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VI. TRANSPORTATION FINANCING

A. OVERVIEW
Funds for transportation programs in Connecticut are provided from state, federal and local sources. State and federal funds are the primary sources. State funds are generated through the Special Transportation Fund (STF). The STF pays the debt service cost for state bonds issued to provide the source of funds for the state’s share of transportation projects; supports a small program of Pay-As-You-Go activities; and finances the operations and services of the Department of transportation. In addition, the STF finances most of the operations and services of the Department of Motor Vehicles and the Highway Patrol function of the Department of Public Safety. The STF does not finance the operation of Bradley International Airport. The airport’s operating and capital costs are financed by the revenues generated at the Airport. Federal surface transportation funds are normally provided through a congressional procedure that culminates in the passage of a surface transportation act such as ISTEA, now TEA-21. Federal highway acts are generally passed every four to six years. These acts authorize the maximum funding limits, establish programs, and determine fund eligibility and distribution. Actual spending limits (ceilings) are set through the passage of annual appropriations acts. Local funds are provided primarily by the towns but some funds come from private sources. In recent fiscal years, the total transportation capital program was between $520 million and $645 million per year, with approximately $170 million coming from state bonds; $9 million coming directly from STF appropriations; and the remainder coming from federal program funds.

In future years, the Department can expect to receive a continued level of funding of $170 -$180 million from the State’s Special Transportation Fund and very modest increases in federal surface transportation funding.

B. FEDERAL FUNDING: THE REAUTHORIZATION EFFORT & THE OUTCOME
It is an understatement to say Federal transportation funding programs have been of vital importance to the maintenance of a safe and effective transportation system in Connecticut. Since the start of the Infrastructure Renewal Program in mid-1984, the State has spent over $10.0 billion on our transportation system, of which $5.6 billion, or 56%, came from various Federal-aid programs.

The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), which provided the legislative authorization for all major Federal transportation funding programs, expired at the end of Federal Fiscal Year 1997, on September 30, 1997. Among the greatest innovations of this legislation were the recognition of all transportation modes as part of a single national system, the introduction of a limited degree of funding flexibility among modes, and the stability of policy direction provided by the multiple-year authorization of funding. There was no legislation in place at the time ISTEA expired to...
continue funding these Federal programs, despite efforts that had been underway, in some cases, for years.

The primary reason for the lengthy delay in reauthorization is a divergence in philosophy among those parties who have developed reauthorization proposals. Basically, the philosophies can be said to fall into one of two schools of thought. The first of these is based on the principle that the apportionments of each state should be proportional to its contribution to highway finance: therefore, highway funding should be indexed primarily to each state’s contribution to the Highway Trust Fund. The second is based on the principle that the apportionments of each state should be proportional to its contributions to the safe and efficient operation of the national system: therefore, transportation funding should be based on the historic approach to apportionment, using statistically-based formulas, primarily emphasizing each state’s system size, demand and needs.

As the 105th Congress began its second session at the end of January 1998, there were three reauthorization proposals which could be considered active. Broadly speaking, each of these could be said to maintain the ISTEA major innovations of funding flexibility and multiple-year authorizations. However, all three bills proposed changes to the funding apportionment formulas to some degree. Beyond that, the details of these proposals begin to diverge sharply. The first of the three proposals was the National Economic Crossroads Transportation Efficiency Act (NEXTEA). It was sponsored by the Clinton Administration and introduced in the House as HR 1268 and in the Senate as S 468. The second, was the Building Efficient Surface Transportation and Equity Act (BESTEA) which was introduced into the House as HR 2400. The third was the Intermodal Surface Transportation Efficiency Act of 1997 (ISTEA II) which was introduced into the Senate as S 1173.

As part of Connecticut’s effort to keep ISTEA in place, Connecticut joined and worked closely with a coalition of seventeen other states and Puerto Rico, known as ISTEA Works. The coalition’s objective was to preserve the innovative features and program structure of the original ISTEA legislation to the greatest extent possible. The Department provided a considerable level of technical support for the coalition’s efforts, particularly with respect to the possible effects of changes in apportionment formulas and to possible changes in planning regulations and project eligibility criteria. The Department also provided similar sorts of technical support to Connecticut’s Congressional delegation.

