,215.0	$2,781.7	25 in 2006	(d)
Virginia Class Submarine	Electric Boat Div. of General Dynamics	Prime Contractor, design, joint production	$2,543.3	$2,621.7	1 in 2006& 1 in 2007	(a) (e)

(a) Includes research, development, testing and evaluation.
(b) Replacement for C-141. FY2007 is last year planned for C-17 production.
(c) Joint venture with General Electric.
(d) To replace F-15 aircraft.
(e) Will replace retiring submarines. At this time, five are planned between 2004 and 2008.

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 50
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
Avraham Y. Goldratt Institute, New Haven	Various	11/30	$96.6	Provide quality assurance training and support services	11/2010
Colt Defense, LLC, Hartford	Hartford, CT	7/26	$53.8	Supply M4 carbines	9/2007
DNE Technologies, Wallingford	Wallingford, CT	8/23	$18.4	Supply multiplexer items	11/2006
Select Energy Services, Berlin	Cookstown, NJ	4/6	$14.0	Supply electricity	12/2007
Ensign-Bickford Aerospace & Defense Co., Simsbury	Graham, KY and Simsbury, CT	9/8	$12.6	Supply anti-personnel obstacle breaching systems (self-contained, two-man portable explosive line-charge system)	9/2007
Colt Defense LLC, Hartford	Hartford, CT	9/26	$10.0	Supply M4A1 machine guns	9/2011

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 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 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, accounted for seventy percent of the gross domestic product (GDP) in 2005. During the last decade, variations in retail trade closely matched variations in GSP growth, making retail trade an important barometer of economic health.

The North American Industry Classification, 1997 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 North American Industry Classification System (NAICS) codes for retail trade are from NAICS 44 to NAICS 45. 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 NAICS code as well as the state's retail trade history for the past two fiscal years.

Retail sales reflect the pulse of economic conditions: they perform strongly as the economy expands whereas they perform poorly during a recession. Connecticut retail trade in fiscal 2005 totaled $43.1 billion, a 4.2% increase over fiscal year 2004.

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 an increase of 4.3% in fiscal 2005.

TABLE 51
RETAIL TRADE IN CONNECTICUT
(In Millions of Dollars)

NAICS	Industry	FY 2004	% of Total	FY 2005	% of Total	% Change
441	Motor Vehicle and Parts Dealers	8,685	21.0%	8,744	20.3%	0.7%
442	Furniture and Home Furnishings Stores	2,539	6.1%	2,665	6.2%	4.9%
443	Electronics and Appliance Stores	1,281	3.1%	1,510	3.5%	17.9%
444	Building Material and Garden Supply Stores	3,168	7.7%	3,436	8.0%	8.4%
445	Food and Beverage Stores	5,664	13.7%	5,701	13.2%	0.7%
446	Health and Personal Care Stores	3,515	8.5%	3,459	8.0%	(1.6)%
447	Gasoline Stations	2,182	5.3%	2,666	6.2%	22.2%
448	Clothing and Clothing Accessories Stores	2,618	6.3%	2,679	6.2%	2.3%
451	Sporting Goods, Hobby, Book and Music Stores	1,087	2.6%	1,080	2.5%	(0.7)%
452	General Merchandise Stores	4,471	10.8%	4,844	11.2%	8.4%
453	Miscellaneous Store Retailers	3,681	8.9%	3,505	8.1%	(4.8)%
454	Nonstore Retailers	2,513	6.1%	2,836	6.6%	12.9%
	Total	41,405	100.0%	43,126	100.0%	4.2%
Durables (NAICS 441,442, 443, 444)		15,673	37.9%	16,354	37.9%	4.3%
Nondurables (All Other NAICS)		25,732	62.1%	26,772	62.1%	4.0%

Source: Connecticut Department of Revenue Services

Sales of automotive products (NAICS 441) were $8.74 billion, a slight 0.7% increase from the $8.68 billion in fiscal 2004. Automotive product stores play an important role in the retail industry, generating approximately 20% of total retail trade.

Motor Vehicle and Parts Dealers	Retail Sales	% Growth over FY 04
New Car Dealers	$6,842,086,204	0.7%
Used Car Dealers	474,385,788	0.9%
Recreational Vehicle Dealers	75,495,816	(6.9)%
Motorcycle Dealers	173,064,955	9.6%
Boat Dealers	177,014,271	(12.7)%
All Other Motor Vehicle Dealers	563,942,366	3.0%
Automotive Parts, Accessories, and Tire Stores	438,428,663	1.3%
Total	$8,744,418,062	0.7%

Sales by furniture and home furnishings stores (NAICS 442) registered $2.7 billion in fiscal 2005, up 4.9% from $2.5 billion in fiscal 2004.

Furniture and Home Furnishings Stores	Retail Sales	% Growth over FY 04
Furniture Stores	$1,793,225,674	(1.8)%
Floor Covering Stores	219,436,272	17.8%
Window Treatment Stores	27,204,156	(7.7)%
All Other Home Furnishings Stores	624,643,504	25.6%
Total	$2,664,509,607	4.9%

Sales in electronics and appliance stores (NAICS 443) were very strong, up 17.9% to $1.5 billion.

Electronics and Appliance Stores	Retail Sales	% Growth over FY 04
Household Appliance Stores	$251,226,207	6.0%
Radio, Television, & Other Electronics Stores	776,978,941	29.9%
Computer and Software Stores	438,309,989	9.1%
Camera and Photographic Supplies Stores	43,113,472	(1.6)%
Total	$1,509,628,609	17.9%

Sales by building material and garden equipment stores (NAICS 444) registered $3.4 billion in fiscal 2005, an 8.4% increase from fiscal 2004.

Building Material & Garden Supply Stores	Retail Sales	% Growth over FY 04
Building Material and Supplies Dealers	$ 105,258,196	6.1%
Home Centers	1,492,806,297	5.8%
Paint and Wallpaper Stores	66,136,054	3.6%
Hardware Stores	342,495,777	3.0%
Other Building Material Dealers	1,204,639,317	17.1%
Lawn and Garden Equipment & Supplies	224,230,493	(3.5)%
Total	$3,435,566,134	8.4%

After motor vehicle and parts dealers, food and beverage stores generate the second highest number of retail sales in the state or 13% of total retail trade. Sales made by food and beverage stores (NAICS 445), registered $5.70 billion in fiscal 2005, up 0.7% from $5.66 billion in fiscal 2004. Food products are necessary goods; therefore, consumption is less affected by economic conditions.

Food and Beverage Stores	Retail Sales	% Growth over FY 04
Supermarkets and Other Grocery Stores	$3,664,886,511	(4.4)%
Convenience Stores	521,914,367	18.1%
Meat Markets	35,465,985	(3.9)%
Fish and Seafood Markets	45,011,049	56.4%
Fruit and Vegetable Markets	36,948,266	(5.1)%
Baked Goods Stores	128,835,151	14.0%
Confectionery and Nut Stores	25,445,792	43.2%
All Other Specialty Food Stores	394,291,424	16.4%
Beer, Wine, and Liquor Stores	848,511,661	4.2%
Total	$5,701,310,207	0.7%

Traditional and chain drug stores (NAICS 446) have been yielding market share to supermarkets and discount stores and sales by pharmacies and drug stores reflected this trend, falling 2.1% in fiscal 2005.

Health and Personal Care Stores	Retail Sales	% Growth over FY 04
Pharmacies and Drug Stores	$3,225,351,243	(2.1)%
Cosmetics, Beauty Supplies, & Perfume Stores	72,590,346	0.5%
Optical Goods Stores	78,132,139	6.5%
Other Health and Personal Care Stores	83,360,830	9.5%
Total	$3,459,434,557	(1.6)%

Sales by gasoline stations (NAICS 447) were up 22.2%, which reflected the sharp increase in gasoline prices over fiscal 2004.

Gasoline Stations	Retail Sales	% Growth over FY 04
Gasoline Stations	$2,666,444,031	22.2%

Sales by clothing and clothing accessories stores (NAICS 448) were $2.68 billion in fiscal 2005, up 2.3% from fiscal 2004.

Clothing and Clothing Accessories Stores	Retail Sales	% Growth over FY 04
Mens Clothing Stores	$ 72,338,954	6.2%
Womens Clothing Stores	462,055,532	5.1%
Childrens and Infants Clothing Stores	66,511,719	0.5%
Family Clothing Stores	765,648,118	0.4%
Clothing Accessories Stores	90,451,114	0.9%
Other Clothing Stores	544,639,851	10.6%
Shoe Stores	197,338,720	(3.5)%
Jewelry Stores	468,247,204	(3.3)%
Luggage and Leather Goods Stores	12,249,729	15.0%
Total	$2,679,480,941	2.3%

Sales in specialty stores (NAICS 451) were down 0.7% compared to fiscal 2004, suggesting that the internet has impacted this sector. Consumers are now able to read newspapers from around the world for free and order books and magazines from volume on-line booksellers at discounted rates.

Sporting Goods, Hobby, Book and Music Stores	Retail Sales	% Growth over FY 04
Sporting Goods Stores	$ 360,236,897	4.0%
Hobby, Toy, and Game Stores	199,378,669	(8.6)%
Sewing, Needlework, and Piece Goods Stores	42,603,831	(13.4)%
Musical Instrument and Supplies Stores	71,285,997	(7.4)%
Book Stores	289,556,938	(1.1)%
News Dealers and Newsstands	6,197,172	(21.4)%
Tape, Compact Disc, & Record Stores	111,035,662	15.1%
Total	$1,080,295,165	(0.7)%

Sales in the general merchandise category (NAICS 452) were $4.8 billion, an increase of 8.4% from $4.5 billion in fiscal 2004. General merchandise includes three general types of stores. These are national department stores such as Sears, value merchandise stores such as Target, and warehouse club stores such as Costco. 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.

General Merchandise Stores	Retail Sales	% Growth over FY 04
Department Stores	$1,996,298,816	4.5%
Other General Merchandise Stores	2,847,647,230	11.2%
Total	$4,843,946,046	8.4%

Sales by miscellaneous shopping stores (NAICS 453) were $3.5 billion in fiscal 2005, down 4.8% from fiscal 2004.

Miscellaneous Store Retailers	Retail Sales	% Growth over FY 04
Florists	$ 92,286,880	(2.8)%
Office Supplies and Stationery Stores	453,727,335	5.6%
Gift, Novelty, and Souvenir Stores	169,136,626	(11.1)%
Used Merchandise Stores	113,569,364	0.9%
Pet and Pet Supplies Stores	125,304,361	8.4%
Art Dealers	54,589,457	28.6%
Manufactured (Mobile) Home Dealers	3,740,347	557.4%
All Other Miscellaneous Store Retailers (including Tobacco, Candle & Trophy Shops)	2,492,951,109	(7.5)%
Total	$3,505,305,479	(4.8)%

Nonstore retailers' (NAICS 454) sales grew by an incredible 12.9% over fiscal 2004, largely the result of the surge in energy prices that occurred.

Nonstore Retailers	Retail Sales	% Growth over FY 04
Nonstore Retailers	$ 57,502,045	(0.5)%
Electronic Shopping and Mail-Order Houses	720,948,610	0.0%
Vending Machine Operators	76,043,299	(3.7)%
Fuel Dealers	366,881,694	30.6%
Heating Oil Dealers	147,554,205	138.0%
Liquefied Petroleum Gas Dealers	50,506,738	11.1%
Other Fuel Dealers	98,780,437	91.1%
Other Direct Selling Establishments	1,317,686,791	8.5%
Total	$2,835,903,820	12.9%

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.

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 2006 national retail e-commerce sales are estimated at $97.8 billion, accounting for 2.5% of total retail sales of $3,850.4 billion. Retail transactions through the Internet have increased much faster than traditional brick and mortar sales. E-commerce retail sales rose 26.9% in fiscal 2006 compared to a 5.6% 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 2006 were up 20.9% from the same period a year ago. 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 by 2008, Connecticut would lose between $320.5 and $501.2 million in state revenue due to e-commerce. The Office of Policy and Management estimates that the revenue loss due to internet and mail order sales will reach over $500 million in fiscal year 2007, thus confirming that the state's revenue loss is on the high end of the Tennessee study's range. 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, state and local governments as well as the private sector have undertaken a joint effort referred to as the Streamlined Sales Tax Project (SSTP). The project's aim is to fundamentally restructure the national sales tax system by creating a uniform taxable base, thereby simplifying tax administration among the states. The Streamlined Sales and Use Tax Agreement went into effect in October of 2005. As of January 2007, 15 of the 44 states who have authorized the participation in SSTP have enacted legislation to fully comply with the Agreement to become full-member states. Connecticut is currently one of the 44 states referred to as a participant state, as it has not enacted legislation to modify its sales tax. 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 31.0% in fiscal 2005, down from 31.7% in fiscal 2004. 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 $46,825 in fiscal 2005 was 38% above the national average of $33,934. In 2005, Connecticut per capita retail trade was estimated at $12,317. 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 2002 economic census on retail sales, a survey that is done once every 5 years by the U.S. Department of Commerce, Connecticut had $42.0 billion of retail sales, up from $34.9 billion in 1997. Retail sales varied among the state's eight counties with most sales concentrated in Fairfield, Hartford, and New Haven. These three counties accounted for 79.7% of total sales, with the remaining 20.3% 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 1997 and 2002, Windham increased the fastest at 33.4%, followed by Litchfield at 29.8%, compared to a less than 20% growth for Hartford, Middlesex, and Tolland.

Although the retail trade sector is one of the major sources of jobs in the Connecticut economy, the number of establishments has declined. In 2002, the sector had 13,861 establishments down from 14,574 in 1997 and 21,012 in 1992. 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 smaller family-run operations out of business. 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 52
RETAIL SALES, INCOME AND POPULATION BY COUNTY

	Retail Sales	Personal Income ($B)			Population (000's)		
	% Change			% Change			% Change
	'97 to '02	1997	2002	'97 to '02	1997	2002	'97 to '02
Fairfield	20.5%	40.62	53.78	32.4%	861.0	894.8	3.9%
Hartford	15.8%	26.58	33.29	25.2%	846.0	867.1	2.5%
Litchfield	29.8%	5.69	7.04	23.7%	179.8	186.4	3.7%
Middlesex	19.5%	4.76	6.11	28.4%	150.4	159.6	6.1%
New Haven	20.0%	23.90	29.76	24.5%	813.5	834.9	2.6%
New London	25.2%	7.29	9.16	25.7%	258.7	262.7	1.5%
Tolland	17.1%	3.70	4.76	28.6%	132.6	142.4	7.4%
Windham	33.4%	2.58	3.18	23.3%	107.4	111.2	3.5%
Connecticut	20.1%	115.13	147.08	27.8%	3,349.3	3,459.1	3.3%

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

The prior table compares retail sales with personal income growth and changes in population. Slower sales growth in Hartford reflected below average growth in income and population while the healthy sales growth in Windham reflected the 1.8% increase in the number of establishments rather than a marked increase in personal income or population.

TABLE 53
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. 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%
B. 2002 Economic Census								
Fairfield	13,931.1	33.2%	54,834	254.1	14.1	3,876	1,524.3	33.6%
Hartford	10,220.4	24.4%	50,872	200.9	15.2	3,347	1,101.7	24.3%
Litchfield	2,090.3	5.0%	8,830	236.7	11.3	784	212.8	4.7%
Middlesex	1,607.9	3.8%	8,346	192.7	11.2	743	187.2	4.1%
New Haven	9,268.4	22.1%	44,627	207.7	13.9	3,218	985.8	21.8%
New London	3,011.9	7.2%	14,752	204.2	13.2	1,119	319.4	7.0%
Tolland	894.3	2.1%	4,522	197.8	11.7	387	98.1	2.2%
Windham	928.4	2.2%	5,024	184.8	13.0	387	101.8	2.2%
Total	41,952.7	100.0%	191,807	218.7	13.8	13,861	4,531.1	100.0%
C. Growth (%) from 1997 to 2002								
Fairfield	20.5		1.5	18.7	5.0	(3.3)	25.1	
Hartford	15.8		(0.5)	16.3	9.5	(9.1)	16.8	
Litchfield	29.8		7.8	20.4	12.2	(3.9)	34.7	
Middlesex	19.5		3.7	15.3	3.5	0.1	30.8	
New Haven	20.0		6.4	12.8	10.3	(3.5)	27.1	
New London	25.2		6.0	18.2	11.9	(5.3)	32.9	
Tolland	17.1		(10.1)	30.2	(0.5)	(9.6)	19.9	
Windham	33.4		7.7	23.9	5.7	1.8	38.3	
Total	20.1		22.5	17.0	7.9	(4.9)	24.7	

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

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 2004, the latest year for which complete, consistent and comparable data is available, among the total 93,011 establishments employing 1,649,800 persons in Connecticut, small businesses with fewer than 100 employees accounted for 97.6% of total establishments and 52.7% 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 during this period,

especially between 2000 and 2004, when larger firms were experiencing a period of reductions in employment.

TABLE 54
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				
1995	4.6	8.7	16.9	43.4	49.5	125.3	248.5
2000	3.5	6.2	12.2	44.8	41.3	127.4	235.6
2004	3.8	6.5	12.6	56.2	61.2	57.0	197.2
(# Change, 95-04)	(0.8)	(2.2)	(4.3)	12.8	11.7	(68.3)	(51.3)
(% Growth, 95-04)	(18.3%)	(25.7%)	(25.5%)	29.4%	23.7%	(54.5%)	(20.6%)
(% Growth, 95-00)	(23.2%)	(29.3%)	(27.4%)	3.2%	(16.6%)	1.7%	(5.2%)
(% Growth, 00-04)	6.4%	5.1%	2.6%	25.4%	48.3%	(55.2%)	(16.3%)
			Nonmanufacturing Employment				
1995	143.1	189.3	230.3	230.1	156.8	363.2	1,313.0
2000	80.9	94.9	113.1	252.1	201.1	715.5	1,457.5
2004	89.1	124.4	162.0	414.8	354.6	308.5	1,452.6
(# Change, 95-04)	(54.1)	(64.9)	(68.4)	184.6	197.8	(54.7)	139.6
(% Growth, 95-04)	(37.8%)	(34.3%)	(29.7%)	80.2%	126.1%	(15.1%)	10.6%
(% Growth, 95-00)	(43.5%)	(49.9%)	(50.9%)	9.5%	28.2%	97.0%	11.0%
(% Growth, 00-04)	10.1%	31.1%	43.2%	64.5%	76.4%	(56.9%)	(0.3%)
			Total Employment				
1995	147.7	198.0	247.2	273.6	206.3	488.5	1,561.5
2000	84.4	101.0	125.3	296.9	242.4	842.9	1,693.1
2004	92.8	130.9	174.5	471.0	415.8	365.5	1,649.8
(# Change, 95-04)	(54.9)	(67.2)	(72.7)	197.4	209.5	(123.0)	88.3
(% Growth, 95-04)	(37.2%)	(33.9%)	(29.4%)	72.2%	101.6%	(25.2%)	5.7%
(% Growth, 95-00)	(42.8%)	(49.0%)	(49.3%)	8.5%	17.5%	72.5%	8.4%
(% Growth, 00-04)	9.9%	29.5%	39.3%	58.6%	71.6%	(56.6%)	(2.6%)
B. Total Establishments							
2004	49.6	18.3	12.0	10.8	2.1	0.2	93.0
C. Distribution of Establishments & Employment, 2004							
Establishments	53.3%	19.7%	13.0%	11.7%	2.2%	0.2%	100.0%
Cumulative	53.3%	72.9%	85.9%	97.6%	99.8%	100.0%	
Total Employment	5.6%	7.9%	10.6%	28.5%	25.2%	22.2%	100.0%
Cumulative	5.6%	13.6%	24.1%	52.7%	77.9%	100.0%	
Nonmfg Employ.	6.1%	8.6%	11.1%	28.6%	24.4%	21.2%	100.0%
Cumulative	6.1%	14.7%	25.8%	54.4%	78.8%	100.0%	

Note: Totals may not add due to rounding.
Source: U.S. Department of Commerce, Bureau of the Census

The Table also shows that, in 2004, small business firms played almost an equally important role in the nonmanufacturing sector as in manufacturing. Businesses with more than 500 employees accounted for 21.2% of total employment in nonmanufacturing, compared to 28.9% 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.

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 50.4% in 1995 to 28.9% in 2004 (a fall of 42.7%), while the percentage of all nonmanufacturing firms which had 500 or more employees fell from 27.7% in 1995 to 21.2% in 2004 (a drop of only 23.5%). 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 between 1995 and 2000, especially, could be the result of a maturing of the service industries and the resulting consolidation of some services into larger firms, while growth in the smaller nonmanufacturing firms was significantly greater from 2000 to 2004.

Manufacturing employment in Connecticut has continued on a downward trend since its peak in 1984. The loss of manufacturing employment occurred, in total, from 1995 to 2004, with an actual increase 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, 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:

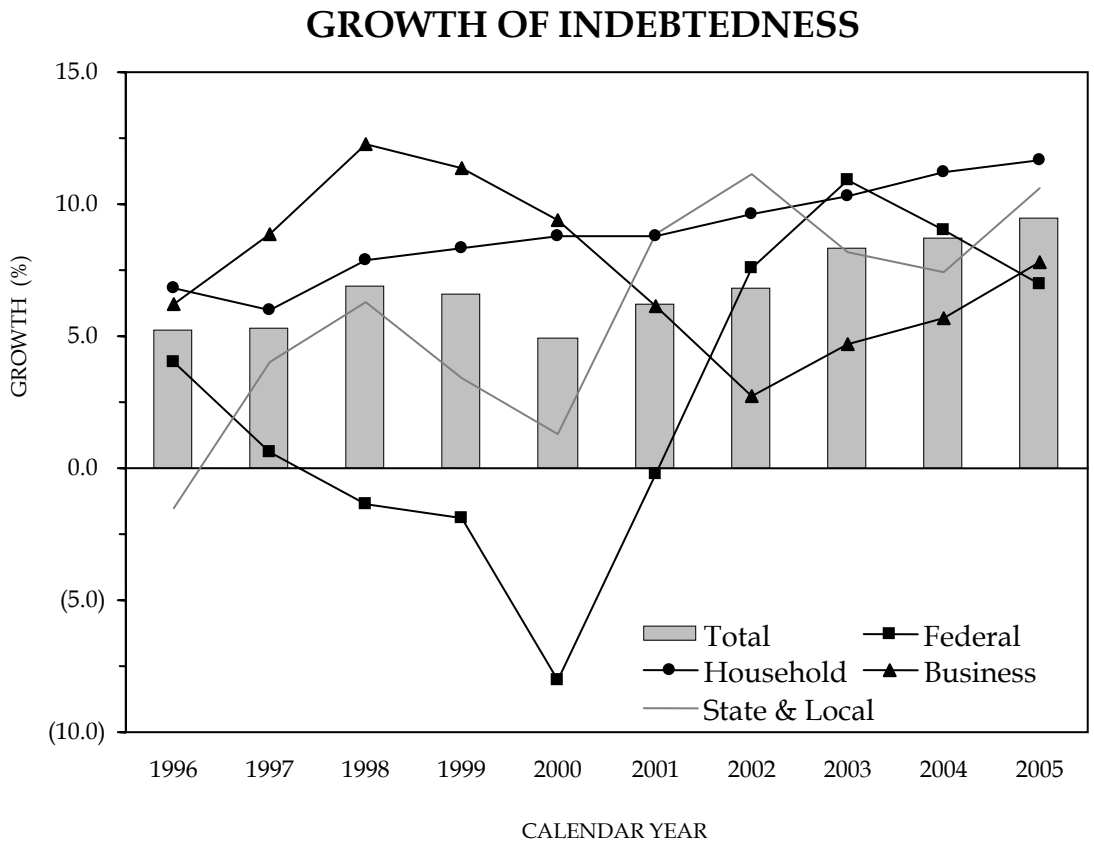
Connecticut Economic Resource Center, Inc.
805 Brook Street
Rocky Hill, CT 06067
1-(800)-392-2122

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 System.

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 6.8% in the past 10 years. It grew 9.5% in 2005, compared to 8.8% in 2004 and 8.2% in 2003. Among the four components, growth in federal government debt slowed, while the private sector, including household and nonfinancial businesses, as well as state and local governments accelerated in 2005. Growth in household debt continued at a brisk pace, up 11.7% after climbing 11.2% in 2004 and 11.5% in 2003 as households kept on taking advantage of favorable interest rates, spurring strong demand for housing and home refinancings. Growth in the business sector continued for the third year, reflecting a sharp increase in commercial mortgages and corporate bonds. The slow growth of debt outstanding in federal debt was due to an improvement in financial conditions. Details for each sector are described below.



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

In 2005, according to the Federal Reserve System, the seasonally adjusted year-end total domestic nonfinancial debt outstanding was $26,391.3 billion, with households accounting for 43.6% of the total, nonfinancial businesses at 31.6%, the federal government at 17.8%, 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 75.2% of the total in 2005, up from 66.5% for 1996. Among the four categories, the household sector grew by 121.7% in the past decade, followed by nonfinancial business at 90.7%; state and local governments at 80.3%; and the federal government at 24.3%. For total debt balances, it increased by 83.7% in the past decade.

The DNFD-to-GDP ratio stood at 211.9% in 2005, up from 183.9% in 2000, 185.6% in 1990 and 140.9% in 1980, implying a faster growth in nonfinancial debt than GDP in the past 25 years. 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 2000 as federal debt fell and the borrowings by state and local governments slowed, which was also accompanied by more robust GDP growth. However, the ratio

increased lately, resulting from an accommodative monetary policy and an economic recovery that stimulated borrowing and higher spending levels in the household sector.

Household Borrowing

Household borrowings, which accounted for 43.6% of total non-financial debt, include home mortgages, consumer credit, and other miscellaneous items. Growth in household borrowings has been accelerating after reaching a recent low of 6.0% in 1997, climbing to 11.2% in 2004 and to 11.7% in 2005.

Growth in household borrowings is closely related to economic and household wealth conditions. When income and wealth expand, it nurtures confidence and consumer spending, and then sustains consumer spending and borrowings. In addition, the low, and at times negative, personal saving rate leaves borrowing as the only available avenue for households. In the first half of the 1990s, growth in household borrowings averaged only 6.3% as sluggish income growth, the depressed value of real estate, and increased health insurance and educational costs made consumers more cautious. In the second half of the 1990s, household borrowings climbed to 7.5% 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. During the first half of the 2000s, growth in borrowings averaged 10.6% as a buildup of wealth, generated by increases in income and an appreciation in real estate, as well as remarkably low interest rates created a borrowing and spending binge. U.S. saving rates, defined as personal saving as a percentage of disposable income, dropped from a recent high of 3.4% in the third quarter of 2001 to between negative 0.3% and negative 1.5% for 6 consecutive quarters starting from the second quarter of 2005 through the third quarter of 2006.

Household borrowings expanded at a 9.0% rate in the beginning of the 2000s and picked up speed well into 2003, 2004, and 2005 with a double-digit growth as the economy continued to recover. The value of stocks was still down by 21% by the end of 2004 to $10.1 trillion from their peak in the first quarter of 2000. However, due to continued favorable mortgage rates, home values increased 96% to $19.8 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 created a vibrant housing market, helping dilute the negative wealth impact brought about by a sharp decline in the stock market. The economy continued to grow in 2005 as families used home equity to finance personal spending, trade up, or invest in new construction. Despite the continued drawdown in equity over the past few years and a slowdown in the housing market, net home equity (value of home less mortgage liabilities) continued to increase to $11.2 trillion in the year ending 2005, up 72.3% from $6.5 trillion in late 2000. The net value of home equity surpassed the value of stocks in the second quarter of 2005, reaching $10.5 trillion versus $9.9 trillion for the value of stocks. The share of net home equity in total family net assets has become more important. The net home equity of $11.2 trillion in late 2005 accounted for 56.5% of households' total net assets of $20.9 trillion, up from only 38.3% in late 2000. The ratio of net home equity to disposable personal income, one of the measures of the wealth effect, continued to improve to 2.15 at the end of 2005, up from 1.93 in 2004 and 1.80 in 2003. 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 frees up more money for spending, paying off old debts or investments in second or even third homes. The Tax Payer Relief Act of 1997, signed by President Clinton, also allows a tax exemption up to $500,000 of gain for joint filers or $250,000 for single filers. In addition, as the equity markets improved from their late 2002 lows, so did household balance sheets, greatly supporting consumer spending. However, continued aggressive borrowing along with the weakening housing market will slow the buildup of household wealth and overall spending.

Among total household borrowings of $11.50 trillion in 2005, home mortgage loans accounted for $8.66 trillion, or 75%, followed by consumer credit at $2.19 trillion, or 19.0%, 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 2005 were up 14.8% from a year ago, following increases of 13.5% in 2004 and 12.4% in 2003 and compared to only 4.9% in 1995. 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 5.87% in 2005, up slightly from 5.84% in 2004 and 5.82% in 2003, and compared to the average of 7.49% between 1993 and 2002. Mortgage financings rebounded in 2005 in the U.S. while at the same time the credit quality on residential real estate loans improved. Delinquency rates on residential real estate loans by all commercial banks, for example, decreased to 1.49% in 2005 from 1.56% in 2004 and 1.83% in 2003. However, after years of expansion, the market is due for a correction. Delinquency rates have started to edge up in early 2006, mostly in the adjustable rate loans and sub-par fixed rate loans. Refinancing activities slowed in 2005. Of the total mortgage applications originated in 2005, the refinancing portion accounted for 49% of total originations, down from 54% in 2004, 71% in 2003, the peak year, and up from 21% in 2000. Refinancing activities are expected to slow further in 2006 as the availability of untapped equity became less after years of drawdown. In addition, speculative investment waned amid a time when the housing market turned soft. Nonetheless, borrowers with exotic mortgages may refinance existing loans for conventional ones as they face reset deadlines at a time when interest rates have moved higher.

