

In the opinion of the Attorney General of the State of Michigan and in the opinion of Co-Bond Counsel, subject to compliance with certain covenants, under existing law, the Series 2009 Bonds and interest thereon are exempt from all taxation provided by the laws of the State of Michigan except for estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. Interest on the Series 2009 Bonds is not excludable from gross income for federal income tax purposes. (See "TAX MATTERS.")

\$281,910,000
STATE OF MICHIGAN
GRANT ANTICIPATION BONDS, SERIES 2009B
(Taxable – Build America Bonds – Direct Payment)

Dated: Date of Delivery

Due: September 15, as shown on the inside cover

The Grant Anticipation Bonds, Series 2009B (the "Series 2009 Bonds") will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the Series 2009 Bonds, principal of and interest on the Series 2009 Bonds (commencing March 15, 2010 and semiannually thereafter) will be payable by U.S. Bank National Association, as successor to National City Bank of Michigan/Illinois, as trustee (the "Trustee") to Cede & Co., as nominee of DTC, and subsequent disbursements thereof will be made to the individual purchasers of beneficial interests in the Series 2009 Bonds pursuant to DTC policies as described herein. (See "THE SERIES 2009 BONDS - DTC; Book-Entry-Only System.") Purchasers will acquire beneficial ownership interests in the Series 2009 Bonds in denominations of \$5,000 or integral multiples thereof.

The Series 2009 Bonds are issued in accordance with the authorization provided in Act 51, Public Acts of Michigan, 1951, as amended. The Series 2009 Bonds are issued under a trust agreement, as amended and supplemented (the "Trust Agreement") between the State of Michigan (the "State") and the Trustee and resolutions adopted by the State Transportation Commission (the "Commission") and the Director of the Michigan Department of Transportation (the "Department" or "MDOT") on November 30, 2000, June 28, 2001, August 23, 2002, July 27, 2006 and March 27, 2008, as amended (collectively, the "Resolution"). The proceeds from the sale of the Series 2009 Bonds together with investment earnings on such proceeds and other available moneys will be used to pay a portion of the costs of certain transportation projects, and to pay the costs of issuance of the Series 2009 Bonds. See "THE PROJECTS" herein. **The State will not issue any Grant Anticipation Bonds, Series 2009A (Tax Exempt).**

The 2009 Bonds are subject to redemption prior to maturity on the terms described herein. See "THE SERIES 2009 BONDS-Redemption."

The Series 2009 Bonds will be issued as bonds designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009, the interest on which is not excluded from gross income for purposes of federal income taxation. See "TAX MATTERS." The State expects to receive a cash subsidy payment from the United States Treasury as a result of such designation. **Any such subsidy received is not pledged to payment of principal of and interest on the Series 2009 Bonds.** See "THE SERIES 2009 BONDS – Designation of Series 2009 Bonds as Build America Bonds."

The Series 2009 Bonds are not general obligations of the State of Michigan, its agencies, instrumentalities or political subdivisions. The principal of and interest on the Series 2009 Bonds are payable from and are secured solely by an irrevocable pledge of the state share (the "State Share") of all federal grants received each year by the State under the Federal-Aid-Highway Program and as more fully described in this Official Statement, and by moneys in the Note Payment Fund (as defined herein). The pledge of the State Share is made on a parity basis with the security pledged for the outstanding State's Grant Anticipation Bonds issued on August 30, 2007 (the "Series 2007 Bonds") and any Additional Bonds or Notes. **Payment of the principal of and interest on the Series 2009 Bonds from the State Share shall be subject to an appropriation each year by the State Legislature in an amount sufficient to make such payments.** See "SECURITY FOR THE BONDS."

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2009 Bonds are offered when, as and if issued by the State and subject to the receipt of the approving opinions of the Attorney General of the State of Michigan, and of Dickinson Wright PLLC, Lansing, Michigan, and Miller, Canfield, Paddock and Stone, P.L.C., Detroit and Lansing, Michigan, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Lewis & Munday, A Professional Corporation, Detroit and Lansing, Michigan. Public Financial Management, Inc., Atlanta, Georgia, is serving as financial advisor to the State in connection with the sale and issuance of the Series 2009 Bonds. Delivery of the Series 2009 Bonds is expected on or about June 25, 2009 through DTC in New York, New York.

Merrill Lynch & Co.
Goldman, Sachs & Co.
Morgan Stanley & Co.

Citi
Loop Capital Markets, LLC
Siebert Brandford Shank & Co., LLC

Dated: June 17, 2009

* See "BOND RATINGS" herein

\$281,910,000
STATE OF MICHIGAN
GRANT ANTICIPATION BONDS, SERIES 2009B
(Taxable-Build America Bonds-Direct Payment)

consisting of:

\$5,000 Serial Bond

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP*</u>
2012	\$5,000	4.750%	100.000%	5946105S2

\$281,905,000 Term Bond

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP*</u>
2027	\$281,905,000	7.625%	99.321%	5946105T0

* Registered trademark of American Bankers Association. CUSIP numbers are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP number listed above is being provided solely for the convenience of Bondholders only at the time of issuance of the 2009 Series Bonds and the Department does not make any representation with respect to such number or undertake any responsibility for its accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2009 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

STATE OF MICHIGAN

Jennifer M. Granholm, *Governor*

Robert J. Kleine, *State Treasurer*

State Transportation Commission

Ted B. Wahby, *Chairperson*

Linda Miller Atkinson, *Vice Chairperson*

Maureen Miller Brosnan, *Member*

Steven K. Girard, *Member*

Jerrold M. Jung, *Member*

James S. Scalici, *Member*

Michigan Department of Transportation Staff

Kirk T. Steudle, *Director*

Leon E. Hank, *Chief Administrative Officer*

Myron G. Frierson, *Bureau Director – Finance and Administration*

Financial Advisor

Public Financial Management, Inc.

No dealer, broker, salesperson or other person has been authorized by the State of Michigan, the State Transportation Commission, the Michigan Department of Transportation, or its Director or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer or a solicitation of an offer to buy nor shall there be any sale of the Series 2009 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information set forth herein has been furnished by the Michigan Department of Transportation and other sources which are believed to be reliable, including the Depository Trust Company with respect to information contained in "THE SERIES 2009 BONDS – DTC; Book-Entry-Only System," but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Michigan Department of Transportation or the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Michigan or the Michigan Department of Transportation since the date hereof.

In connection with the offering of the Series 2009 Bonds, the Underwriters may over-allot and effect transactions that stabilize or maintain the market price of the Series 2009 Bonds at levels above those that might otherwise prevail in the open market. Such over-allotment and stabilizing, if commenced, may be discontinued at any time.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information (except for information under the section captioned "UNDERWRITING" which was obtained from the Underwriters).

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Official Statement contains forward-looking statements, which can be identified by the use of the future tense or other forward-looking terms such as "may," "intend," "will," "expect," "anticipate," "plan," "management believes," "estimate," "continue," "should," "strategy," or "position" or the negatives of those terms or other variations of them or by comparable terminology. In particular, any statements express or implied, concerning future receipts of federal grants or the ability to generate cash flow to service indebtedness are forward-looking statements. Investors are cautioned that reliance on any of those forward-looking statements involves risks and uncertainties and that, although the State of Michigan management believes that the assumptions on which those forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions also could be incorrect, and actual results may differ materially from any results indicated or suggested by those assumptions. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Official Statement should not be regarded as a representation by the State of Michigan that its plans and objectives will be achieved. All forward-looking statements are expressly qualified by the cautionary statements contained in this paragraph. Neither the Department nor the State undertakes any duty to update any forward-looking statements.

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OFFICIAL STATEMENT
\$281,910,000
STATE OF MICHIGAN
GRANT ANTICIPATION BONDS, SERIES 2009B
(Taxable – Build America Bonds – Direct Payment)

INTRODUCTORY STATEMENT

This Official Statement of the State of Michigan (the “State”) is provided for the purpose of setting forth information in connection with its \$281,910,000 Grant Anticipation Bonds, Series 2009B (Taxable – Build America Bonds-Direct Payment) (the “Series 2009 Bonds”). Terms used in this Official Statement and not otherwise defined herein shall have the same meanings as in the Trust Agreement dated as of July 1, 2001 (the “Original Trust Agreement”) between the State and U.S. Bank National Association, as successor to National City Bank of Michigan/Illinois, as trustee (the “Trustee”) as amended and supplemented by the First Supplement to Trust Agreement dated as of September 1, 2002 (the “First Supplement”), a Second Supplement to Trust Agreement dated as of August 1, 2007 (the “Second Supplement”) and a Third Supplement to Trust Agreement dated as of June 1, 2009 (the “Third Supplement” and together with the Original Trust Agreement, the First Supplement and the Second Supplement (the “Trust Agreement”).

The Series 2009 Bonds are being issued pursuant to Act 51, Public Acts of Michigan, 1951, as amended (“Act 51”), the Trust Agreement and resolutions adopted by the State Transportation Commission (the “Commission”) and the Director of the Michigan Department of Transportation (the “Department” or “MDOT”) on November 30, 2000, June 28, 2001, August 23, 2002, July 27, 2006 and March 27, 2008, as amended (collectively, the “Resolution”). Proceeds from the sale of the Series 2009 Bonds together with investment earnings on such proceeds and other available moneys will be used to pay a portion of the costs of certain transportation projects, and to pay the costs of issuance of the Series 2009 Bonds. See “THE PROJECTS.” **The State will not issue any Grant Anticipation Bonds, Series 2009A (Tax Exempt).**

The Series 2009 Bonds, together with the Series 2007 Bonds (as defined herein) and any Additional Bonds or Notes of the State issued under Act 51 and the Trust Agreement and described under “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE TRUST AGREEMENT — Additional Bonds or Notes,” will be secured by a pledge of, and be payable solely from, (i) the State’s share of federal reimbursements for projects administered by the Department and other eligible federal assistance that the Department shall receive from the Federal Highway Administration (the “FHWA”) with respect to federally-aided highway construction projects under or in accordance with Title 23 of the United States Code or any successor highway program established under federal law, and (ii) the moneys in the Note Payment Fund (as defined herein). Any payments the State might receive as a result of the designation of the Series 2009 Bonds as “Build America Bonds” are not pledged to payment of the principal of or interest on the Series 2009 Bonds. See “THE SERIES 2009 BONDS – Designation of Series 2009 Bonds as “Build America Bonds” herein.

As used herein, “Notes” means the Series 2007 Bonds, the Series 2009 Bonds and any Additional Bonds or Notes (whether designated as “bonds” or “notes”) from time to time outstanding under the Trust Agreement. Unless the context shall otherwise indicate, any reference herein to the term “note” or “notes,” whether capitalized herein or not, and including where such term or terms are used as a prefix, shall also include a “bond” or “bonds.”

Information contained herein has been obtained from State officers, employees and records, and other sources believed to be reliable. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Series 2009 Bonds.

Quotations, summaries and explanations of constitutional provisions, statutes, judicial decisions, administrative regulations, resolutions and other documents in this Official Statement do not purport to be complete and are qualified by reference to the complete text of such documents which may be obtained from MDOT, 425 West Ottawa Street, Lansing, Michigan 48909, Attention: Bureau Director, Finance and Administration, telephone: (517) 373-2117.

THE STATE TRANSPORTATION COMMISSION

MDOT's program objectives are established by a six-member Commission appointed to staggered three-year terms by the Governor, no more than three of whom may be members of the same political party. The Chairperson of the Commission is appointed by the Governor, and the Commission elects the Vice Chairperson from among its members. MDOT's Director (the "Director"), the executive head of MDOT, is appointed by the Governor and serves at her pleasure. Members of the Commission are listed on the inside cover of this Official Statement.