The coalition’s efforts had some early success in that an interim funding bill was enacted by the 105th Congress at the end of its first session. This interim bill preserved the existing structure of ISTEA and provided an additional six months of highway and transit funding at the levels of ISTEA’s final year. This bill, known as the Surface Transportation Extension Act (STEA), also provided an obligation limitation (also known as ceiling) in excess of apportioned funds, thus allowing states access to substantial balances of unobligated highway funds from previous years. These balances accumulated because of previous year’s obligation limitations, imposed for Federal budgetary purposes, which prevented states from fully obligating those highway funds apportioned to them. The STEA went further still, in that it authorized the flexible obligation of these old balances, regardless of program category, provided these balances were later reimbursed from apportionments received under a
permanent funding bill. The obligation limitation provided under this bill must be reached by May 1998.

On May 22, 1998, Congress approved the Conference report on H.R. 2400, “Transportation Equity Act for the 21st Century” (TEA-21). President Clinton signed the Act into law on June 9, 1998. A National bill reauthorizes the federal highway, transit, safety, research and motor carrier programs for the six-year period, 1998-2003. TEA-21, for the most part, maintained the direction and programs established during ISTEA and incorporated selected elements of NEXTEA, BESTEA and ISTEA II. A National total of $215 billion in budget authority was provided for the six-year period. The new law provides $175 billion for highways, $2.2 billion for highway safety programs and $650 million for motor carriers. With respect to transit TEA-21 provides $41 billion over the next 6 years for transit programs, $15 billion for formula programs and $13 billion for discretionary programs. It establishes a new Clean Fuels Program funded at $1.2 billion and gives transit agencies increased flexibility to use their funds.

A $500 million incentive grant program based on high or increased safety belt use rates is included in the new law. A $500 million incentive grant program was also established for those states with a .08 Blood Alcohol Content (BAC) law, and state highway funds are redirected toward safety and safety construction if states do not take certain anti-drunk driving steps. The law also continues and increases funding for alcohol incentive grant programs that dedicate funds in qualifying states to fight drunk driving. Increases to motor carrier safety efforts are provided by $650 million for grant programs.

The equity issue was carried forth in the new law with a guarantee of spending gas tax revenue. It ensures that on an annual basis, tax revenues deposited into the Highway Trust Funds are spent on transportation improvements. TEA-21 guarantees that $165 billion for highways and $35 billion for transit can be obligated over the next six years.

TEA-21 reauthorizes and attempts to streamline the core highway programs of Interstate Maintenance/National Highway System, Surface Transportation Program, Bridge Program, Congestion Mitigation and Air Quality Program and adds two new categories: Minimum Guarantee and High Priority Projects. The law contains a guarantee of a 90.5% return from the Highway Trust Fund, increases funding for Congestion Mitigation and Air Quality and provides $9 billion to fund High Priority Projects around the country.

Several of the new law’s reforms are environmental streamlining to reduce highway and transit project delays, elimination of programmatic responsibilities for regional offices, removing a layer of bureaucracy and red tape, and improving project approval to give states more responsibilities on non-interstate projects. Planning factors are reduced from twenty one to seven factors and long range plan financial elements may include, for illustrative purposes, additional projects outside of fiscal constraint.

Connecticut’s position during the reauthorization of the federal transportation act was that ISTEA works and should be continued to meet the challenges of the new century. As previously stated, TEA-21, for the most part, continues the core programs and the direction of ISTEA and meets the needs of Connecticut. During the ISTEA years (1992-1997) Connecticut received an average of $352.72 million per year. TEA-21 (1998-2003) will provide to Connecticut an average of
$397.474 million per year. This represents an overall increase in funding of 12.6 percent over the life of TEA-21. The core programs remain, but the Interstate Maintenance and National Highway System programs are now combined. For Connecticut, the average yearly funding for the Interstate Maintenance/ National Highway, Bridge, Congestion Mitigation, and Metropolitan Planning programs will increase: for the Surface Transportation program, however, Connecticut’s average annual funding will decrease. Under the two new TEA-21 programs, High Priority Projects (Connecticut has 33 projects) and Minimum Guarantee, Connecticut will receive $128.048 million (total) and $163.2 million (average per year), respectively.