Consumer credit not secured by real estate is comprised of non-revolving credit (such as automobile and personal loans) and revolving credit (which includes credit card debt and store charges). It registered $2,322 billion in late 2005, with non-revolving credit accounting for approximately 65% of the total consumer credit. 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 despite higher interest rates charges. Interest rates for credit card plans averaged 12.71% in late 2005, compared to 6.60% for new car loans and 11.89% for personal loans. Credit cards have been making inroads rapidly since the inception of internet transactions in the purchases of goods and services. Use of credit cards also has been broadly expanding for college expenses, medical and dental expenses, and government taxes and fees. 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. A 2005 report showed that 76% of college students have an average of four credit cards with balance outstanding of $2,169 while 25% of students owed $3,000 or more.

Business Borrowing

Business borrowings include debts owed by corporations, nonfarm noncorporations and farms. Total borrowings grew by 5.4% to $8.27 trillion at the end of 2005. The bulk of the debts are owed by corporations that account for approximately 65% of the total. Corporate borrowings grew by 5.5% to $5.29 trillion at the end of 2005. 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 43.4%, followed by mortgages at 41.6%, and bank loans at 17.2%. Growth in corporate bonds slowed, up a scant 2.0% to $3.0 trillion at the end of 2005. Bank loans outstanding expanded 10.5% to $1.2 trillion. Businesses had benefited from a more accommodative lending environment as banks had eased both standards and terms on commercial and industrial loans. Mortgages grew 11.9% to $2.9 trillion as interest rates remained favorably low.

With strong revenue growth and the rally in equity markets, corporate balance sheets have drastically improved. Accompanied with favorable interest rates in the past few years, corporations have replaced high cost long-term debt with shorter-maturity debt. However, real outlays on equipment and software, which accounted for approximately 80% of business fixed investment, slowed in late 2005, leading to a scant productivity growth in first half of 2006. Overall capacity utilization reached 81% at 2005 year end, the highest level since 2000. Healthy financial conditions along with elevated profit margins, continued borrowing for new technologies, equipment, and structures should ensure sustainable economic growth.

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 rose to $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 $128.2 billion in fiscal 2001. However, deficits returned in fiscal 2002 registering $157.8 billion, deteriorating to $412.8 billion in fiscal 2004, but narrowed to $318.3 billion in fiscal 2005 and further to $247.7 billion in fiscal 2006. The improvement in 2006 operating results was due to a faster percentage increase in revenue than that in outlays. Receipts increased by 11.8% primarily from personal and corporate taxes versus a 7.4%

increase in outlays. Deficits over the past five years between fiscal 2002 and fiscal 2006 have totaled $1.7 trillion. As the federal operating budget continued to post a deficit, the national debt also increased. By the end of federal fiscal year 2006, gross debt outstanding registered $8,507.0 billion, up 7.2% from fiscal 2005, compared to an increase of 2.3% and 0.3% in fiscal 2001 and 2000, respectively. The debt ceiling is $8,965 billion as of November 2006. The federal budget deficit in the U.S. in 2006 is estimated to account for -3.6% of its GDP, per *The Economist,* compared to -5.2% in Japan, -3.4% in Great Britain, -3.1% in Germany, and -2.9% in France.

Of the 2006 total federal gross debt of $8,507.0 billion, $4,843.1 billion, or 57%, was held by the public and $3,663.9 billion, or 43%, 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 U.S. Treasury securities. Total federal gross debt of $8,507.0 billion equates to approximately $28,400 for each U.S. citizen.

Total state and local government's debt outstanding increased faster in 2005, primarily due to an increase in advance refundings as local governments capitalized on the favorable interest rates. It totaled $1.86 trillion at the end of 2005, a 10.6% growth after increases of 7.6% in 2004. State and local government includes states, counties, municipalities and other local entities. The most recent recession, which occurred in the early 2000s, caused state coffers to shrink as the increase in current expenditures exceeded the increase in current receipts. Current receipts in 2005 were up 6.8% from 2004 to $1,700.6 billion versus an increase of 6.1% to $1,703.9 billion for current expenditures, yielding an operating deficit of $3.3 billion, which was an improvement from a deficit of $20.4 billion for 2004. State and local government receipts from taxes on personal income, sales and corporate income continued to increase. Consumption expenditures climbed by 6.8% in 2005, compared to 5.1% for social benefit payments and 2.6% for interest payments.

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 2004, the latest available year, was $22.57 billion, up from $22.50 billion in 2003. Per capita state government debt was $6,452, slightly up from $6,450 in 2003 and $6,009 in 2002, and compared with $2,560 for the nation, which was up from $2,405 in 2003.

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 2006, Connecticut's General Obligation bonds are rated Aa3 by Moody's and AA by Standard & Poor's Corporation and Fitch Investors Service, Inc.

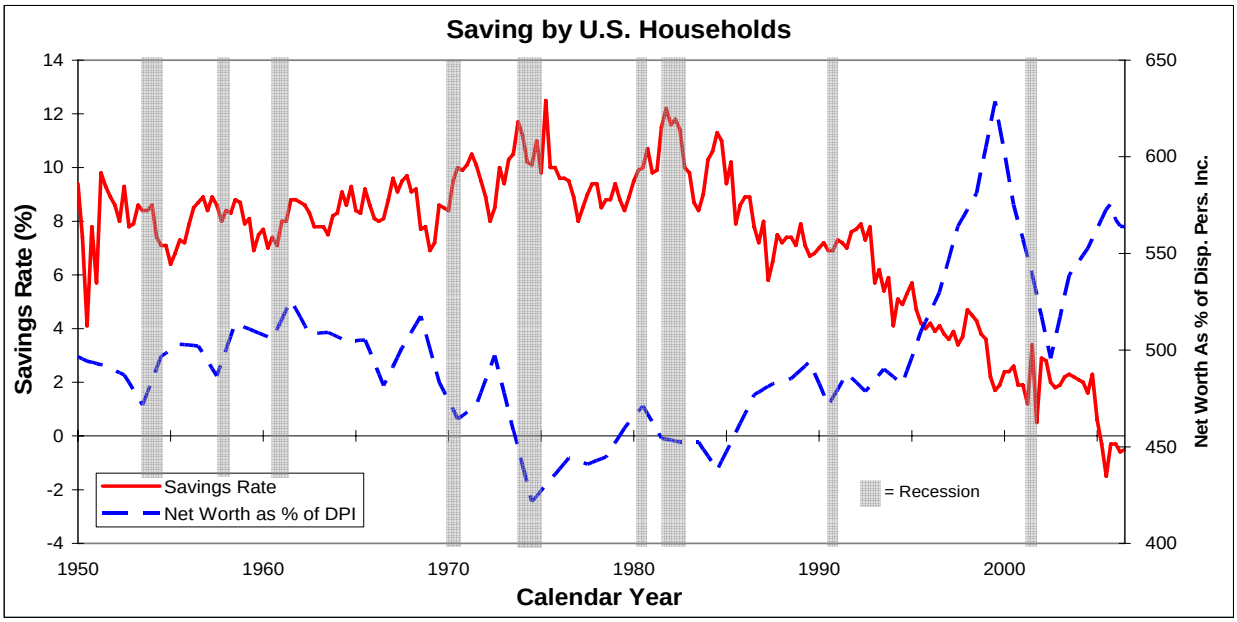
Savings by U.S. Households

A low personal savings rate has been a concern in this country as it could negatively impact on our economy and our society. Consumers' imprudent financing of consumption could create an unsustainable level of consumer debt, creating social problems, increasing interest rates and slowing potential economic growth. Further, an unexpected reversal of consumer-financing

behavior could cause a sudden drop in consumption and cause economic instability. A long-term lower national savings rate would not generate sufficient funds to support the investment necessary to sustain long-run economic growth. This would create a situation requiring excessive reliance on foreign capital and an unfavorable current account balance.

The solid line on the following chart shows the national savings rate for U.S. consumers since 1950. The savings rate is defined as personal savings divided by disposable personal income expressed as a percentage. Disposable personal income is defined as total personal income less personal tax and nontax payments to governments. Personal savings is defined as disposable personal income less personal consumption expenditures (including consumer durables), personal interest payments, and net personal transfer payments to the rest of the world. By this measure, Americans are clearly saving a smaller percentage of their income than they did before the 1980s.

The savings rate, however, may not portray an accurate picture of what is really going on with savings in this nation today. By definition, personal incomes do not include the sales of or change in the market value of existing assets. Realization of capital gains or losses from appreciation/depreciation of assets such as stocks, bonds and antique collections, etc. are therefore excluded in the personal income, leading to under-/overvaluation of the income level. Also, the definition of personal consumption outlay includes expenditures that might arguably be considered investments. For example, the purchase of a computer, a consumer durable, for education or training is treated as consumption. Mortgage payments, no small amount, also could arguably be considered part of an investment. Interest payments for investments in stock, for example, are also treated as spending instead of investment. Therefore, our lower national savings rate may be due to an understated personal income with overstated consumption.



Source: Federal Reserve System, Washington, DC

The chart also shows how the savings rate is affected by economic conditions, although a change seems to have begun to take place after the 1970s: the "wealth effect" took hold as people began to spend more because they had more assets of greater value to leverage and finance their consumption. The dashed line on the chart depicts the net worth of consumers as a percentage of disposable personal income. This relative net worth has generally moved inversely with the savings rate. Before 1980, the savings rate was trending upward, with the relative net worth generally decreasing. During this period, before various innovative and creative financing mechanisms were available to the middle class, people generally lived on cash. During hard times, they may have saved less, left existing savings untouched to grow as long as possible, and eventually lived on what they had saved. After the 1970s, the savings rate has trended downward, with the relative net worth again generally moving in the opposite direction, the one significant exception being the stock market run-up in the late 1990s and the subsequent sudden drop in the market. After the 1970s, when credit cards, home equity loans and 401(k) savings plans became available to more households, savings rates decreased but net worth as a percentage of disposable personal income generally increased due to the recent acceleration in capital gains. Now, during generally good economic times, people believe they are wealthier and spend more, driving the savings rate down. People are spending more because they have greater assets. The new mentality of the American consumer says that increased consumption, not savings, will stimulate economic growth.

The low level of saving by consumers is a concern because it has increased risks to economic stability and economic growth. It is not known if recent trends can continue indefinitely and, if not, what the limit is. If creditors reach some level of discomfort with the situation, they could cut off access to credit or raise interest rates and make debt too expensive for consumers to bear. In this case, consumption could suddenly and drastically drop, curtailing or even reversing growth.

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 these 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 calendar year 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 2005, the State of Connecticut produced $193.7 billion worth of goods and services and $172.3 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 transportation and utilities, construction and mining, and health care and education 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 decreased to 61.4% of total GSP in 2005 from 61.6% in 2000, although health care and education has increased from 8.1% in 2000 to 9.0% in 2005, or 11.7%. The other services category, which includes management of companies, administrative and waste services, arts, entertainment and recreation, accommodation and food services, and other miscellaneous services, has actually

decreased from 11.9% to 10.4%, or 12.7%. During this period, the shift toward services in Connecticut has been occurring at a slower rate than the rate for the nation as a whole and, in fact, as mentioned above, the share of services has decreased slightly. The share of service production decreased 0.2 percentage points (0.4%) in Connecticut versus increasing 2.1 percentage points (4.2%) for the nation. An increasing share of service production could 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, the slowing of a shift to the service sectors in the state will no longer increasingly be able to help smooth output fluctuations. This may be due to the fact that Connecticut moved toward services sooner than the nation as a whole, which is now catching up, and services in the state may be reaching maturation, at least for now.

TABLE 55
GROSS PRODUCT

Calendar	United States *		New England *		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
A. Millions of Current Dollars						
2000	9,749,103	6.0	565,835	8.0	160,436	6.7
2001	10,058,168	3.2	580,920	2.7	165,025	2.9
2002	10,398,402	3.4	591,733	1.9	166,073	0.6
2003	10,896,356	4.8	614,590	3.9	170,235	2.5
2004	11,655,335	7.0	654,346	6.5	182,468	7.2
2005	12,409,555	6.5	686,547	4.9	193,745	6.2
% Increase ('00 to '05)		27.3		21.3		20.8
B. Constant Dollars**						
2000	9,749,103	3.7	565,835	6.4	160,436	4.7
2001	9,836,576	0.9	570,313	0.8	161,197	0.5
2002	9,981,850	1.5	568,750	(0.0)	158,628	(1.6)
2003	10,237,201	2.6	581,648	2.3	159,751	0.7
2004	10,662,196	4.2	605,270	4.1	166,850	4.4
2005	11,041,471	3.6	619,138	2.3	172,259	3.2
% Increase ('00 to '05)		13.3		9.4		7.4

* 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 starting in 1998.

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

The following Table, which displays gross state product by source in 2005, shows Connecticut's production concentrated in two areas: finance, insurance and real estate (FIRE) and manufacturing (ignoring the broad category of services). Production in these two industries accounted for 41.9% of total production in Connecticut compared to 32.8% for the nation but was a decrease from 42.7% in 2000. 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. Additionally, and very significantly, Connecticut's portion of U.S. total GSP has declined from 1.65% to 1.56%, a drop of 0.09 percentage points, or 5.5%.

TABLE 56
GROSS PRODUCT BY SOURCE
(In Billions of Current Dollars)

	------ Calendar 2000 ------				-------- Calendar 2005 -------			
Industry	U.S.	%	CT	%	U.S.	%	CT	%
Agriculture, Forest & Fisheries	98.0	1.0	0.358	0.2	119.1	1.0	0.340	0.2
Construction & Mining	557.2	5.7	5.113	3.2	807.1	6.5	7.035	3.6
Manufacturing	1,426.2	14.6	20.782	12.9	1,496.5	12.1	21.973	11.3
Wholesale Trade	591.7	6.1	8.716	5.4	733.1	5.9	10.449	5.4
Retail Trade	662.4	6.8	10.379	6.5	828.6	6.7	11.458	5.9
Transportation & Utilities	490.9	5.0	2.581	1.6	601.2	4.8	6.372	3.3
Information	458.3	4.7	6.293	3.9	578.3	4.7	7.707	4.0
Finance, Insurance, Real Estate	1,931.0	19.8	47.843	29.8	2,574.4	20.7	59.247	30.6
Professional, Technical Services	675.1	6.9	12.753	7.9	862.4	6.9	14.261	7.4
Health Care & Education	678.4	7.0	13.005	8.1	977.4	7.9	17.524	9.0
Other Services	1,045.1	10.7	19.162	11.9	1,356.7	10.9	20.135	10.4
Government	1,134.8	11.6	13.700	8.5	1,474.7	11.9	17.244	8.9
Total	9,749.1	100.0	160.685	100.0	12,409.6	100.0	193.745	100.0
Broadly Defined Services		49.1		61.6		51.2		61.4
CT as a % of U.S. Total GSP			1.65				1.56	

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 slowed during and following the recession of 2001, reflecting a struggle to recover from a deeper recession compared with the impact on the United States. The ratio of Connecticut's real per capita output relative to the United States was unsteady between 2002 and 2005, 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 2000 and 2005, Connecticut's real per capita output increased 4.4% compared to 7.8% nationally for the same period, but has remained approximately one third higher than that of the nation.

TABLE 57
PER CAPITA GROSS PRODUCT

A. In Current Dollars

Calendar	United States		New England		Connecticut		
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2000	34,548	4.8	40,553	7.1	47,017	5.9	136
2001	35,278	2.1	41,366	2.0	48,078	2.3	136
2002	36,107	2.3	41,888	1.3	48,020	(0.1)	133
2003	37,464	3.8	43,299	3.4	48,836	1.7	130
2004	39,690	5.9	46,011	6.3	52,149	6.8	131
2005	41,866	5.5	48,214	4.8	55,193	5.8	132
% Increase	('00 to '05)	21.2		18.9		17.4	

B. In 2000 Chained Dollars

Calendar	United States		New England		Connecticut		
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth	% of U.S.
2000	34,548	2.5	40,553	5.5	47,017	3.8	136
2001	34,501	(0.1)	40,611	0.1	46,962	(0.1)	136
2002	34,661	0.5	40,261	(0.9)	45,868	(2.3)	132
2003	35,198	1.5	40,978	1.8	45,828	(0.1)	130
2004	36,308	3.2	42,560	3.9	47,686	4.1	131
2005	37,251	2.6	43,480	2.2	49,072	2.9	132
% Increase	('00 to '05)	7.8		7.2		4.4	

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 the 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 $66.8 in 1998 to $94.4 in 2004, a 41.4% increase in output per hour over the period compared to only a 15.9% increase in the Consumer Price Index over the same period.

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 the productivity factor is included. Per $1 of output costs, the unit labor cost has declined from 23.7 cents in 1998 to 20.6 cents in 2004, a 13.0% reduction over the period, even while production workers have enjoyed a 23.1% 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 58
CONNECTICUT'S MANUFACTURING LABOR PRODUCTIVITY

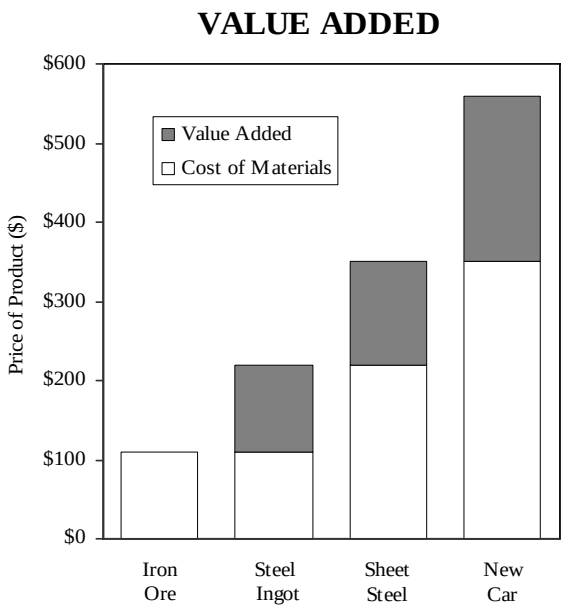
Cal. Year	GSP (Million)	Production Workhours (Million)	Hourly Production (Output Per Hour)	Total Wages (Million)	Average Hourly Wages	Unit Labor Cost (¢ Per $1 Output)
1998	$21,360	320.0	$66.8	$5,064.6	$15.8	23.7¢
1999	$20,312	298.2	$68.1	$4,946.5	$16.6	24.4¢
2000	$20,782	295.1	$70.4	$5,093.9	$17.3	24.5¢
2001	$21,313	271.3	$78.6	$4,807.1	$17.7	22.6¢
2002	$21,003	251.2	$83.6	$4,529.6	$18.0	21.6¢
2003	$21,325	243.7	$87.5	$4,478.2	$18.4	21.0¢
2004	$21,973	232.8	$94.4	$4,534.7	$19.5	20.6¢
% Increase ('98-'04)			41.4		23.1	(13.0)

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 174,000 manufacturing jobs between calendar year 1977 and 2005, 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 following Table 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 2005, Connecticut's value added per production worker was 112% of the national average, up from 100% in 1977.

TABLE 59
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 2002 Conn.	Cumulative % Change From 2002 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
2002	219,805	182,512	22.4	20.6			1.204
2003	220,268	194,966	0.2	6.8	0.2	6.8	1.130
2004	251,111	217,983	14.0	11.8	14.2	19.4	1.152
2005	266,785	238,792	6.2	9.5	21.4	30.8	1.117

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 2003, Connecticut's value added per production worker failed to keep pace with the rate of growth in inflation as measured by the GDP deflator.

TABLE 60
VALUE ADDED PER PRODUCTION WORKER
(In Constant Dollars, 2000 = 100)

Cal. Year	Conn.	United States	% Change From Prior Period Conn.	% Change From Prior Period U.S.	Cumulative % Change From 2002 Conn.	Cumulative % Change From 2002 U.S.	Ratio of CT Value Added to U.S.
1977	100,205	100,002					1.002
1982	106,536	105,943	6.3	5.6			1.006
1987	141,041	129,699	32.4	22.0			1.087
1992	165,634	141,685	17.4	8.9			1.169
1997	188,235	158,597	13.6	11.4			1.187
2002	210,966	175,172	7.4	8.7			1.204
2003	207,019	183,239	(1.9)	4.6	(1.9)	4.6	1.130
2004	229,493	199,217	10.9	8.7	8.8	13.7	1.152
2005	236,658	211,826	3.1	6.3	12.2	20.9	1.117

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 2004 and 2005.

TABLE 61
VALUE ADDED PER PRODUCTION WORKER IN CONNECTICUT
(In Current Dollars)

Industry	2004	2005	% Change
Manufacturing	251,111	266,785	6.2
Food	284,915	347,532	22.0
Printing	132,968	136,279	2.5
Paper	236,225	255,824	8.3
Chemical	1,189,535	1,336,558	12.4
Plastics & Rubber	127,328	138,907	9.1
Primary Metals	186,962	160,731	(14.0)
Fabricated Metals	141,177	160,084	13.4
Machinery	213,811	229,733	7.4
Computer & Electronic	258,904	278,051	7.4
Electrical Equipment	179,017	205,103	14.6
Transportation Equipment	362,628	325,296	(10.3)

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. The following Table 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. Public Act 06-83 significantly enhanced this program by extending property tax relief beyond the initial five year exemption period by phasing out such taxation over a five fiscal year period. By assessment years commencing on and after October 1, 2011, all such equipment will be exempt from property taxation.

TABLE 62
TOTAL CAPITAL EXPENDITURES IN CONNECTICUT
(In Millions of Dollars)

Calendar Year	Connecticut Capital Expenditures	Percent Change
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)
2002	1,448.5	(18.8)
2003	1,242.7	(14.2)
2004	1,236.2	(0.5)
2005	1,210.2	(2.1)

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 2006 was $171.5 billion, a 5.1% increase over fiscal 2005. Total personal income in Connecticut increased 53.9% from fiscal 1997 to 2006. For the United States, total personal income increased 57.4%, and in the New England Region, the increase for the identical period was 55.6 %.

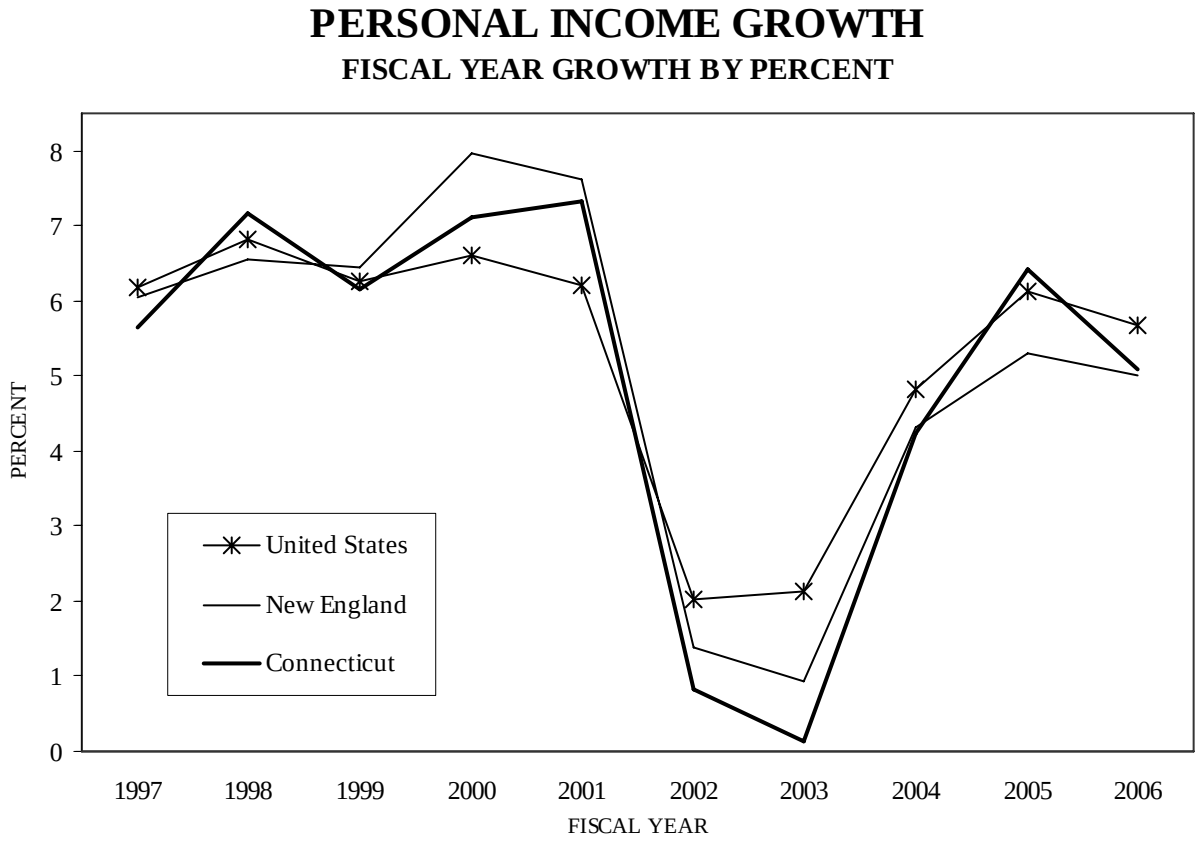
The following Table shows personal income for the United States, the New England Region, and Connecticut.

TABLE 63
PERSONAL INCOME
(In Millions)

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
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	8,613,913	6.22	518,388	7.61	145,744	7.34
2001-02	8,788,092	2.02	525,601	1.39	146,946	0.83
2002-03	8,974,345	2.12	530,517	0.94	147,144	0.13
2003-04	9,407,167	4.82	553,387	4.31	153,365	4.23
2004-05	9,984,891	6.14	582,675	5.29	163,193	6.41
2005-06	10,551,782	5.68	611,948	5.02	171,496	5.09

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 57.3% of total personal income compared to 55.5% 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 64
SOURCES OF PERSONAL INCOME
(In Billions of Dollars)

	FISCAL YEAR 2004-05				FISCAL YEAR 2005-06			
	U.S.	%	CT	%	U.S.	%	CT	%
Manufacturing Salaries & Wages	697.1	7.0	12.9	8.0	725.1	6.9	13.3	7.8
Nonmanufacturing Salaries & Wages	4,821.1	48.3	80.3	49.2	5,133.0	48.7	84.8	49.5
Proprietors Income	943.8	9.4	17.6	10.7	996.1	9.4	18.7	10.9
Property Income	1,593.8	16.0	26.3	16.1	1,641.8	15.6	27.4	15.9
Other Labor Income	1,309.7	13.1	20.5	12.6	1,404.3	13.3	21.7	12.7
Transfer Payments Less Payments to Social Insurance	619.4	6.2	5.6	3.4	651.5	6.1	5.6	3.2
Total	9,984.9	100.0	163.2	100.0	10,551.8	100.0	171.5	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 46.2% from fiscal 1997 to 2006, compared to a national increase of 43.4% and a New England Region increase of 48.2%.

Per capita personal income in Connecticut, for the most recent fiscal year, was 13.7% higher than for the New England Region and 37.6% 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.