THE MICHIGAN DEPARTMENT OF TRANSPORTATION

Responsibilities and Organization

MDOT was established in 1978 by constitutional amendment and replaced the Michigan State Highway Department. MDOT is the State agency with the primary programmatic and regulatory responsibilities for the development and operation of public transportation facilities, port and harbor improvements, railroad facilities, highways and airports in the State.

In addition to the executive offices, the internal structure of MDOT is comprised of six bureaus responsible for various support or operating functions: (1) Aeronautics and Freight Services, (2) Finance and Administration, (3) Highway Delivery, (4) Highway Development, (5) Passenger Transportation, and (6) Transportation Planning. As of October 1, 2008, MDOT had 3,008 appropriated State classified civil service positions.

Funding for MDOT Programs

Programs for each of the modes of transportation under MDOT's jurisdiction are independently funded from taxes or other sources of revenues which are distributed pursuant to law for specific purposes.

MDOT's highway programs are funded from the State Trunk Line Fund (the "State Trunk Line Fund") established pursuant to Act 51, after payment of the State's share of debt service on bonds payable solely from such fund, from the proceeds of bonds and notes and from funds provided by federal and local governments. The revenues of the State Trunk Line Fund include a portion of the motor vehicle fuels taxes, vehicle registration taxes, and interest and miscellaneous fees deposited into the Michigan Transportation Fund (the "MTF") established pursuant to Act 51.

MDOT's urban and mass transportation programs are funded from the Comprehensive Transportation Fund which receives a portion of the sales tax on motor vehicles, motor vehicles parts and accessories, and motor vehicle fuel. The program also receives a portion of motor fuel taxes, vehicle registration taxes, and interest and miscellaneous fees deposited into the MTF.

MDOT's aeronautic program is primarily funded from the State Aeronautics Fund established pursuant to Public Act 327 of 1945. The revenues of the State Aeronautics Fund primarily include aviation fuel tax and airport parking tax.

State Highway Program

As of December 31, 2008, Michigan's total highway network consisted of 120,996 miles of highways, roads and streets of which 9,652 miles were under MDOT jurisdiction, 90,162 miles under the jurisdiction of the county road commissions, and 21,182 miles under the jurisdiction of various Michigan cities and villages. Although only 8% of Michigan's roads fall under MDOT jurisdiction, such roads carry over 49% of the total vehicular miles traveled in the State.

The highways, roads and streets under MDOT's jurisdiction consisting of the interstate freeways, the Michigan expressway and arterial connector highways, and the State primary roads are collectively referred to as the "State Trunk Line System."

The maintenance expenditures for the State Trunk Line System are funded from the State Trunk Line Fund after payment of debt service on any outstanding State Trunk Line Fund bonds and the State's share of debt service on any additional State Trunk Line Fund bonds. Maintenance expenditures for the State Trunk Line System were approximately \$284 million in the fiscal year ended September 30, 2008. Maintenance includes such practices as plowing snow, resealing, patching, guardrail and shoulder repair, and other work required on a frequent basis to assure the continued safe operation of the State Trunk Line System.

The Transportation Economic Development Fund ("TEDF"), a subfund of the State Trunk Line Fund, was created under Acts 231 and 233 of Public Acts of Michigan, 1987, as amended, to make available new funds for the construction and reconstruction of highways, streets and roads which will positively impact job creation and retention and to enhance the local tax base. The TEDF is funded from funds deposited in the MTF and from other State revenues. In the fiscal year ended September 30, 2008, the TEDF expended approximately \$75 million to fund TEDF projects.

Moneys remaining in the State Trunk Line Fund after payment of debt service on any outstanding State Trunk Line Fund bonds, maintenance costs, and general administrative costs, are used to pay for capital improvements to the State Trunk Line System and the State's matching share of federally funded State Trunk Line System construction projects. In the fiscal year ended September 30, 2008, MDOT expended approximately \$303 million of State Trunk Line Fund moneys for capital improvements to the State Trunk Line System. The federal government matching contribution to such capital improvement projects was approximately \$636 million for such fiscal year (exclusive of TEDF projects).

Pursuant to Act 51, all payments by MDOT from the State Trunk Line Fund for the maintenance, operation, and administration of the State Trunk Line System and for the State's share of the capital costs of the State Trunk Line System are second in priority to the payments of the debt service on any outstanding and additional State Trunk Line Fund bonds.

THE PROJECTS

Proceeds of the Series 2009 Bonds will provide the Department with funds to pay a portion of the remaining costs of the statewide Jobs Today highway program and the Governor's Economic Stimulus Program (the "Projects"). The Jobs Today Initiative ("Jobs Today"), announced in the Governor's 2005 State of the State Address, accelerated the pace of state and local infrastructure projects that were scheduled to begin in the next decade. The acceleration of such projects allowed for the letting of the major contracts in advance of their normally scheduled award dates. The total amount of the Jobs Today program is \$638 million and is funded by the proceeds from the Series 2007 Bonds in the amount of \$500 million and the Series 2009 Bonds in the amount of \$138 million. Proceeds from the Series 2009 Bonds will also be used to fund up to \$150 million in road and bridge preservation projects which were advanced from fiscal year 2009 to fiscal year 2008 for the purpose of stimulating the state's economy through job creation per the Governor's Economic Stimulus Program announced in fiscal year 2008.

As described in greater detail below under “SECURITY FOR THE SERIES 2009 BONDS,” the Series 2009 Bonds are not payable from grants related to any specific projects, but rather from the pledged State Share of Federal Highway Reimbursements. Similarly, the project source of the State Share of Federal Highway Reimbursements does not dictate the nature of the Projects which are approved under the terms of the Resolution and the Trust Agreement.

ESTIMATED SOURCES AND USES OF FUNDS

The Series 2009 Bonds are being issued by the State to provide funds, which, together with investment earnings on such proceeds and other available moneys will be used to pay a portion of the costs of the certain transportation projects, and to pay costs related to the issuance of the Series 2009 Bonds.

Sources

Original Principal Amount of Series 2009 Bonds	\$281,910,000.00
Original Issue Discount	<u>(\$ 1,914,134.95)</u>
Total Sources	\$279,995,865.05

Uses

Deposit to 2009 Bond Proceeds Account for Project	
Costs and Expenses	\$278,095,691.30
Cost of Issuance (includes Underwriters’ Discount)	<u>\$ 1,900,173.75</u>
Total Uses	\$279,995,865.05

SECURITY FOR THE SERIES 2009 BONDS

Act 51 authorizes the State to issue notes in anticipation of the receipt of grants from the United States of America or any agency or instrumentality thereof and to pledge the proceeds of such grants and investment earnings thereon for the payment of the principal, interest and redemption premiums on such notes. The State annually receives grant proceeds, federal highway reimbursements and other federal highway assistance from the federal government under the Federal Aid-Highway Program established under Chapter 1 of Title 23, United States Code, (“Title 23”) or any successor legislation thereto (“Federal Highway Reimbursements”), a portion of which (the “State Share”) is available for use by the Department in connection with highway and bridge projects administered by the Department.

On July 27, 2001 and September 26, 2002, the State issued its first two series of grant anticipation notes under the Original Trust Agreement, none of which are outstanding as of the date hereof. On August 30, 2007, the State issued \$485,115,000 in grant anticipation bonds under the Original Trust Agreement (the “Series 2007 Bonds,” and together with the Series 2009 Bonds, the “Grant Anticipation Obligations” and for certain purposes herein, the “Notes”). As of the date hereof, all of the Series 2007 Bonds are outstanding. The pledge of the State Share as security for the Series 2009 Bonds is on a parity basis with such security pledged for the Series 2007 Bonds. The pledge of the State Share as security for the Series 2009 Bonds is also on a parity basis with such security pledged for Additional Bonds or Notes.

The Grant Anticipation Obligations are **not** payable from grants related to any specific projects, but rather are payable solely from and secured by an irrevocable pledge of all moneys constituting the State Share of the Federal Highway Reimbursements received each year by the State and from moneys in the Note Payment Fund established under the Trust Agreement. The amount of funds available to the State is subject to authorization and periodic reauthorization by Congress and to approval on an annual basis by the United States

Secretary of Transportation. As such, the State, as well as other state recipients of such highway reimbursements, competes, in reauthorization processes, for such funds with other national funding priorities. Title 23 specifically provides that a state's eligibility for funds does not create a commitment or obligation on the part of the United States to provide for the payment of principal of or interest on bonds or notes. While there can be no assurance that sufficient funds will be available to the State under Title 23 to pay the debt service on the Grant Anticipation Obligations, Federal Highway Reimbursement have been adequate historically to meet the debt service requirements on the Grant Anticipation Obligations and are currently expected by the State to be adequate to continue to meet the debt service on the Grant Anticipation Obligations. See "INFORMATION CONCERNING THE FUNDING FOR FEDERAL-AID HIGHWAYS."

The Trust Agreement pledge of moneys for the payment of the principal of and premium, if any, and interest on the Grant Anticipation Obligations (such as the Series 2009 Bonds) and any pledge of such moneys subsequently pledged for the payment of notes subsequently issued on a parity lien basis with the Grant Anticipation Obligations, under the conditions specified in the Trust Agreement, shall be a first charge or lien, without preference of one over the other, against the State Share moneys so received. **Payment of the principal of and premium, if any, and interest on the Grant Anticipation Obligations from the State Share of Federal Highway Reimbursements shall be subject to an appropriation each year by the State Legislature in an amount sufficient to make such payments.** The Commission and the Director have covenanted in the Resolution to take all actions within their control to cause the required annual appropriation to be included each year in the Department's appropriations legislation.

Under the Resolution, all moneys constituting the State Share shall be received by the State Treasurer and credited to the Federal Grant Proceeds Subfund in the State Trunk Line Fund. So long as, and to the extent that, sufficient funds are available in the Federal Grant Proceeds Subfund, and so long as, and to the extent that, sufficient of such funds are appropriated each year for the payment of principal, of premium, if any, and interest on the Grant Anticipation Obligations, the State Treasurer shall, on or before the date established for the payment of principal, premium, if any, or interest on the Notes, transfer from the Federal Grant Proceeds Subfund to the Trustee for deposit in the Bond Payment Fund held by the Trustee under the Trust Agreement, sufficient funds (together with funds then on deposit in the Bond Payment Fund) to pay, when due, whether by maturity, redemption prior to maturity, or otherwise, the principal, premium, if any, and interest on the Grant Anticipation Obligations. Under the Trust Agreement, moneys in the Bond Payment Fund shall be applied to pay the principal of, premium, if any, and interest on the Grant Anticipation Obligations as they become due.

The Grant Anticipation Obligations are payable solely from the sources of funds specified above, and are not general obligations of the State, its agencies, instrumentalities and political subdivisions.

Enforceability of the Grant Anticipation Obligations, the Trust Agreement and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other similar laws affecting creditors' rights generally, now existing or enacted in the future, to the extent constitutionally applicable, and may further be subject to the exercise of judicial discretion in accordance with general principles of equity, including those relating to equitable subordination.

INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS

The Federal-Aid Highway Program

The Federal-Aid Highway Program ("FAHP") is an "umbrella" term that encompasses most of the Federal programs providing highway funds to the states, such as the Interstate Maintenance Program, the Bridge Program, the National Highway System Program, and the Surface Transportation Program. The FHWA is the Federal agency within the U.S. Department of Transportation responsible for administering the FAHP. The FAHP is financed from the transportation user-related revenues deposited in the Federal Highway Trust Fund.

The primary source of revenues in the Federal Highway Trust Fund is derived from the federal excise taxes on motor fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes.