TEA-21 provides for increased project eligibility in the Surface Transportation Program. Vehicles and facilities, whether publicly or privately owned, that are used to provide intercity, passenger bus service are now eligible for funding. The use of mitigation banks to offset environmental impacts; infrastructure-based, intelligent transportation systems capital improvements; environmental restoration and pollution abatement projects are now eligible. Fifteen percent of STP-Rural funds may now be obligated on roads functionally classified as minor collectors. Other significant changes include elimination of Major Investment Study (MIS) requirements as a separate requirement and promulgation of regulations to integrate the MIS requirements into the NEPA process. Environmental streamlining includes the development and implementation of coordinated processes between federal agencies and the establishment of time frames. There are also some new provisions for the transferability of set-asides and certain CAM funds under certain conditions.

TEA-21 transit provisions continue to provide operating assistance to some transit providers. However, in urbanized areas over 200,000 population, operating assistance is eliminated. Connecticut will lose $3.1 million annually as a result of this change. Rural aid (capital and operating) increases approximately 30 percent. Federal capital assistance is continued under section 5307 and is increased by an undetermined amount, but some of this increase will be absorbed by the set-aside for the following programs: Associated Capital Maintenance (use of capital funds for annual preventive maintenance costs) and Clean Fuels Formula Grants. Funding for the Fixed Guideway Modernization Capital program is within 10% of projected levels in the current Connecticut Transit Capital Program and should be sufficient to meet programmed needs. TEA-21 has significant transit-related earmarks, three of which are in the current program. These projects are for the New Haven bus garage, the Waterbury bus garage and the New Haven Catenary improvements (in the highway section of the law). There are also several additional transit projects in TEA-21 which are authorized for a total of $110.8 million. In addition, TEA-21 provides transportation funding through a competitive grant process for the Welfare-to-Work program and increases the limit on non-taxable transit and vanpool benefits from $65 to $100 per month for taxable years beginning after December 31, 2001. The Act also allows transit and vanpool benefits to be offered in lieu of compensation payable to an employee for taxable years beginning after December 31, 1997.
C. STATE FUNDING: SPECIAL TRANSPORTATION FUND

The Special Transportation Fund was fully established by the Connecticut General Assembly on July 1, 1984, to provide a dedicated fund for the financing of investment in the State's transportation system and to cover the cost of operating the Department of Transportation and all the services it provides. The Fund does not support Bradley International Airport. The airport’s operating and capital program costs are financed by the Bradley Enterprise Fund. The Enterprise Fund resources come from revenues generated at the airport.

The revenues that are pledged to the Special Transportation Fund are listed in Figure 1. The Motor Fuels Tax is the primary source of income for the fund. When the program started in 1984 the gasoline tax was 13 cents. The gasoline tax reached a high of 39 cents per gallon on January 1, 1997. The legislature reduced the tax by 3 cents per gallon, effective July 1, 1997, and further reduced it by 4 cents per gallon effective July 1, 1998. Today the tax is 32 cents. The tax on gasohol is one cent less than the tax on gasoline. The tax on diesel fuel has been held constant at 18 cents per gallon since September 1991. It is estimated that the Motor Fuels Tax will generate over $524.2 million in fiscal year 1998.

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**SPECIAL TRANSPORTATION FUND SOURCES OF REVENUE**

- MOTOR FUELS TAX
- MOTOR VEHICLE RECEIPTS
- LICENSE, PERMIT, AND FEE (LPF)
- FTA OPERATING ASSISTANCE GRANTS
- INTEREST INCOME
- OIL COMPANY TAX (Beginning FY99)
- DMV COLLECTED VEHICLE SALES TAX (Beginning FY2000)
- GENERAL FUND TRANSFERS

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**Figure VI - 1. Special Transportation Fund Sources of Revenue**