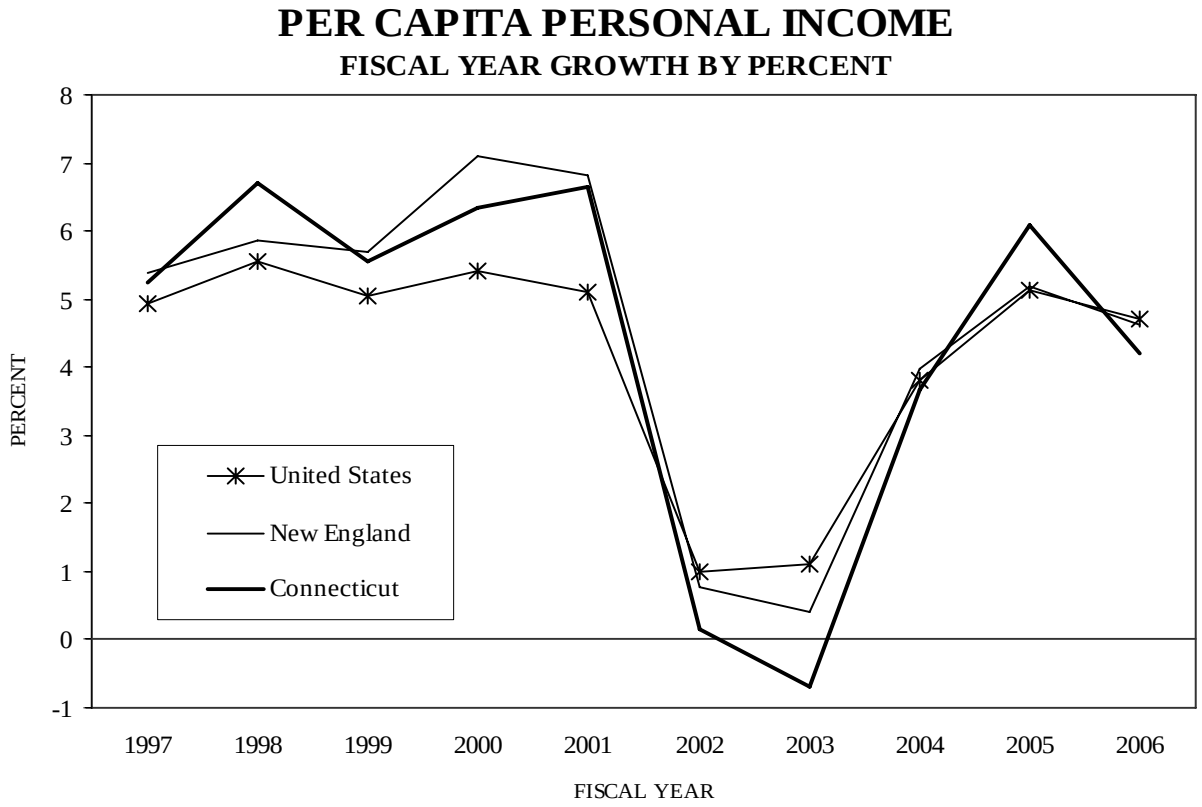
The following Table shows the growth in per capita personal income for ten fiscal years for the United States, the New England Region and Connecticut. The Chart following the Table provides a graphic representation of the growth rates in per capita personal income for the three entities over a ten year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

TABLE 65
PER CAPITA PERSONAL INCOME

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1996-97	24,693	4.93	28,907	5.39	33,321	5.25
1997-98	26,063	5.55	30,599	5.85	35,554	6.70
1998-99	27,379	5.05	32,338	5.68	37,528	5.55
1999-00	28,857	5.40	34,633	7.10	39,905	6.33
2000-01	30,328	5.10	36,998	6.83	42,553	6.64
2001-02	30,631	1.00	37,288	0.78	42,617	0.15
2002-03	30,970	1.11	37,436	0.40	42,328	(0.68)
2003-04	32,149	3.81	38,932	3.99	43,882	3.67
2004-05	33,803	5.14	40,947	5.18	46,551	6.08
2005-06	35,398	4.72	42,840	4.62	48,717	4.20

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 2006. In 2006, the $48,717 figure for Connecticut per capita personal income remained approximately 37.6% higher than the national average.

TABLE 66
PER CAPITA PERSONAL INCOME BY STATE
(Fiscal 2006)

State	Per Capita Income	Rank	State	Per Capita Income	Rank
Connecticut	$48,717	1	Vermont	$33,343	26
New Jersey	45,065	2	Michigan	33,159	27
Massachusetts	44,914	3	Oregon	32,960	28
Maryland	42,987	4	Iowa	32,721	29
New York	41,349	5	Ohio	32,570	30
Wyoming	38,901	6	Missouri	32,083	31
New Hampshire	38,588	7	North Dakota	31,999	32
Virginia	38,368	8	Indiana	31,914	33
Colorado	38,359	9	Georgia	31,912	34
Delaware	38,144	10	Tennessee	31,714	35
Minnesota	38,007	11	North Carolina	31,595	36
California	37,904	12	Maine	31,491	37
Illinois	37,361	13	Oklahoma	31,111	38
Nevada	36,399	14	Arizona	31,061	39
Alaska	36,261	15	Alabama	30,565	40
Washington	36,259	16	Montana	29,713	41
Rhode Island	35,999	17	Idaho	29,300	42
Pennsylvania	35,686	18	South Carolina	28,934	43
Hawaii	35,208	19	Kentucky	28,906	44
Florida	35,004	20	New Mexico	28,746	45
Wisconsin	33,977	21	Utah	28,443	46
Kansas	33,900	22	Arkansas	27,352	47
Nebraska	33,810	23	West Virginia	26,699	48
Texas	33,618	24	Mississippi	25,636	49
South Dakota	33,389	25	Louisiana	25,252	50
U.S. Average	$35,398				

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 2006.

TABLE 67
PER CAPITA DISPOSABLE PERSONAL INCOME BY STATE
(Fiscal 2006)

State	Per Capita Disposable Income	Rank	State	Per Capita Disposable Income	Rank
Connecticut	$40,978	1	Michigan	$30,158	26
New Jersey	38,719	2	South Dakota	29,828	27
Massachusetts	38,687	3	Iowa	29,827	28
Maryland	36,776	4	North Dakota	29,406	29
New Hampshire	35,165	5	Missouri	29,383	30
New York	35,058	6	Ohio	29,318	31
Virginia	34,328	7	Tennessee	29,092	32
Colorado	34,284	8	Oregon	28,864	33
Wyoming	33,678	9	Indiana	28,539	34
Delaware	33,144	10	Maine	28,422	35
Minnesota	33,083	11	Georgia	28,128	36
California	33,022	12	Arizona	27,994	37
Alaska	32,758	13	North Carolina	27,522	38
Rhode Island	32,723	14	Oklahoma	27,337	39
Illinois	32,554	15	Montana	27,215	40
Nevada	32,467	16	Alabama	26,987	41
Washington	32,390	17	South Carolina	26,192	42
Pennsylvania	31,593	18	Utah	26,038	43
Hawaii	31,392	19	Kentucky	25,921	44
Nebraska	30,916	20	Idaho	25,819	45
Florida	30,459	21	New Mexico	25,721	46
Vermont	30,444	22	West Virginia	25,516	47
Texas	30,430	23	Arkansas	24,884	48
Kansas	30,346	24	Louisiana	24,075	49
Wisconsin	30,195	25	Mississippi	23,675	50
U.S. Average	$31,131				

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 68
THE U.S. CONSUMER PRICE INDEX
(1982-84=100)

Fiscal Year	C.P.I.	% Growth
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	3.41
2001-02	178.2	1.77
2002-03	182.1	2.21
2003-04	186.1	2.18
2004-05	191.7	3.01
2005-06	199.0	3.80

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 69
REAL PERSONAL INCOME
(In Millions)

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
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	4,790,303	3.62	284,568	4.95	80,206	4.11
2000-01	4,920,361	2.74	296,109	4.06	83,250	3.80
2001-02	4,932,512	0.25	295,005	(0.37)	82,477	(0.93)
2002-03	4,928,025	(0.09)	291,319	(1.25)	80,800	(2.03)
2003-04	5,055,352	2.58	297,386	2.08	82,417	2.00
2004-05	5,209,055	3.04	303,978	2.22	85,137	3.30
2005-06	5,303,291	1.81	307,563	1.18	86,193	1.24

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.

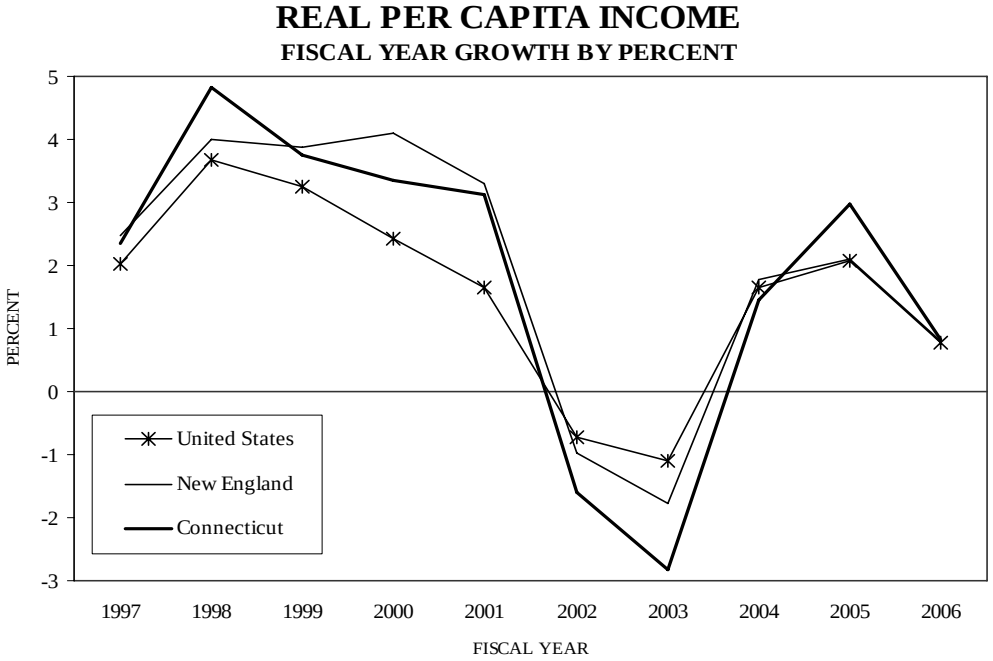
TABLE 70
REAL PER CAPITA PERSONAL INCOME

Fiscal	United States		New England		Connecticut	
Year	Dollars	% Growth	Dollars	% Growth	Dollars	% Growth
1996-97	15,558	2.02	18,192	2.48	20,970	2.34
1997-98	16,130	3.67	18,918	3.99	21,981	4.82
1998-99	16,654	3.25	19,652	3.88	22,806	3.76
1999-00	17,058	2.43	20,457	4.10	23,572	3.36
2000-01	17,340	1.66	21,134	3.31	24,307	3.12
2001-02	17,213	(0.73)	20,929	(0.97)	23,920	(1.59)
2002-03	17,022	(1.11)	20,557	(1.78)	23,243	(2.83)
2003-04	17,302	1.65	20,922	1.77	23,582	1.46
2004-05	17,660	2.07	21,362	2.10	24,285	2.98
2005-06	17,791	0.74	21,532	0.79	24,485	0.82

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

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

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



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

The following Table highlights the cumulative growth in real per capita personal income over the past fifty-five years. Despite the fact that growth in Connecticut real personal income has remained equal to the United States over the past fifteen years, overall Connecticut has enjoyed higher cumulative growth in real per capita personal income, exceeding the United States by 37.9 percentage points. In one decade alone, 1980 to 1990, Connecticut's growth in real personal income was 17.3 percentage points higher than the United States' growth. Even though job growth in the state has lagged that of the nation, Connecticut residents' income growth has out-performed that of the nation's over the long-term.

TABLE 71
GROWTH IN REAL PER CAPITA PERSONAL INCOME
(Base Year: 2005)

Fiscal	% Growth		% Cumulative Growth	
Year	United States	Connecticut	United States	Connecticut
1950-1960	27.7%	28.5%	27.7%	28.5%
1960-1970	37.2%	40.6%	75.2%	80.7%
1970-1980	17.9%	12.8%	106.5%	103.7%
1980-1990	21.6%	38.9%	151.0%	182.9%
1990-2000	13.5%	13.5%	184.9%	221.1%
2000-2005	3.8%	3.8%	195.6%	233.5%

Source: Moody's Economy.com

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 such as the CPI-U 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 four urban areas from the following MTSAs: Stamford in the Bridgeport-Stamford-Norwalk MTSA, Hartford in the Hartford-West Hartford-East Hartford MTSA, New Haven in the New Haven-Milford MTSA, and New London in the Norwich-New London MTSA.

The following Table shows the cost of living comparison for three neighboring cities: Boston in the Boston-Quincy MD, Hartford in the Hartford-West Hartford-East Hartford MTSA, and New York (Manhattan) in the New York-White Plains-Wayne NY-NJ MD in the second quarter of 2006.

TABLE 72
COMPARISON OF COST OF LIVING

2nd Quarter 2006 MTSA/MD	Composite Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc.
Hartford, CT	119.0	113.2	136.6	130.3	110.7	114.1	106.7
Boston, MA	136.4	119.2	161.8	131.5	108.6	125.5	133.0
New York, NY	204.7	146.8	372.0	150.2	116.3	130.9	141.7
Index Weights	100%	13%	29%	10%	9%	4%	35%

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2006

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 area, for example, for the second quarter of 2006 was 119.0 compared to the national average of 100. This index demonstrates that the overall living cost in the Hartford area was higher than the national average by 19.0%. Among the six categories, the

cost of housing in the Hartford area was the most expensive item, a full 36.6% higher than the national average, followed by utilities at 30.3%, health care at 14.1%, grocery items at 13.2%, transportation at 10.7%, and miscellaneous goods and services at 6.7% higher than the national average. The index, updated quarterly, does not measure tax differentials.

In the second quarter of 2006, numerous cities had a relatively higher cost of living than the Hartford area. These include, for example, New York City (Manhattan) at 204.7; San Francisco, California at 169.4; and Boston, Massachusetts at 136.4. The cost of living in the Hartford area was collectively on par with Providence, Rhode Island and Philadelphia, Pennsylvania, which both registered at 124.4 and 125.1, 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 72.0%, (204.7-119.0)/119.0, 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 41.9%, (119.0-204.7)/204.7, 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 2006, ACCRA recorded the cost of living for the Stamford area at 149.3, New Haven at 122.4, and New London at 118.4, compared to 119.0 for Hartford. 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 73
COMPARISON OF COST OF LIVING IN CONNECTICUT
Hartford, New Haven, New London, and Stamford MTSAs

2nd Quarter 2006 MTSA	Composite Index	Grocery Items	Housing	Utilities	Transportation	Health Care	Misc.
Hartford	119.0	113.2	136.6	130.0	110.7	114.1	106.7
New Haven	122.4	111.0	146.0	128.5	114.0	124.1	108.3
New-London	118.4	118.3	135.3	124.8	101.3	118.7	107.8
Stamford	149.3	119.4	230.4	129.1	111.6	110.9	116.6

Source: The American Chamber of Commerce Research Association, "ACCRA Cost of Living Index", Second Quarter 2006

THE MAJOR REVENUE RAISING TAXES IN THE STATE OF CONNECTICUT

In fiscal 2006, Connecticut's General Fund derived 75 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 2004. The Table shows overall state tax collections as a percentage of personal income. In the Table, note that Connecticut ranks 21st, signifying that in 20 other states a greater percentage of an individual's income is going for state taxes than in Connecticut.

TABLE 74
STATE TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2004

State	Percentage	Rank	State	Percentage	Rank
Hawaii	9.35%	1	Louisiana	6.34%	26
Vermont	9.03%	2	Montana	6.33%	27
Wyoming	8.49%	3	Massachusetts	6.29%	28
West Virginia	8.29%	4	New York	6.18%	29
Delaware	8.07%	5	Kansas	6.17%	30
Minnesota	7.98%	6	Pennsylvania	6.13%	31
New Mexico	7.88%	7	Alaska	6.05%	32
Arkansas	7.87%	8	South Carolina	5.99%	33
Kentucky	7.56%	9	Nevada	5.94%	34
Mississippi	7.38%	10	Arizona	5.86%	35
Maine	7.30%	11	New Jersey	5.77%	36
Wisconsin	7.15%	12	Iowa	5.70%	37
Michigan	7.07%	13	Maryland	5.57%	38
Idaho	6.95%	14	Alabama	5.53%	39
California	6.78%	15	Oregon	5.51%	40
North Carolina	6.66%	16	Georgia	5.49%	41
North Dakota	6.65%	17	Tennessee	5.45%	42
Utah	6.62%	18	Florida	5.39%	43
Rhode Island	6.57%	19	Virginia	5.33%	44
Nebraska	6.52%	20	Missouri	5.26%	45
Connecticut	6.48%	21	Illinois	5.20%	46
Washington	6.45%	22	Texas	4.45%	47
Oklahoma	6.43%	23	South Dakota	4.40%	48
Ohio	6.38%	24	Colorado	4.28%	49
Indiana	6.37%	25	New Hampshire	4.23%	50
U.S. Average	6.08%				

Source: U.S. Department of Commerce, "State Government Finances, 2004"

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 $12,750 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 77 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, but rose to $500 in income year 2006.

The Personal Income Tax generated $6,156.4million in fiscal year 2005-06, $5,570.7 million in fiscal year 2004-05 and $4,943.4 million in fiscal year 2003-04. In fiscal year 2005-06, this tax accounted for 41.1% of total revenue and 51.5% of total tax collections while in fiscal 2004-05 it accounted for 39.6% of total revenue and 50.7% of total tax collections.

TABLE 75
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 & After	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 2004.

TABLE 76
STATE INCOME TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2004

State	Percentage	Rank	State	Percentage	Rank
Oregon	3.99%	1	West Virginia	2.35%	23
New York	3.46%	2	Kansas	2.32%	24
Massachusetts	3.37%	3	Nebraska	2.26%	25
Minnesota	3.19%	4	Vermont	2.24%	26
North Carolina	3.09%	5	Iowa	2.22%	27
Wisconsin	3.05%	6	South Carolina	2.19%	28
Maine	3.02%	7	Missouri	2.17%	29
California	2.97%	8	Colorado	2.11%	30
Hawaii	2.95%	9	New Jersey	2.11%	31
Virginia	2.84%	10	New Mexico	2.07%	32
Connecticut	2.82%	11	Indiana	2.07%	33
Delaware	2.71%	12	Michigan	2.04%	34
Utah	2.70%	13	Illinois	1.87%	35
Georgia	2.63%	14	Alabama	1.84%	36
Kentucky	2.56%	15	Louisiana	1.83%	37
Rhode Island	2.51%	16	Pennsylvania	1.82%	38
Idaho	2.50%	17	Mississippi	1.53%	39
Ohio	2.50%	18	Arizona	1.45%	40
Maryland	2.47%	19	North Dakota	1.15%	41
Arkansas	2.45%	20	New Hampshire	0.12%	42
Montana	2.43%	21	Tennessee	0.08%	43
Oklahoma	2.42%	22			
U.S. Average	2.10%				

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, 2004"

The following Table shows Connecticut personal income tax exemptions ranging from $12,750 to $24,000 including the phase out as income levels rise depending on adjusted gross income for each income tax filing status.

TABLE 77
CONNECTICUT PERSONAL INCOME TAX CREDITS & EXEMPTIONS
Income Year 2007

Single			Married Filing Jointly			Head of Household		
Exemption: $12,750			Exemption: $24,000			Exemption: $19,000		
Phase Out: $1K of exemption for each $1K from $25.5K to $37.5K			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
$12,750	$15,900	75%	$24,000	$30,000	75%	$19,000	$24,000	75%
$15,900	$16,400	70%	$30,000	$30,500	70%	$24,000	$24,500	70%
$16,400	$16,900	65%	$30,500	$31,000	65%	$24,500	$25,000	65%
$16,900	$17,400	60%	$31,000	$31,500	60%	$25,000	$25,500	60%
$17,400	$17,900	55%	$31,500	$32,000	55%	$25,500	$26,000	55%
$17,900	$18,400	50%	$32,000	$32,500	50%	$26,000	$26,500	50%
$18,400	$18,900	45%	$32,500	$33,000	45%	$26,500	$27,000	45%
$18,900	$19,400	40%	$33,000	$33,500	40%	$27,000	$27,500	40%
$19,400	$21,300	35%	$33,500	$40,000	35%	$27,500	$34,000	35%
$21,300	$21,800	30%	$40,000	$40,500	30%	$34,000	$34,500	30%
$21,800	$22,300	25%	$40,500	$41,000	25%	$34,500	$35,000	25%
$22,300	$22,800	20%	$41,000	$41,500	20%	$35,000	$35,500	20%
$22,800	$26,600	15%	$41,500	$50,000	15%	$35,500	$44,000	15%
$26,600	$27,100	14%	$50,000	$50,500	14%	$44,000	$44,500	14%
$27,100	$27,600	13%	$50,500	$51,000	13%	$44,500	$45,000	13%
$27,600	$28,100	12%	$51,000	$51,500	12%	$45,000	$45,500	12%
$28,100	$28,600	11%	$51,500	$52,000	11%	$45,500	$46,000	11%
$28,600	$51,000	10%	$52,000	$96,000	10%	$46,000	$74,000	10%
$51,000	$51,500	9%	$96,000	$96,500	9%	$74,000	$74,500	9%
$51,500	$52,000	8%	$96,500	$97,000	8%	$74,500	$75,000	8%
$52,000	$52,500	7%	$97,000	$97,500	7%	$75,000	$75,500	7%
$52,500	$53,000	6%	$97,500	$98,000	6%	$75,500	$76,000	6%
$53,000	$53,500	5%	$98,000	$98,500	5%	$76,000	$76,500	5%
$53,500	$54,000	4%	$98,500	$99,000	4%	$76,500	$77,000	4%
$54,000	$54,500	3%	$99,000	$99,500	3%	$77,000	$77,500	3%
$54,500	$55,000	2%	$99,500	$100,000	2%	$77,500	$78,000	2%
$55,000	$55,500	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 78
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	T
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.

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

TABLE 79
PERSONAL INCOME TAX BY STATE*

	Low Bracket		High Bracket			Low Bracket		High Bracket	
State	Rate	To Net Income	Rate	From Net Income	State	Rate	To Net Income	Rate	From Net
Alabama (2)	2.0	1,000	5.0	6,001	Missouri (1)	1.5	1,000	6.0	9,000
Arizona (1)	2.87	20,000	4.79	300,001	Montana (1)	1.0	2,399	6.9	14,500
Arkansas (4)	1.0	3,400	7.0	29,200	Nebraska (1)	2.56	2,400	6.84	27,000
California (1)	1.0	13,244	9.3	86,935	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	5.3	24,000
Delaware (1)	2.2	5,000	5.95	60,000	New York (1)	4.0	16,000	6.85	40,000
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	51,200	5.54	336,550
Idaho (2)	1.6	2,318	7.8	46,357	Ohio (1)	0.68	5,000	6.87	200,000
Illinois (1)	3.0	All			Oklahoma (1)	0.5	2,000	6.25	21,000
Indiana (1)	3.4	All			Oregon (2)	5.0	5,500	9.0	13,700
Iowa (1)	0.36	1,300	8.98	58,500	Pennsylvania (4)	3.07	All		
Kansas (1)	3.5	30,000	6.45	60,000	Rhode Island (c)	3.75	51,200	9.9	336,550
Kentucky (1)	2.0	3,000	6.0	75,000	S. Carolina (2)	2.5	2,570	7.0	12,850
Louisiana (1)	2.0	25,000	6.0	50,000	Tennessee	(b)			
Maine (1)	2.0	9,149	8.5	36,550	Utah (2)	2.3	2,000	6.98	11,000
Maryland (1)	2.0	1,000	4.75	3,000	Vermont (3)	3.6	51,200	9.5	336,550
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	29,980	7.85	119,100	Wisconsin (1)	4.6	12,210	6.75	183,210
Mississippi (4)	3.0	5,000	5.0	10,000	Dist. of Col. (1)	5.0	10,000	8.7	40,000

* 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 short-term capital gains and 5.3% for interests and dividends.
(b) Income taxes are limited to interest and dividends: 5.0% in New Hampshire and 6.0% in Tennessee.
(c) Alternatively, taxpayers may elect to pay 25% of Federal Income Tax Liability.

Source: Commerce Clearing House, Inc.

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 2005-06, sales and use taxes accounted for 22.7% of total revenue and 30.3% of total tax collections, compared to 23.4% and 31.9%, respectively, in fiscal 2004-05.

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 2004 data. From fiscal 1991 to fiscal 2003, Connecticut's sales tax collections as a percentage of personal income dropped from 3.15% with a rank of ninth to 2.04% with a rank of 29th, and compared to the national average of 2.10%. 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 81 shows the comparison for major sales tax exemptions.

TABLE 80
SALES TAX COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME
Fiscal 2004

State	Sales Tax Rate	%	Rank	State	Sales Tax Rate	%	Rank
Hawaii	4.0*	4.80	1	West Virginia	6.0	2.25	24
Washington	6.5*	4.06	2	Rhode Island	7.0	2.24	25
Mississippi	7.0	3.59	3	Kentucky	6.0	2.24	26
Tennessee	7.0*	3.41	4	Louisiana	4.0	2.24	27
Florida	6.0*	3.21	5	California	6.0	2.16	28
Arkansas	6.0*	3.12	6	Connecticut	6.0	2.04	29
New Mexico	5.0	2.97	7	North Dakota	5.0*	1.98	30
Nevada	6.5**	2.97	8	Pennsylvania	6.0*	1.94	31
Arizona	5.6*	2.96	9	Georgia	4.0*	1.90	32
Idaho	5.0	2.86	10	Iowa	5.0*	1.83	33
Nebraska	5.0*	2.77	11	North Carolina	4.5*	1.79	34
Wyoming	4.0*	2.75	12	New Jersey	7.0	1.78	35
Indiana	6.0	2.59	13	Missouri	4.225*	1.72	36
South Dakota	4.0*	2.56	14	Oklahoma	4.5*	1.67	37
Utah	4.75*	2.49	15	Illinois	6.25*	1.59	38
Michigan	6.0	2.45	16	Alabama	4.0*	1.55	39
South Carolina	5.0*	2.45	17	Massachusetts	5.0	1.43	40
Maine	5.0	2.39	18	New York	4.0*	1.41	41
Kansas	5.3*	2.34	19	Maryland	5.0	1.38	42
Texas	6.25*	2.29	20	Vermont	6.0	1.34	43
Minnesota	6.5*	2.27	21	Colorado	2.9*	1.18	44
Wisconsin	5.0	2.27	22	Virginia	4.0*	1.14	45
Ohio	5.5*	2.26	23				
U.S. Average		2.10					

* 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.;
U.S. Department of Commerce, "State Government Finances", 2004;
U.S. Department of Commerce, Bureau of Economic Analysis

TABLE 81
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	E
Kentucky	E	E	E	E	T	T	E	E
Louisiana	E	E	E	E	T	T	T	E
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	E	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 (5)	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 (1)	E	E	E	T	T	T	E
Washington	E	E	T	T	T	T	E	E
West Virginia	T (1)	E	T	T	T	T	T (6)	T
Wisconsin	E	E	E	T	T	T	E	E
Wyoming	T	E	E	E	T	T	T	E
Total Taxable	16	1	14	20	38	45	22	12

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) Downloaded "prewritten" computer software taxable. (6) Sales of software used to provide data processing services for others are exempt. (7) Refund available for disabled, elderly and low-income households.
Source: Commerce Clearing House, Inc.

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 2005-06, the Corporation Business Tax accounted for 5.3% of total revenue and 6.6% of total tax collections, while in fiscal 2004-05 they were 4.8% and 6.2%, 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. During the 2005 Legislative session the General Assembly imposed a 20% surcharge for income year 2006.

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 82
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	6.97	All		
Arkansas	1.0	3,000	6.5	100,000
California (1)	8.84	All		
Colorado	4.63	All		
Connecticut	7.5	All		
Delaware	8.7	All		
Florida (2)	5.5	All		
Georgia	6.0	All		
Hawaii	4.4	25,000	6.4	100,000
Idaho	7.6	All		
Illinois (3)	7.3	All		
Indiana	8.5	All		
Iowa	6.0	25,000	12.0	250,000
Kansas (5)	4.0	All		
Kentucky	4.0	50,000	7.0	100,000
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 (6)	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	6.5	50,000	9.0	100,000
New Mexico	4.8	500,000	7.6	1.0M
New York	7.5	All		
N. Carolina (7)	6.9	All		
N. Dakota	2.6	3,000	7.0	30,000
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	6.5	All		
Texas	4.5	All		
Utah	5.0	All		
Vermont	6.0	10,000	8.9	250,000
Virginia	6.0	All		
West Virginia	9.0	All		
Wisconsin	7.9	All		
District of Col.	9.98	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, Washington & Wyoming. The following states require a minimum tax: Arizona $50; California $800; Connecticut $250; Idaho $20; Kentucky $175; Massachusetts $456; Montana $50; New Jersey $500; Oregon $10; Rhode Island $250; Utah $100; Vermont $250; District of Columbia $100

(1) Tax rate on S-corporations is 1.5%
(2) An alternative minimum tax imposed 3.3%.
(3) Additional personal property replacement tax is imposed at the rate of 2.5% of net income.
(4) A surtax is imposed: 14% in Massachusetts on tax liability
(5) A surtax of 3.35% on taxable incomes in excess of $50,000 is imposed.
(6) A 5.8% tax is imposed on any alternative minimum taxable income over the base tax
(7) Financial institutions are subject to a tax equal to $30 per one million in assets.

Source: Federation of Tax Administrators, www.taxadmin.org. Rates Effective for IY 2006

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 83
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)	27.1	-	27.1
Arizona	18.0	-	18.0	Nevada	24.0	-	24.0
Arkansas	21.5	-	21.5	New Hampshire	18.0	-	18.0
California	18.0	6.25	37.0	New Jersey	10.5	6.00	28.7
Colorado	22.0	-	22.0	New Mexico	17.0	-	17.0
Connecticut	25.0	-	25.0	New York	8.0	4.25	20.9
Delaware	23.0	-	23.0	North Carolina (f)	29.9	-	29.9
Florida	14.9	6.00	33.1	North Dakota	23.0	-	23.0
Georgia (a)	7.5	1.00	10.5	Ohio	28.0	-	28.0
Hawaii (b)	21.0	-	21.0	Oklahoma	16.0	-	16.0
Idaho	25.0	-	25.0	Oregon	24.0	-	24.0
Illinois	19.0	6.25	38.0	Pennsylvania	31.2	-	31.2
Indiana (c)	18.0	6.00	36.2	Rhode Island	30.0	-	30.0
Iowa	21.0	-	21.0	South Carolina	16.0	-	16.0
Kansas	24.0	-	24.0	South Dakota	22.0	-	22.0
Kentucky (d)	18.3	-	18.3	Tennessee (g)	20.0	-	20.0
Louisiana	20.0	-	20.0	Texas	20.0	-	20.0
Maine	26.8	-	26.8	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	37.2	Washington	34.0	6.50	53.8
Minnesota	20.0	6.50	40.0	West Virginia (c)	20.5	6.00	38.7
Mississippi	18.0	-	18.0	Wisconsin	29.9	-	29.9
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 $3.04 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 0.4¢ per gallon.
(h) An environmental surcharge of one-half cent per gallon is imposed on all petroleum sold.