The FAHP is a reimbursement program. Once projects are approved by FHWA and funds are obligated, the Federal government makes payments to the states for costs as they are incurred on projects, which may include debt service on obligations issued to finance a project. With few exceptions, the Federal government does not pay for the entire cost of a federal-aid project. Federal reimbursements are typically to be matched with state and/or local funds. The maximum Federal share (the “Federal Share”) is specified in the federal legislation authorizing the program. Most projects have an 80 percent Federal Share.

Although FHWA provides funding for eligible highway projects, federal-aid highways are under the administrative control of the state or local government responsible for their operation and maintenance. Funding under the FAHP is provided to states through a multi-step funding cycle that includes: 1) multi-year authorization by Congress of the funding for various highway programs; 2) apportionment and allocation of funds to the states each Federal Fiscal Year (“FFY”) according to statutory formulas or, for some funding categories, through administrative action; 3) obligation of funds, which is the Federal government’s legal commitment (or promise) to pay or reimburse states for the Federal Share of a project’s eligible costs; 4) program implementation which covers the programming and authorization phases; and 5) reimbursement by the Federal government of the eligible project costs. Each of these steps is described in more detail under “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS – Federal-Aid Funding Procedures” below.

Title 23, entitled “Highways,” includes most of the laws that govern the FAHP arranged systematically or codified. Generally, Title 23 embodies those substantive provisions of highway law that Congress considers to be continuing and which need not be reenacted each time the FAHP is preauthorized. Periodically, sections of Title 23 may be amended or repealed through surface transportation acts.

The Federal Highway Trust Fund

The Federal Highway Trust Fund (“HTF”) provides the primary funding for the FAHP. Funded by a collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a fund established by law to hold dedicated highway-user revenues that are used for reimbursement of the state’s cost of eligible transportation projects (which may include debt service on obligations issued to finance a federal-aid project), including highway projects. The HTF is composed of two accounts: the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. The Highway Account receives approximately 85% of gasoline tax revenues and 88% of diesel fuel revenues, with the remaining share of such revenues deposited in the Mass Transit Account.

Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account. The following table shows annual and projected HTF collections in the Highway Account for the FFYs 1999 through 2010.

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TABLE 1
Receipts into the Highway Account of the Highway Trust Fund
1999-2010⁽¹⁾

1999	\$33,821,392,000	2003	\$28,961,689,000	2007	\$34,309,926,000
2000	30,347,211,000	2004	29,785,002,000	2008	39,362,000,000 ⁽²⁾
2001	26,915,772,000	2005	32,907,508,000	2009	31,459,000,000 ⁽³⁾
2002	27,981,600,000	2006	33,701,603,000	2010	32,595,000,000 ⁽³⁾

(1) Excludes interest on balances.

(2) Amount listed as “2008 Actual Receipts” provided by FHWA from the President’s Fiscal Year 2010 Budget.

(3) Projected average annual receipts provided by FHWA from the President’s Fiscal Year 2010 Budget.

Source: Highway Statistics 2007, Office of Highway Policy Information, FHWA, Table FE-210 and the President’s Fiscal Year 2010 Budget.

The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates which must be extended periodically. The life of the HTF has been extended several times since its inception, most recently by SAFETEA-LU (as described below). The Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users (“SAFETEA-LU”) extends the imposition of taxes as well as the transfer of the taxes to the HTF through September 30, 2011. Expenditures from the HTF are authorized through September 30, 2009. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

Highway Trust Fund Current Anticipated Shortfall

As part of its annual budget forecast issued on January 24, 2007, the nonpartisan Congressional Budget Office (“CBO”) reported that if Congress adhered to the highway and safety spending levels authorized in SAFETEA-LU, absent other measures, the Highway Account of the HTF would go into deficit early in FFY 2009, before SAFETEA-LU expired. The CBO baseline projected that if the SAFETEA-LU spending levels were maintained for FFYs 2007-2009 there would be a deficit in the Highway Account at the end of FFY 2009 in the amount of \$3.616 billion.

On September 15, 2008, President Bush signed H.R. 6532 into law. This legislation transferred \$8.017 billion from the General Fund to the HTF to cover the current anticipated shortfall for FFY 2009. These funds restored revenues that were shifted from the HTF to the General Fund as a result of federal budget negotiations in 1998. The President’s action allowed state departments of transportation to continue to meet their financial obligations and sustain hundreds of millions of dollars of construction projects that had been put on hold after U.S. Secretary of Transportation Mary Peters announced on September 5, 2008 that federal-aid payments to the states would be partially withheld because of a shortage of funds. It is uncertain at this time exactly how long this transfer of funds will sustain expenditures from the HTF.

Decline in Vehicle Miles Traveled

The primary source of funds in the HTF is federal excise taxes on motor fuels. Declines in vehicle miles traveled (“VMT”) have resulted in the HTF receiving less revenue from gasoline and diesel sales. It cannot be determined whether this trend will continue or whether the declines in VMT will have an adverse impact on the HTF or the availability of Federal Transportation Funds to pay Debt Service on the Series 2009 Bonds.

On January 22, 2009 the FHWA reported that Americans drove 12.9 billion fewer VMT in November 2008 than in November 2007. The consecutive 13-month trend of declining driving – between November 2007 and November 2008 – was more than 112 billion VMT, compared to the same 13-month period a year earlier. Rhode Island led the nation with the largest single-state decline in November 2008 compared to November 2007, at 11.6 percent fewer VMT. As a result of such declines, the HTF is receiving less revenue from gasoline and diesel sales.

Various proposals are being considered to address the HTF's current anticipated shortfall, including an increase in fuel taxes, a variety of new taxes (including a tax on VMT) and other funding sources for the HTF. There can be no assurance that any of these proposals will be enacted by Congress.

SAFETEA-LU

On August 10, 2005, the SAFETEA-LU was signed into law. SAFETEA-LU is the long awaited successor to the Transportation Equity Act for the 21st Century ("TEA-21"), which expired on September 30, 2003, and was extended 12 times by Congress. SAFETEA-LU authorizes federal funding for surface transportation programs for fiscal years 2005 through 2009. When combined with enacted spending levels for fiscal year 2004, the six year nationwide transportation spending authorizations will total \$286.5 billion, representing an increase of more than 31% over TEA-21 levels. Under SAFETEA-LU, the six-year total spending on transit programs and projects will reach \$52.6 billion, while spending on highway programs and projects will reach \$233.9 billion. SAFETEA-LU continues to build on the successes of previous surface transportation acts.

A few highlights of the legislation are listed below.

- Michigan's donor state status was improved through an increase in the minimum guaranteed return on taxes Michigan motorists send to Washington, D.C. Under prior legislation, the minimum guaranteed return was 90.5%. The minimum guaranteed return increased under SAFETEA-LU to 92% in 2008.
- As the name suggests, one of the primary focuses of SAFETEA-LU is safety. Funding for safety programs are nearly double the amounts under TEA-21. In addition, states are required to work with all major state and local safety stakeholders to implement a statewide safety plan, and empowered with new flexibility in effort to significantly improve transportation safety. Michigan is a recognized leader in this area, having already prepared a strategic highway safety plan. Much of SAFETEA-LU's focus on safety has been incorporated into the preservation element of our road and bridge programs.
- A new program was created to direct funding to the nation's international border crossings. With some of the busiest international commercial and passenger traffic, Michigan continues to benefit from this program as the Department continues its work towards improving the safety, security and efficiency of these crossings.
- Enhanced opportunities for innovative finance will help leverage and maximize all available funding. SAFETEA-LU further expands available resources from non-traditional sources such as private activity bonds.
- More federal transit resources are directed toward creating additional opportunities for rural, low-income, disabled, and elderly populations. In addition, the share of capital funding going to bus systems (versus commuter rail systems) will be higher than it was under TEA-21.

Protected Funding.

New budget categories were established under TEA-21 and continued under SAFETEA-LU for highway and transit discretionary spending, effectively establishing a budgetary “firewall” between each of those programs and all other domestic discretionary programs. Prior to TEA-21, the highway and transit discretionary programs competed for annual budgetary resources with other domestic programs. The new categories are still subject to budget constraints, but reductions in highway or transit spending will not allow increased spending in other non-transportation programs. This removes the principal incentive for Congress to limit highway or transit spending.

The highway firewall “protects” the obligation limitation for federal aid highways, motor carrier safety, and other highway safety programs that have contract authority. The firewall amount for highways is tied to the projected receipts of the Highway Account of the Highway Trust Fund and will be adjusted each year during development of the President’s budget as new receipt projections and actual receipts become available. The adjustment of authorizations is called Revenue Aligned Budget Authority (“RABA”).

Under SAFETEA-LU, a total of \$244.1 billion in funding for surface transportation is protected under deficit reduction legislation. The total protected amount expected to be available for federal-aid highways under SAFETEA-LU is \$193.1 billion. The protected funding for transit programs firewall is \$45.3 million which is not tied to HTF receipts.

Authorizations in SAFETEA-LU for FFYs 2005 through 2009 exceed the protected funding levels by \$8.5 billion. The authorizations in excess of protected levels remain part of the general discretionary budget category and may be made available by Congress through the annual appropriations process, but must compete each year with other budget priorities.

Highway Funding Equity-Bonus Minimum Funding.

The minimum protected funding provision of SAFETEA-LU is designed to ensure that each state will have a minimum return on its contributions to the Highway Account of the Highway Trust Fund. Under this provision, each state’s share of apportionments will increase to at least 92% of its percentage share of contributions to the Highway Account by 2009, based on the latest data available at the time of apportionment. Michigan is expected to remain a “donor” state, and continue to receive funds under the minimum funding provision for the foreseeable future.

There can be no assurance that Congress will reauthorize any funding under Title 23 after the expiration of the authorizations under SAFETEA-LU, that any reauthorization will be at any particular level or that Congress will not change or rescind any appropriation or authorization contained in SAFETEA-LU. If SAFETEA-LU is not reauthorized at sufficient funding and spending levels to address the shortfalls in fuel taxes collected and the decline in VMT, the HTF could continue to experience deficits.

There can be no assurance that there will not be future changes in law, regulation, policy, or the availability of revenues at the federal level which may materially adversely affect the future availability of Federal Transportation Funds to pay debt service on the Series 2009 Bonds. See “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS.”

Federal Aid Funding Procedures

The FAHP continues to enable the construction of an extensive national transportation system through reimbursement of a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that:

- (a) the FAHP is funded by dedicated revenues, from a user-tax source, deposited in a special trust fund (the Highway Trust Fund);
- (b) the contract authority of the FHWA is established by a multi-year authorization act rather than through annual appropriation acts; and
- (c) contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs).

The following summarizes the major steps in funding the Federal-Aid Highway Program.

Authorization.

The first and most important step in funding the FAHP is the development and enactment of authorizing legislation. Authorizing legislation for highways began with the Federal-Aid Road Act of 1916 and the Federal Highway Act of 1921. These acts provided the foundation for the FAHP as it exists today. Since that time, the FAHP has been continued or renewed through the passage of multi-year authorization acts. Since 1978, Congress has passed highway legislation as part of larger, more comprehensive, multi-year (*i.e.*, four or more years) surface transportation acts. The current practice of establishing a minimum return to each state of the taxes paid by highway users in that state began in 1982 with the passage of the Surface Transportation Assistance Act.

The authorization act not only shapes and defines programs, but also sets upper limits (authorizations) on the funding for programs and includes provisions related to the operation of the Highway Trust Fund. The current legislative authorization for the FAHP is provided by SAFETEA-LU.