Most of the fees collected by DMV are pledged to the Special Transportation Fund. The fee collected for the Emission Inspection Program is committed to financing the costs of that program. Four dollars of every vehicle registration fee is assigned to the Federal Clean Air Act Account, which is administered by the Department of Environmental Protection and is used to pay costs associated with state agency activities required by the Federal Clean Air Act Amendments of 1990. The four-year fee for an operator's license and the remaining portion of the two-year vehicle registration fee are the major sources of Motor Vehicle Receipts revenue that is deposited in the Special Transportation Fund. Also, temporary registration and late fees paid to the Department of Motor Vehicles (DMV) are included in the Motor Vehicle Receipts revenues.
The License, Permit, and Fee (LPF) income comes from permits and fees imposed by the Department of Transportation, other fees collected by the Motor Vehicle Department, and fines imposed for motor vehicle infractions on the State highway system. Additional existing Motor Vehicle Department revenues were pledged to the STF during the 1997 Legislative Session.

Federal Transit Administration (FTA) grants for operating assistance are deposited in the Fund. These grants are provided to the State to aid in financing the subsidy required to maintain bus and rail passenger services throughout the state.

Interest income comes from interest earned on the deposits made to the Fund and primarily from interest earned on the Debt Service Reserve Account. Every time a Special Tax Obligation Bond is sold, an amount equal to the funds required to meet the principal and interest payments for the highest maturity year of the bond issue is deposited in the Debt Service Reserve Account to provide added security for the bondholders.

In the early years of the program, the Legislature desired to implement more projects than could be supported by Fund revenues alone, and, therefore, legislation was enacted to transfer General Fund Revenues to the Special Transportation Fund. These transfers only occurred in FY86 and FY87 when $25 million and $10 million, respectively, were transferred. Each transfer included a listing of specific projects to be financed with the transferred resources. Also, $18.3 million was transferred from the Parkway Toll Fund to the Special Transportation Fund in FY86 to finance the removal of tolls and

Figure VI - 2. Special Transportation Fund FY98 Estimated Revenue

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associated highway work. In FY95, a one-time credit of $14.2 million was posted to the Fund as the result of bond defeasance for bonds that were issued in 1984. Also, in FY 98 $3.0 million was transferred from the Debt Service Refund due to bond refunding activities.

Two major new pledged revenues have been incorporated into the STF revenue streams recently. During the 1997 legislative session, a portion of the receipts, from the oil company tax were pledged. It will contribute $20 million in FY99 and $36 million annually thereafter. In 1998, legislation was passed to pledge a portion of the DMV collected sales tax on vehicle sales. This will contribute $10.0 million in FY2000, $20.0 million in FY2001, $30.0 million in FY2002, and $40.0 million annually thereafter. A unique feature of the Fund was that when it was established, not only were existing revenues from certain taxes and fees dedicated to the Fund, but rate increases scheduled throughout a ten-year future period were also enacted. This ensured that the pledged revenues would be sufficient to sustain the substantial transportation investments that were planned and to meet the operating cost of the Department and all the services it provides. This multi-year philosophy has been in all the revenue changes that have been enacted.

Figure VI - 3. Special Transportation Fund Revenues, FY85–FY98
Revenues have grown from $362.9 million in FY85, the first year of the Fund, to an estimated $858.2 million for FY98. This is an increase of $495.3 million or 136.5% in fourteen years. These revenues have been necessary to finance the expenses assigned to the Fund.

Just as the revenue picture has changed with time, so has the expense side of the equation. Figure VI-4 lists the major expense categories that are assigned to the Fund. The first call on all resources of the Special Transportation Fund is Debt Service, i.e., principal and interest payments, on Special Tax Obligation Bonds (STO) issued for transportation infrastructure purposes. To date almost $4.5 billion in bond authority has been enacted by the legislature. Of this amount $3.9 billion has been issued. STO Debt Service has grown from $12.6 million in FY85 to over $326.1 million in FY98. Even if no new authorizations were provided, STO Debt Service would continue to grow until all of the authorized bonds are issued.