Source: Commerce Clearing House, Inc.

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 84
CIGARETTE TAXES BY STATE

State	Rate	State	Rate
Alabama	42.5 ¢	Montana	$1.70
Alaska	$1.80	Nebraska	64.0 ¢
Arizona	$2.00	Nevada	80.0 ¢
Arkansas (1)	59.0 ¢	New Hampshire	80.0 ¢
California	87.0 ¢	New Jersey	$2.40
Colorado	84.0 ¢	New Mexico	91.0 ¢
Connecticut	$1.51	New York	$1.50
Delaware	55.0 ¢	North Carolina	35.0 ¢
Florida	33.9 ¢	North Dakota	44.0 ¢
Georgia	37.0 ¢	Ohio	$1.25
Hawaii	$1.60	Oklahoma	$1.03
Idaho	57.0 ¢	Oregon	$1.18
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)	30.0 ¢	Tennessee	20.0 ¢
Louisiana	36.0 ¢	Texas	$1.41
Maine	$2.00	Utah (3)	69.5 ¢
Maryland	$1.00	Vermont	$1.79
Massachusetts	$1.51	Virginia	30.0 ¢
Michigan	$2.00	Washington	$2.03
Minnesota	48.0 ¢	West Virginia	55.0 ¢
Mississippi (3)	18.0 ¢	Wisconsin (4)	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) An additional tax of 0.8¢ per pack of 20 cigarettes is imposed minus the federal cigarette tax.

Source: Commerce Clearing House, Inc.

TABLE 85
INSURANCE COMPANIES TAX BY STATE

State	Domestic Tax Rate %	Foreign Tax Rate %	State	Domestic Tax Rate %	Foreign Tax Rate %
Alabama (1)	0.50-3.60	0.50-3.60	Montana (1)	0.75-4.25	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)	0.66-3.00	0.66-3.00	Nevada	3.50	3.50
Arkansas (1)	0.50-4.00	0.50-4.00	New Hampshire (8)	2.00-5.00	2.00-5.00
California (1)	0.50-5.00	0.50-5.00	New Jersey (1)	1.05-5.25	1.05-5.25
Colorado (2)	1.00	2.00	New Mexico (2,3)	3.003	3.003
Connecticut	1.75	1.75	New York (1,9)	0.80-2.00	0.80-2.00
Delaware (1,3)	1.75-5.00	1.75-5.00	North Carolina (1,4)	1.00-5.00	1.00-5.00
Florida (1,4)	0.75-1.75	0.75-1.75	North Dakota (1,8)	1.75-2.00	1.75-2.00
Georgia (1,2)	2.25-4.00	2.25-4.00	Ohio (1,4,8)	1.00-1.40	1.00-1.40
Hawaii (1)	0.88-4.27	0.88-4.27	Oklahoma (4)	2.25	2.25
Idaho (1,2)	1.90-2.10	1.90-2.10	Oregon	(10)	(10)
Illinois (1,4)	3.50-5.00	3.50-5.00	Pennsylvania (1)	2.00-5.00	2.00-5.00
Indiana (1)	1.30-2.50	1.30-2.50	Rhode Island	2.00-3.00	2.00-3.00
Iowa (1)	1.25-6.50	1.25-6.50	South Carolina (1,3)	0.75-1.35	0.75-1.35
Kansas (1,4)	2.00-6.00	2.00-6.00	South Dakota (1)	2.50-3.00	2.50-3.00
Kentucky (1,5)	2.00-2.75	2.00-2.75	Tennessee (1,2,8)	1.75-3.25	1.75-3.25
Louisiana (4)	(6)	(6)	Texas (1,2)	1.60-3.50	1.60-3.50
Maine (1)	1.00-2.55	1.00-2.55	Utah (1)	2.26-4.25	2.26-4.25
Maryland (1)	2.00-3.00	2.00-3.00	Vermont (1)	2.00-3.00	2.00-3.00
Massachusetts (1,3)	2.00-5.00	2.00-5.00	Virginia (1)	0.75-2.25	0.75-2.25
Michigan	(7)	(7)	Washington	0.95-2.00	0.95-2.00
Minnesota (1,4)	1.00-3.00	1.00-3.00	W. Virginia (1,4,8)	2.00-4.00	2.00-4.00
Mississippi (1,4)	3.00	3.00	Wisconsin (1)	0.50-2.375	0.50-2.375
Missouri (1)	2.00-5.00	2.00-5.00	Wyoming (1)	0.75-3.00	0.75-3.00

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 Louisiana, 2.5% in Minnesota.
(5) Plus a surcharge or $1.50 per $100 of premiums on Kentucky risks other than health & life.
(6) Life and 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.
(7) Subject to the greater of the single business tax or the retaliatory tax.
(8) With minimum tax of $200 in New Hampshire, North Dakota, & West Virginia, $150 in Tennessee and $250 in Ohio.
(9) Depending upon the type and date insurance was issued.
(10) 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 86
ALCOHOLIC BEVERAGE TAXES BY STATE
(Dollars Per Gallon)

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	.23	New Hampshire (1)	.30	.30	.30	.30
California	3.30	.20	.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	4.50	.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	.20	S. Carolina (3)	1.92	.90	.90	.77
Kansas	2.50	.30	.75	.18	S. Dakota	3.93	.93	1.45	.28
Kentucky	1.92	.50	.50	.08	Tennessee (4)	4.40	1.21	1.21	.14
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	.21	Washington (1)	9.23	.86	1.72	.27
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 5% 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.

Source: Commerce Clearing House, Inc.

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 87
GENERAL FUND REVENUES

TAXES ($K)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006*
Personal Income	$4,265,912	$4,263,070	$4,943,430	$5,570,724	$6,156,373
Sales and Use	2,997,766	3,025,743	3,133,888	3,290,366	3,401,966
Corporation	380,985	507,975	518,009	678,969	787,702
Public Service Corporation	166,597	197,959	193,643	196,819	225,263
Insurance Companies	217,371	239,358	233,412	257,152	269,902
Inheritance & Estate	153,092	184,321	147,614	253,907	196,258
Cigarettes	160,904	256,052	279,572	273,979	272,230
Oil Companies	24,309	117,451	106,894	143,548	212,091
Real Estate Conveyance	120,717	149,317	176,743	207,631	207,458
Alcoholic Beverages	41,619	42,490	44,044	44,236	45,998
Admissions, Dues, Cabaret	26,905	31,696	31,662	31,699	35,367
Miscellaneous	26,229	33,731	34,822	39,028	142,180
Total - Taxes	8,582,444	9,049,163	9,843,733	10,988,058	11,952,788
Less Refunds of Taxes	(829,558)	(808,209)	(650,800)	(681,279)	(730,850)
Less Refunds of R&D Credit	(21,933)	(11,148)	(10,378)	(8,850)	(6,694)
Total - Taxes Less Refunds	7,730,953	8,229,806	9,182,555	10,297,929	11,215,244
OTHER REVENUE					
Transfer-Special Revenue	277,589	262,776	286,699	273,894	289,946
Indian Gaming Payments	368,954	387,255	402,733	417,838	427,527
Licenses, Permits & Fees	137,518	125,179	154,585	143,250	157,400
Sales of Commodities & Services	30,479	32,869	40,991	35,148	34,612
Investment Income	23,848	7,083	1,779	15,293	53,702
Rents, Fines & Escheats	47,620	81,490	117,719	170,732	91,456
Miscellaneous	114,273	182,364	111,149	153,982	176,367
Less Refunds of Payments	(373)	(396)	(574)	(374)	(438)
Total - Other Revenue	999,908	1,078,621	1,115,081	1,209,764	1,230,572
OTHER SOURCES					
Federal Grants	2,142,270	2,318,421	2,564,256	2,497,670	2,549,577
Transfer from Special Funds	120,000	489,486	346,883	142,500	89,400
Transfer to Other Funds	(147,686)	(93,009)	(85,000)	(85,000)	(86,300)
Total - Other Sources	2,114,584	2,714,898	2,826,139	2,555,170	2,552,677
GRAND TOTAL	$10,845,445	$12,023,325	$13,123,775	$14,062,863	$14,998,493
TAXES	% of Total	% of Total	% of Total	% of Total	% of Total
Personal Income	39.33%	35.46%	37.67%	39.61%	41.05%
Sales and Use	27.64	25.17	23.88	23.40	22.68
Corporation	3.51	4.22	3.95	4.83	5.25
Public Service Corporation	1.54	1.65	1.48	1.40	1.50
Insurance Companies	2.00	1.99	1.78	1.83	1.80
Inheritance & Estate	1.42	1.53	1.12	1.81	1.31
Cigarettes	1.48	2.13	2.13	1.95	1.82
Oil Companies	0.22	0.98	0.81	1.02	1.41
Real Estate Conveyance	1.12	1.24	1.35	1.48	1.38
Alcoholic Beverages	0.38	0.35	0.34	0.31	0.31
Admissions, Dues, Cabaret	0.25	0.26	0.24	0.23	0.24
Miscellaneous	0.24	0.28	0.27	0.28	0.95
Total - Taxes	79.13	75.26	75.01	78.14	79.69
Less Refunds of Taxes	(7.65)	(6.72)	(4.96)	(4.84)	(4.87)
Less Refunds of R&D Credit	(0.20)	(0.09)	(0.08)	(0.06)	(0.04)
Total – Taxes Less Refunds	71.28	68.44	69.97	73.23	74.78
OTHER REVENUE					
Transfer-Special Revenue	2.56	2.19	2.18	1.95	1.93
Indian Gaming Payments	3.40	3.22	3.07	2.97	2.85
Licenses, Permits & Fees	1.27	1.04	1.18	1.02	1.05
Sales of Commodities & Services	0.28	0.27	0.31	0.25	0.23
Investment Income	0.22	0.06	0.01	0.11	0.36
Rents, Fines & Escheats	0.44	0.68	0.90	1.21	0.61
Miscellaneous	1.05	1.52	0.85	1.09	1.18
Less Refunds of Payments	-	-	-	-	-
Total - Other Revenue	9.22	8.97	8.50	8.60	8.20
OTHER SOURCES					
Federal Grants	19.75	19.28	19.50	17.76	17.00
Transfer from Special Funds	1.11	4.07	2.60	1.01	0.60
Transfer to Other Funds	(1.36)	(0.77)	(0.60)	(0.60)	(0.58)
Total - Other Sources	19.50	22.58	21.50	18.17	17.02
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

TABLE 88
SPECIAL TRANSPORTATION FUND REVENUES

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 *
TAXES ($K)					
Motor Fuels	$430,287	$457,991	$464,472	$483,797	$480,868
Oil Companies	46,000	-	10,500	13,000	43,500
DMV Sales	65,224	65,523	70,412	69,720	68,419
Less Refunds of Taxes	(7,777)	(8,518)	(10,096)	(8,329)	(8,853)
Total - Taxes Less Refunds	533,734	514,996	535,288	558,188	583,934
OTHER REVENUE					
Motor Vehicle Receipts	200,690	204,824	219,159	233,852	227,261
Licenses, Permits & Fees	130,710	136,597	155,074	155,083	160,442
Interest Income	40,480	27,399	24,524	32,681	40,125
Federal Transit Administration	3,305	3,305	-	-	-
Transfer from Other Funds	-	2,634	3,730	-	-
Transfer to Other Funds	(9,500)	(60,500)	(8,500)	(8,500)	(4,600)
Transfer to TSB	-	-	(22,850)	(28,727)	(25,300)
Less Refunds of Payments	(2,525)	(2,150)	(2,507)	(2,779)	(2,666)
Total – Other Revenue	363,160	312,109	368,630	381,610	395,262
GRAND TOTAL	$896,894	$827,105	$903,918	$939,798	$979,196
	% of Total	**% of Total**	**% of Total**	**% of Total**	**% of Total**
TAXES					
Motor Fuels	47.98%	55.37%	51.38%	51.48%	49.11%
Oil Companies	5.13	-	1.16	1.38	4.44
DMV Sales	7.27	7.92	7.79	7.42	6.99
Less Refunds of Taxes	(0.87)	(1.03)	(1.12)	(0.89)	(0.90)
Total – Taxes Less Refunds	59.51	62.26	59.22	59.39	59.63
OTHER REVENUE					
Motor Vehicle Receipts	22.38	24.76	24.25	24.88	23.21
Licenses, Permits & Fees	14.57	16.52	17.16	16.50	16.39
Interest Income	4.51	3.31	2.71	3.48	4.10
Federal Transit Administration	0.37	0.40	-	-	-
Transfer from Other Funds	-	0.32	0.41	-	-
Transfer to Other Funds	(1.06)	(7.31)	(0.94)	(0.90)	(0.47)
Transfer to TSB	-	-	(2.53)	(3.06)	(2.58)
Less Refunds of Payments	(0.28)	(0.26)	(0.28)	(0.30)	(0.27)
Total - Other Revenue	40.49	37.74	40.78	40.61	40.37
GRAND TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

* Per the Comptroller's report dated October 2, 2006.

ECONOMIC ASSUMPTIONS OF THE GOVERNOR'S BUDGET

The Foreign Sector

As the world's 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 $1,627.3 billion in 1995 to $3,011.4 billion in 2005, an increase of 85.1% versus only a 37.6% 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.

U.S. exports hinge closely on world economic conditions. 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, U.S.'s own exports. Real world GDP grew 1.4% in 2001 and 1.6% in 2002, down from 4.1% in 2000. U.S. real exports declined by 2.7% in 2001, down from a growth rate of 13.1% in 2000 and 11.5% in 1999. During the recovery period from 2003 to 2006, real world GDP grew by an average of 3.1%, while U.S. real exports increased by an average of 6.5%.

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 will play a vital role in the global trade arena. Trade reforms there have helped end the monopoly of state-owned enterprises over foreign trade. Obligated to the WTO and fueled by strong demand, member countries have revised laws and regulations to bring more transparency to their policy making and lifted restrictions on import items. Ending worldwide export subsidies in agricultural products by 2013 should set a level stage for trade in these goods. In 2005, the U.S. Congress voted to extend free trade beyond the North American Free Trade Agreement (NAFTA) to five Central American countries through the Central American Free Trade Agreement (CAFTA). The U.S.'s ultimate goal is to expand to 31 countries in Central and South America to achieve the proposed Free Trade Area of the Americas (FTAA). In the Asian area, a free trade agreement has been effective since January 2005. The Association of South East Asian Nations (ASEAN) includes 10 countries such as Singapore, Indonesia, Vietnam, and Thailand that have a combined population of about 500 million and a total GDP of some $750 billion. A bilateral trade deal with the ASEAN will help U.S. trade growth in the entire Pacific Rim. The potential to encompass India, Australia, and New Zealand into ASEAN should increase trade benefits for U.S. as well. 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 International Monetary Fund (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 or two, 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 and the worldwide standard of living continues to increase. 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 administrative, financial and accounting, medical and other back-office services such as billing and pathological mapping analysis to overseas locations is becoming more common while outsourcing of manufactured products continues. Following China and India, countries in Southeast Asia and Eastern Europe 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, hindrances are resolved 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 3.2% in 2005 and is estimated to improve to 3.6% in 2006 with an anticipated slightly slower, but still healthy average rate of 3.1% between 2007 and 2009.

TABLE 89
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)
1998	4.2	4.1	(1.9)	1.8	3.3	3.3	1.3	4.9	(1.6)	1.9	2.1
1999	4.5	5.5	(0.1)	1.9	3.0	3.0	1.9	3.9	6.5	3.0	3.8
2000	3.7	5.2	2.9	3.5	3.8	4.1	3.8	6.6	7.5	4.1	4.8
2001	0.8	1.8	0.4	1.4	2.4	1.8	1.7	(0.2)	3.4	1.4	1.7
2002	1.6	2.9	0.1	0.0	2.1	1.1	0.3	0.8	6.0	1.6	2.3
2003	2.5	1.8	2.0	(0.2)	2.7	1.1	0.1	1.4	5.7	2.4	2.3
2004	3.9	3.3	2.1	0.8	3.3	2.1	0.9	4.2	7.1	3.6	3.5
2005	3.2	2.9	2.7	1.1	1.9	1.2	0.1	3.0	6.5	3.2	2.9
2006 (E)	3.3	2.9	2.8	2.5	2.4	2.1	1.6	4.5	7.2	3.6	3.5
2007 (P)	2.6	2.5	1.8	1.3	2.0	2.2	1.5	1.5	6.7	3.0	2.9
2008 (P)	3.1	2.5	1.8	1.4	1.4	2.4	1.6	4.0	6.3	3.1	3.0
2009 (P)	3.1	2.3	1.8	1.2	1.4	2.3	1.8	4.7	6.3	3.1	3.0
% of CT's Exports *											
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		17.2	5.9	8.9	6.4	13.8	1.4	6.4	14.2		
2005		17.3	4.5	8.6	7.2	16.5	1.5	5.8	14.2		

* For 2006 to 2009, assumes the same percentage as in 2005.

(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: Moody's Economy.com & U.S. Dept. of Commerce and University of Massachusetts (MISER)

The export momentum carried into 2006 and is expected to extend through 2009, the forecasted period. The economic growth of European Union (EU), the U.S.'s major trade partner, is expected to improve to 2.6% in 2006 from 1.6% in 2005, and extend to an average growth of 2.0% in the next three years. The 25-member economic bloc has a larger population (457 million versus 300 million in the U.S.) and produces roughly 120% of U.S.'s GDP when measured on a purchasing power parity (PPP) basis that takes into account the relative cost of living and the inflation rate of the various countries. Asian and emerging European economies should grow

faster than other areas, led by a strong average growth of 6.4% in the Pacific basin area between 2007 and 2009. The economy in China, with GDP on a PPP basis standing as the second-largest economy in the world in 2005 after the U.S., will continue to expand rapidly although the country is still low in output per capita terms. More people in Asia are expected to shift their spending to discretionary consumption from basic necessities. The economy in Japan, the world's second largest economy as measured by real GDP, will continue to expand although at a slower rate. This slowdown is due to a possible ending of its easy monetary policy with a tighter budget plan in an attempt to control inflation and national debt. High oil prices along with increasing competition with neighboring nations are taking a toll on economic growth. Exports for the U.S. bode well, enhanced by the continued depreciation of the dollar that remains at a favorable index level of 81 at year end 2006 as measured by the "major currencies dollar index" compiled by the Federal Reserve Bank. This is 27% lower than its peak value of 112 in early 2002. China's flexible currency policy should correct its undervalued currency and add to the improvement in U.S. exports.

Like the Nation, Connecticut's exports also 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 rate down to 1.7% in 2001, 2.3% in 2002 and 2003, the lowest three years in the past decade. As the worldwide economy improved, weighted growth increased by an average of 3.3% between 2004 and 2006. The outlook for Connecticut's exports remains healthy, projected to grow an average of 3% from 2007 to 2009. 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 growth outlook for trade in 2007 and 2009, actual economic growth and trade performance rely more upon smooth and orderly market conditions. Any unexpected geopolitical or natural disturbances, either domestically or elsewhere, have the potential not only to interrupt an individual country's own economic stability but also disturb the international economic landscape, sending the world economy into a tailspin. Regional tensions in the Middle East and North Korea, instability in Iraq, and terrorist attacks anywhere in the world have the potential not only to interrupt an individual country's own economic stability but also negatively create a chain reaction on the international economic landscape. These risk factors may profoundly affect the world economy in a disorderly way and detrimentally hamper Connecticut exports.

On the economic and financial front, healthy growth in the United States and the fast-growing Asian area will continue to help carry the 2007-2009 world economy forward. Any unconducive fiscal and monetary policies in the EU, Japan, China, or even, for example, Thailand, etc. intending to tame inflation may cause uncertain impacts. After the European Central Bank raised its repurchase agreement (Repo) rate to 3.5% on December 7, 2006, the Bank of England on January 11, 2007 lifted its base interest rate to 5.25%, the third increase in 5 months, amid a time when both economies are already expected to slow over the course of 2007. The EU represents a significant trade opportunity for the U.S. However, this giant bloc has generally been the global growth laggard. The expected growth rate for Euro-land in 2007 by the "*Blue Chip Economic Indicators*" will slow from 2006's 2.5% to a 2.0% mark. Governmental operating budgets of the

EU area in 2006 are in a deficit of a negative 2.1% of GDP with its major members Italy at -4.8%, France at -2.7%, and Germany at -2.3%. Real economic growth in Germany, the biggest economy in the EU, is expected to slow to only half of 2006 growth rate. Scheduled tax increases in Germany and Italy may have a detrimental impact on consumption, further setting back economic growth. The EU's unemployment rates held steady at a high of 7.7% in late 2006, with the major economic players of France at 8.7%, Germany at 9.8%, and Belgium at 12.3%. After years of economic recovery, Japan has ended its 5-year old zero interest rate policy and raised its key rate to 0.25% in July 2006. However, personal consumption remained weak and core inflation again drifted negatively for a few months in 2006. Hefty corporate profits and their dramatically improved balance sheets barely brought benefits to consumers. Stagnant growth in wage income forced households to live within means or even tap their savings, resulting in a meager 2.7% savings rate, compared to its peak rate of 23% in 1973. While the economy is approaching full-employment, Japan is awkwardly inundated with debt. Japan's budget operating deficit in 2006 is estimated to reach 4.6% of its GDP, with debt service taking up some 20% of the national budget. Japan's total national debt accounts for around 150% of its GDP, compared to approximately 80% in the U.S. To ensure a stable economic growth, a delicate and balanced coordination between monetary and fiscal policies must be maintained. China, ranked as the world's most dynamic economy, has served as a locomotive in the Asia Pacific region. It is expected to grow at close to a double-digit rate albeit at a slower pace in the next three years. Spending on infrastructure and construction for the 2008 Olympics will sustain domestic demand despite the fact that the government has increased interest rates in mid 2006 in an attempt to cool off the economy. A potential sharp slowdown in the U.S. housing market may soften domestic consumer spending and imported goods from China. The adopted flexible currency policy may also crimp China's export-led economy, creating profound consequences for the world economy. Any derailment of its economy might be detrimental to the U.S.'s export growth.

Unstable energy 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, thereby contributing to a possible setback in the economy. In the long run, oil prices are expected to trend up as world growth in demand continues to outpace that of production, limited by slow improvements in efficiency technology, less frequent discoveries of new fields, and increasing concerns for greenhouse gas emissions. In the short run, 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 specific geographic regions of the world particularly the nuclear ambitions of Iran, violence, and severe weather.

The U.S. Economy (History)

The Table on the following page compares the original forecast figures to actual for fiscal years 1997-98 to 2005-06 and the current estimates for fiscal year 2006-07. The December 2004 forecast for fiscal 2006 anticipated a 3.1% growth rate in real GDP, a rate better than the average long-

TABLE 90
HISTORICAL COMPARISON OF U.S. ECONOMIC INDICATORS

Fiscal		GDP	Real GDP	GDP Deflator	Housing Starts	Unempl. Rate	New* Car Sales	CPI
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	2.9%	0.7%	2.2%	1.65M	5.5%	17.0M	1.8%
	Difference	(2.1%)	(2.5%)	0.5%	0.21M	0.9%	1.0M	(0.6%)
2002-03	12/01 Forecast	4.1%	2.5%	1.5%	1.54M	6.2%	16.1M	2.4%
	Actual	3.7%	1.8%	1.9%	1.73M	5.9%	16.6M	2.2%
	Difference	(0.4%)	(0.7%)	0.4%	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%	3.9%	2.4%	1.95M	5.8%	16.8M	2.2%
	Difference	0.1%	0.0%	0.2%	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%
	Actual	6.4%	3.3%	3.0%	2.02M	5.3%	17.0M	3.0%
	Difference	0.5%	0.3%	0.2%	0.54M	(1.0%)	(0.4M)	0.2%
2005-06	12/04 Forecast	5.4%	3.1%	2.2%	1.60M	5.4%	15.7M	2.0%
	Actual	6.7%	3.4%	3.1%	2.04M	4.8%	16.8M	3.8%
	Difference	1.1%	0.3%	0.9%	0.44M	(0.6%)	1.1M	1.8%
2006-07	12/05 Forecast	7.0%	3.7%	3.2%	2.03M	5.0%	16.6M	3.6%
	12/06 Estimate	5.6%	2.7%	2.8%	1.63M	4.7%	16.3M	2.9%
	Difference	(1.4%)	(1.0%)	(0.4%)	(0.40M)	(0.3%)	(0.3M)	(0.7%)

* New Car Sales represent U.S. vehicle sales for automobiles and light vehicles (trucks).

M denotes Millions of Units.

term economic growth rate of 2.5% but slower than previous year's 3.3%, with decreases in housing starts and new car sales. The unemployment rate was expected to be a slightly higher at 5.4%, brought on mainly by the Federal Reserve Bank's tightening policy that was expected to increase federal fund rates at a "measured" pace, resulting in a slowing housing market and therefore the overall economy. However, the economy actually performed better than expected with real GDP growing by 3.4%. The actual inflation rate climbed unexpectedly higher by 1.8 percentage points due primarily to a hike in energy prices and wage rates. Housing starts continued to climb, reaching 2.04 million units, the highest volume since 1973. Although the federal funds rate has been raised from a 46-year low of 1.00% in June 2004 to 5.00% in June 2006, the level of interest rates are still artificially low by historical standards. In addition, the yield curve was inversed. While the Treasury's 6-month yield rates, for example, registered at 5.17% in June 2006, its 10-year note rates were lower at 5.11%. This stimulative monetary condition created a substantially favorable financial condition for interest-sensitive markets. Conventional mortgage rates on 30-year instruments inched slightly higher to 6.21% in fiscal 2006 from 5.75% in fiscal 2005 and 5.92% in fiscal 2004. They were still favorable compared to 6.88% in fiscal 2002 and 7.25% in fiscal 2001. Household home equity continued to increase by 9.6% in fiscal of 2006 to $10.96 trillion, despite a slowdown in the housing market. Household net assets including homes and stocks continued to improve after reaching a low in the fourth quarter of 2002, which sustained consumer spending. U.S. net total household assets in the second quarter of 2006 increased to $20.77 trillion, up 40.6% from a low of $14.76 trillion in the fourth quarter of 2002. Consumer spending, which accounts for two thirds of GDP, remained the supporting pillar of the economy, up 6.5% in fiscal 2006, after increases of 6.5% in fiscal 2005 and 5.9% in fiscal 2004. Business equipment and software investment, which had been a driver for the economy in the 1990s, grew 10.1% in fiscal 2006, after increases of 12.3% in fiscal 2005 and 9.6% in fiscal 2004.

As productivity rose, businesses produced more products without proportionately adding workers. Increasing competition in the domestic and global markets and outsourcing offshore added pressure on the job market. Total non-farm employment edged up 2 million, or 1.5%, to 133.44 million jobs in fiscal 2006 from 132.44 million jobs in fiscal 2005, surpassing the recent high of 132.25 million jobs recorded in fiscal 2001. The jobs recovery, however, has been slower than that experienced in the late 1990s when employment had increased by an additional 3 million jobs annually. The average of the past five recessions shows that U.S. total employment rebounds after 16 months of contraction with a 1.2% drop in jobs on average from its peak level of employment. The recent decline in employment ended in June of 2003, which occurred over 28 months and fell 2.1% since the onset of the recession. Those jobs were fully recovered by January 2005.

The U.S. Economy (Forecast)

The updated estimate for fiscal 2007 has a slower economic growth, a lower unemployment rate, and a lower inflation rate. Real GDP growth will trail that of fiscal 2006 at 2.7%, but perform better than the long-run growth rate of 2.5%. Non-agricultural employment should continue to grow moderately as new hiring resumes, with the unemployment rate declining to 4.7%. However, jobs in the auto and housing related industries should decline as unionized employees continue to take buyout offers and layoffs in wood products and furniture manufacturing continue. After many years' of fast growth in the housing market, the inventory of unsold homes has built up beyond a comfortable level, resulting in a decline in existing home sales and an increase in foreclosures. With mortgage interest rates edging higher and financiers tightening

their lending standards, housing starts are expected to decline to 1.63 million units, down from 2.04 million units in fiscal 2006 and back to the early 2000's recessionary level. New car sales are also anticipated to be 0.3 million units fewer than originally expected due to high oil prices and fierce competition. Corporate profits and cash flow should remain advantageous to support businesses' expansion plans, despite average interest rates rising above last year's level. Depreciation of the dollar and continued economic growth abroad should continue to help U.S. exports.

The inflation rate should ease somewhat from the fiscal 2006 level. The slowdown in the U.S. economy accompanied by only a moderate increase in energy prices and weaker labor market conditions should contain inflation to below 3%, compared to 3.8% for fiscal 2006. Crude oil prices in mid January 2007 dropped to a 20-month low closing at $50. Unseasonably warm weather in the U.S. and elsewhere has increased crude and heating oil inventory and softened energy inflation. The slowdown in the economy and the weakening labor market should relieve the pressure in labor costs.

The forecast for the most widely used economic indicators for the U.S. economy in fiscal 2008 and fiscal 2009 is shown below. Growth in real GDP is based on 2000 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 vehicle sales include traditional passenger cars as well as minivans and light trucks.