Once Congress has established authorizations, the next step involves how funds are made available to states. Typically, federal programs operate using appropriated budget authority which means that funds, although authorized, are not available until passage of an appropriations act. However, most programs within the FAHP do not require this two-step process. Through what is termed “contract authority” (a special type of budget authority), authorized amounts become available for obligation according to the provisions of the authorization act without further legislative action. For the FAHP, funds authorized for a FFY are available for distribution through apportionments or allocations. The use of contract authority gives the states advance notice of the level of Federal funding at the time an authorization act is enacted, eliminating much of the uncertainty associated with the authorization-appropriation sequence.

The existence of dedicated revenues in the HTF and the existence of multi-year contract authorizations are designed to provide a predictable and uninterrupted flow of reimbursements to the states. The risk of contract authority lapsing between authorizing acts is minimal, since sufficient unobligated balances generally exist that can be used by the states, with the approval of Congress, to cover gaps in funding between multi-year reauthorization acts.

Apportionment and Allocations.

For most components of the FAHP, the authorization acts set the distribution of spending authority among states. The authorized amount for a given FFY is distributed to the states through apportionments and allocations.

- (a) Apportionments. The distribution of funds using a formula provided in law is called an apportionment. Most federal-aid funds are distributed to states through apportionments. Each FFY, the FHWA has responsibility for apportioning authorized funding for the various highway programs among the states according to formulas established in the authorizing act. Apportionment factors include items such as lane miles, vehicle miles traveled, taxes paid into

the HTF and diesel fuel usage. Each highway program has a unique set of factors that determine the apportionments to the states. Annual apportionments are generally made on the first day of the FFY.

- (b) Allocations. Some categories do not have a legislatively mandated distribution formula. When there are no formulas in law, the distributions of funds are termed “allocations” which may be made at any time during the FFY. In most cases, allocated funds are divided among states with qualifying projects using general criteria provided by law.

Federal-aid highway apportionments are available to states for use for more than one year. Their availability does not terminate at the end of the FFY, as is the case with most other Federal programs. In general, apportionments are available for three years plus the year that they are apportioned. Consequently, when new apportionments or allocations are made, the amounts are added to a state’s carryover apportionments from the previous year. Should a state fail to obligate a year’s apportionments within the period of availability (usually a total of four years) specified for a given program, the funds will lapse.

Obligation.

Obligation is the legal commitment (or promise) of the federal government to pay, through reimbursement to a state, the Federal share of an approved project’s eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the Federal government will reimburse its share of incurred costs. Once an obligation is made, the Federal government is to reimburse the states when bills or payments become due. However, Congress places a restriction or “ceiling” on the amount of Federal assistance that may be promised (obligated) during a specified time period. The obligation limitation is the amount of authorized funding that Congress allows states to obligate in an individual year. This is a statutory budgetary control that does not affect the apportionment or allocation of funds. Rather, it controls the rate at which these funds can be used.

Once Congress establishes an overall obligation limitation, FHWA distributes Obligation Authority (“OA”) to states proportionately based on each state’s share of apportioned and allocated revenues. The actual ratio of OA to apportionment and allocations may vary from state to state, since some federal-aid programs are exempt from the obligation limitation. During the FFY, states submit requests to FHWA to obligate funds, representing the Federal share of specific projects. As FHWA approves obligation requests, a state’s balance of OA is reduced. A state’s OA (unlike its apportionments and allocations of authorized funding) must be used before the end of the FFY for which it is made available; if not, it will be distributed to other states to ensure that the total limitation nationwide will be used. A state may receive additional OA through a redistribution process each year in August which reallocates OA from states unable to fully obligate their share to other states that are able to obligate more than their initial share. Michigan typically uses all of its OA in each FFY and has in at least each of the last 19 years received additional OA that has been redistributed from other states by FHWA.

Although a ceiling on obligations restricts how much funding may be used in a FFY, the state has flexibility within the overall limitation to mix and match the type of program funds it requests to be obligated, based on its individual needs, as long as it does not exceed the ceiling in total. Also, the unobligated balance of apportionments or allocations that the state has remaining at the end of any FFY is carried over for use by that state during the next FFY.

Highway Program Implementation.

In order to receive Federal reimbursements for transportation projects, states are required to develop long-range transportation plans that are based on realistic projections of state and Federal funding. Projects are not eligible for Federal reimbursements unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans and are included in the four-year State

Transportation Improvement Plan (“STIP”) which lists all projects proposed for financing in that four-year period. The STIP requires FHWA approval.

States are required to follow federal fiscal management procedures as they implement projects that are included in the STIP. These fiscal management processes ensure that the process is managed efficiently from project authorization to actual payment of FHWA reimbursements to the state. Further, states are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states.

States may request FHWA approval for eligible projects either through the traditional process or through the advance construction procedure as discussed below:

- (a) Traditional Approach. Under the traditional highway funding approach, a state may request obligation of the full Federal share of the funding for a project at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funds on a project. The project sponsor submits plans, specifications and estimates (“PS&E’s”) for a project to the FHWA Division Office, and requests that the FHWA approve the use of federal funding for the appropriate Federal share of the project. The project must be in the STIP and PS&Es must identify the category of federal funding that will be used.

FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements. Provided that all requirements are satisfied, FHWA authorizes Federal participation on the project, and obligates the Federal share of project costs. By obligating the funds, the FHWA makes a commitment to reimburse the state for the Federal share of eligible project costs. It sets aside the appropriate amount of the state’s Obligation Authority, and also sets aside an equivalent amount of apportionments by program. Accordingly, the state must have sufficient Obligation Authority to cover the level of Federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. The state awards the contract to the lowest responsive bidder and submits a request to FHWA asking for any necessary adjustments to Federal obligations to reflect the actual bid amount. If approved, the amounts agreed to are included in a project agreement which identifies the funds that will be encumbered by the state, and the amount that will be reimbursed by the Federal government.

- (b) Advance Construction Approach. In recent years, FHWA has implemented several new fiscal management techniques that provide states additional flexibility in managing their OA and cash flow. Advance construction (“AC”) and partial conversion of advance construction are two key techniques that facilitate federal-aid project funding.

The AC approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the full Federal share of costs at the beginning of the project. This allows states to begin a project before accumulating all of the Obligation Authority needed to cover the Federal share of the project. Similar to the traditional approach, the state submits PS&E’s to FHWA and requests project authorization. Under AC, however, FHWA is asked to authorize the project without obligating federal funds. The state then will provide the up-front financing for the project and then at a later date “convert” the advance construction project to a regular federal-aid project and obligate the full Federal share of the project costs when sufficient OA is available. At the time of conversion, the state can be reimbursed for the Federal share of costs incurred up to the point of conversion.

Partial conversion of advance construction is a form of advance construction in which the state converts, obligates, and receives reimbursement for only a portion of its funding of an AC project in a given year. This removes any requirement to wait until the full amount of Obligation Authority for the project is available. The state can therefore obligate varying amounts for the project's eligible cost in each year, depending on how much of the state's OA is available. Using the technique to partially convert the Federal share makes bond and note financing more viable and federal-aid funds available to support a greater number of projects. The National Highway System Act of 1995 provided the authority to allow states to partially convert a project.

Reimbursement.

The FAHP is a reimbursement program. As work progresses on a federal-aid highway project, the state will pay the contractor for completed work from available state funds. The state then electronically sends vouchers for the bills to FHWA for review and approval. The FHWA certifying officer certifies the state's claim for payment and certification schedules are submitted to the Federal Treasury Department for payment. The payment for the Federal cost of projects on the state's voucher is transferred directly from the Treasury Department to the state's bank account by electronic fund transfer. Generally, the federal payment to a state is made within two days of the submission of the state's electronic bill.

State Match.

MDOT officials have recently publicly expressed concerns that falling revenues under the current motor fuel and motor vehicle registration tax formulas may result in insufficient State funds to provide the required match for receipt of all federal funds currently projected to be available under SAFETEA-LU and its successor legislation, in the years from FFY 2011 through 2014. These officials are requesting that the State Legislature consider revising the tax formulas in a manner to produce greater revenues, and which would make available State funds fully sufficient to match all anticipated federal grants. It is important to note, however, that the State has never failed in the past to provide sufficient State funds to meet the match requirements for all available federal funds, and any such funds received from the federal government are subject to the pledge for the payment of debt service on the Series 2009 Bonds and the Series 2007 Bonds (herein defined.) Even in the event the State's motor fuel and motor vehicle registration tax formulas are not adjusted, the Department anticipates there will be more than adequate available State funds to match sufficient federal funds to pay all debt service on the Series 2009 Bonds and the Series 2007 Bonds.

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FEDERAL AID REVENUES

Below are tables identifying prior and projected Apportionments, Obligation Authority and Actual Receipts of the State Share of Federal Aid Revenues by the Department from FFY 1998 through 2015.

TABLE 2

STATE SHARE OF FEDERAL AID REVENUES APPORTIONMENTS, OBLIGATION AUTHORITY AND ACTUAL RECEIPTS FOR THE MICHIGAN DEPARTMENT OF TRANSPORTATION

Under Prior Federal Aid Authorization Period (Transportation Equity Act for the 21st Century⁽³⁾) Federal Fiscal Years 1998 through 2004

<u>Federal Fiscal Year</u>	<u>Apportionments⁽¹⁾</u>	<u>Obligation Authority⁽¹⁾</u>	<u>Actual Receipts⁽²⁾</u>
1998	\$ 514,588,815	\$ 472,305,639	\$ 515,775,000
1999	656,500,893	567,140,029	544,456,000
2000	719,374,667	631,827,038	717,283,000
2001	757,636,365	675,858,765	686,408,000
2002	753,044,630	685,806,486	616,521,000
2003	628,943,250	648,553,909	574,440,000
2004 ⁽⁴⁾	<u>812,617,847</u>	<u>693,358,920</u>	<u>616,555,000</u>
Totals	<u>\$4,842,706,467</u>	<u>\$4,374,850,786</u>	<u>\$4,271,438,000</u>

(1) Source: Michigan Department of Transportation.

(2) Information in this Table for Actual Receipts has been obtained from the State's Comprehensive Annual Financial Report ("CAFR") under the section heading entitled "FINANCIAL SECTION — Combining and Individual Fund Statements and Schedules - Non-Major Funds — Governmental Funds — Special Revenue Funds By Classification — *Special Revenue Funds - Transportation Related* — Combining Statement of Revenues, Expenditures, and Changes in Fund Balances" and was obtained by combining the amounts for federal agencies under "Revenues" for the State Trunk Line Fund and for the Combined State Trunk Line Fund Bond Proceeds Fund. The current CAFR is available at, and the CAFR for subsequent years is expected to be available at, <http://www.michigan.gov/budget/>.

(3) TEA-21 was a six-year authorization that covers fiscal years 1998 through 2003.

(4) 2004 was covered by several legislative continuing resolutions known as TEA-21 extensions.