**SPECIAL TRANSPORTATION FUND EXPENDITURES**

- **BOND DEBT SERVICE**
  - STO BONDS
  - GO BONDS
- **DOT OPERATIONS**
- **DMV OPERATIONS**
- **PENSION AND FRINGE BENEFITS**
- **HIGHWAY PATROL OPERATIONS**

*Figure VI - 4. Special Transportation Fund Expenditures*

When the Fund was established on July 1, 1984, all debt service on outstanding and still to be issued General Obligation (GO) transportation-related bond authorizations were assigned as an expense against the Special Transportation Fund. In FY85 the transportation-related GO Debt Service was $105.3 million. For FY98 it is estimated to be $46.4 million.

The operating cost of the Department of Motor Vehicles was not originally assigned to the Special Transportation Fund. However, for FY92 the General Assembly passed legislation transferring the financing of the Motor Vehicle Department from the General Fund to the Special Transportation Fund. In FY92 the cost was $35.7 million and in FY98 it is $43.5 million.
The operating cost for the Department of Public Safety’s (DPS) Highway Patrol function was not originally assigned to the Special Transportation Fund. However, for FY94 the General Assembly passed legislation transferring the financing of the operations for the Highway Patrol function from the General Fund to the Special Transportation Fund. In FY94 the cost was $37.5 million and in FY98 it is estimated to be $42.0 million.

In FY89, the General Assembly transferred the cost of Department of Transportation employee pension and fringe benefits from the General Fund to the Special Transportation Fund. In FY89, pension costs were $29.7 million and fringe benefits including health insurance, social security tax, and group life insurance, cost a total of $17.5 million. In FY92, when the Motor Vehicle Department was added, its employee pension and fringe benefit costs of over $12.4 million were also assigned to the Fund. In FY94 the pension and fringe benefit costs for the Highway Patrol function were also assigned to the Fund. When the General assembly enacted the gasoline tax reduction in 1997, they also passed legislation to remove the direct costs for Highway Patrol as an expense of the STF effective FY99 and deleted the associated pension and fringe benefit costs effective FY2000.

The FY98 estimated total cost of debt service equals over $372.5 million or 47% of the Special Transportation Fund (STF) appropriations for the year.

Of the $801.9 million of STF Total Estimated Expenditures for FY98, $286.8 million will be used to support the operations of the Department of Transportation and all the services it provides. Of the

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$286.8 million, about $119.1 million will be used to operate the New Haven Line rail passenger service, the Shoreline East rail service, the fifteen urban bus services, the five rural bus services, and to provide the financial support required for Americans with Disabilities Act (ADA) services. This represents 42% of the Department’s appropriation.

The Personal Services cost of the Department for FY98 is estimated at $96.4 million. This covers the salaries of the 3,640 positions authorized for the Department; all overtime including overtime for snow and ice removal, paid vacation, holidays, and sick leave for all employees. This represents 34% of the Department's appropriations.

The category “Other Expenses” includes: the Department's utility costs for its 153 occupied buildings and additional 635 structures, the cost of salt and sand for snow and ice removal, the cost of contracting for 261 private contractor trucks and drivers to augment the Department's fleet of 632 trucks for snow and ice removal, the cost of repair parts for the Department's 1300 pieces of highway maintenance equipment, the cost of vehicles used by Department personnel to perform their assigned duties and responsibilities, and general office operating costs. For FY98 these costs are estimated at $28.7 million.

Figure VI - 6. Special Transportation Fund DOT Operations

Town Aid provides grants to towns and unconsolidated cities and boroughs for unimproved roads, improved roads, and operating public transit services. The grants are distributed based upon a formula
that has evolved through the legislative process over the last 60 years. For FY97 and FY98 $20 million
was provided in two equal payments. Beginning in FY99 the General Assembly increased Town Aid to
$30.0 million annually.

The Highway and Bridge Renewal funding provides for the financing, on a pay-as-you-go basis, of
safety projects, highway resurfacing projects, bridge painting, STP/urban systems matching funds, and
highway maintenance activities like mowing, line painting, road sweeping, pot hole patching, guide rail
replacement, crack sealing, tree trimming and other activities.