12/06 Forecast	Fiscal Year 2007-08	Fiscal Year 2008-09
Gross Domestic Product	5.6%	5.4%
Real Gross Domestic	3.0%	3.1%
G.D.P. Deflator	2.5%	2.2%
Consumer Price Index	2.2%	2.1%
Unemployment Rate	4.9%	4.8%
Housing Starts	1.64 Million	1.65 Million
New Vehicle Sales	15.97 Million	15.94 Million

The forecast for fiscal 2008 and 2009 reflects better economic growth and housing starts, a lower inflation rate and lower new car sales, with slightly higher unemployment rates. Real GDP growth will improve to 3.0% and 3.1% for fiscal 2008 and 2009, respectively. As the economy accelerates modestly, the demand for labor will continue to absorb that of supply. However, a relatively slower growth in the number of jobs than that of the labor force will push the unemployment rate higher, in the 4.8% to 4.9% range in fiscal 2008 and 2009. After a decline in fiscal 2007, the housing market should slowly recover due to better economic growth and lower mortgage rates, which shall increase housing affordability. The housing market in fiscal 2008 and 2009, however, will not act as a major driving force in the economy as has been the experience of the past few years.

Consumer spending should continue to expand during the forecasted period, but at a slower pace. Continued increases in real disposable income brought about by increased wages and

salaries, stabilized energy cost, and improved equity markets should uphold spending. Nonetheless, slower job growth, drags in the housing market with reduced home equity, and burdens in debt and health care will likely temper consumers from strong spending outlays. Spending in durables, especially for the big-ticket items such as autos, appliances and furniture shall be negatively affected more than that of non-durables. Sales of new vehicles are expected to cool down to below 16.0 million units in fiscal 2008 and 2009, falling from 16.3 million units in fiscal 2007 and 16.8 million units in 2006. The restructuring and downsizing of capacity by the domestic big three automakers will continue as competition from foreign cars accelerates. The existing foreign auto makers will continue to step up their marketing muscle with probable new foreign entrants joining the already competitive market. Housing starts should start to recover after reaching bottom in fiscal 2007 as conventional 30-year mortgage rates stabilize. Housing starts should improve to 1.64 million units in fiscal 2008 and 1.65 million units in fiscal 2009, up from 1.63 million units in fiscal 2007. Households will continue to increase savings to pay down the debt that they had incurred after aggressive spending over the past several years. Any new stimulative fiscal or monetary policy is unlikely as real GDP growth recovers to the 3.0% mark. Encouraged by continued economic growth and depreciation of the dollar, the need for more productive capacity and the gain in profitability with improved corporate balance sheets, businesses should continue to increase investment, but at a moderate pace. A forecasted larger inventory due to a slowdown in consumer spending will hinder healthy fixed business investment.

Inflation for consumer goods and services for fiscal 2008 and 2009 is anticipated to fall back to low 2% level, down from an elevated 2.9% in fiscal 2007 and 3.8% in fiscal 2006. Energy prices are expected to continue to moderate after crude oil reached a high of over $78 per barrel in mid summer of 2006. The lower inflation in fiscal 2008 and 2009 also reflects a continued improvement in economic conditions but a tighter control in wages and salaries. Nonagricultural employment should continue to improve as the depreciation of the dollar helps boost the competitiveness of U.S. products and services, despite the impact of intensified global competition, higher operating costs, and productivity gains which tend to suppress the increase in hiring. The unemployment rate is anticipated to increase to 4.9% and 4.8%, respectively, in fiscal 2008 and 2009, a level that is considered within the full employment range. Capacity utilization, which will reach 80.7% in 2006, is expected to go over 81% in the forecasted period. Thanks to technological advancements, aided by innovations in computer and information technology, efficiency and productivity should continue to rise, helping bring down inflationary pressures. 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 economic expansion continues.

Forecast Caveats

The projection of improved real output growth of 3.0% in fiscal 2008 and 3.1% in fiscal 2009 with a 2.2% rate of inflation is cautiously optimistic. This projection assumes a retreat in energy prices to a normal range. As a wildcard, the energy factor may serve as the proverbial straw on a new recession. With world spare capacity for oil drilling remaining thin and global demand for energy continuing to climb upward, any geopolitical tension, speculative disorder, or other unexpected elements could drive the price to a new high, sending the economy into tailspin. This projection assumes, as the economy grows and inflation slows, an accommodative monetary policy will result in a cut in the federal funds rate at least once from current level. This should

lead to an employment growth and help increase business investment and consumer spending. This projection also assumes no severe setback in the housing market. The housing market could over-correct if mortgage rates remain unfavorably high or potential home buyers become reluctant due to high foreclosure rates. The assumption of a weaker U.S. dollar along with advantageous domestic and global financial conditions may not be realistic if the world economy slows unexpectedly. There are a myriad of uncertainties that may destructively affect growth and inflation projections, including 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 likelihood that the economy could fall into a recession exists. A poll of 50 business economists held in late 2006 indicates that there is a 25.4% probability of a recession over the next 12 months, according to *Blue Chip Economic Indicators*.

Monetary policy is intended to curtail any nascent inflation and maintain a neutral effect on the economy that would neither stimulate nor dampen economic growth. Although slower than expected economic growth may direct the Federal Reserve to cut the federal fund rates; an unexpectedly persistent inflationary environment could cause the Fed to keep the rates at an unfavorable level. The housing market and big-ticket items will be the first to feel the constraining impact of higher interest rates. The housing market has a huge wealth effect on the economy that can affect consumer behavior and therefore business investment. 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. Households with option ARMs that include interest-only and option adjusted rate mortgages are subject to higher interest payments as rates rise and such mortgages are due to be reset. A flood of forced sales could put steep downward pressure on home prices and equities.

Growth in consumption could be further curbed as consumers become more conscientious about their inadequate level of savings. U.S. personal savings as a percentage of disposable personal income dropped to a negative 1.2% in the 3rd quarter of 2006, down from a positive of 2.3% in late 2004, and lower significantly from 7.7% in 1992 and over 10% in the early 1980s. The 3rd quarter of 2006 has been the sixth consecutive quarter with a negative savings rate since the first quarter of 2005. Growth in personal consumption spending has been outpacing the growth in personal income over the past two decades. In addition, the increase in the minimum monthly payments from 2 percent to at least 4 percent on credit card balances as well as the high health care and energy expenses may further hold down saving and spending. This could lead to a weakness in manufacturing and the spill-over to the rest of the economy.

Interest rates may even be further aggravated by the alarmingly high budget and trade deficits. The U.S. budget deficit for 2006, according to *The Economist*, reached -2.3% of GDP. This deficit level improved from 2005's -3.7% and 2004's -4.4% and, among all major industrial countries, lower than Japan's -4.6% and Great Britain's -3.0%. However, as the U.S. government seeks more and more financing from the global market to cover its deficit, 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, as part of their strategy to prevent their own currencies from moving upward. This tactic also helps keep U.S. long-term interest rates artificially low. If demand for U.S. Treasury bonds sharply weakens, interest rates could be forced upward. The social security system and entitlement programs play

significant role on the U.S. deficit. As they loom larger, they also will weigh on interest rates and the economy. The U.S. trade deficit fared even worse relative to GDP. The deficit in the current account balance in 2006 is estimated to account for 6.6% of GDP, worse than the 6.5% in 2005, 5.5% in 2004 and 4.4% in 2003 and is expected to stay at 6.4% in 2007. Continuing increases in the trade deficit have foreign countries investing in the U.S., forcing the U.S. to borrow more 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 the U.S. government can effectively get its budget or trade deficits under control in the near future.

For business investment, risk factors include unexpected higher prices in energy, labor cost, or import materials and a disorderly decline in the dollar that could disrupt financial markets and their operating environment. Energy prices may spike again to a new high. With demand for world energy continuing to increase with little spare capacity in global energy production, this market is only precariously balanced. Any disruption either in demand or supply may create havoc. The labor market is expected to be operating at a level tightly close to full-employment, if the economy keeps adding jobs at a faster pace, there will be higher labor costs and inflation. Other financial factors that also affect the U.S. economy include the financial condition of major industries such as the automobile and airline industries, and hedge funds. The possibility of bankruptcy filings by major companies or a collapse such as that of Long Term Capital Management in hedge funds could have ripple effects far beyond the company's employees and equity holders.

The Connecticut Economy (History)

A comparison of the original forecasts for Connecticut's personal income, nonagricultural employment and unemployment rates with actual figures for fiscal 1997-98 through 2005-06 and the current forecast for fiscal 2006-07 are presented in the Table on the following page.

As the nation's financial engine continues its positive growth, but at a decreased rate, Connecticut's progress towards economic growth has also continued. Employment, per-capita gross state product and personal income, and labor productivity have all seen healthy growth, and the unemployment rate has dropped again, remaining below the national rate.

While there have been encouraging signs of improvement in the labor market, there are, however, a few areas of concern. Providing some evidence of improvement is the fact that job growth has been positive in 17 of the last 24 months. As the state worked its way back to positive year-over-year employment growth for the second year in a row, total nonagricultural employment increased by 11,100 jobs in fiscal 2006. Moreover, if past-experience provides some parallels, Connecticut's job recovery, although uneven, continues to be in progress, 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 38 months, nonagricultural employment declined 3.6%, ebbing to its lowest level in September of 2003. Since then, the state's economy has gained traction, adding an additional 7,600 jobs since the start of fiscal year 2007 through December of 2006. Nonetheless, the health of employment growth in Connecticut could be tenuous compared with that of the nation. Since the onset of the economic slowdown, manufacturing employment in

Connecticut has contracted at a rate faster than but comparable to the corresponding losses nationwide. In addition, the nation's nonmanufacturing sector, compared to the state's, has weathered the unsteady nature of the economy better than Connecticut's. Nationwide nonmanufacturing employment levels increased 5.7% since the start of the economic slowdown, whereas Connecticut increased only 1.6%. The nation's total employment level surpassed the 132,546,000 point of February of 2001 and achieved full job recovery in January of 2005 with 132,573,000 jobs.

TABLE 91
HISTORICAL COMPARISON OF CONNECTICUT ECONOMIC INDICATORS

Fiscal Year		Personal Income	Nonagricultural Employment	Unemployment Rate
1997-98	12/96 Forecast	$116.6 Billion		5.2%
	Actual	$119.4 Billion	1,627.6 Thousand	3.9%
	Difference	$2.8 Billion		(1.3%)
1998-99	12/97 Forecast	$127.0 Billion	1,652.4 Thousand	4.5%
	Actual	$126.8 Billion	1,657.2 Thousand	2.9%
	Difference	($0.2) Billion	4.8 Thousand	(1.6%)
1999-00	12/98 Forecast	$130.1 Billion	1,664.5 Thousand	4.1%
	Actual	$135.8 Billion	1,682.1 Thousand	2.4%
	Difference	$5.7 Billion	17.6 Thousand	(1.7%)
2000-01	12/99 Forecast	$140.0 Billion	1,695.0 Thousand	3.3%
	Actual	$145.7 Billion	1,690.1 Thousand	2.5%
	Difference	$5.7 Billion	(4.9) Thousand	(0.8%)
2001-02	12/00 Forecast	$146.9 Billion	1,722.3 Thousand	3.3%
	Actual	$146.9 Billion	1,675.3 Thousand	3.7%
	Difference	$0.0 Billion	(47.0) Thousand	0.4%
2002-03	12/01 Forecast	$155.5 Billion	1,686.5 Thousand	4.4%
	Actual	$147.1 Billion	1,652.4 Thousand	5.2%
	Difference	($8.4) Billion	(34.1) Thousand	0.8%
2003-04	12/02 Forecast	$157.1 Billion	1,669.7 Thousand	4.4%
	Actual	$153.4 Billion	1,643.7 Thousand	5.3%
	Difference	($3.7) Billion	(26.0) Thousand	0.9%
2004-05	12/03 Forecast	$162.9 Billion	1,662.5 Thousand	5.0%
	Actual	$163.2 Billion	1,657.2 Thousand	4.9%
	Difference	$0.3 Billion	(5.3) Thousand	(0.1%)
2005-06	12/04 Forecast	$168.7 Billion	1,665.6 Thousand	4.5%
	Actual	$171.5 Billion	1,668.3 Thousand	4.6%
	Difference	$2.8 Billion	2.7 Thousand	0.1%
2006-07	12/05 Forecast	$184.5 Billion	1,691.5 Thousand	5.2%
	Latest Forecast	$181.7 Billion	1,678.2 Thousand	4.4%
	Difference	($2.8) Billion	(13.3) Thousand	(0.8%)

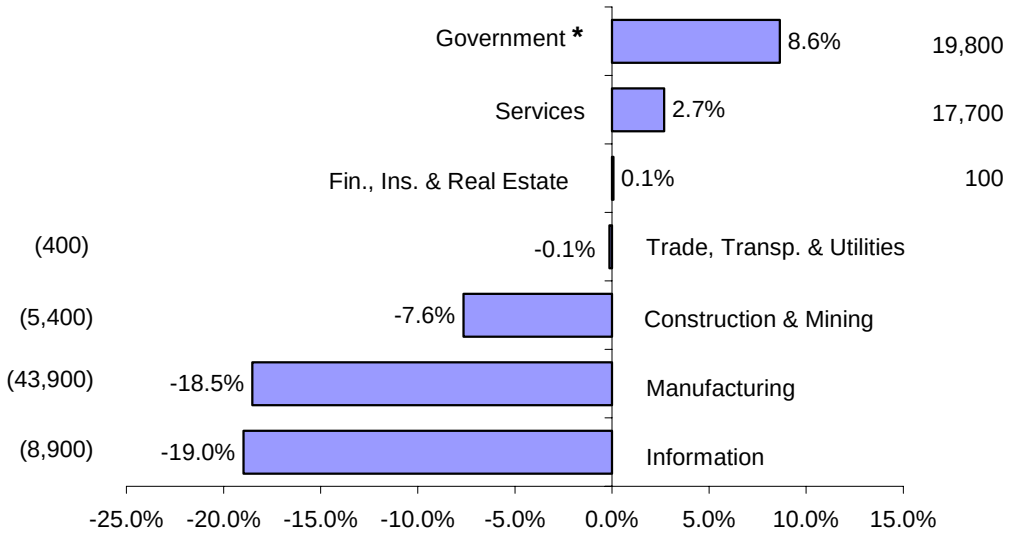
The following Table compares nonagricultural employment and its two major components for the U.S. and Connecticut since each entered the recession through the most current data available.

United States & Connecticut Change in Employment
(In Thousands, Seasonally Adjusted)

	United States				Connecticut			
	2/01	12/06	Change	% Chg.	7/00	12/06	Change	% Chg.
Mfg. Empl.	17,029	14,150	(2,879)	(16.9%)	237	193	(44)	(18.6%)
NonMfg. Empl.	115,522	122,064	6,542	5.7%	1,463	1,486	23	1.6%
NonAgr. Empl.	132,551	136,214	3,663	2.8%	1,700	1,679	(21)	(1.2%)

Specifically, Connecticut's manufacturing sector continued to fare among the worst of the state's industries along with information services. 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 7,200 jobs annually, on average from fiscal 1998, the last year with positive growth, to fiscal 2005. This is an average annual loss of 3.2%. Thus, with the loss of only 2,800 jobs, or 1.4%, in manufacturing over the past fiscal year, it comes as a pleasant surprise that more jobs were not shifted to other states, overseas, or lost due to greater efficiencies. Since the onset of the last recession, manufacturing employment in the state has declined by 43,900 workers. The majority of the job cuts occurred in durable goods industries, primarily in computer and electronic products, industrial machinery and fabricated metal products. At one time, a good number of the idle workforce in the manufacturing sector was absorbed by Connecticut's tight labor markets, and now employment growth has returned; the nonmanufacturing sector, after posting positive growth for eight of the last ten years, has expanded by 1.2% since July of 2000. The information sector, comprising establishments engaged in telecommunications, broadcasting and data processing, however, has experienced the greatest employment decline, along with manufacturing and construction. The state's economy would have performed much worse but for the growth in the education and health service sectors and in local government, which helped the overall service sector post a respectable gain. The following Chart covering the period from July 2000 through December of 2006 shows how the various state sectors have fared since the start of the last recession.

CONNECTICUT EMPLOYMENT
Percent Change In Employment By Sector And Jobs Gained/(Lost)
(From July 2000 To December 2006)



***** Government includes employees of Soverign Tribal Nations in casinos.

A significant increase in employment in the service industry has taken place, especially in health care and education. Unfortunately, a number of state companies have announced layoffs or closed up business altogether. For example, Bayer Pharmaceuticals will close its research operation in West Haven in 2008, resulting in a loss of 1,000 jobs. Pfizer, Inc. will phase out its manufacturing operations in Groton and Lego Group will shift production from Enfield to Mexico, each resulting in the loss of 300 jobs in 2007. On the other hand, not all of the announcements were so pessimistic. Foxwoods will be expanding and adding 2,300 jobs in Ledyard by 2008; Mohegan Sun will expand and add 2,000 new jobs in Uncasville in 2010; and Royal Bank of Scotland will be bringing 800 finance positions to Stamford by 2008. Nonetheless, the state's recent economic experience has been mixed. The Tables below provide a breakdown of the employment totals and changes, in thousands of jobs, for each sector and the corresponding impact on the unemployment rate in selected labor market areas (LMA).

Connecticut Employment
(Seasonally Adjusted)

Sectors	Jul. '00	Dec. '06	Chg.
Manufacturing	237.0	193.1	(43.9)
Information	46.9	38.0	(8.9)
Construction & Mining	70.6	65.2	(5.4)
Trade, Transp. & Utilities	313.1	312.7	(0.4)
Fin., Ins. & Real Estate	145.1	145.2	0.1
Government *	229.1	248.9	19.8
Services	658.4	676.1	17.7
Total	1,700.2	1,679.2	(21.0)

Selected LMA Unemployment Rates
(Not Seasonally Adjusted)

LMA	Jul. '00	Dec. '06	Chg.
Waterbury	3.0%	4.8%	1.8%
Brdgprt/Stmfrd	2.2%	3.3%	1.1%
Hartford	2.4%	3.9%	1.5%
Danielson	3.0%	4.5%	1.5%
Torrington	1.9%	3.5%	1.6%
New London	2.2%	3.7%	1.5%
New Haven	2.5%	3.9%	1.4%
Danbury	1.7%	2.7%	1.0%

* Includes Native American tribal government employment, including casino employment.

Compared to last December the unemployment rate has improved, and remains below the national rate of 4.5%. The state rate decreased from 4.6% to 4.2%, and the number of unemployed decreased by 10.3%. On average, there were nearly 79,900 workers out of work in calendar 2006, a decrease of 9,200 compared to 2005. On a year-over-year basis, the state added 10,600 jobs through December of 2006 since December of 2005. An encouraging signal for the state's economy was the 2.5% drop in initial (first-time) claims for unemployment insurance over last year. Further, the average time unemployed dropped 8.4%, from 18.4 weeks in 2005 to 16.8 weeks in 2006, suggesting that more long-time job seekers are finding work.

One of the signs that the state's economy has improved is the gradual but continual growth in total personal income. Personal income in Connecticut grew by 5.1% in fiscal 2006, down from the fiscal 2005 rate, but still the fastest pace of any other year except 2005 since fiscal 2001, and quite comparable to the rate for New England, but below the national rate. Examining its components, proprietors' income and other labor income had growth rates, respectively, of 6.3% and 5.8% during the year, followed by wages and salaries growth of 4.9%. Particularly notable, manufacturing wage growth remained positive for the third year in a row, but only at 0.8%, after declining for two consecutive years, confirming that employment growth, which eventually shows up in rising wage and salary payments, was actually occurring. Also, nonmanufacturing wages and salaries increased 5.6%. 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 0.8%. This means state residents saw their incomes rise faster than inflation for the third consecutive year, and furthermore, Connecticut per capita personal income still remains well above the U.S. average by 38%.

Mortgage rates rose moderately in fiscal year 2006, but remained relatively low from an historical perspective. The number of housing permits in calendar year 2005 was stable compared to the year before, with uneven growth geographically. Permits were up 25.0% in Fairfield County. The number of housing starts in fiscal year 2006 was down 5.5% over fiscal 2005, but still at a level not seen since fiscal 1999 except for 2005. The 2006 level is 12.5% greater than the previous ten-year average level. The median price of homes in the state increased 9.6% in calendar year 2005, making homes less affordable for many residents. In fact, homes have become less affordable in this state each year since 2001, and this decrease in the rate of change in affordability is greater than for the nation. Although there has not really been a burst of the housing bubble in Connecticut, housing is, at best, stable. Combined with the completion or winding down of a number of large nonresidential construction projects in Hartford, the result has been a drop in employment in the construction sector.

Finally, Connecticut's personal income tax revenues, after growing 12.7% the previous year, grew 10.5% in fiscal 2006, as estimated and final payments, which include capital gains, rose 19.4% compared to last year. When combined with a sizable increase of 56.1% in the petroleum companies gross receipts tax, 16.1% in alcoholic beverages taxes, and a dramatic increase in public service company taxes, total tax receipts grew year-over year by 6.7%. This, coupled with overall expenditure restraints, and the economy's remarkable resiliency, were the key reasons the state ended with a budget surplus in excess of $445 million.

The Connecticut Economy (Forecast)

The past fiscal year has been generally good for the state's economy. The state is expected to see the expansion continue as economists are fairly 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 remains relatively low. As fiscal 2007 progresses, the state's economy is expected to show signs of continued progress, although caution may be in the wind as the new biennium begins.

The state's economy is expected to maintain momentum this year. Total nonagricultural employment is projected to grow 0.6%, 0.8% and 0.9%, respectively, during fiscal years 2007, 2008 and 2009. The state's nonmanufacturing sector is expected to post a comparable increase of 0.7% in fiscal 2007 as job creation among the major industry groups remains fairly strong. Not surprisingly, manufacturing employment, where the vast majority of jobs losses were concentrated during the recession and subsequent weak recovery, is expected to hold steady in fiscal 2007, but then continue its drag on employment growth that has prevailed since 1998. With the recession having run its course, total nonagricultural employment declined by roughly 60,400 jobs, or 3.6%, relative to its peak. Nonetheless, recent state labor employment reports indicate that the job market recovery continues, ever since September of 2003 when the trough was reached with regard to employment losses.

Employment levels in Connecticut are expected to rise over the coming quarters. However, the expansion will not be consistent across all sectors. Manufacturing is projected to continue the negative and weak employment levels of the recent past. Nonetheless, the state's economic engine will get a boost as the combination of healthy productivity gains, higher household net worth, and corporate earnings provide support for the state's economy to stay on track and enjoy fairly solid growth. The recipe of low federal taxes, more disposable income, and a competitive exchange rate are some of the factors that will allow consumers and businesses to continue their spending pace, making it possible for the state's economy to continue momentum heading into next year. Therefore, for the duration of fiscal 2007, expect the pace of economic activity in Connecticut to hold up as the outlook sees continued positive consumer spending, business investment, and in particular, steady job creation. In fiscal 2008, the tempo of employment growth is forecasted to continue with nonagricultural employment expanding by 0.8%, resulting in 13,900 jobs, and jobs increasing by 0.9%, or 15,600 jobs in fiscal 2009. The state will add these new jobs in high skill, high-income fields such as professional and business services, education and health services, along with lower paying jobs in leisure and hospitality. With the state's economy showing signs of expanding at a solid rate, the unemployment rate in Connecticut should remain favorable through the remainder of fiscal 2007. This will take place because, as the economy remains strong 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, and still below the national growth rate, based upon the trend of the last several 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, which grew by 13,800 jobs, or 0.9%, in FY 2006, is expected to grow by 9,900 jobs, or 0.7% in FY 2007, and 15,000 jobs, or 1.0% in FY 2008, and 16,100 jobs, or 1.0% in FY 2009. The job growth leaders in the state will be education and health services and professional and business services. 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, gains in corporate after-tax profits were healthy in FY 2006. Although 2008 could be a bumpy year, profits are expected to show growth in 2007 and 2009. Having restored profitability, businesses may spur growth further by selective increased hiring. Also, the leisure and hospitality sector shows signs of expansion. However, one important sign that the economy will not be as robust as it looked a year ago, is that, after holding its own in 2007, manufacturing employment levels are forecasted to continue to decline for the next few years. Finally, the construction trades, after a period of impressive growth, have begun to experience losses as major construction programs and housing construction in the state wind down. The forecast for the most widely used economic indicators for the Connecticut's economy is shown below.

12/06 Forecast	Fiscal Year 2007-08	Fiscal Year 2008-09
Personal Income	$191.2 Billion	$200.4 Billion
Nonagricultural	1,692.1 Thousand	1,707.7 Thousand
Unemployment	4.4%	4.2%

Finally, the state's highly skilled but aging workforce, presence of high-tech industries, and high per capita income provide an economic footing which is now quite solid but may become somewhat insecure in the long term. 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 5.9% this fiscal year, followed by 5.2% and 4.9% growth, respectively, in fiscal 2008 and fiscal 2009. This is in stark contrast to 0.1% growth in fiscal 2003. This growth in personal income will provide households with the means to maintain their spending patterns. Mix in low inflation and you have the wherewithal to sustain economic activity. Furthermore, the housing market, another prop for consumer spending, shows weakness but no sign of a dramatic unraveling in the state as mortgage rates remain low on an historical basis. Year-ending data suggest that the underlying demand for housing is weaker but still remains healthy. Notwithstanding, the negative impact of rising interest rates will slow housing activity. A firm economy, however, will probably help keep a floor under housing. And given the continued availability of relatively 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 relatively well.

The biggest risks that may impede the state's economic recovery are: (1) Slow job growth, debt-ridden consumers, a sluggish housing market, rising inflation, and higher energy costs, which 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 continued expansion 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 expansion. (3) A weaker stock market. The risk of this scenario to the state is twofold. First is equity ownership by Connecticut residents, who by nature of their 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. The data indicates that the bottom of the most recent downturn in employment was reached in September of 2003, claiming 3.6% of the state's workforce. In view of that, based on all the cited risks, there are reasons to be concerned about the steady but slow climb back of the state's employment level to its previous peak. In retrospect, it took the state's labor market 38 months to reach bottom. The '89-'92 recession racked up job losses for 46 months. Recovering these loses took another 85 months. The following Table shows how the current downturn compares to prior recessionary periods in state history.

RECESSIONS IMPACT ON CONNECTICUT'S LABOR MARKET

Employment 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 - Sep. '03	3.6%	38*	na

* Assumes that the trough of the labor market was reached in September of 2003.

The following tables provide historical and forecasted values for the major economic variables used in revenue forecasting for the United States and Connecticut.