TABLE 3
STATE SHARE OF FEDERAL AID REVENUES
APPORTIONMENTS, OBLIGATION AUTHORITY AND ACTUAL RECEIPTS
FOR THE MICHIGAN DEPARTMENT OF TRANSPORTATION

(Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users)⁽¹⁾
FFYs 2005 through 2009
Projected in Fiscal Years 2010 Through 2015

<u>Federal Fiscal Year</u>	<u>Apportionments⁽²⁾</u>	<u>Obligation Authority⁽²⁾</u>	<u>Actual Receipts</u>	<u>Coverage of Maximum Annual Debt Service⁽³⁾</u>
2005	\$ 770,400,504	\$ 644,814,024	\$ 805,330,000 ⁽⁴⁾	5.24
2006	765,750,376	660,764,290	808,409,000 ⁽⁴⁾	5.26
2007	828,532,468	781,131,812	889,896,000 ⁽⁴⁾	5.79
2008	805,918,202	769,543,294	748,660,000 ⁽⁴⁾	4.87
2009	792,478,932	734,454,211	734,454,211 ⁽⁵⁾	4.78
2010 ⁽⁶⁾	792,478,932	734,454,211	734,454,211	4.78
2011 ⁽⁶⁾	792,478,932	734,454,211	734,454,211	4.78
2012 ⁽⁶⁾	792,478,932	734,454,211	734,454,211	4.78
2013 ⁽⁶⁾	792,478,932	734,454,211	734,454,211	4.78
2014 ⁽⁶⁾	792,478,932	734,454,211	734,454,211	4.78
2015 ⁽⁶⁾	<u>792,478,932</u>	<u>734,454,211</u>	<u>734,454,211</u>	4.78
Totals	<u>\$ 8,717,954,074</u>	<u>\$7,997,432,897</u>	<u>\$8,393,474,477</u>	

(1) Amounts do not include federal American Recovery and Reinvestment Act stimulus dollars.

(2) Source: Michigan Department of Transportation.

(3) Maximum annual debt service on the Series 2007 Bonds and on the Series 2009 Bonds (without regard to any accelerated redemption) is \$153,646,469.

(4) Information in this Table for Actual Receipts has been obtained from the State's Comprehensive Annual Financial Report ("CAFR") under the section heading entitled "FINANCIAL SECTION — Combining and Individual Fund Statements and Schedules - Non-Major Funds — Governmental Funds — Special Revenue Funds By Classification — *Special Revenue Funds - Transportation Related* — Combining Statement of Revenues, Expenditures, and Changes in Fund Balances" and was obtained by combining the amounts for federal agencies under "Revenues" for the State Trunk Line Fund and for the Combined State Trunk Line Fund Bond Proceeds Fund. The current CAFR is available at, and the CAFR for subsequent years is expected to be available at, <http://www.michigan.gov/budget/>. Actual receipts may be more or less than Obligation Authority due to the timing of receipt and expenditure of funds.

(5) Estimated, based on existing SAFETEA-LU authorization.

(6) Projected. SAFETEA-LU is a five-year authorization that covers fiscal year 2005 through 2009. It is anticipated, based on the history of the FHWA, that the authorization will be renewed under a new name for another multi-year period for 2010 and beyond.

THE SERIES 2009 BONDS

General

The Series 2009 Bonds will be delivered in fully-registered form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for such Series 2009 Bonds. Purchases of Series 2009 Bonds will be made in book-entry-only form as described under “THE SERIES 2009 BONDS - DTC; Book-Entry-Only System.” So long as Cede & Co., as nominee for DTC, is the Registered Owner of the Series 2009 Bonds, the transfer of interests in the Series 2009 Bonds shall be the sole responsibility of the DTC Participants, the Indirect Participants and the Beneficial Owners (each hereinafter defined). The State shall have no responsibility with respect to such transfers.

The Series 2009 Bonds will be issued in Authorized Denominations of \$5,000 or any integral multiple of \$5,000.

The principal of and premium, if any, of the Series 2009 Bonds is payable at the principal corporate trust office of the Trustee and the payment of the interest on the Series 2009 Bonds shall be payable on each Interest Payment Date and Redemption Date and on the Maturity Date therefor to the person or entity who is the registered holder of record at the close of business on any Record Date with respect to any Interest Payment Date.

The Series 2009 Bonds will bear interest from their original date of issuance or such later date through which interest has been paid, payable each September 15 and March 15, commencing March 15, 2010. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series 2009 Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the cover page of this Official Statement.

Designation of Series 2009 Bonds as “Build America Bonds”

The State intends to designate the Series 2009 Bonds as “Build America Bonds” under Section 54AA and to elect under Section 54AA(g) of the Internal Revenue Code of 1986, as amended (the “Code”) to receive a credit from the United States Treasury equal to 35% of the stated interest paid on the Series 2009 Bonds as provided in Code Section 6431. Payments are expected to be paid to the State within 45 days of receipt by the Internal Revenue Service (“IRS”) of IRS Form 8038-CP with respect to each interest payment date identifying the amount of interest to be paid. Each such Form may not be filed more than 90 days prior to the relevant interest payment date.

Receipt of the credits described above is currently expected by the State, but cannot be assured. The failure to properly and timely file any IRS Form 8038-CP could reduce the amount of credit paid to the State. In addition, the credits described above are payable under current law. There can be no assurance that future changes in the law would not reduce or eliminate, or place additional conditions on the receipt of such credits with respect to the Series 2009 Bonds. The credits, if received, are **not** pledged to the payment of the principal and interest on the Series 2009 Bonds, and the use of the funds received is subject to annual appropriation by the State Legislature. The State has **not** covenanted to maintain the eligibility of the Series 2009 Bonds for receipt of the credits described herein. However, the obligation and pledge of the State to pay the debt service on the Series 2009 Bonds from the sources described herein, is not abated or offset by the anticipated receipt of the credits described above, but rather, continues to secure the Series 2009 Bonds whether the anticipated credits are received or not.

Redemption

Optional Redemption.

The Series 2009 Bond maturing on September 15, 2012 shall not be subject to optional redemption.

The Series 2009 Bonds maturing on September 15, 2027 shall be subject to optional redemption by the State on any date on or after September 15, 2018, in whole or in part any time, at a redemption price of par, plus accrued and unpaid interest.

Mandatory Sinking Fund Redemption.

The Series 2009 Bonds maturing on September 15, 2027 shall be redeemed in part on September 15 in each year listed below, at a redemption price equal to 100% of the principal amount redeemed plus accrued interest thereon to the redemption date, without premium, in the principal amount set forth below next to such year:

<u>Year</u>	<u>Amount</u>
2024	\$62,905,000
2025	\$67,705,000
2026	\$72,870,000
2027 (maturity)	\$78,425,000

Accelerated Redemption.

The Series 2009 Bonds are subject to mandatory accelerated redemption, prior to their respective stated maturity dates beginning on the first optional redemption date, September 15, 2018, and continuing on each subsequent September 15 through and including September 15, 2021, in an amount each year as set forth below, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption. **Failure to so redeem all Series 2009 Bonds as described in the preceding sentence shall constitute an Event of Default under the Trust Agreement unless certain conditions are met as described below.**

<u>Year</u>	<u>Amount</u>
2018	\$70,480,000
2019	\$70,480,000
2020	\$70,480,000
2021	\$70,465,000

Notwithstanding the foregoing, the State shall not be required to accelerate the redemption of the Series 2009 Bonds and failure to redeem the Series 2009 Bonds as described in the preceding paragraph shall not constitute an Event of Default, if the Director files with the Trustee on or before August 15, 2018 a certificate that evidences the occurrence of either of the following events:

- i. Enactment by the federal government of new multiyear legislation reauthorizing federal funding for surface transportation programs covering a period ending no earlier than September 30, 2015 and the Director believes that the minimum projected State Share for each year under such reauthorization is at least 300% of the maximum Annual Debt Service requirements of the Outstanding Notes; or

- ii. Receipt of written confirmation from each rating agency maintaining a solicited rating for the Series 2009 Bonds affirming that eliminating the accelerated redemption requirement described above would not result in a newly assigned rating that is below the then current rating for the Series 2009 Bonds had the accelerated redemption requirement remained in effect.

Notice of Redemption and Manner of Selection

Selection of Series 2009 Bonds to be Redeemed.

In the case of any redemption in part of the Series 2009 Bonds, the maturities and series of the Series 2009 Bonds to be redeemed shall be selected by the State. A redemption of Series 2009 Bonds shall be a redemption of the whole or of any part of the Series 2009 Bonds, provided, that there shall be no partial redemption of less than \$5,000. If less than all the Series 2009 Bonds shall be called for redemption under any provision of the Trust Agreement permitting such partial redemption, the particular Series 2009 Bonds of any series and maturity to be redeemed shall be selected by lot by the Trustee; provided, however (a) that the portion of any Series 2009 Bond to be redeemed under any provision of the Trust Agreement shall be in the principal amount of \$5,000 or any multiple thereof, and (b) that, in selecting Series 2009 Bonds for redemption, the Trustee shall treat each Series 2009 Bond of the series as representing that number of Series 2009 Bonds of the series which is obtained by dividing the principal amount of such Series 2009 Bond by \$5,000. If there shall be called for redemption less than all of a Series 2009 Bond, the State shall execute and deliver and the Trustee shall authenticate, upon surrender of such Series 2009 Bond, and at the expense of the State and without charge to the owner thereof, a replacement Series 2009 Bond of the same series in the principal amount of the unredeemed balance of the Series 2009 Bond so surrendered.

Procedure for Redemption.

In the event any of the Series 2009 Bonds are called for redemption, the Trustee shall give notice, in the name of the State, of the redemption of such Series 2009 Bonds, which notice shall (i) specify the Series 2009 Bonds to be redeemed, the redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which shall be the corporate trust office of the Trustee) and, if less than all of the Series 2009 Bonds are to be redeemed, the numbers of the Series 2009 Bonds, and the portions of the Series 2009 Bonds, so to be redeemed, (ii) state any condition to such redemption, and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2009 Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by mail, postage prepaid, at least 30 days prior to the date fixed for redemption to each holder of Series 2009 Bonds to be redeemed at its address shown on the registration books kept by the Trustee; provided, however, that failure to give such notice to any Noteholder or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Series 2009 Bonds. In the event that the funds required to pay the redemption price of any Series 2009 Bonds being called for redemption are not on deposit with the Trustee on or before the date the notice of redemption is required to be given, the notice shall state that the redemption will only occur to the extent that funds to pay the redemption price are made available to the Trustee on or before the redemption date.

DTC; Book-Entry-Only System

THE INFORMATION IN THIS SECTION HAS BEEN OBTAINED FROM DTC. NO REPRESENTATION IS MADE BY THE STATE, THE COMMISSION, MDOT, THE DIRECTOR, THE TRUSTEE, OR THE UNDERWRITERS AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE

STATE, THE COMMISSION, MDOT, THE DIRECTOR, THE TRUSTEE, OR THE UNDERWRITERS TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE STATE NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2009 BONDS, OR FOR ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST PAYMENT THEREON.

DTC will act as securities depository for the Series 2009 Bonds. The Series 2009 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the Series 2009 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated securities. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are expected, however, to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Bonds are credited, which may or may not be the

Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2009 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2009 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2009 Bonds may wish to ascertain that the nominee holding the Series 2009 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2009 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2009 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State on the payable date, in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository for the Series 2009 Bonds at any time by giving reasonable notice to the State or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2009 Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfer through DTC (or a successor securities depository). In that event Series 2009 Bond certificates will be printed and delivered.

Transfer of the Series 2009 Bonds

So long as Cede & Co., as nominee for DTC, is the registered owner of the Series 2009 Bonds, beneficial ownership interests in the Series 2009 Bonds may be transferred only through a DTC Participant or Indirect Participant and recorded on the book-entry-only system operated by DTC. In the event the book-entry-only system is discontinued, any Series 2009 Bond may be transferred or exchanged by the person in whose name it is registered, in person or by the registered owner's duly authorized attorney or legal representative, upon surrender of the Series 2009 Bond to the Trustee for cancellation, together with a duly executed instrument

of transfer in a form approved by the Trustee. Whenever any Series 2009 Bond is surrendered for transfer or exchange the Trustee shall authenticate and deliver a new Series 2009 Bond, in like aggregate principal amount, tenor, interest rate, and maturity. The Trustee may require the registered owner requesting the transfer or exchange to pay any tax or other governmental charge required to be paid with respect to the transfer. The Trustee shall not be required to (i) register the transfer of or exchange any Series 2009 Bond during a period beginning at the opening of business five days before the mailing of a notice of redemption of Series 2009 Bonds selected for redemption and ending at the close of business on the day of that mailing, or (ii) register the transfer of or exchange any Series 2009 Bond selected for redemption in whole or in part within thirty days of the redemption date, except the unredeemed portion of Series 2009 Bonds redeemed in part.