**SPECIAL TRANSPORTATION FUND
EXPENDITURES FY85 - FY98**

FY85 $ 360.4 TO FY98 $ 801.9 MILLION

**Figure VI - 7. Special Transportation Fund Expenditures FY85–FY98**

In FY85, total expenditures were $360.4 million: for FY98 they were $801.9 million. This is an
increase of $441.5 million. Total debt service has grown from $118 million at the beginning of the
program to over $372.5 million in FY98, an increase of $254.5 million or 215.7%. Subsidy
requirements for the State's bus and rail passenger operations have increased by $54.1 million, from
$65 million to $119.1 million, or an 83.2% increase. The Department’s other operating costs,
however, have decreased from $177.4 million to $167.7 million. This is a decrease of $9.7 million or
5.5% in fourteen years. With the exception of the increase in transit funding, the Department’s budget
has had no growth over the fourteen-year period. The pay-as-you-go program has been reduced from $31.1 million to $9.7 million, a reduction of $21.4 million or 68.8%. Figure VI-7 provides a profile of Special Transportation Fund expenditures for the fourteen-year history of the Fund.

Although revenues and expenses have changed over time, the Fund has always been managed to ensure that it stays in a positive cash position. Figure VI-8 identifies the Cumulative Fund balance for each year of the Fund. When the Fund had the capacity to do more, the program was expanded or took on expenses that previously were in the General Fund. Any time that revenues began to decline, expenses were trimmed.

As shown previously, STO Debt Service has experienced the greatest growth since the establishment of the Fund. This growth has allowed the State to make a $10.0 billion investment in restoring and improving all elements of the transportation infrastructure. The capital program is composed of 17 program elements that are listed in Figure VI-9.
CAPITAL PROGRAM CATEGORIES

1. INTERSTATE
2. INTRASTATE
3. INTERSTATE TRADE-IN
4. STATE BRIDGE
5. LOCAL BRIDGE
6. ORPHAN BRIDGE*
7. NOISE BARRIERS*
8. TRANSIT
9. AVIATION
10. RESURFACING
11. DEPT. FACILITIES
12. SAFETY
13. STP/URBAN SYSTEMS
14. OTHER ROAD & BRIDGE
15. HAZARDOUS WASTE*
16. SPECIAL PROJECTS*
17. WATERWAYS*

*PROGRAMS ADDED

Figure VI - 9. Capital Program Categories

Figure VI -10. Capital Program FY85 – FY98 Funds Authorized

14-YEAR TOTAL = $10.0 BILLION

Figure VI-10 identifies the distribution of funding to each of the program categories. At almost $2.3 billion, the State bridge program has received the highest level of funding. These resources have been used to rehabilitate, restore or replace over 1,866 of the 3,824 bridges the State maintains.
Transit investments have totaled $1.2 billion. They have facilitated the purchase of 114 rail passenger cars and 21 locomotives; the overhaul of 122 M-2 rail passenger cars; the construction of 2571 parking spaces; the rehabilitation of 38 high level rail passenger platforms; the initiation of the Shoreline East service; the conversion of the New Haven Line's electrical power supply; the replacement of the New Canaan Branch catenary system; the rehabilitation of railroad bridges; the construction of the Peck Bridge in Bridgeport; the restoration of track and signal systems; the construction of rail maintenance facilities in New Haven, Bridgeport and Stamford; various ADA improvements; the purchase of the Connecticut portion of the New Haven rail line rights-of-way; the construction of bus storage and maintenance facilities in Bridgeport, Danbury, Hartford, New Haven and Stamford; and the replacement of 545 transit buses.

The $1.0 billion resurfacing program has allowed the Department to resurface an average of 475 two-lane miles of the state highway system each year of the program.

**CAPITAL PROGRAM FY95 - FY98**

**SOURCE OF FUNDS**

- **Federal** 56%
- **Bond** 39%
- **Appropriations** 4%
- **Other** 1%

**14 YEAR PROGRAM TOTAL = $10.0 BILLION**

Figure VI-11. Capital Program FY95 – FY98 Source of Funds

Federal funds provided $5.6 billion, STO bonding equaled $3.9 billion, appropriations were $426.0 million, and other matching funds equaled $119.6 million. Figure VI-12 shows the annual capital program funding level for each year of the program.
Figure VI -12. Capital Program FY85–FY98: Sources of Authorized Funds