TABLE 92
UNEMPLOYMENT RATES
Seasonally Adjusted

Fiscal Year	Quarters	United States	Connecticut	
2005-06	1	5.0%	4.9%	
	2	5.0%	4.7%	
	3	4.7%	4.6%	
	4	4.7%	4.0%	
2006-07	1	4.7%	4.5%	
	2	4.5%	4.3%	
	3	4.7%	4.3%	**Start of Forecast**
	4	4.8%	4.4%	
2007-08	1	4.8%	4.4%	
	2	4.9%	4.4%	
	3	4.8%	4.4%	
	4	4.8%	4.3%	
2008-09	1	4.8%	4.3%	
	2	4.8%	4.2%	
	3	4.8%	4.2%	
	4	4.8%	4.2%	

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

TABLE 93
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
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	145.744	7.3	8,613.9	6.2	9,991.5	4.4
2001-02	146.946	0.8	8,788.1	2.0	10,280.3	2.9
2002-03	147.144	0.1	8,974.3	2.1	10,664.0	3.7
2003-04	153.365	4.2	9,407.2	4.8	11,346.5	6.4
2004-05	163.193	6.4	9,984.9	6.1	12,072.3	6.4
2005-06	171.496	5.1	10,551.8	5.7	12,877.4	6.7
2006-07 (E)	181.656	5.9	11,155.6	5.7	13,559.2	5.3
2007-08 (P)	191.153	5.2	11,746.0	5.3	14,312.6	5.6
2008-09 (P)	200.443	4.9	12,350.0	5.1	15,088.7	5.4

(E) = Estimated / (P) = Projected

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

TABLE 94
STATE OF CONNECTICUT
Annualized Personal Income & Nonagricultural Employment
(In Millions)

Fiscal Year		Personal Income	% Change Year Ago	Nonagricultural Employment	% Change Year Ago	
2005-06	1	167,969	5.0	1,664.3	0.7	
	2	169,737	3.9	1,668.0	0.8	
	3	174,275	6.0	1,669.3	0.7	
	4	174,004	5.4	1,671.5	0.5	
	Average	**171,496**	**5.1**	**1,668.3**	**0.7**	
2006-07	1	175,728	4.6	1,673.0	0.5	
	2	182,209	7.3	1,678.0	0.6	
	3	184,571	5.9	1,679.5	0.6	**Start of Forecast**
	4	184,114	5.8	1,682.1	0.6	
	Average	**181,656**	**5.9**	**1,678.2**	**0.6**	
2007-08	1	185,464	5.5	1,685.8	0.8	
	2	192,056	5.4	1,691.5	0.8	
	3	194,110	5.2	1,693.8	0.9	
	4	192,983	4.8	1,697.3	0.9	
	Average	**191,153**	**5.2**	**1,692.1**	**0.8**	
2008-09	1	194,537	4.9	1,700.9	0.9	
	2	201,426	4.9	1,707.0	0.9	
	3	203,476	4.8	1,709.6	0.9	
	4	202,332	4.8	1,713.3	0.9	
	Average	**200,443**	**4.9**	**1,707.7**	**0.9**	

TABLE 95
U.S. CONSUMER PRICE INDEX, SEASONALLY ADJUSTED
(1982-84 = 100)

Fiscal Year		Consumer Price Index	% Change Year Ago	
2005-06	1	196.6	3.8	
	2	198.2	3.7	
	3	199.3	3.7	
	4	201.7	4.0	
	Average	**199.0**	**3.8**	
2006-07	1	203.2	3.3	
	2	201.9	1.9	**Start of Forecast**
	3	203.3	2.0	
	4	204.6	1.4	
	Average	**203.2**	**2.1**	
2007-08	1	205.7	1.2	
	2	206.7	2.4	
	3	207.7	2.2	
	4	208.7	2.0	
	Average	**207.2**	**2.0**	
2008-09	1	209.9	2.0	
	2	211.0	2.1	
	3	212.1	2.1	
	4	213.2	2.2	
	Average	**211.5**	**2.1**	

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

REVENUE FORECAST

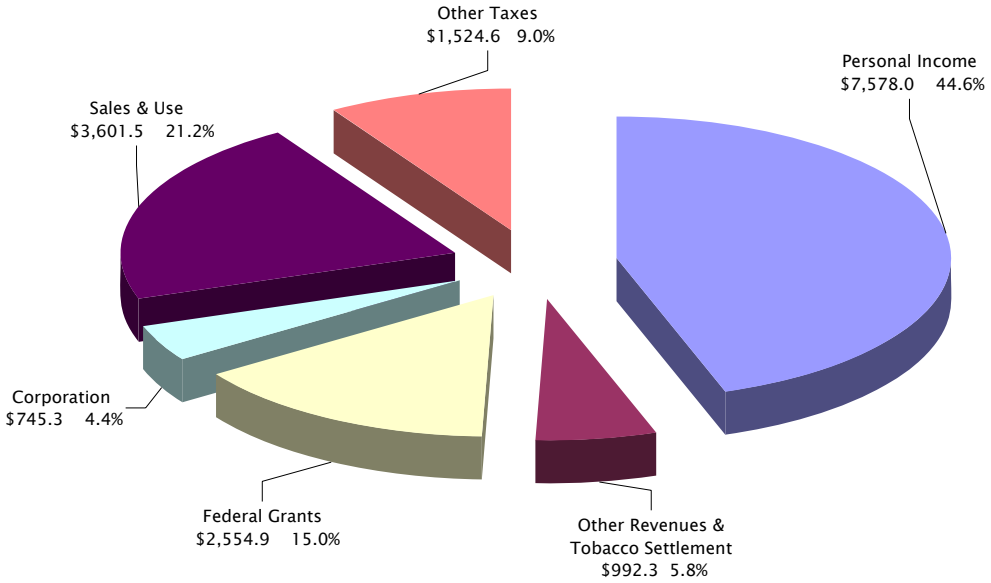
The following Table shows the actual General Fund Revenue collections for fiscal 2005-06, estimated revenue collections for fiscal 2006-07 and projected revenue collections for fiscal 2007-08 and fiscal 2008-09 by major sources.

TABLE 96
STATE OF CONNECTICUT - GENERAL FUND REVENUES
(In Millions of Dollars)

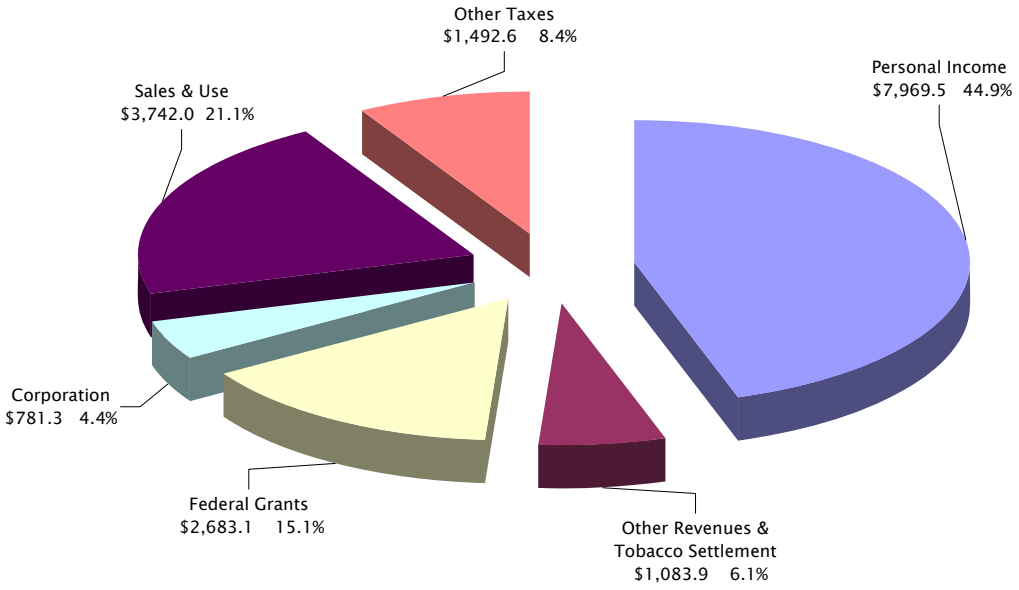
	Actual Revenue	Estimated Revenue	Projected Revenue At Current Rates	Proposed Revenue Changes	Net Projected Revenue
Taxes	2005-06	2006-07	2007-08	2007-08	2007-08
Personal Income Tax	$ 6,156.4	$ 6,625.0	$ 6,950.0	$ 628.0	$ 7,578.0
Sales & Use Tax	3,402.0	3,487.2	3,631.5	(30.0)	3,601.5
Corporation Tax	787.7	787.0	725.1	20.2	745.3
Public Service Tax	225.3	225.9	227.8	(5.0)	222.8
Inheritance & Estate Tax	196.3	164.8	168.1	(21.3)	146.8
Insurance Companies Tax	269.9	274.6	279.0	-	279.0
Cigarette Tax	272.2	272.0	272.0	81.5	353.5
Real Estate Conveyance Tax	207.5	170.0	168.3	-	168.3
Oil Companies Tax	212.1	135.0	140.3	(12.5)	127.8
Alcoholic Beverages	46.0	46.5	46.9	-	46.9
Admissions and Dues	35.4	33.6	33.9	-	33.9
Miscellaneous	142.2	142.0	145.6	-	145.6
Total Taxes	$ 11,952.8	$ 12,363.6	$ 12,788.5	$ 660.9	$ 13,449.4
Less Refunds of Taxes	(730.9)	(876.0)	(903.5)	96.4	(807.1)
Less R&D Credit Exchange	(6.7)	(7.5)	(8.0)	-	(8.0)
TOTAL - Taxes Less Refunds	$ 11,215.2	$ 11,480.1	$ 11,877.0	$ 757.3	$ 12,634.3
Other Revenues					
Transfers Special Revenue	$ 289.9	$ 278.6	$ 282.7	$ -	$ 282.7
Indian Gaming Payments	427.5	436.7	446.3	(100.0)	346.3
License, Permits, Fees	157.4	144.7	159.0	1.1	160.1
Sales of Commodities & Services	34.6	38.0	37.5	-	37.5
Rents, Fines & Escheats	91.5	46.0	48.1	-	48.1
Investment Income	53.7	100.0	100.0	-	100.0
Miscellaneous	176.4	187.3	140.8	-	140.8
Less Refunds of Payments	(0.4)	(0.6)	(0.6)	-	(0.6)
TOTAL - Other Revenues	$ 1,230.6	$ 1,230.7	$ 1,213.8	$ (98.9)	$ 1,114.9
Other Sources					
Federal Grants	$ 2,549.6	$ 2,591.5	$ 2,562.5	$ (7.6)	$ 2,554.9
Transfer From Tobacco	89.4	100.0	88.4	-	88.4
Transfers From/(To) Other	(86.3)	(45.3)	(69.3)	(142.3)	(211.6)
TOTAL - Other Sources	$ 2,552.7	$ 2,646.2	$ 2,581.6	$ (149.9)	$ 2,431.7
TOTAL - General Fund	$ 14,998.5	$ 15,357.0	$ 15,672.4	$ 508.5	$ 16,180.9

Projected Revenue At Current Rates 2008-09	Proposed Revenue Changes 2008-09	Net Projected Revenue 2008-09	Explanation of Changes
			Personal Income Tax
			Increase tax rate from 5.0% to 5.25% eff. 1/1/2007.
			Increase tax rate from 5.25% to 5.5% eff. 1/1/2008.
			Department of Revenue Services initiatives.
			Sales and Use Tax
$ 7,300.0	$ 669.5	$ 7,969.5	Eliminate tax on electricity to commercial businesses.
3,768.8	(26.8)	3,742.0	Exempt residential renewable energy sources, energy star room air conditioners, and production equipment related to renewable fuel distribution.
761.8	19.5	781.3	Extend sales tax exemption for weatherization products and hybrid vehicles.
229.7	(10.0)	219.7	Department of Revenue Services initiative.
171.1	(31.9)	139.2	Assumes additional collections due to increase in Cigarette tax.
282.9	-	282.9	
270.0	78.1	348.1	**Corporation Tax**
166.6	-	166.6	Establish biofuels production credit.
117.7	(12.5)	105.2	Reform the film industry tax credit.
47.4	-	47.4	
34.3	-	34.3	**Public Service Tax**
149.2	-	149.2	Intercept cable television receipts for new arts grant.
$ 13,299.5	$ 685.9	$ 13,985.4	
(938.0)	192.8	(745.2)	**Inheritance & Estate Tax**
(9.0)	-	(9.0)	Phase out the estate tax by 2011.
$ 12,352.5	$ 878.7	$ 13,231.2	
			Cigarette Tax
$ 287.0	$ -	$ 287.0	Increase cigarette tax from $1.51 to $2.00 per pack.
466.1	(200.0)	266.1	
146.1	0.7	146.8	**Oil Companies Tax**
38.7	-	38.7	Intercept funds for the Emergency Spill Response Fund.
49.0	-	49.0	
100.0	-	100.0	**Refunds of Tax**
140.5	-	140.5	Phase out the Property Tax Credit starting 1/1/2007, but
(0.6)	-	(0.6)	maintain credit for those aged 65 and over.
$ 1,226.8	$ (199.3)	$ 1,027.5	
			Indian Gaming Payments
$ 2,700.7	$ (17.6)	$ 2,683.1	Redirect revenue to proposed CAR fund to reimburse
87.4	-	87.4	towns for foregone property taxes on privately owned
(69.3)	37.7	(31.6)	passenger vehicles.
$ 2,718.8	$ 20.1	$ 2,738.9	
			Federal Grants
$ 16,298.1	$ 699.5	$ 16,997.6	Reflects impact of recommended expenditure changes.
			Transfers From/(To) Other Funds
			Restoration of funds to CT Energy Efficiency Funds.
			Delay GAAP Implementation.
			Transfer resources from FY 2008 to FY 2009.

FISCAL YEAR 2007-08 – TOTAL $16,180.9 MILLION*
(General Fund)



FISCAL YEAR 2008-09 – TOTAL $16,997.6 MILLION*
(General Fund)



* Refunds of Taxes are estimated at $807.1M for FY 2007-08 and $745.2M for FY 2008-09, R&D Credit Exchange are estimated at $8.0M for FY 2007-08 and $9.0 M for FY 2008-09, Refunds of Payments are estimated at $0.6M for both FY 2007-08 and FY 2008-09.

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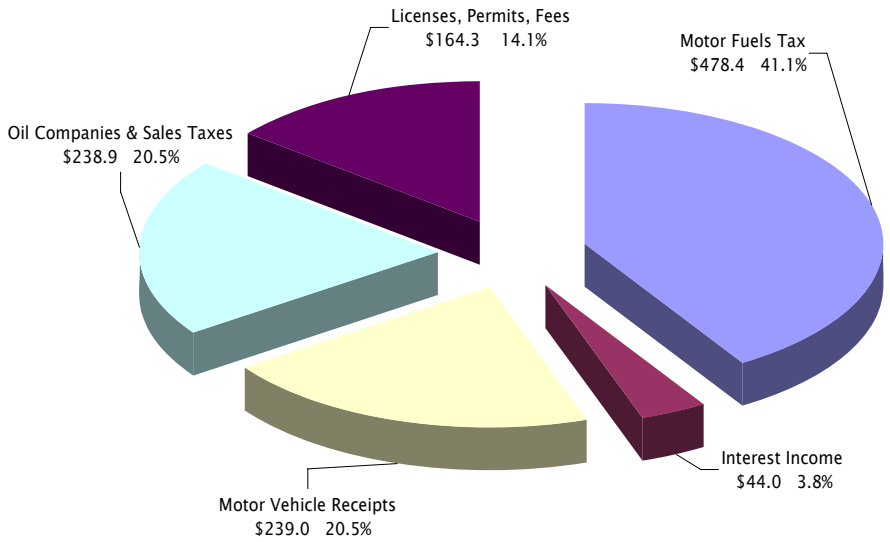
TABLE 97
STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND REVENUES
(In Millions of Dollars)

Taxes	Actual Revenue 2005-06	Estimated Revenue 2006-07	Projected Revenue Current Rates 2007-08	Proposed Revenue Changes 2007-08	Net Projected Revenue 2007-08
Motor Fuels Tax	$ 480.9	$ 478.4	$ 478.4	$ -	$ 478.4
Oil Companies Tax	43.5	141.0	164.0	-	164.0
Sales Tax DMV	68.4	71.6	74.9	-	74.9
Less Refunds of Taxes	(8.9)	(9.1)	(9.2)	-	(9.2)
TOTAL - Taxes Less Refunds	$ 583.9	$ 681.9	$ 708.1	$ -	$ 708.1
Other Sources					
Motor Vehicle Receipts	$ 227.3	$ 231.8	$ 236.5	$ 2.5	$ 239.0
Licenses, Permits & Fees	160.4	162.0	163.6	0.7	164.3
Interest Income	40.1	46.0	44.0	-	44.0
Transfers From (To) Other Funds	(4.6)	(7.0)	(9.5)	-	(9.5)
Transfer To TSB	(25.3)	(20.3)	(15.3)	-	(15.3)
Less Refunds of Payments	(2.7)	(2.9)	(3.0)	-	(3.0)
TOTAL - Other Sources	$ 395.3	$ 409.6	$ 416.3	$ 3.2	$ 419.5
TOTAL – S.T.F.	$ 979.2	$ 1,091.5	$ 1,124.4	$ 3.2	$ 1,127.6

FISCAL YEAR 2007-08 - TOTAL $ 1,127.6 MILLION*



* Refunds of Taxes are estimated at $9.2M, Transfers to Other Funds are estimated at $9.5 M, Refunds of Payments are estimated at $3.0M and Transfers to Transportation Strategy Board are estimated at $15.3M in fiscal 2007-08.

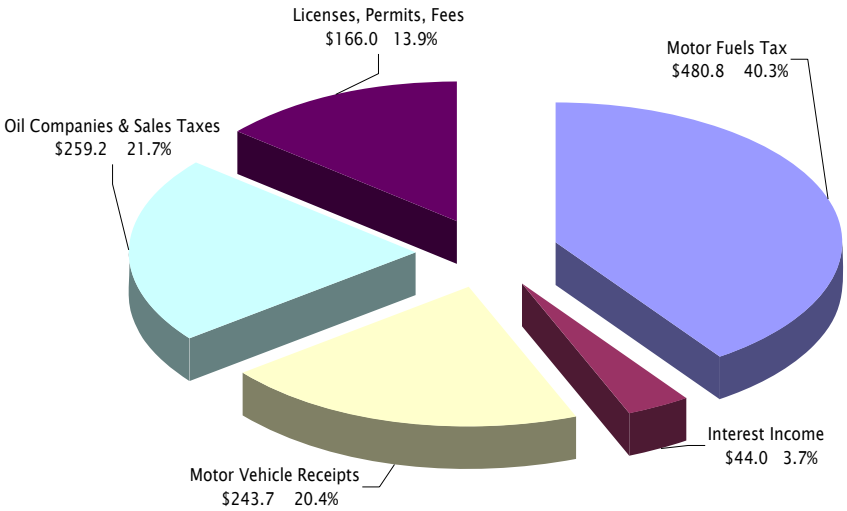
	Projected Revenue Current Rates 2008-09	Proposed Revenue Changes 2008-09	Net Projected Revenue 2008-09
	$ 480.8	$ -	$ 480.8
	180.9	-	180.9
	78.3	-	78.3
	(9.3)	-	(9.3)
	$ 730.7	$ -	$ 730.7
	$ 241.2	$ 2.5	$ 243.7
	165.3	0.7	166.0
	44.0	-	44.0
	(9.5)	-	(9.5)
	(15.3)	-	(15.3)
	(3.1)	-	(3.1)
	$ 422.6	$ 3.2	$ 425.8
	$ 1,153.3	$ 3.2	$ 1,156.5

Explanation of Changes

Motor Vehicle Receipts
Increase Safety Plate fee from $5 to $10.

License, Permits, Fees
Increase Abandoned Motor Vehicle Filing Fee from $5 to $20.
Enhance enforcement at weigh stations.

FISCAL YEAR 2008-09 - TOTAL $ 1,156.5 MILLION*



* Refunds of Taxes are estimated at $9.3M, Transfers to Other Funds are estimated at $9.5M, Refunds of Payments are estimated at $3.1M and Transfers to Transportation Strategy Board are estimated at $15.3M in fiscal 2008-09.

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 estimates how much these services will cost; and it defines the resources that are required to provide these services. 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 11.9% 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 few but significant tax changes while continuing to make changes in resource allocation to improve the social and economic wellbeing of the state's residents. This budget is also part of the vision of the Governor to attain and retain structural balance in the budget. 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

Creating A Competitive Connecticut by Investing in Education

In its recent treatise on education and the economy, the National Center on Education and the Economy (NCEE), painted a stark picture of the United State's current and future economy. Even as lower paid jobs had gone overseas, Americans had counted on its educated workers commanding high salaries. As the vast economies of India and China evolved, America lost both low and high paying jobs because these countries had developed educated workers willing to work for low wages.

To create and retain jobs in this country, according to the NCEE, Americans will need to "produce the most important new products and services that can capture a premium in world markets that will enable them to pay high wages." This type of economy will depend on workers who are highly competent critical thinkers. These creative and innovative workers will require a high quality education that has as its foundation, "a very high level of preparation in reading, writing, speaking, mathematics, science, literature, history, and the arts." (NCEE) Since the national public school system was built "for another era in which most workers needed only a rudimentary education," it cannot be counted on to produce this kind of worker.

It appears clear, then, that Connecticut's education system will need to be revitalized to produce the very workers that the economy will need to compete globally. Governor Rell is willing to

take on this challenge because Connecticut's students deserve to get a first class education. This education investment will also help the state's economy to prosper.

Boldly, Governor Rell is proposing the single most significant investment in education in a generation. By the fifth year of the plan, $1.2 billion more in funding will be invested in education. The largest portion of this increase, about $1.1 billion, by year five, will be for the state's largest education grant, the Education Cost Sharing (ECS) grant. This investment will transform the state's education system by transferring a considerable amount of (currently locally paid) costs to the state. Using current data, this new investment will move the state's share of education significantly forward towards a more equal cost-sharing arrangement.

This education investment will go well beyond the significant increases in the Education Cost Sharing (ECS) grant. While groundbreaking in its scope, ECS is only part of the panoply of educational enhancements found in Governor Rell's proposed biennial budget for state fiscal years 2008 and 2009. Incorporating recommendations from the Early Childhood Education Cabinet, Governor Rell's budget includes expanded and new programming in early education. Additionally, from the Commission on Education Finance, there are recommendations for accountability measures that are all aimed at re-engineering the state's education system to produce the workers of tomorrow.

Early Childhood Education

In Governor Rell's proposed budget, she is dedicating $18.8 million in state fiscal year 2008 and $44.9 million in fiscal year 2009 for her Early Childhood Education Initiative. Much of the substance of this recommendation is found in seminal work done by the Early Childhood Education Cabinet.

According to "*From Cradle to Career, Connecting American Education from Birth through Adulthood*", (*Education Week* and the Pew Center), low income children do not perform as well as their more advantaged peers when they reach kindergarten. Disadvantaged children also are much less likely to have attended a quality preschool. This pattern of academic disadvantage, which starts in preschool, lasts through a low income child's school life. Statistically, a poor 12th grader is more likely to read on par with an affluent 8th grader. Once children get lost in a maze of academic failure, they are more likely to go astray, drawn to truancy, criminal acts and teen pregnancies. This spiral of failure cannot continue because Connecticut's future economy needs all of its children to be smart, innovative and creative.

Governor Rell, as advised by the Early Childhood Education Cabinet, knows that investing early in a child's education, especially for poor children, creates significant benefits, both to the child and to the state's economy. For disadvantaged children, intervening early with positive education experiences is vital. The social side of this equation is simple; disadvantaged children who attend a quality preschool are more likely than their peers to:

1. Stay in school
2. Get jobs and avoid welfare
3. Avoid teen pregnancy
4. Eschew criminal behavior

The economic benefits are even more striking. According to Arthur Rolnick and the Federal Reserve Bank of Minneapolis, early childhood programs can "reap extraordinarily high economic returns, benefits that are low risk and long-lived." Some of the economic benefits are related to the social ones: disadvantaged children who develop early learning skills are more likely to achieve employment skills far greater than their peers who did not have a preschool experience. Mr. Rolnick estimates that the rate of return is $3 to $17 for every dollar invested. This investment ties back to the social impact of the early childhood investment. Disadvantaged children who go to preschool are less likely to tax the state's prison, welfare and public safety systems and are more likely to be productive members of society.

Governor Rell's Early Childhood Initiative is bold, reaching out to about one-third of the low income children who do not currently attend preschool. There is enough funding for over 4,000 disadvantaged (185% of federal poverty level) children to attend preschool. To ensure that the most qualified individuals are teaching children in their preschools, a portion of the initiative funding will be directed to scholarships, loans and staff bonuses to encourage individuals to seek more academic credentialing. Funding will be provided for the higher education units to expand their early childhood offerings by developing distance learning opportunities, considering alternative routes for a to-be-created "birth to five" teaching credential and instituting language and literacy requirements for assistant teachers. State programs that touch on young children, such as the Birth-to-Three program, will be expanded to include more at-risk children.

Commission on Education Finance:
Increasing the State's Share of Education Costs and Accountability

In Connecticut, financing education has long been an issue, one vigorously discussed in the highest courts of the state and in the chambers of locally elected officials. To a person, no one thinks his town gets enough Education Cost Sharing (ECS) grant money. All point to 1989, when the local share of education was 50%. After that, the local share continued to increase, while the state share, for the most part, decreased. Governor Rell, acting upon recommendations found in the Commission on Education Finance's final report, has proposed groundbreaking increases in ECS - $1.1 billion by fiscal year 2012. This investment will help the state make significant progress towards equally sharing education costs with local communities. These increases will be accompanied by new accountability requirements.

This significant investment in education is necessary because Connecticut cannot wait as the world produces more and better educated workers. Connecticut cannot wait because the achievement gap between low income, and often minority, children and more affluent children is too wide. Connecticut's economic health depends upon an education system that affords each child, including those who face the academic barriers of poverty, with an incomparable education. By investing significant new funding in education, and continuing to support an equity-based, but streamlined and more understandable, ECS formula, Governor Rell is demonstrating her commitment to improve the state's education system. Additionally, Governor Rell's recommended increases in ECS, especially for those communities with significant numbers of low-income children, could help reduce the achievement gap in the state.

With this significant investment in education, Governor Rell is counting on more children succeeding in school. If more children are academically successful, they will be more likely to

attend college. College is a gateway to economic success. According to the College Board, "over their working lives, typical college graduates earn 73 percent more than typical high school graduates." If more college graduates are produced, Connecticut will benefit because a college graduate is more likely to:

1. Be employed
2. Earn more and pay more taxes
3. Be a non-smoker
4. Avoid jail
5. Produce children with high cognitive skills and
6. Vote

In order to protect the state's education investment, Governor Rell is proposing a series of new accountability requirements. While Governor Rell expects that academic performance will improve for all children, she is cognizant of the significant barriers that exist for some children, especially those who are poor. To ensure that all children are afforded the same opportunities to succeed in school, Governor Rell is proposing the following accountability measures:

1. Full day kindergarten considered for all communities
2. Innovative programs to reduce truancy
3. Require math and reading proficiency for all
4. Expand math and science requirements for high school
5. Tough new high school graduation requirements
6. Mandatory minor capital facilities review for each school

Taken as a whole, these initiatives will ensure that the new funding will be well spent and that all students will succeed.

Health and Human Services

Investing in the Health and Well-Being of Connecticut's Most Vulnerable Citizens

Governor Rell is committed to improving the health and well-being of Connecticut's citizens. To accomplish this, she is recommending significant new funding for several initiatives to help people access health care, including expanded efforts to enroll children in the state's existing comprehensive HUSKY A and B health care plans, new mechanisms to provide coverage for low-income working adults through her innovative Charter Oak Plan coupled with a premium financial assistance program for the lowest income adults to ensure they can obtain coverage, and an effort to assist persons on state assistance to gain access to available employer-sponsored insurance through a premium assistance initiative.

In order to strengthen Connecticut's safety net, the Governor is recommending substantial new investments in improved and expanded programs for abused and neglected children, persons in need of developmental services, persons with behavioral health needs, and programs to move persons currently in nursing homes into home and community settings. These investments will build on past commitments and continue the state's progress toward ensuring the dignity and social well-being of particularly vulnerable citizens.

The Governor recognizes that prevention efforts are critical to improved health care outcomes and that prevention generates significant health and financial returns. During the biennium, the Department of Public Health will implement a $5.5 million comprehensive cancer plan that will address tobacco cessation, enhanced colorectal cancer screening and treatment, public awareness and education, and palliative and hospice care, and will also devote more than $6 million over the biennium to expanded breast and cervical cancer detection and treatment. The Governor is also recommending funds to prevent and manage chronic diseases through a $2 million disease management effort.

In order to promote efficiencies and prevent illnesses, the Governor is committed to investments in technology that promise to improve the quality of health care, increase patient safety, reduce health care costs, and improve public health. She has charged the Office of Health Care Access with leading a planning effort during the biennium to assess the future of health information exchange systems and to begin to develop a state health information technology policy. The Governor is also recommending funds to allow online licensing of health professionals. When operational in late FY 2009 or early FY 2010, this will allow health care practitioners to secure a license from the Department of Public Health with convenience and ease, and will also allow for the collection of valuable workforce data that is needed to identify and address current and future healthcare workforce shortages. In particular, this system will allow the state to establish a database on nursing personnel to assist state agencies and employers in planning for nurse staffing patterns and practices. The Governor is also recommending a substantial new investment in technology, staffing and office environments under the Department of Social Services in order to improve the operations of the state's human services infrastructure.

A number of the Governor's health and human services initiatives entail the commitment of state funds in order to leverage substantial sums of federal money, or will derive significant federal reimbursement of state expenditures. For example, an electronic prescribing initiative under the Department of Social Services will leverage $5 million in federal funding with a $500,000 state investment.

Lastly, the Governor believes it is time to address significant wage disparities between employees of the state's long-time service providers and those employed under newer contracts. As a result, the Governor is proposing $15 million in FY 2008 and $17 million in FY 2009 for a low wage pool that will allow state human service agencies to bring wages for providers whose employees are determined to be "low-wage" up to the median for all state-contracted providers of similar services.

Public Safety and Criminal Justice

With the growing need for additional State Police Troopers and limited resources available to increase Trooper staffing levels, the Governor is proposing a creative alternative that will take Troopers out of non-traditional Trooper roles and get them back to their mission-critical responsibilities.

Currently there are 16 Troopers working with the Department of Emergency Management and Homeland Security (DEMHS) as the Terrorism Prevention Unit. The Governor is proposing the redeployment of 13 of these Troopers back into the field and filling those vacancies with 12 staff

that would report directly to the Commissioner of DEMHS. Three Troopers would remain in the Unit working alongside the new team and aiding in their acclimatization as well as serving to ensure inter-agency communication. This move will get Troopers back to their primary mission and increase organizational efficiency.

Current statute (Section 14-270c of the Connecticut General Statutes) dictates that both the Commissioners of the Department of Public Safety (DPS) and Motor Vehicles (DMV) shall staff the truck weighing areas throughout the state. This split responsibility, in addition to the extra costs associated with having Troopers working weigh stations with inspectors, results in an inefficient use of state resources. The Governor is proposing statutory revisions to place all responsibility of the State's weigh stations under the auspices of the DMV which would make 21 State Troopers available to the Commissioner of DPS to redeploy to other mission critical areas of the Department. In order to accomplish this initiative, eleven Vehicle Weight and Safety Inspectors under the DPS would be transferred to the DMV. Additionally, the Governor is adding 6 Motor Vehicle Inspectors to get DMV to such staffing levels that will allow DMV to expand current operating hours of weigh stations and roving teams by 31% more than what is being conducted by both DPS and DMV at this time. Such an increase will help to increase safety on Connecticut's major highways and roadways.