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE TRUST AGREEMENT

The following is a summary of certain provisions of the Resolution and the Trust Agreement. All references to the Resolution and the Trust Agreement are qualified by reference to the Resolution and the Trust Agreement, copies of which are available from the Department or the Trustee. As used herein, "Notes" means the Series 2007 Bonds, the Series 2009 Bonds and any Additional Bonds or Notes (whether designated as "bonds" or "notes") from time to time Outstanding under the Trust Agreement. Unless the context shall otherwise indicate, any reference herein to the term "note" or "notes," whether capitalized herein or not, and including where such term or terms are used as a prefix, shall also include a "bond" or "bonds."

Establishment of Funds and Accounts

The Resolution and the Trust Agreement provide that upon the order of the Director, a separate account in the Note Proceeds Fund will be established by the State Department of Management and Budget in the State Treasury to be designated the 2009 Grant Anticipation Note Proceeds Account (the "2009 Bond Proceeds Account"). A separate subfund has been established by the Department of Management and Budget in the State Trunk Line Fund held in the State Treasury to which the State Share is credited (the "Federal Grant Proceeds Subfund"). Additionally, the Trustee will establish and maintain a 2009 Grant Anticipation Bond Account within the Grant Anticipation Note Payment Fund (the "Note Payment Fund") pursuant to the terms of the Trust Agreement.

The 2009 Bond Proceeds Account

The net proceeds of the Series 2009 Bonds will be deposited in the 2009 Bond Proceeds Account and will be used to pay costs related to the issuance of the Series 2009 Bonds, and the fees and expenses of the Trustee, and together with investment earnings thereon, part of the costs of the Projects (or reimbursement to the State for amounts previously expended on the Projects as permitted by federal tax law) and required transfers to the Rebate Fund established under the Trust Agreement. Moneys deposited in the 2009 Bond Proceeds Account are to be continuously invested and reinvested by the State Treasurer in investments permitted by law until disbursed, with any earnings, gains and losses being applied to the 2009 Bond Proceeds Account.

The State shall establish and maintain records with respect to the payments made from the 2009 Bond Proceeds Account and such records shall be made available for inspection during normal business hours by the Trustee. Any amount remaining in the 2009 Bond Proceeds Account after payment of the costs set forth above is to be transferred to the Note Payment Fund.

At the time that all the Projects to be funded from the 2009 Bond Proceeds Account have been completed and all costs of issuance have been paid and all amounts required under the Trust Agreement to be transferred to the Rebate Fund have been transferred, any remaining moneys or securities in the 2009 Bond Proceeds Account shall be transferred, at the written direction of the Director, to the Trustee for deposit into the Note Payment Fund to pay current debt service on the Series 2009 Bonds.

The Federal Grant Proceeds Subfund

All moneys constituting the State Share of federal grants received under the Federal Aid-Highway Program established under Chapter 1 of Title 23 will be received by the State Treasurer and credited to the Federal Grant Proceeds Subfund in the State Trunk Line Fund. So long as sufficient funds are available in the Federal Grant Proceeds Subfund and so long as sufficient of such funds are appropriated each year for the payment of principal, premium and interest on the Grant Anticipation Obligations, the State Treasurer will, on or before the second Business Day prior to the date established for the payment of principal, premium or interest on the Grant Anticipation Obligations, transfer from the Federal Grant Proceeds Subfund to the Trustee for the deposit in the Note Payment Fund, sufficient funds to pay, when due, the principal, premium, if any, and interest on the Grant Anticipation Obligations.

The Note Payment Fund

Pursuant to the Trust Agreement, a Note Payment Fund has been established by the State with the Trustee. Subject to any credit to which the State may be entitled pursuant to the terms hereof, there shall be deposited by the State, but solely from the proceeds of the State Share which, as required by the Resolution, have been deposited in the Federal Grant Proceeds Subfund in the State Trunk Line Fund and which have been appropriated by the State Legislature each fiscal year therefor, with the Trustee for deposit in the Note Payment Fund the following:

(i) On the second Business Day prior to each Interest Payment Date and Principal Payment Date and each other date on which principal of or interest on the Grant Anticipation Obligations is due and payable, an amount equal to the amount of principal of or interest on the Grant Anticipation Obligations which is due and payable on such date (less any capitalized interest other than capitalized interest for the Series 2009 Bonds and investment earnings then on deposit in the Note Payment Fund for which a credit has not been previously taken); provided, however, with respect to the Series 2009 Bonds, on each Interest Payment Date and Principal Payment Date and each other date on which principal of or interest on the Series 2009 Bonds is due and payable, an amount equal to the amount of principal of or interest on the Series 2009 Bonds which is due and payable on such date (less any capitalized interest and investment earnings then on deposit in the Note Payment Fund for which a credit has not been previously taken).

(ii) On or before the second Business Day prior to the date any Grant Anticipation Obligation is to be redeemed pursuant to the Trust Agreement, the redemption price of all Grant Anticipation Obligations to be redeemed on such date, subject to a credit for any funds then on deposit in the Note Payment Fund and available to pay the redemption price of such Grant Anticipation Obligation.

Moneys deposited by the State in the Note Payment Fund from time to time shall be applied by the Trustee to pay the principal, premium, if any, and interest on the Grant Anticipation Obligations as the same become due, and the reimbursement, with interest, of draws under any Liquidity Facility established as security for any Series of Notes.

Upon the issuance of any Additional Bonds or Notes which are not secured by the same Policy as all then Outstanding Grant Anticipation Obligations, the Trustee shall establish separate accounts, subfunds or subaccounts in the Note Payment Fund as shall be necessary to preserve the benefit of the separate security provided for the separate series of the Grant Anticipation Obligations and the Additional Bonds or Notes.

Additional Bonds or Notes

One or more Series of Additional Notes or Hedges related to bonds or notes issued or proposed to be issued (“Additional Bonds or Notes”) may be issued and secured on a parity basis with the Grant Anticipation

Obligations (1) to finance completion of the Projects or any improvement thereto originally financed in whole or in part from the proceeds of the Grant Anticipation Obligations or Additional Grant Anticipation Obligations, (2) to refund all or any Outstanding Notes, (3) in each case to pay capitalized interest and costs of issuance of such Additional Bonds or Notes, or (4) to finance any additional projects authorized by resolution of the State.

The issuance of any Series of Additional Bonds or Notes is conditioned on the Trustee receiving (1) a resolution of the State authorizing such issuance, (2) a certificate of the Director of the Department certifying (a) that the amount of the State Share received by the Department in the fiscal year preceding the issuance of the proposed Series of Additional Bonds or Notes was at least 300% of the maximum Annual Debt Service requirements on the Outstanding Notes and the Series of Additional Notes proposed to be issued, (b) that the Director believes that the Federal Grants under the Federal Aid Authorization will continue in the future and (c) that no payment default has occurred under any Series of the Notes, (3) an order from the State directing the authentication and delivery of such Series of Additional Bonds or Notes, (4) an opinion of the Attorney General addressed to the State and an opinion of Note Counsel addressed to the State, and the Trustee, and to Financial Security Assurance Inc. (the "Series 2007 Insurer"), (5) an executed counterpart of the Supplemental Agreement providing for such Additional Bonds or Notes, and (6) following the issuance of the Series 2009 Bonds and so long as the Series 2007 Bonds remain outstanding and not defeased, the Series 2007 Insurer's consent for the issuance of Additional Bonds or Notes provided, however; that no consent shall be required for any Additional Bonds or Notes issued to refund the Series 2009 Bonds or other Bonds or Notes, secured on a parity basis with the Series 2009 Bonds.

The State is required to give notice to each national rating agency then maintaining a rating on the Notes prior to the issuance of any Additional Bonds or Notes.

Investment of Moneys in Funds

The Trustee shall invest moneys in the Note Payment Fund and the Rebate Fund in any Qualified Investments and shall sell or liquidate any such investment, in each case upon the written direction of the State, subject in each case to the restrictions on investments set forth in the Trust Agreement. The Trustee shall have no responsibility for any losses resulting from such investment or liquidation, nor shall the Trustee be responsible if any payment is prohibited under section 148 of the Code, provided that the Trustee shall have complied with the applicable investment instructions delivered to it by the State. Moneys in the Note Payment Fund shall be invested by the Trustee only in obligations of the United States, its agencies or United States government sponsored enterprises or obligations, the principal and interest of which are guaranteed by the United States or any one of its agencies (or any fund or other pooling arrangement which is rated at least "Aa" by Moody's, "AA" by S&P or "AA" by Fitch, and which exclusively purchases and holds such investments) having a final maturity of one year or less from the date of purchase thereof, the maturities or redemption dates of all of which shall coincide as nearly as practicable with, but not be later than, the time or times at which said moneys will be required for the purposes of the Trust Agreement. Qualified Investments may be registered or otherwise held in the name of Trustee's nominee or nominees or, where the securities are eligible for deposit in a central depository, such as DTC or the Federal Reserve Bank of New York, the Trustee may utilize any such depository and permit the registration of registered securities in the name of its nominee or nominees, and the State shall hold the Trustee and such nominees harmless from any liability as holders of record. Any investments permitted pursuant to the Trust Agreement may be purchased from the Trustee in its commercial capacity so long as it meets the applicable criteria set forth in the definition of "Qualified Investments" in the Trust Agreement. In the event that the State shall not have authorized the liquidation of Qualified Investments when required to meet the purposes of the Trust Agreement, the Trustee is authorized to sell or otherwise convert into cash investments credited to any Fund or Account created under the Trust Agreement at the times and in the amounts necessary to meet payments when due from such Fund or Account and shall include all proceeds from such investments. No order of the State shall restrict such authorization, and the Trustee shall not be liable for any loss occurring from any such sale or conversion to cash. Each Fund and Account shall include

all investments made from moneys credited to such Fund or Account and shall include all proceeds from such investments.

Events of Default; Remedies

Events of Default.

The occurrence of any of the following events constitutes an “Event of Default” under the Trust Agreement:

- (a) Failure to pay interest on any Note when due and payable.
- (b) Failure to pay any principal of or premium on any Note when due and payable, whether at stated maturity or pursuant to any redemption or purchase requirement with respect to any Series of Notes which are subject to tender or purchase under the Trust Agreement.
- (c) Failure by the State to observe or perform any other covenant, condition or agreement on its part to be observed or performed in the Trust Agreement, the Resolution or the Notes, for a period of 30 days after written notice of such failure has been given to the State by the Trustee; provided, however, that if such observance or performance requires work to be done, actions to be taken or conditions to be remedied which by its or their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default under this subsection shall be deemed to have occurred or to exist if and so long as the State shall have commenced such work, action or remediation within such 30-day period and provided written notice thereof to the Trustee and the Series 2007 Insurer and shall diligently and continuously prosecute the same to completion, but, unless otherwise consented to by the Series 2007 Insurer, such work, action or remediation must be successfully completed within 60 days of the end of such 30-day period.

Within five days after knowledge of an Event of Default under subsection (a) or (b) above, the Trustee shall give written notice, by registered or certified mail, to the State, the Series 2007 Insurer, all of the Noteholders, and upon written notice of an Event of Default provided by the Series 2007 Insurer, or the State, or by the holders of at least 25% in aggregate principal amount of the Outstanding Notes, shall give similar notice of any other Event of Default.

Remedies.