In summary, the Governor is proposing a plan that will get more than 30 Troopers back to mission essential functions of the State Police. The cost to the General Fund for these proposals is less than $250,000. At this cost, the Governor can put an additional 34 experienced Troopers on the road addressing core responsibilities of the State Police, cement the Terrorism Prevention Unit within DEMHS while maintaining inter-agency communications with DPS, promote efficiencies at weigh stations and increase truck inspections. To sustain the improvements made through this redeployment, the Governor is proposing that the Department conduct two Trooper Training Classes during FY08 so that the level of sworn personnel remains at the mandated level of 1,248.

Four million dollars is recommended by the Governor for FY 08 to assist in preventing urban violence in communities. A program within the Office of Policy and Management will be established to provide grants to municipalities targeted toward preventing violent criminal activity involving young people in urban areas. It is estimated that these grants will stimulate a strong presence by local law enforcement agencies and promote more direct interaction between police and the community. This would be the best foundation for a comprehensive strategy to reduce serious crimes in our communities.

General Government

In an effort to address Connecticut's energy issues in general and the regulation of utilities in particular, the Governor proposes sweeping changes in the form of a new State Department of Energy (DOE) and structural changes to the Office of Policy and Management (OPM), the Office of the Consumer Counsel (OCC) and the Department of Public Utility Control (DPUC).

The new DOE, composed of approximately 100 positions, will be assimilated primarily from current staffing at the DPUC and the OPM. DOE will be responsible for:

1. Energy policy development and planning
2. Energy infrastructure planning, including utility integrated resource planning

3. Electric procurement for standard service and supplier of last resort customers
4. Energy market analysis and associated data collection ,
5. Alternative and renewable resource development,
6. Integrated conservation and efficiency planning and program implementation, and
7. Management of energy usage and costs in State facilities.

The DPUC will be streamlined to be responsible for only those regulatory actions necessary in approving rates or tariffs for public utilities (electric and gas) and responsibilities relating to both water and telecommunication utilities. This streamlining will shift existing staff positions at the DPUC to the new DOE and to the OCC. The Public Utility Control Authority within the DPUC will consist of four commissioners rather than the current five commissioner positions. The primary responsibilities for electric and natural gas will be:

1. Standard service generation rates;
2. Supplier of last resort generation rates;
3. Distribution service rates;
4. Approval of plans and programs where ratepayer funding is all or part of the financial support mechanism; and
5. Call Before You Dig.

The Office of the Consumer Counsel will continue to be an adjunct to the DPUC. In addition to its current responsibilities to represent consumer interests in regulatory processes, the Office would be expanded to include handling consumer complaints and interfacing with the utility companies on behalf of consumers. The Connecticut Siting Council will also continue to be an adjunct to the DPUC. There will be no changes in responsibilities for the Siting Council.

In order to generate more informed decision-making at all levels of government; to ensure the success of efforts to revitalize cities; preserve the unique charm of our state; and build livable, economically strong communities while protecting our natural resources for the enjoyment of future generations, the Governor recommends the following:

1. Increase state support for Regional Planning Organizations (RPOs) and provide additional staff to the Department of Environmental Protection (DEP) to provide training and support to advise and educate municipalities and RPOs in matters relating to responsible growth;
2. Expand funding for UConn Extension Services Center for Land Use Education and Research (CLEAR) to double and institutionalize the training of local land use commissioners;
3. Provide additional funding for proposed enhancements of the DEP's Inland Wetlands training tools;
4. Increase funding for Geographical Information System (GIS) capabilities of RPOs and expand the use of GIS technology to map and analyze environmental, natural resource and land use information to assist in making effective land use decisions;
5. Continue $268 million per year in bond funding for the Recreation and Natural Heritage, Open Space, Farmland Preservation, and Clean Water Programs;
6. Provide $20 million in new bond funding to create new a new responsible growth incentive fund available for grants and loans for projects that meet smart growth criteria;

7. Create a new funding pool that will provide grants specifically for updating local Municipal Plans of Conservation and Development, and;
8. Prioritize state funds for projects that (a) link transportation, housing and jobs or (b) replace and/or repair existing facilities before making new investments.

Governor Rell's Executive Order on Responsible Growth states clearly, "If left unchecked, sprawl will continue to fragment the landscape, impair our ability to remain economically competitive, consume precious natural resources, waste energy, and pollute our air and water. … It is time to lead our state in a more responsible direction."

The Governor's proposed budget includes nearly $1 million for 196 positions in FY08 and 201 positions in FY09 related to the Governor's Transportation Initiative III. These positions include 75 engineers to add to the in-house expertise of the agency; 81 positions for staff to perform construction inspection duties on projects under $50 million; 16 positions to enhance the Motorist Assistance Program; and 24 positions in FY08, with an additional 5 positions in FY09, to provide added support throughout the agency. Also included:

1. $1,913,000 in FY08 and $2,500,000 in FY09 to enhance Shoreline East Rail Service by adding weekend and off-peak (mid-day and evening) service;
2. $3,000,000 each year for the Southeast Tourism Transit System;
3. $150,000 in FY08 and $250,000 in FY09 for non-bondable bus capital projects to allow transit operators access to additional federal funds;
4. $750,000 in FY08 for a preliminary plan for a transportation center in New London that would improve the link between and the operations of the various transportation providers in the region;
5. $2,200,000 in each year to continue bus routes established as pilot projects;
6. $20 million in bond funds for bridge improvements
7. $40 million in bond funds for rail station and parking improvements
8. The purchase of an additional 24 rail cars using existing funds

The Governor is also recommending increasing the bus fares on October 1, 2007 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 $4,400,000 in FY08 and $6,500,000 in FY09 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.

The changes proposed by Governor Rell, as outlined below, will increase revenue to the General Fund in FY 2008 and FY 2009, respectively, by $508.5 million and $699.5 million. The changes are a combination of tax repeals and reductions, tax credits, and various transfers between funds, as well as tax increases.

First, Governor Rell is proposing to phase out by FY 2012 the property tax on privately-owned Connecticut-registered cars and motorcycles, as well as those vehicles that individuals lease on a long-term basis. This is a bold step to eliminate a regressive tax, which will make the state of Connecticut a much more attractive place to live, reducing the financial burden on the average working family in the state. The proposal does not include unregistered automobiles, business-owned vehicles, or vehicles which are recreational in nature. Payments of property tax on exempt vehicles would be reduced, beginning with what would be the July payment of 2007, based on the October 2006 Grand List. The property tax on motor vehicles will be reduced each year as follows, based on a reduction each year in the effective assessed value through an exemption of an increasing amount against the total assessed value of each vehicle:

October Grand List	Car Tax Due	Exemption Level Per Vehicle for Tax on Cars	Income Year	Property Tax Credit Against Income Tax	State Fiscal Year	Amount of Indian Gaming Payments Receipts to CAR Fund
2005	July, 2006	--	2006	$500	2007	--
2006	July, 2007	$1,500	2007	$350	2008	$100.0 Million
2007	July, 2008	$3,200	2008	$225	2009	$200.0 Million
2008	July, 2009	$4,900	2009	$100	2010	$300.0 Million
2009	July, 2010	$6,700	2010	--	2011	$400.0 Million
2010	July, 2011	100 %	2011	--	2012	100%

The property tax on all eligible motor vehicles currently raises about $470.0 million for local governments. This amount is expected to increase to about $562.4 million by FY 2012. The phase out and elimination of the tax will be paid for by redirecting funds as shown in the table above each year to a CAR (Casino Annual Revenue) Fund to be used to reimburse the local taxing authorities through a property tax relief grant, in conjunction with a transfer of funds from the General Fund to the CAR Fund in FY 2012 to supplement the funds from the Indian Gaming Payments receipts. At the same time, the property tax credit against the personal income tax will be phased out, beginning with the 2007 income year, as shown above for those under age 65. Finally, the funding for the Mashantucket Pequot Grant will be maintained, but the $86.3 million will come from the General Fund beginning in FY 2012.

Governor Rell will also phase out the unified gift and estate tax over the next five years, with total elimination of the tax in income year 2011. As part of the phase-out plan, the Governor is proposing to eliminate the "cliff" effect at each exemption level which results in significant tax savings for all filers. Under current law, estates valued at $2.0 million or more are taxed. The Governor is proposing to increase the tax exemption level to $4.1 million beginning January 1, 2007, resulting in a revenue loss in FY 2008 of $21.3 million. The exemption level will rise to $5.1 million for income year 2008 (saving taxpayers $31.9 million in FY 2009), to $7.1 million for income year 2009, and to $10.1 million for income year 2010. When completely phased out, Connecticut will join 32 other states with no estate tax.

The Governor recognizes the dramatic increases that have occurred recently in the cost of energy, and believes steps must be taken to address the impact these increases have had on businesses and working families in Connecticut. In recognition of the importance of this issue, along with other steps being taken on the expenditure side, she proposes to restore funding to the Energy Conservation and Load Management Fund and the Clean Energy Fund, costing the

General Fund $35.3 million in each year of the biennium, and helping both businesses and families achieve greater energy efficiency. Also, in order to address the high cost of energy facing both businesses and families at all income levels, the Governor is proposing a number of additional steps to help both groups cope with these increased costs. First, the sales tax on electricity for commercial businesses will be eliminated, saving these businesses $30.8 million in FY 2008 and $31.5 million in FY 2009. Also, a new Biofuels Production tax credit is established such that companies producing certain biofuels within the state may claim a credit against the corporation tax equal to fifty cents per gallon of biofuels produced, saving those companies $0.8 million in FY 2008 and $1.5 million in FY 2009. Also, machinery and equipment related to renewable fuel production will be exempted from the sales tax, saving business $0.5 million in each year of the biennium. A number of steps are also being taken with the sales tax to help families, saving consumers $8.6 million in FY 2008 and $9.5 million in FY 2009. These stepe include:

1. Exemption of residential installation of certain renewable energy sources;
2. Exemption of energy star room air conditioners;
3. Extension of the current sales tax exemption for weatherization products from June 30, 2007, to June 30, 2010, and;
4. Extension of the current sales tax exemption for hybrid vehicles that attain 40 mpg or more on the highway from October 1, 2007, to June 30, 2010.

Additional revenue increases are also being proposed to help pay for many of the reform initiatives discussed above as expenditure actions. These initiatives will position this state to be more competitive, as jobs at all levels around the world become more highly-skilled, by creating educational opportunities to position our future workforce to be better prepared for those jobs and to stimulate economic growth. Also, a portion of these increases will become an investment in the health and well-being of our most vulnerable citizens, including: health insurance coverage for some of those now uninsured; more appropriate service levels and settings for abused and neglected children and other vulnerable residents; increased efforts in the areas of public health, prevention, chronic diseases and others; increases in efficiency and quality through improvements in technology related to medicine and health care; increased leverage of federal funds, and; equity for those who provide these services.

First, the upper income tax rate will be increased by raising the rate of the tax for the top income bracket from 5.0% to 5.25% for income year 2007, and to 5.5% for income year 2008. This change will yield $617.5 million in FY 2008 and $650.0 million in FY 2009. The tax on cigarettes will go from $1.51 to $2.00 per pack, effective July 1, 2007, raising an additional $86.4 million in FY 2008 and $82.8 million in FY 2009, including additional sales tax revenue. This proposal will also reform the Film Industry Tax Credit established last year, clarifying and focusing its application, limiting the state's potential exposure by $21.0 million in each year of the biennium. Finally, enhanced collection and compliance efforts at the Department of Revenue Services will raise tax revenues by $15.5 million in FY 2008 and $29.5 million in FY 2009.

Finally, a number of additional steps impacting the General Fund will be taken. A total of $5.0 million in FY 2008 and $10.0 million in FY 2009 from the gross receipts tax on cable television companies will be intercepted and used for either operating support or capital projects for the state's art industry, for organizations and projects meeting certain criteria. The funds will be administered by the Connecticut Commission on Culture and Tourism (CCT). The transfer of

$12.5 million annually from the General Fund to the Emergency Spill Response Account will be extended through this biennium. Certain fees of the Division of Fire, Emergency and Building Services of the Department of Public Services will be increased, raising revenue by $1.1 million and $0.7 million, respectively, in FY 2008 and FY 2009.

Within the Special Transportation Fund, an additional $3.2 million will be raised by increasing the safety plate fee from $5.00 to $10.00, increasing abandoned motor vehicle filing fees, and enhancing enforcement and fines at weigh stations.

Conclusion

These proposals, taken all together, demonstrate Governor Rell's recognition of the reality of a challenging competitive climate for the state. This budget also demonstrates a pragmatic and optimistic response to this environment. The Governor has attempted to maintain the fiscal stability already established while encouraging economic expansion.

A P P E N D I X

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2005 DPH* Est.
Total	3,287,116		3,405,565		118,449	3.6	3,510,297
Andover	2,540	149	3,036	147	496	19.5	3,209
Ansonia	18,403	52	18,554	57	151	0.8	18,744
Ashford	3,765	138	4,098	135	333	8.8	4,416
Avon	13,937	72	15,832	68	1,895	13.6	17,209
Barkhamsted	3,369	140	3,494	143	125	3.7	3,711
Beacon Falls	5,083	124	5,246	125	163	3.2	5,596
Berlin	16,787	60	18,215	59	1,428	8.5	19,590
Bethany	4,608	128	5,040	126	432	9.4	5,473
Bethel	17,541	56	18,067	61	526	3.0	18,760
Bethlehem	3,071	144	3,422	144	351	11.4	3,596
Bloomfield	19,483	51	19,587	52	104	0.5	20,581
Bolton	4,575	129	5,017	127	442	9.7	5,170
Bozrah	2,297	152	2,357	153	60	2.6	2,445
Branford	27,603	35	28,683	32	1,080	3.9	29,089
Bridgeport	141,686	1	139,529	1	-2,157	-1.5	139,008
Bridgewater	1,654	161	1,824	160	170	10.3	1,898
Bristol	60,640	9	60,062	11	-578	-1.0	61,353
Brookfield	14,113	71	15,664	69	1,551	11.0	16,354
Brooklyn	6,681	110	7,173	113	492	7.4	7,711
Burlington	7,026	107	8,190	108	1,164	16.6	9,097
Canaan	1,057	168	1,081	168	24	2.3	1,101
Canterbury	4,467	131	4,692	130	225	5.0	5,060
Canton	8,268	101	8,840	101	572	6.9	9,932
Chaplin	2,048	155	2,250	156	202	9.9	2,472
Cheshire	25,684	37	28,543	33	2,859	11.1	29,097
Chester	3,417	139	3,743	141	326	9.5	3,832
Clinton	12,767	77	13,094	81	327	2.6	13,612
Colchester	10,980	87	14,551	74	3,571	32.5	15,389
Colebrook	1,365	164	1,471	165	106	7.8	1,540
Columbia	4,510	130	4,971	129	461	10.2	5,336
Cornwall	1,414	163	1,434	166	20	1.4	1,489
Coventry	10,063	91	11,504	87	1,441	14.3	12,190
Cromwell	12,286	79	12,871	83	585	4.8	13,594
Danbury	65,585	8	74,848	7	9,263	14.1	78,736
Darien	18,196	53	19,607	51	1,411	7.8	20,452
Deep River	4,332	132	4,610	133	278	6.4	4,714
Derby	12,199	80	12,391	84	192	1.6	12,536
Durham	5,732	120	6,627	116	895	15.6	7,266
East Granby	4,302	133	4,745	132	443	10.3	5,058
East Haddam	6,676	111	8,333	105	1,657	24.8	8,808
East Hampton	10,428	88	13,352	78	2,924	28.0	12,194
East Hartford	50,452	17	49,575	19	-877	-1.7	49,173
East Haven	26,144	36	28,189	35	2,045	7.8	28,755
East Lyme	15,340	67	18,118	60	2,778	18.1	18,459

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2005 DPH*Est.
East Windsor	10,081	90	9,818	94	-263	-2.6	10,447
Eastford	1,314	165	1,618	163	304	23.1	1,761
Easton	6,303	113	7,272	111	969	15.4	7,488
Ellington	11,197	84	12,921	82	1,724	15.4	14,217
Enfield	45,532	20	45,212	20	-320	-0.7	45,441
Essex	5,904	118	6,505	117	601	10.2	6,783
Fairfield	53,418	14	57,340	13	3,922	7.3	57,813
Farmington	20,608	48	23,641	45	3,033	14.7	24,941
Franklin	1,810	160	1,835	159	25	1.4	1,916
Glastonbury	27,901	33	31,876	29	3,975	14.2	33,089
Goshen	2,329	151	2,697	151	368	15.8	3,092
Granby	9,369	93	10,347	93	978	10.4	11,088
Greenwich	58,441	12	61,101	9	2,660	4.6	62,236
Griswold	10,384	89	10,807	89	423	4.1	11,254
Groton	45,144	21	39,907	23	-5,237	-11.6	41,366
Guilford	19,848	50	21,398	49	1,550	7.8	22,307
Haddam	6,769	109	7,157	114	388	5.7	7,635
Hamden	52,434	15	56,913	14	4,479	8.5	58,180
Hampton	1,578	162	1,758	161	180	11.4	2,034
Hartford	139,739	2	124,121	2	-15,618	-11.2	124,397
Hartland	1,866	158	2,012	158	146	7.8	2,082
Harwinton	5,228	123	5,283	124	55	1.1	5,571
Hebron	7,079	106	8,610	104	1,531	21.6	9,198
Kent	2,918	147	2,858	150	-60	-2.1	2,962
Killingly	15,889	64	16,472	67	583	3.7	17,386
Killingworth	4,814	127	6,018	121	1,204	25.0	6,403
Lebanon	6,041	115	6,907	115	866	14.3	7,334
Ledyard	14,913	68	14,687	72	-226	-1.5	15,172
Lisbon	3,790	137	4,069	136	279	7.4	4,234
Litchfield	8,365	100	8,316	106	-49	-0.6	8,684
Lyme	1,949	157	2,016	157	67	3.4	2,099
Madison	15,485	66	17,858	64	2,373	15.3	18,812
Manchester	51,618	16	54,740	15	3,122	6.0	55,572
Mansfield	21,103	45	20,720	50	-383	-1.8	24,558
Marlborough	5,535	121	5,709	123	174	3.1	6,267
Meriden	59,479	11	58,244	12	-1,235	-2.1	59,653
Middlebury	6,145	114	6,451	118	306	5.0	6,974
Middlefield	3,925	135	4,203	134	278	7.1	4,281
Middletown	42,762	22	43,167	21	405	0.9	47,438
Milford	49,938	18	52,305	17	2,367	4.7	54,802
Monroe	16,896	59	19,247	54	2,351	13.9	19,650
Montville	16,673	61	18,546	58	1,873	11.2	19,612
Morris	2,039	156	2,301	155	262	12.8	2,393
Naugatuck	30,625	29	30,989	30	364	1.2	31,864
New Britain	75,491	7	71,538	8	-3,953	-5.2	71,254
New Canaan	17,864	55	19,395	53	1,531	8.6	19,984

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2005 DPH* Est.
New Fairfield	12,911	75	13,953	75	1,042	8.1	14,261
New Hartford	5,769	119	6,088	120	319	5.5	6,746
New Haven	130,474	3	123,626	3	-6,848	-5.2	124,791
New London	28,540	32	25,671	41	-2,869	-10.1	26,174
New Milford	23,629	40	27,121	37	3,492	14.8	28,667
Newington	29,208	31	29,306	31	98	0.3	29,676
Newtown	20,779	47	25,031	42	4,252	20.5	26,996
Norfolk	2,060	154	1,660	162	-400	-19.4	1,676
North Branford	12,996	74	13,906	76	910	7.0	14,398
North Canaan	3,284	142	3,350	145	66	2.0	3,392
North Haven	22,247	41	23,035	39	788	3.5	23,908
North Stonington	4,884	126	4,991	128	107	2.2	5,218
Norwalk	78,331	6	82,951	6	4,620	5.9	84,437
Norwich	37,391	25	36,117	26	-1,274	-3.4	36,598
Old Lyme	6,535	112	7,406	110	871	13.3	7,488
Old Saybrook	9,552	92	10,367	92	815	8.5	10,512
Orange	12,830	76	13,233	79	403	3.1	13,970
Oxford	8,685	96	9,821	96	1,136	13.1	11,709
Plainfield	14,363	69	14,619	73	256	1.8	15,443
Plainville	17,392	57	17,328	66	-64	-0.4	17,382
Plymouth	11,822	81	11,634	86	-188	-1.6	12,183
Pomfret	3,102	143	3,798	140	696	22.4	4,142
Portland	8,418	99	8,732	102	314	3.7	9,543
Preston	5,006	125	4,688	131	-318	-6.4	4,867
Prospect	7,775	105	8,707	103	932	12.0	9,234
Putnam	9,031	95	9,002	98	-29	-0.3	9,288
Redding	7,927	103	8,270	107	343	4.3	8,646
Ridgefield	20,919	46	23,643	44	2,724	13.0	24,210
Rocky Hill	16,554	62	17,966	62	1,412	8.5	18,760
Roxbury	1,825	159	2,136	154	311	17.0	2,327
Salem	3,310	141	3,858	138	548	16.6	4,094
Salisbury	4,090	134	3,977	137	-113	-2.8	4,083
Scotland	1,215	167	1,556	164	341	28.1	1,699
Seymour	14,288	70	15,454	70	1,166	8.2	16,144
Sharon	2,928	146	2,968	149	40	1.4	3,052
Shelton	35,418	26	38,101	25	2,683	7.6	39,477
Sherman	2,809	148	3,827	139	1,018	36.2	4,129
Simsbury	22,023	44	23,234	47	1,211	5.5	23,656
Somers	9,108	94	10,417	91	1,309	14.4	10,877
South Windsor	22,090	42	24,412	43	2,322	10.5	25,985
Southbury	15,818	65	18,567	56	2,749	17.4	19,677
Southington	38,518	24	39,728	24	1,210	3.1	42,077
Sprague	3,008	145	2,971	148	-37	-1.2	2,992
Stafford	11,091	85	11,307	88	216	1.9	11,857
Stamford	108,056	5	117,083	4	9,027	8.4	120,045
Sterling	2,357	150	3,099	146	742	31.5	3,519

Connecticut Resident Population Census Counts

	Population 1990	Rank	Population 2000	Rank	1990-2000 Change	% Chg.	2005 DPH* Est.
Stonington	16,919	58	17,906	63	987	5.8	18,336
Stratford	49,389	19	49,976	18	587	1.2	49,943
Suffield	11,427	83	13,552	77	2,125	18.6	14,704
Thomaston	6,947	108	7,503	109	556	8.0	7,938
Thompson	8,668	97	8,878	100	210	2.4	9,345
Tolland	11,001	86	13,146	80	2,145	19.5	14,571
Torrington	33,687	27	35,202	27	1,515	4.5	35,995
Trumbull	32,016	28	34,243	28	2,227	7.0	35,299
Union	612	169	693	169	81	13.2	744
Vernon	29,841	30	28,063	36	-1,778	-6.0	29,491
Voluntown	2,113	153	2,528	152	415	19.6	2,631
Wallingford	40,822	23	43,026	22	2,204	5.4	44,736
Warren	1,226	166	1,254	167	28	2.3	1,361
Washington	3,905	136	3,596	142	-309	-7.9	3,693
Waterbury	108,961	4	107,271	5	-1,690	-1.6	107,902
Waterford	17,930	54	19,152	55	1,222	6.8	18,940
Watertown	20,456	49	21,661	48	1,205	5.9	22,330
West Hartford	60,110	10	61,046	10	936	1.6	61,173
West Haven	54,021	13	52,360	16	-1,661	-3.1	52,923
Westbrook	5,414	122	6,292	119	878	16.2	6,599
Weston	8,648	98	10,037	95	1,389	16.1	10,276
Westport	24,410	39	25,749	40	1,339	5.5	26,615
Wethersfield	25,651	38	26,271	38	620	2.4	26,220
Willington	5,979	117	5,959	122	-20	-0.3	6,216
Wilton	15,989	63	17,633	65	1,644	10.3	17,960
Winchester	11,524	82	10,664	90	-860	-7.5	10,857
Windham	22,039	43	22,857	46	818	3.7	23,503
Windsor	27,817	34	28,237	34	420	1.5	28,778
Windsor Locks	12,358	78	12,043	85	-315	-2.5	12,411
Wolcott	13,700	73	15,215	71	1,515	11.1	16,228
Woodbridge	7,924	104	8,983	99	1,059	13.4	9,264
Woodbury	8,131	102	9,198	97	1,067	13.1	9,734
Woodstock	6,008	116	7,221	112	1,213	20.2	8,047

* 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, 2005"

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 1
U.S. ECONOMIC VARIABLES

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross Domestic Product ($B)	8,057.7	8,524.4	8,996.0	9,571.3	9,991.5	10,280.3	10,664.0	11,346.5	12,072.3	12,877.4
Percent Change	6.2%	5.8%	5.5%	6.4%	4.4%	2.9%	3.7%	6.4%	6.4%	6.7%
Real GDP	8,511.3	8,885.9	9,261.0	9,679.2	9,876.4	9,947.5	10,131.3	10,525.9	10,873.0	11,245.9
Percent Change	4.3%	4.4%	4.2%	4.5%	2.0%	0.7%	1.8%	3.9%	3.3%	3.4%
GDP Deflator (2000=100)	94.7	95.9	97.1	98.9	101.2	103.3	105.3	107.8	111.0	114.5
Percent Change	1.8%	1.3%	1.3%	1.8%	2.3%	2.2%	1.9%	2.4%	3.0%	3.1%
Housing Starts (K)	1,456.8	1,530.2	1,659.3	1,637.8	1,570.7	1,645.9	1,729.2	1,945.3	2,018.7	2,039.1
Percent Change	0.7%	5.0%	8.4%	-1.3%	-4.1%	4.8%	5.1%	12.5%	3.8%	1.0%
Unemployment Rate	5.2%	4.6%	4.4%	4.1%	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%
New Vehicle Sales (M)	14.95	15.40	16.06	17.54	16.89	16.96	16.64	16.81	17.02	16.78
Percent Change	-0.6%	3.0%	4.3%	9.2%	-3.7%	0.4%	-1.9%	1.0%	1.3%	-1.4%
Consumer Price Index ('82-'84=100)	158.9	161.8	164.5	169.3	175.1	178.2	182.1	186.1	191.7	199.0
Percent Change	2.8%	1.8%	1.7%	2.9%	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%
Industrial Production Index ('97=100)	86.3	92.8	96.9	102.0	102.4	99.1	100.3	102.5	106.5	110.2
Percent Change	5.9%	7.4%	4.5%	5.2%	0.4%	-3.2%	1.2%	2.2%	4.0%	3.4%
Personal Income ($B)	6,702.2	7,158.3	7,607.0	8,109.6	8,613.9	8,788.1	8,974.3	9,407.2	9,984.9	10,551.8
Percent Change	6.2%	6.8%	6.3%	6.6%	6.2%	2.0%	2.1%	4.8%	6.1%	5.7%
Real Personal Income ($B in 82-84=100)	4,217.8	4,425.5	4,622.9	4,790.3	4,920.4	4,932.5	4,928.0	5,055.4	5,209.1	5,303.3
Percent Change	3.2%	4.9%	4.5%	3.6%	2.7%	0.2%	-0.1%	2.6%	3.0%	1.8%
Disposable Personal Income ($B)	5,834.2	6,188.7	6,548.9	6,938.7	7,343.8	7,685.2	7,947.6	8,418.9	8,874.5	9,279.7
Percent Change	5.4%	6.1%	5.8%	6.0%	5.8%	4.6%	3.4%	5.9%	5.4%	4.6%
Disposable Personal Income ($B in 1996$)	6,176.7	6,478.0	6,777.2	7,019.7	7,261.0	7,483.3	7,598.1	7,878.3	8,083.6	8,194.9
Percent Change	3.3%	4.9%	4.6%	3.6%	3.4%	3.1%	1.5%	3.7%	2.6%	1.4%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal Income	6,702.2	7,158.3	7,607.0	8,109.6	8,613.9	8,788.1	8,974.3	9,407.2	9,984.9	10,551.8
Percent Change	6.2%	6.8%	6.3%	6.6%	6.2%	2.0%	2.1%	4.8%	6.1%	5.7%
Wages & Salaries	3,739.7	4,025.6	4,323.3	4,651.3	4,917.4	4,948.8	5,014.8	5,237.8	5,518.1	5,858.2
Percent Change	6.7%	7.6%	7.4%	7.6%	5.7%	0.6%	1.3%	4.4%	5.4%	6.2%
Manufacturing Income	n/a	n/a	n/a	n/a	n/a	682.0	667.9	675.0	697.1	725.1
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	-2.1%	1.1%	3.3%	4.0%
Nonmanufacturing Inc.	n/a	n/a	n/a	n/a	n/a	4,266.8	4,346.9	4,562.8	4,821.1	5,133.0
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	1.9%	5.0%	5.7%	6.5%
Other Labor Income	769.5	804.9	855.7	914.2	973.2	1,040.7	1,152.5	1,227.3	1,309.7	1,404.3
Percent Change	1.6%	4.6%	6.3%	6.8%	6.5%	6.9%	10.7%	6.5%	6.7%	7.2%
Proprietor's Income	558.8	598.3	655.5	703.1	754.5	768.5	782.0	863.0	943.8	996.1
Percent Change	7.8%	7.1%	9.6%	7.3%	7.3%	1.9%	1.8%	10.4%	9.4%	5.5%
Farm Income	34.4	31.3	31.1	24.3	21.2	12.7	20.4	35.6	32.5	25.0
Percent Change	4.6%	-8.9%	-0.6%	-21.9%	-12.8%	-40.3%	61.5%	74.1%	-8.7%	-23.1%
Nonfarm Income	524.4	567.0	624.4	678.8	733.3	755.8	761.6	827.4	911.4	971.1
Percent Change	8.0%	8.1%	10.1%	8.7%	8.0%	3.1%	0.8%	8.6%	10.1%	6.6%
Rental Income	130.9	130.6	144.0	149.7	153.9	173.1	135.0	134.0	114.4	54.6
Percent Change	3.6%	-0.2%	10.3%	4.0%	2.8%	12.5%	-22.0%	-0.7%	-14.7%	-52.3%
Personal Dividend Inc.	314.7	345.7	342.6	351.6	379.0	376.3	409.7	459.9	572.9	605.4
Percent Change	15.6%	9.8%	-0.9%	2.6%	7.8%	-0.7%	8.9%	12.3%	24.6%	5.7%
Personal Interest Income	821.0	893.4	930.4	970.3	1,020.8	976.4	920.3	899.7	907.1	985.3
Percent Change	6.4%	8.8%	4.1%	4.3%	5.2%	-4.3%	-5.8%	-2.2%	0.8%	8.6%
Transfer Payments	937.5	964.5	997.9	1,050.2	1,134.0	1,246.3	1,317.7	1,387.3	1,471.9	1,567.2
Percent Change	3.9%	2.9%	3.5%	5.2%	8.0%	9.9%	5.7%	5.3%	6.1%	6.5%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Less:										
Contributions to										
Social Insurance	570.6	605.5	643.7	682.0	719.9	740.5	760.6	801.1	852.5	915.7
Percent Change	5.1%	6.1%	6.3%	5.9%	5.6%	2.9%	2.7%	5.3%	6.4%	7.4%
Equals:										
Personal Income	6,702.2	7,158.3	7,607.0	8,109.6	8,613.9	8,788.1	8,974.3	9,407.2	9,984.9	10,551.8
Percent Change	6.2%	6.8%	6.3%	6.6%	6.2%	2.0%	2.1%	4.8%	6.1%	5.7%
Less:										
Personal Taxes	876.0	977.2	1,065.2	1,176.5	1,278.4	1,113.5	1,035.1	1,001.8	1,124.9	1,289.1
Percent Change	11.5%	11.5%	9.0%	10.5%	8.7%	-12.9%	-7.0%	-3.2%	12.3%	14.6%
Equals:										
Disposable Personal Inc.	5,834.2	6,188.7	6,548.9	6,938.7	7,343.8	7,685.2	7,947.6	8,418.9	8,874.5	9,279.7
Percent Change	5.4%	6.1%	5.8%	6.0%	5.8%	4.6%	3.4%	5.9%	5.4%	4.6%
Less:										
Personal Outlays	5,609.6	5,937.2	6,319.0	6,792.0	7,204.2	7,498.1	7,793.7	8,238.0	8,781.6	9,360.1
Percent Change	5.7%	5.8%	6.4%	7.5%	6.1%	4.1%	3.9%	5.7%	6.6%	6.6%
Equals:										
Personal Savings	224.6	251.5	229.9	146.8	139.7	187.2	153.8	180.9	92.9	-80.4
Percent Change	-1.0%	12.0%	-8.6%	-36.1%	-4.9%	34.0%	-17.8%	17.6%	-48.6%	-186.5%
Personal Savings Rate	3.8%	4.1%	3.5%	2.1%	1.9%	2.4%	2.0%	2.1%	1.1%	-0.9%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Establishment Employ.	12,119.9	12,438.0	12,742.7	13,059.8	13,225.2	13,088.2	13,011.5	13,046.9	13,244.3	13,444.0
Percent Change	2.4%	2.6%	2.4%	2.5%	1.3%	-1.0%	-0.6%	0.3%	1.5%	1.5%
Manufacturing	1,730.1	1,755.9	1,742.7	1,728.9	1,704.1	1,573.4	1,487.9	1,432.5	1,429.0	1,422.3
Percent Change	0.5%	1.5%	-0.8%	-0.8%	-1.4%	-7.7%	-5.4%	-3.7%	-0.2%	-0.5%
Nonmanufacturing	10,389.8	10,682.1	10,999.9	11,330.9	11,521.1	11,514.8	11,523.6	11,614.4	11,815.2	12,021.8
Percent Change	2.7%	2.8%	3.0%	3.0%	1.7%	-0.1%	0.1%	0.8%	1.7%	1.7%
Construction & Mining	633.0	661.2	697.6	729.7	742.9	737.0	726.6	741.6	773.4	806.9
Percent Change	5.1%	4.4%	5.5%	4.6%	1.8%	-0.8%	-1.4%	2.1%	4.3%	4.3%
Information	301.1	315.2	330.3	353.9	367.6	350.7	328.0	314.8	308.2	306.6
Percent Change	4.3%	4.7%	4.8%	7.1%	3.9%	-4.6%	-6.5%	-4.0%	-2.1%	-0.5%
Public Utility, Trade & Transportation	2,448.3	2,493.9	2,546.3	2,605.2	2,621.0	2,568.1	2,538.4	2,535.7	2,572.3	2,601.4
Percent Change	2.0%	1.9%	2.1%	2.3%	0.6%	-2.0%	-1.2%	-0.1%	1.4%	1.1%
Finance, Insurance & Real Estate	706.5	731.8	757.7	767.0	774.8	782.7	791.1	800.2	807.5	823.6
Percent Change	2.7%	3.6%	3.6%	1.2%	1.0%	1.0%	1.1%	1.2%	0.9%	2.0%
Services	4,342.8	4,503.7	4,658.5	4,813.8	4,926.6	4,940.2	4,981.2	5,065.3	5,182.7	5,295.4
Percent Change	3.7%	3.7%	3.4%	3.3%	2.3%	0.3%	0.8%	1.7%	2.3%	2.2%
Professional & Business	1,387.6	1,475.9	1,553.2	1,635.8	1,674.1	1,614.2	1,592.7	1,615.7	1,663.6	1,710.7
Percent Change	5.7%	6.4%	5.2%	5.3%	2.3%	-3.6%	-1.3%	1.4%	3.0%	2.8%
Education & Health	1,388.7	1,426.8	1,463.3	1,493.8	1,534.8	1,593.7	1,642.1	1,675.8	1,714.3	1,753.7
Percent Change	3.0%	2.7%	2.6%	2.1%	2.7%	3.8%	3.0%	2.1%	2.3%	2.3%
Leisure & Hospitality	1,091.2	1,110.6	1,138.5	1,170.8	1,197.7	1,199.4	1,207.3	1,232.9	1,265.1	1,291.9
Percent Change	2.6%	1.8%	2.5%	2.8%	2.3%	0.1%	0.7%	2.1%	2.6%	2.1%
Other Services	475.3	490.4	503.4	513.4	520.0	532.9	539.2	540.8	539.7	539.1
Percent Change	2.7%	3.2%	2.7%	2.0%	1.3%	2.5%	1.2%	0.3%	-0.2%	-0.1%
Government	1,958.1	1,976.4	2,009.4	2,061.2	2,088.2	2,136.0	2,158.4	2,156.7	2,171.1	2,187.9
Percent Change	0.5%	0.9%	1.7%	2.6%	1.3%	2.3%	1.1%	-0.1%	0.7%	0.8%
Civilian Labor Force	13,524.9	13,699.5	13,856.9	14,111.3	14,315.1	14,425.4	14,573.4	14,680.2	14,823.0	15,035.0
Percent Change	1.8%	1.3%	1.1%	1.8%	1.4%	0.8%	1.0%	0.7%	1.0%	1.4%
Unemployment Rate	5.2%	4.6%	4.4%	4.1%	4.1%	5.5%	5.9%	5.8%	5.3%	4.8%

MAJOR U.S. ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
All Items – Urban Consumers	158.9	161.8	164.5	169.3	175.1	178.2	182.1	186.1	191.7	199.0
Percent Change	2.8%	1.8%	1.7%	2.9%	3.4%	1.8%	2.2%	2.2%	3.0%	3.8%
Food & Beverages	156.1	159.4	162.9	166.2	170.9	175.6	178.1	183.6	189.1	193.4
Percent Change	3.5%	2.1%	2.2%	2.0%	2.8%	2.7%	1.4%	3.1%	3.0%	2.3%
Housing	154.9	158.5	162.1	166.4	173.4	178.2	182.6	186.9	192.4	199.6
Percent Change	2.8%	2.4%	2.2%	2.6%	4.2%	2.8%	2.5%	2.3%	3.0%	3.8%
Energy	111.6	107.5	102.0	115.9	131.5	121.0	130.6	142.0	159.6	194.2
Percent Change	4.3%	-3.6%	-5.2%	13.7%	13.4%	-8.0%	7.9%	8.8%	12.4%	21.7%
Commodities	141.2	141.8	142.7	147.0	150.6	149.7	150.7	152.4	156.9	163.1
Percent Change	2.3%	0.5%	0.6%	3.0%	2.4%	-0.6%	0.7%	1.1%	3.0%	3.9%
Apparel	132.1	132.9	132.2	130.6	128.9	125.3	122.1	120.7	120.2	119.1
Percent Change	0.0%	0.6%	-0.5%	-1.2%	-1.4%	-2.7%	-2.6%	-1.2%	-0.4%	-0.8%
Transportation	144.2	142.9	141.6	149.4	155.2	151.8	156.2	159.3	167.0	179.8
Percent Change	2.5%	-0.9%	-0.9%	5.5%	3.9%	-2.2%	2.9%	1.9%	4.9%	7.7%
Services	176.9	181.9	186.4	191.7	199.6	206.5	213.3	219.5	226.2	234.5
Percent Change	3.3%	2.8%	2.5%	2.8%	4.1%	3.5%	3.3%	2.9%	3.0%	3.7%
Medical Care	231.6	238.0	246.3	255.4	266.7	278.9	291.6	303.5	316.7	329.8
Percent Change	3.1%	2.8%	3.5%	3.7%	4.4%	4.6%	4.5%	4.1%	4.3%	4.1%
Other Goods & Services	219.7	230.8	248.2	264.9	276.3	288.6	296.7	301.4	308.9	317.6
Percent Change	4.0%	5.0%	7.6%	6.7%	4.3%	4.4%	2.8%	1.6%	2.5%	2.8%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 6
PERSONAL INCOME
(BILLIONS $-SAAR)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal Income	111.44	119.43	126.77	135.78	145.74	146.95	147.14	153.37	163.19	171.50
Percent Change	5.7%	7.2%	6.1%	7.1%	7.3%	0.8%	0.1%	4.2%	6.4%	5.1%
Disposable Personal Income	92.52	97.94	103.29	109.75	116.64	121.57	124.61	130.61	138.09	144.27
Percent Change	4.0%	5.9%	5.5%	6.3%	6.3%	4.2%	2.5%	4.8%	5.7%	4.5%
Total Wages	66.25	71.44	76.42	81.55	86.08	84.86	84.59	88.25	93.21	98.14
Percent Change	6.9%	7.8%	7.0%	6.7%	5.6%	-1.4%	-0.3%	4.3%	5.6%	5.3%
Manufacturing Wages	n/a	n/a	n/a	n/a	n/a	12.75	12.23	12.44	12.90	13.34
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	-4.0%	1.7%	3.7%	3.4%
Nonmanufacturing Wages	n/a	n/a	n/a	n/a	n/a	72.11	72.36	75.81	80.30	84.80
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	0.3%	4.8%	5.9%	5.6%
Other Labor Income	12.79	13.28	14.04	14.90	15.90	17.04	18.42	19.30	20.52	21.69
Percent Change	1.1%	3.9%	5.7%	6.1%	6.7%	7.2%	8.1%	4.8%	6.3%	5.7%
Proprietor's Income	8.31	9.32	10.44	12.18	14.37	15.18	14.93	15.99	17.58	18.65
Percent Change	5.4%	12.2%	12.0%	16.7%	18.0%	5.6%	-1.6%	7.1%	9.9%	6.1%
Property Income	20.26	21.80	22.64	23.91	25.83	25.49	24.33	24.65	26.29	27.40
Percent Change	6.5%	7.6%	3.8%	5.6%	8.0%	-1.3%	-4.6%	1.3%	6.7%	4.2%
Transfer Payments Less Social Insurance	3.83	3.58	3.23	3.23	3.56	4.38	4.88	5.18	5.59	5.62
Percent Change	-2.7%	-6.5%	-9.9%	0.2%	10.3%	22.9%	11.4%	6.2%	7.8%	0.6%
Transfer Payments	13.41	13.71	13.96	14.47	15.27	16.39	17.17	17.91	18.78	19.53
Percent Change	2.8%	2.3%	1.8%	3.7%	5.5%	7.4%	4.7%	4.3%	4.9%	4.0%
Social Insurance	9.58	10.13	10.73	11.24	11.70	12.01	12.29	12.72	13.19	13.91
Percent Change	5.1%	5.8%	5.9%	4.7%	4.1%	2.7%	2.3%	3.5%	3.7%	5.4%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal Income	117.72	124.49	130.51	137.33	144.07	142.19	139.80	142.29	146.99	149.78
Percent Change	3.8%	5.8%	4.8%	5.2%	4.9%	-1.3%	-1.7%	1.8%	3.3%	1.9%
Disposable Personal Income	97.74	102.10	106.34	111.00	115.30	117.64	118.39	121.18	124.38	126.01
Percent Change	2.2%	4.5%	4.2%	4.4%	3.9%	2.0%	0.6%	2.4%	2.6%	1.3%
Total Wages	69.99	74.47	78.68	82.48	85.09	82.11	80.36	81.87	83.95	85.71
Percent Change	5.0%	6.4%	5.7%	4.8%	3.2%	-3.5%	-2.1%	1.9%	2.5%	2.1%
Manufacturing Wages	n/a	n/a	n/a	n/a	n/a	12.33	11.62	11.54	11.62	11.65
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	-5.8%	-0.7%	0.7%	0.2%
Nonmanufacturing Wages	n/a	n/a	n/a	n/a	n/a	69.78	68.74	70.33	72.33	74.06
Percent Change	n/a	n/a	n/a	n/a	n/a	n/a	-1.5%	2.3%	2.8%	2.4%
Other Labor Income	13.51	13.85	14.45	15.07	15.71	16.48	17.50	17.91	18.49	18.94
Percent Change	-0.7%	2.5%	4.4%	4.3%	4.3%	4.9%	6.1%	2.3%	3.2%	2.5%
Proprietor's Income	8.78	9.72	10.75	12.32	14.21	14.69	14.19	14.83	15.83	16.29
Percent Change	3.6%	10.7%	10.6%	14.6%	15.3%	3.4%	-3.4%	4.6%	6.7%	2.9%
Property Income	21.41	22.73	23.30	24.19	25.53	24.67	23.11	22.87	23.68	23.93
Percent Change	4.6%	6.2%	2.5%	3.8%	5.6%	-3.4%	-6.3%	-1.1%	3.6%	1.0%
Transfer Payments Less Social Insurance	4.04	3.73	3.32	3.27	3.52	4.24	4.64	4.81	5.03	4.91
Percent Change	-4.4%	-7.7%	-11.0%	-1.6%	7.8%	20.3%	9.4%	3.7%	4.7%	-2.5%
Transfer Payments	14.16	14.29	14.37	14.63	15.09	15.86	16.31	16.61	16.92	17.06
Percent Change	1.0%	0.9%	0.5%	1.8%	3.1%	5.1%	2.8%	1.8%	1.8%	0.8%
Social Insurance	10.12	10.56	11.05	11.37	11.57	11.62	11.68	11.81	11.88	12.15
Percent Change	3.3%	4.4%	4.6%	2.9%	1.8%	0.5%	0.5%	1.1%	0.7%	2.2%

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

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 8
MANUFACTURING EMPLOYMENT
(THOUSANDS -SA)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Manufacturing	245.35	247.13	244.69	236.72	233.54	218.33	204.95	197.58	196.66	193.94
Percent Change	-0.2%	0.7%	-1.0%	-3.3%	-1.3%	-6.5%	-6.1%	-3.6%	-0.5%	-1.4%
Electronic & Electrical	36.19	37.96	36.38	35.06	35.39	31.26	27.60	25.91	25.78	25.34
Percent Change	1.0%	4.9%	-4.1%	-3.6%	1.0%	-11.7%	-11.7%	-6.1%	-0.5%	-1.7%
Metals Manufacturing	52.00	51.83	51.56	50.00	49.07	44.75	41.87	40.68	41.29	40.88
Percent Change	2.5%	-0.3%	-0.5%	-3.0%	-1.8%	-8.8%	-6.4%	-2.8%	1.5%	-1.0%
Industrial Machinery	24.84	25.83	24.69	23.70	23.32	21.23	19.50	18.65	18.34	17.90
Percent Change	0.2%	4.0%	-4.4%	-4.0%	-1.6%	-9.0%	-8.1%	-4.4%	-1.7%	-2.4%
Transportation Equip.	52.38	51.65	51.73	47.93	46.95	46.34	44.18	43.06	43.31	43.23
Percent Change	-3.6%	-1.4%	0.2%	-7.3%	-2.1%	-1.3%	-4.7%	-2.5%	0.6%	-0.2%
Chemical, Plast. & Rub.	26.95	27.32	28.09	28.67	29.48	27.97	26.62	25.48	25.20	24.72
Percent Change	0.9%	1.4%	2.8%	2.1%	2.8%	-5.1%	-4.8%	-4.3%	-1.1%	-1.9%
Printing, Publ. & Textile	27.01	26.87	26.03	25.13	23.95	21.82	20.00	19.40	18.50	17.69
Percent Change	-0.3%	-0.5%	-3.1%	-3.4%	-4.7%	-8.9%	-8.4%	-3.0%	-4.6%	-4.4%
Food, Bev. & Tobacco	8.86	8.64	8.76	8.88	8.45	8.56	8.75	8.39	8.41	8.60
Percent Change	-6.2%	-2.5%	1.4%	1.4%	-4.8%	1.2%	2.3%	-4.2%	0.2%	2.3%
Miscellaneous	17.12	17.02	17.46	17.34	16.93	16.40	16.43	16.01	15.83	15.58
Percent Change	1.1%	-0.6%	2.6%	-0.7%	-2.4%	-3.1%	0.2%	-2.5%	-1.1%	-1.6%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 9
NONMANUFACTURING EMPLOYMENT
(THOUSANDS -SA)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nonmanufacturing	1,354.3	1,380.4	1,412.5	1,445.4	1,456.6	1,457.0	1,447.4	1,446.1	1,460.5	1,474.3
Percent Change	2.4%	1.9%	2.3%	2.3%	0.8%	0.0%	-0.7%	-0.1%	1.0%	0.9%
Construction & Mining	55.27	57.92	60.44	63.60	65.90	65.77	62.39	64.45	67.25	66.17
Percent Change	7.8%	4.8%	4.4%	5.2%	3.6%	-0.2%	-5.1%	3.3%	4.3%	-1.6%
Information	44.34	44.41	44.23	45.36	46.43	42.68	40.03	39.19	38.67	37.90
Percent Change	5.3%	0.2%	-0.4%	2.5%	2.4%	-8.1%	-6.2%	-2.1%	-1.3%	-2.0%
Utilities	9.62	9.71	9.78	9.70	9.47	9.07	8.92	8.71	8.68	8.50
Percent Change	-2.4%	0.9%	0.7%	-0.9%	-2.3%	-4.2%	-1.7%	-2.4%	-0.3%	-2.1%
Transportation	39.65	39.92	41.23	41.65	41.94	40.30	39.87	40.43	42.72	44.45
Percent Change	-0.2%	0.7%	3.3%	1.0%	0.7%	-3.9%	-1.1%	1.4%	5.7%	4.0%
Wholesale Trade	64.22	65.47	66.36	67.05	68.11	66.57	65.74	65.56	65.97	66.92
Percent Change	0.0%	1.9%	1.4%	1.0%	1.6%	-2.3%	-1.3%	-0.3%	0.6%	1.4%
Retail Trade	186.57	191.16	192.87	196.60	195.63	195.12	192.44	191.26	192.79	192.24
Percent Change	2.0%	2.5%	0.9%	1.9%	-0.5%	-0.3%	-1.4%	-0.6%	0.8%	-0.3%
Finance & Insurance	108.76	112.93	119.16	120.48	121.68	122.21	122.54	121.15	120.74	122.42
Percent Change	-2.5%	3.8%	5.5%	1.1%	1.0%	0.4%	0.3%	-1.1%	-0.3%	1.4%
Real Estate	19.84	20.12	20.68	21.33	21.57	20.67	20.28	20.23	20.53	20.93
Percent Change	1.6%	1.4%	2.8%	3.1%	1.1%	-4.1%	-1.9%	-0.2%	1.5%	1.9%
Professional & Business	191.42	199.23	207.51	214.38	214.11	205.81	199.02	196.48	198.01	201.20
Percent Change	5.5%	4.1%	4.2%	3.3%	-0.1%	-3.9%	-3.3%	-1.3%	0.8%	1.6%
Education & Health	233.23	235.55	239.96	244.56	247.71	256.57	262.16	266.22	270.92	274.47
Percent Change	2.8%	1.0%	1.9%	1.9%	1.3%	3.6%	2.2%	1.5%	1.8%	1.3%
Leisure & Hospitality	116.92	117.71	118.06	120.45	120.47	121.10	123.53	126.63	128.73	130.57
Percent Change	4.6%	0.7%	0.3%	2.0%	0.0%	0.5%	2.0%	2.5%	1.7%	1.4%
Other Services	59.83	60.44	60.49	60.74	61.51	62.85	62.35	62.29	62.69	62.92
Percent Change	0.3%	1.0%	0.1%	0.4%	1.3%	2.2%	-0.8%	-0.1%	0.6%	0.4%
Federal Government	23.03	22.34	22.45	23.36	22.08	21.38	21.15	20.39	19.98	19.80
Percent Change	-3.2%	-3.0%	0.5%	4.0%	-5.5%	-3.1%	-1.1%	-3.6%	-2.0%	-0.9%
State & Local Gov't.	201.57	203.55	209.28	216.13	219.97	226.83	226.99	223.14	222.86	225.84
Percent Change	1.9%	1.0%	2.8%	3.3%	1.8%	3.1%	0.1%	-1.7%	-0.1%	1.3%

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Labor Force	1,760.3	1,749.5	1,741.4	1,739.9	1,742.2	1,767.1	1,800.2	1,804.4	1,809.1	1,824.7
Percent Change	0.7%	-0.6%	-0.5%	-0.1%	0.1%	1.4%	1.9%	0.2%	0.3%	0.9%
Nonagricultural Employment	1,599.6	1,627.6	1,657.2	1,682.1	1,690.1	1,675.3	1,652.4	1,643.7	1,657.2	1,668.3
Percent Change	2.0%	1.7%	1.8%	1.5%	0.5%	-0.9%	-1.4%	-0.5%	0.8%	0.7%
Residential Employment	1,667.0	1,680.3	1,691.0	1,697.4	1,698.4	1,702.7	1,706.4	1,709.7	1,720.4	1,741.5
Percent Change	0.6%	0.8%	0.6%	0.4%	0.1%	0.3%	0.2%	0.2%	0.6%	1.2%
Unemployed	93.3	69.2	50.4	42.5	43.7	64.4	93.7	94.7	88.7	83.2
Percent Change	2.2%	-25.9%	-27.1%	-15.8%	3.0%	47.2%	45.6%	1.0%	-6.3%	-6.2%
Unemployment Rate	5.3%	3.9%	2.9%	2.4%	2.5%	3.7%	5.2%	5.3%	4.9%	4.6%
Households	1,269.3	1,277.5	1,287.4	1,299.7	1,309.2	1,317.9	1,328.7	1,335.9	1,339.8	1,346.5
Percent Change	0.6%	0.6%	0.8%	1.0%	0.7%	0.7%	0.8%	0.5%	0.3%	0.5%
Housing Starts	8,941.8	9,949.3	11,127.4	9,552.7	8,597.7	9,175.9	8,527.8	9,876.5	11,747.2	11,102.9
Percent Change	12.3%	11.3%	11.8%	-14.2%	-10.0%	6.7%	-7.1%	15.8%	18.9%	-5.5%
Single Family	7,797.4	8,408.5	9,373.3	8,406.3	7,352.2	8,214.6	7,313.3	7,908.8	9,701.5	9,078.7
Percent Change	4.0%	7.8%	11.5%	-10.3%	-12.5%	11.7%	-11.0%	8.1%	22.7%	-6.4%
Multi Family	1,144.4	1,540.7	1,754.1	1,146.4	1,245.5	961.3	1,214.5	1,967.7	2,045.7	2,024.2
Percent Change	146.2%	34.6%	13.8%	-34.6%	8.6%	-22.8%	26.3%	62.0%	4.0%	-1.1%
New Car Registrations	193.3	187.2	224.6	233.8	245.0	231.8	227.4	254.8	228.1	230.5
Percent Change	7.2%	-3.1%	20.0%	4.1%	4.8%	-5.4%	-1.9%	12.0%	-10.5%	1.1%
Industrial Performance Indicator (1997=100)	86.3	92.8	96.9	102.0	102.4	99.1	100.3	102.5	106.5	110.2
Percent Change	5.9%	7.4%	4.5%	5.2%	0.4%	-3.2%	1.2%	2.2%	4.0%	3.4%

Note: Connecticut housing starts are already in thousands.

MAJOR CONNECTICUT ECONOMIC INDICATORS - FISCAL YEAR BASIS

TABLE 11
ANALYTICS

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Wages/Total Income	59.45%	59.82%	60.29%	60.06%	59.06%	57.75%	57.49%	57.54%	57.11%	57.72%
Other Labor Income /Total Income	11.48%	11.12%	11.07%	10.97%	10.91%	11.59%	12.52%	12.58%	12.58%	12.72%
Social Insurance /Total Income	8.60%	8.49%	8.47%	8.28%	8.03%	8.17%	8.35%	8.30%	8.08%	8.17%
Transfer Payments /Total Income	12.03%	11.48%	11.01%	10.66%	10.47%	11.16%	11.67%	11.68%	11.51%	11.39%
Proprietor's Income /Total Income	7.46%	7.81%	8.24%	8.97%	9.86%	10.33%	10.15%	10.43%	10.77%	10.90%
Property Income /Total Income	18.18%	18.26%	17.86%	17.61%	17.72%	17.35%	16.53%	16.07%	16.11%	15.97%
Average Wages (Thousands in 2000 $)	43.77	45.78	47.50	49.06	50.37	49.03	48.66	49.83	50.68	51.85
Average Mfg. Wages (Thousands in 2000 $)	n/a	n/a	n/a	n/a	59.67	56.49	56.70	58.41	59.09	60.02
Average Nonmfg. Wages (Thousands in 2000 $)	n/a	n/a	n/a	n/a	48.88	47.92	47.52	48.66	49.55	50.77
Manufacturing Share of Employment	15.34%	15.19%	14.77%	14.08%	13.82%	13.04%	12.41%	12.03%	11.87%	11.63%
Residential Employment /Total Nonagricultural	1.043	1.033	1.021	1.010	1.005	1.017	1.033	1.041	1.039	1.044

MAJOR CONNECTICUT REGIONAL ECONOMIC INDICATORS - CALENDAR YEAR BASIS

TABLE 12
PERSONAL INCOME (MILLIONS-SAAR)

BRIDGEPORT-STAMFORD-NORWALK

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Personal Income	38,003.9	40,621.9	44,997.1	47,458.5	52,183.0	54,988.2	53,476.0	53,170.0	56,789.3	60,227.9
Percent Change	6.8%	6.9%	10.8%	5.5%	10.0%	5.4%	-2.8%	-0.6%	6.8%	6.1%
Total Wages	19,463.7	21,748.7	23,671.5	25,465.1	27,952.1	28,579.1	27,270.1	27,904.2	29,713.8	n/a
Percent Change	7.7%	11.7%	8.8%	7.6%	9.8%	2.2%	-4.6%	2.3%	6.5%	n/a

HARTFORD-WEST HARTFORD-EAST HARTFORD

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Personal Income	32,945.7	35,038.1	37,298.7	38,896.5	42,563.3	43,991.6	44,296.4	45,269.6	48,348.6	50,743.2
Percent Change	3.9%	6.4%	6.5%	4.3%	9.4%	3.4%	0.7%	2.2%	6.8%	5.0%
Total Wages	21,137.5	22,551.1	23,988.6	25,425.5	27,291.6	28,169.6	28,186.3	28,492.1	30,325.0	n/a
Percent Change	3.5%	6.7%	6.4%	6.0%	7.3%	3.2%	0.1%	1.1%	6.4%	n/a

NEW LONDON-NORWICH, CT-RI

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Personal Income	6,850.9	7,288.4	7,716.3	8,010.8	8,512.8	8,921.3	9,215.6	9,562.0	10,058.5	10,453.2
Percent Change	3.6%	6.4%	5.9%	3.8%	6.3%	4.8%	3.3%	3.8%	5.2%	3.9%
Total Wages	4,147.5	4,434.2	4,632.5	4,786.1	4,992.3	5,308.8	5,511.2	5,680.3	5,926.7	n/a
Percent Change	4.6%	6.9%	4.5%	3.3%	4.3%	6.3%	3.8%	3.1%	4.3%	n/a