Upon the occurrence and continuation of an Event of Default, the Trustee may proceed to protect or enforce the rights of the Trustee and the Noteholders, either by mandamus to compel the State to perform each and every covenant contained in this Agreement, or by injunction to prevent the State from taking any action in violation of said covenants; provided, however, if such default be such that it cannot be corrected within such period, and if, in the opinion of the Trustee it is correctable without material adverse effect on the Noteholders, it shall not constitute a “default” if corrective action is instituted by the State within such period and diligently pursued until the default is corrected. The State expressly authorizes the Trustee to bring any of the actions mentioned.

Other Remedies; Rights of Noteholders.

Upon the continuance of an Event of Default, if so requested by the Series 2007 Insurer or a Majority of the Noteholders (with the consent of the Series 2007 Insurer), and if satisfactory indemnity has been furnished to it, the Trustee shall exercise such of the rights and powers conferred by the Trust Agreement as the Trustee, being advised by counsel, shall deem most effective to enforce and protect the interests of the Noteholders.

No remedy under the Trust Agreement is intended to be exclusive, and to the extent permitted by law each remedy shall be cumulative and in addition to any other remedy under the Trust Agreement.

No delay or omission to exercise any right or power shall impair such right or power or constitute a waiver of any Default or Event of Default or acquiescence therein; and each such right and power may be exercised as often as deemed expedient.

No waiver by the Series 2007 Insurer, the Trustee (with the consent of the Series 2007 Insurer) or the Noteholders (with the consent of the Series 2007 Insurer) of any Default or Event of Default shall extend to any subsequent Default or Event of Default.

Right of Noteholders to Direct Proceedings.

The Series 2007 Insurer (so long as it is not in default under the Policy) or a Majority of the Noteholders (with the consent of the Series 2007 Insurer) shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Trust Agreement or for the appointment of a receiver or any other proceedings; provided that such direction shall be in accordance with applicable law and the Trust Agreement, and provided that the Trustee shall be indemnified to its satisfaction.

Application of Moneys.

Upon the occurrence and continuance of an Event of Default, there shall be deposited in the Note Payment Fund all moneys and proceeds held or received by the Trustee or any receiver pursuant to the Trust Agreement or any related document or the exercise of any rights granted in the Trust Agreement or such related document, except amounts in the Rebate Fund, which shall be held and applied in accordance with the provisions of the Trust Agreement, and all moneys in the Note Payment Fund (except funds for which provision has been made for nonpresentment of Notes) shall be applied after first paying all Costs of Collection incurred by the Trustee or any receiver (i) to the payment of interest, including interest on overdue principal, and, to the extent not prohibited by applicable law, interest on overdue interest, then due on the Notes without regard to when such interest became due, and (ii) then to the payment of principal and premium, if any, then due on the Notes, without regard to when such principal or premium, if any, became due; or in such other order as may be determined by the Trustee with the written consent of the Series 2007 Insurer and all of the Noteholders. Payments shall be made ratably, according to the amounts due respectively for interest and principal and premium, if any, among Noteholders entitled to receive the payment being made. Any amounts received under the Policy shall be applied solely to pay principal of and interest on the Notes.

Remedies Vested in Trustee.

All rights of action (including the right to file proofs of claim) under the Trust Agreement or under any of the Notes may be enforced by the Trustee without the possession of any of the Notes or their production in any proceeding; and any such proceeding instituted by the Trustee shall be brought in its name, as Trustee, without the necessity of joining as plaintiffs or defendants any Noteholders; and any recovery of the judgment shall be for the benefit of the Noteholders and the Series 2007 Insurer, subject, however, to the provisions of the Trust Agreement.

Rights and Remedies of Noteholders.

No Noteholder shall have any right to institute any proceeding for the enforcement of the Trust Agreement or any right or remedy granted in the Trust Agreement unless (i) an Event of Default is continuing, (ii) a Responsible Officer of the Trustee is deemed to have notice or knowledge thereof or has been notified as provided in "Events of Default" above, (iii) a Majority of the Noteholders (with the consent of the Series 2007

Insurer) shall have made written request to the Trustee and shall have afforded the Trustee reasonable opportunity to exercise its powers or to institute such proceeding in its own name, and have offered to the Trustee indemnity satisfactory to it, and (iv) the Trustee shall have failed or refused to exercise its power or to institute such proceeding. Such notice, request and offer of indemnity shall at the option of the Trustee be conditions precedent to the execution of the powers and trusts of the Trust Agreement, and to any action for the enforcement of the Trust Agreement or of any right or remedy granted in the Trust Agreement; it being understood and intended that the Noteholders shall have no right to affect or prejudice the lien of the Trust Agreement by their action or to enforce any right except in the manner provided and that proceedings shall be instituted and maintained in the manner provided and for the benefit of the Noteholders of all Series of Notes then outstanding. Notwithstanding the foregoing, each Noteholder shall have a right of action to enforce the payment of the principal of and premium, if any, and interest on any Series Note held by it at and after the maturity thereof, from the sources and in the manner expressed in such Note.

Waivers of Events of Default.

The Trustee shall waive (in advance or otherwise) any Event of Default and its consequences and rescind any declaration of maturity of principal upon the written request of the Series 2007 Insurer or a Majority of the Noteholders, (with the consent of the Series 2007 Insurer), but no such waiver (except as specifically provided therein) or rescission shall extend to any subsequent or other Event of Default.

Intervention by Trustee.

In any judicial proceeding which the Trustee believes has a substantial bearing on the interests of the Noteholders, the Trustee may intervene on behalf of the Noteholders.

Supplemental Agreements

Supplemental Agreements Not Requiring Consent of Noteholders.

The State and the Trustee may without the consent of, or notice to, any of the Noteholders, but, so long as the Series 2007 Bonds remain outstanding and not defeased, only with the consent of the Series 2007 Insurer for the Series 2007 Bonds (except with respect to subsection (l) below to the extent not materially adverse to the Series 2007 Insurer), enter into agreements supplemental to the Trust Agreement as shall not, in their opinion, be inconsistent with the terms and provisions of the Trust Agreement or such supplemental agreement for any one or more of the following purposes:

- (a) To cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement;
- (b) To grant to or confer upon the Trustee for the benefit of the Noteholders any additional rights, remedies, powers, or authority that may lawfully be granted to or conferred upon the Noteholders or the Trustee;
- (c) To subject to the lien and pledge of the Trust Agreement additional revenues or collateral;
- (d) To the extent required by law, to permit registration of the Notes under the Securities Act, the Trust Indenture Act, or any applicable state securities law, and to permit qualification of the Trust Agreement under the Trust Indenture Act;
- (e) To revise the provisions of the Trust Agreement or any related document or certificate relating to rebate of arbitrage profits to the United States, provided the Trustee shall have received an opinion of Note Counsel that such revision does not adversely affect the exclusion from gross income of interest on the Notes for federal income tax purposes;

- (f) To make any change to the Trust Agreement affecting only a Series of the Notes when all the Notes of such Series have been tendered pursuant to the terms of the Trust Agreement but have not been remarketed following such tender and are then in the possession of the Remarketing Agents;
- (g) To provide for the benefit of some or all of the Notes one or more Alternate Policies or Alternate Liquidity Facilities, which may change the provisions for payment, remedies and other matters in a way that affects the Noteholders both covered and not covered by such Alternate Policies or Alternate Liquidity Facilities;
- (h) Effective upon any conversion date to a new interest rate determination method, to make any amendment affecting only the Series of the Notes being converted;
- (i) To make any change necessary to secure from a nationally recognized securities rating agency a rating on a Series of the Notes equal to the rating of the unsecured, short-term indebtedness of the issuer of any Policy or Alternate Policy or Liquidity Facility for such Series then in effect;
- (j) To modify the Trust Agreement or a Series of the Notes if such modification affects only one or more Series of the Notes and at least 30 days' notice of such modification is provided to the Noteholders of each such Series and (1) such Noteholders have the right to optionally tender their Notes of each such Series at any time during such notice period or (2) such Notes are subject to mandatory tender at any time during such notice period;
- (k) To modify any provisions of the Trust Agreement relating to ARS, so long as such modification, in the judgment of the Trustee, is not to the prejudice of the Noteholders;
- (l) To effect any other change herein or therein which, in the judgment of the Trustee, is not to the prejudice of the Noteholders; and
- (m) To provide for the issuance of Additional Notes.

Supplemental Agreements Requiring Consent of Noteholders.

In addition to supplemental agreements described in the immediately preceding subheading, the Series 2007 Insurer and a Majority of the Noteholders shall have the right, from time to time, to consent to and approve the execution by the parties to the Trust Agreement or other agreement or agreements supplemental thereto for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement or in any supplemental agreement; provided, however, that nothing in this subheading shall permit (i) an extension of the stated maturity of the principal of or the interest on any Note without the consent of the Noteholder and the Series 2007 Insurer; (ii) a reduction in the principal amount of any Note, the rate of interest thereon or the premium, if applicable, to be paid upon the redemption thereof prior to maturity without the consent of the Noteholder and the Series 2007 Insurer; (iii) an extension of the date for making any scheduled mandatory redemption or in any Supplemental Agreement without the consent of all of the Noteholders of the affected Series, the Series 2007 Insurer; (iv) except as provided herein or in any Supplemental Agreement with respect to the establishment of a privilege or priority of any Note or Notes over any other Note or Notes without the consent of all the Noteholders and the Series 2007 Insurer; (v) a reduction in the percentage of the aggregate principal amount of Notes the holders of which are required to consent to any such supplemental agreement without the consent of all the Noteholders of the Notes at the time outstanding which would be affected by the action to be taken; (vi) a release of collateral granted under the Trust Agreement without the consent of all of the Noteholders and the Series 2007 Insurer, except as expressly provided in the Trust Agreement; or (vii) a modification of the rights, duties or immunities of the State or the Trustee without the written consent of the affected party and the Series 2007 Insurer.

If at any time the State requests the Trustee to enter into any supplemental agreement, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution to be made in the manner required for redemption of principal of the Notes; provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of the proceedings.

Such notice shall briefly set forth the nature of the proposed supplemental agreement and shall state that copies thereof are on file at the corporate trust office of the Trustee for inspection by all Noteholders and the Series 2007 Insurer. Except as otherwise provided in the Trust Agreement, if, within 60 days or such longer period (not to exceed two years) as shall be prescribed by the State following the final mailing of such notice, not less than a Majority of the Noteholders at the time of the execution of any such supplemental agreement shall have consented to and approved the execution thereof, no holder of any Note shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the State from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental agreement, the Trust Agreement shall be and be deemed to be modified and amended in accordance therewith.

Defeasance

When the State has paid or has been deemed to have paid to the holders of all of the Notes the principal and interest and premium, if any, due or to become due thereon at the times and in the manner stipulated therein and in the Trust Agreement, all Reimbursement Amounts have been paid to the Series 2007 Insurer, and all other obligations owing to the Trustee under the Trust Agreement have been paid or provided for, the lien of the Trust Agreement on the Trust Estate shall terminate, except that, notwithstanding termination of the lien, the obligations to make all rebate payments and to take any other action in regard to rebate shall continue until all such obligations and actions have been paid and performed in full. Upon the written request of the State, the Trustee shall upon the termination of the lien promptly execute and deliver to the State, an appropriate discharge of the Trust Agreement except that, subject to the provisions of the Trust Agreement, the Trustee shall continue to hold in trust amounts held for nonpresentation of Notes for the payment of the principal of, premium, if any, and interest on the Notes and moneys held for rebate to the United States of America under section 148(f) of the Code.

Outstanding Notes shall be deemed to have been paid if the Trustee shall have paid to the holders of such Notes, or shall be holding in trust for and shall have irrevocably committed to the payment of such Outstanding Notes, moneys sufficient for the payment of all principal of and interest and premium, if any, on such Notes to the date of maturity or redemption, as the case may be; provided, that if any of such Notes are deemed to have been paid prior to the earlier of the redemption or the maturity thereof, the Trustee and the State shall have received an unqualified opinion of Note Counsel that such payment and the holding thereof by the Trustee shall not in and of itself cause interest on the Notes to be included in gross income for federal income tax purposes; and provided, further, that if any such Notes are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given to the Noteholders and the State or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice; and provided, further, that Notes paid by payments made under the Policy shall be deemed to be Outstanding Notes until the Series 2007 Insurer is paid all Reimbursement Amounts.

Outstanding Notes also shall be deemed to have been paid if the Trustee shall be holding in trust for and shall have irrevocably committed to the payment of such Outstanding Notes United States Obligations (as defined below) the principal installments of and/or the interest on which when due, without reinvestment, will provide moneys which, together with moneys, if any, so held and so committed, shall be sufficient for the payment of all principal of and interest and premium, if any, on such Notes to the date of maturity or redemption, as the case may be; provided, that if any of such Notes are deemed to have been paid prior to the earlier of the redemption or the maturity thereof, the Trustee, the State and the Series 2007 Insurer shall have received (i) an unqualified opinion of Note Counsel that such payment and the holding of such United States

Obligations and moneys, if any, shall not in and of itself cause interest on the Notes to be included in gross income for federal income tax purposes provided, however, such opinion is not required for any Notes for which interest is not excluded for federal tax purposes and (ii) a report in form and substance acceptable to the Series 2007 Insurer, the Trustee and the State of a firm of certified public accountants acceptable to the Series 2007 Insurer, the Trustee and the State verifying that the principal installments of and/or the interest on such United States Obligations, if paid when due and without reinvestment, will, together with any moneys so deposited, be sufficient for the payment of all principal of and interest and premium, if any, on such Notes to the date of maturity or redemption, as the case may be; and provided, further, that if any such Notes are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice. Any Notes for which the interest rate is not fixed to the maturity thereof will be assumed to bear interest at the Maximum Note Interest Rate for any period prior to their specified maturity or redemption date for which the interest rate is not fixed. A Liquidity Facility must remain in effect for any Series 2007 Bonds subject to tender for purchase or Mandatory Purchase on a date prior to the specified maturity or redemption date of those Notes. "United States Obligations" means direct obligations of the United States of America and obligations the principal of and interest on which are fully unconditionally guaranteed by the United States of America; provided, however, United States Obligations for purposes of the Series 2009 Bonds only, also includes direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America and have received a rating in the highest rating category from each rating agency rating such direct obligations, without regard to credit enhancement: Federal Home Loan Mortgage Corporation (FHLMC, aka Freddie Mac), Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives), Federal Home Loan Banks (FHL Banks), Federal National Mortgage Association (FNMA), Financing Corp. (FICO), and Resolution Funding Corporation (REFCORP), provided such obligations are not subject to call by the obligor for redemption prior to maturity, have been called for redemption prior to maturity or, if subject to call by the obligor for redemption prior to maturity, such right to call the obligation for redemption prior to maturity has been waived; provided, however, United States Obligations shall not include any investment which is prohibited or not permitted by the law.

Any moneys held by the Trustee under this subsection shall be invested by the Trustee in the manner provided under "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE TRUST AGREEMENT—Investment of Moneys in Funds" (but only to the extent that such investments are available) only in United States Obligations which do not contain provisions permitting redemption at the option of the issuer, the maturities or redemption dates, without premium, of which shall coincide as nearly as practicable with, but not be later than, the time or times at which said moneys will be required for the aforesaid purposes. The making of any such investments or the sale or other liquidation thereof shall not be subject to the control of the State, and the Trustee shall have no responsibility for any losses resulting from such investment. Any income or interest earned by, or increment to, the investments held under this subsection, to the extent determined from time to time by the Trustee to be in excess of the amount required to be held by it for the purposes of this subsection, shall be paid first to the Trustee to the extent necessary to repay any unpaid obligations owing to the Trustee hereunder, and then to the Series 2007 Insurer to the extent necessary to pay any Reimbursement Amounts owing to the Series 2007 Insurer, and thereafter the remainder, if any, shall be paid to the State.

After all of the Outstanding Notes shall be deemed to have been paid and all other amounts required to be paid under the Trust Agreement shall have been paid, then upon the termination of the Trust Agreement any amounts in the 2009 Bond Proceeds Fund and the Note Payment Fund shall be paid first to the Trustee to the extent necessary to repay any unpaid obligations owing to the Trustee hereunder, and then to the Series 2007 Insurer to the extent necessary to pay any Reimbursement Amounts owing to the Series 2007 Insurer, and thereafter the remainder, if any, shall be paid to the State.

Series 2007 Bonds Insurer Rights

The rights granted to the Series 2007 Insurer described in the preceding sections are applicable and effective only so long as the Series 2007 Bonds are outstanding and not defeased. Such rights are only applicable and effective only with respect to the Series 2007 Bonds.

LEGAL MATTERS

Litigation

MDOT is a party to various legal proceedings seeking damages and other relief, including injunctive or mandatory relief. Such cases typically include, but are not limited to, cases alleging negligence in maintenance and design of State highways and cases seeking damages arising out of operations or from alleged changes or alteration of construction contract terms. The ultimate disposition of such legal proceedings is not presently determinable. In the opinion of the Attorney General, such legal proceedings appear unrelated to the issuance of the Series 2009 Bonds or the security therefor and are not expected to have an adverse effect upon the Series 2009 Bonds or security therefor.

The State of Michigan Comprehensive Annual Financial Report for the fiscal year ended September 30, 2008 (“CAFR”), incorporated in this Official Statement by reference, describes certain litigation and other legal proceedings against the State. The ultimate disposition of the legal proceedings described in the CAFR, and the potential impact thereof on the State’s General Fund and cash position, is not presently determinable. In the opinion of the Attorney General, all such legal proceedings appear unrelated to the issuance of the Series 2009 Bonds or the security therefor and are not expected to have an adverse effect on the Series 2009 Bonds or security therefor.

Legality for Investment in Michigan

The Series 2009 Bonds are eligible for investment in the State by State banks, savings and loan associations and insurance companies.

Approval of Legality

The delivery of the Series 2009 Bonds is conditioned upon receiving, at the time of delivery, the approving opinions of the Attorney General of the State and of Dickinson Wright PLLC, Lansing, Michigan and Miller, Canfield, Paddock and Stone, P.L.C., Detroit and Lansing, Michigan (“Bond Counsel”) substantially in the forms attached hereto as Appendices I and II. Dickinson Wright PLLC and Miller, Canfield, Paddock and Stone, P.L.C. have in the past, are now, and may in the future represent the State of Michigan, the Michigan Department of Transportation and/or one or more of the purchasers of the Series 2009 Bonds with respect to matters unrelated to the Series 2009 Bonds. By their purchase of the Series 2009 Bonds, the purchasers of the Series 2009 Bonds consent to such unrelated representations and to Bond Counsel acting in such capacity with respect to the Series 2009 Bonds.

TAX MATTERS

In the opinion of the Attorney General of the State of Michigan and in the opinion of Co-Bond Counsel interest on the Series 2009 Bonds is **not** excludable from gross income for federal income tax purposes under Section 103 of the Code. Neither the Attorney General nor Co-Bond Counsel expresses any opinion regarding any other federal tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2009 Bonds.

In the opinion of the Attorney General of the State of Michigan and in the opinion of Co-Bond Counsel, based on their examination of the documents described in their opinions, under existing law, as presently interpreted, the Series 2009 Bonds and the interest thereon are exempt from all taxation provided by the laws of the State of Michigan except for estate taxes and taxes on gains realized on the sale, payment or other disposition thereof.

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series 2009 Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as the Treasury Regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Series 2009 Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the Series 2009 Bonds that are "U.S. holders" (as defined below), deals only with those Series 2009 Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold the Series 2009 Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of the Series 2009 Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Series 2009 Bond. A "non U.S. holder" is a holder (or beneficial owner) of a Series 2009 Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in the Treasury Regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

The Series 2009 Bonds will be treated, for federal income tax purposes as a debt instrument. Accordingly, interest will be included in the income of a holder as it is paid (or, if the holder is an accrual method taxpayer as it is accrued) as interest.

Bondholders that have a basis in the Series 2009 Bonds that is greater than the principal amount of the Series 2009 Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If a Bondholder purchases the Series 2009 Bonds for an amount that is less than the adjusted issue price of the Series 2009 Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount. Absent an election to accrue market discount currently, upon a sale or exchange of a Series 2009B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the Series 2009 Bonds are expected to trade “flat,” that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the Series 2009 Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Series 2009 Bonds initially sold at a discount as shown on the inside cover page hereof, (the “OID Bonds”) are sold and the amount payable at the stated redemption price at maturity thereof constitutes “original issue discount” (the “OID”). The Series 2009 Bonds maturing September 15, 2027 will be issued with OID. Accordingly, Series 2009 Bondholders will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Series 2009 Bond. Thus, Series 2009 Bondholders will be required to include OID in income as it accrues, prior to the receipt of cash attributable to such income. U.S. holders, however, would be entitled to claim a loss upon maturity or other disposition of such notes with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss. Series 2009 Bondholders that purchase a Series 2009B Bond for less than its adjusted issue price (generally its accreted value) will have purchased such Series 2009B Bond with market discount unless such difference is considered to be de minimis. Absent an election to accrue market discount currently, upon sale or exchange of a Series 2009 Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred. A Bondholder that has a basis in the Series 2009 Bond that is greater than its adjusted issue price (generally its accreted value), but that is less than or equal to its principal amount, will be considered to have purchased the Series 2009 Bond with “acquisition premium.” The amount of OID that such Bondholder must include in gross income with respect to such Series 2009 Bonds will be reduced in proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the Series 2009B Bond. A Series 2009 Bondholder may have a basis in its pro rata share of the Series 2009 Bonds that is greater than the principal amount of such Series 2009 Bonds. Bondholders should consult their own tax advisors with respect to whether or not they should elect to amortize such premium, if any, with respect to such Series 2009 Bonds under Section 171 of the Code.

Upon a sale, exchange or retirement of a Series 2009 Bond, a holder generally will recognize taxable gain or loss on such Series 2009 Bond equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Bondholder’s adjusted tax basis in such Series 2009 Bond. Defeasance of the Series 2009 Bonds may result in a reissuance thereof, in which event an owner will also recognize taxable gain or loss as described in the preceding sentence. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Series 2009 Bond not yet taken into income will be ordinary). The adjusted basis of the holder in a Series 2009 Bond will (in general) equal its original purchase price and decreased by any principal payments received on the Series 2009 Bond. In general, if the Series 2009 Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Payments on the Series 2009 Bonds to a non-U.S. holder that has no connection with the United States other than holding its Series 2009 Bond generally will be made free of withholding tax, as long as that holder has complied with certain tax identification and certification requirements.

Circular 230

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The advice was written to support the promotion or marketing of the Series 2009 Bonds.

FINANCIAL INFORMATION

Complete financial statements of all the State's funds as included in the State of Michigan Comprehensive Annual Financial Report prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, State of Michigan, Lansing, Michigan 48909 and may be found at <http://www.michigan.gov/budget/>. The State of Michigan Comprehensive Annual Financial Report for the fiscal year ended September 30, 2008, which was released December 31, 2008 and speaks only as of its date, and which has been filed with each Nationally Recognized Municipal Securities Information Repository and the State Information Depository for Michigan, is incorporated herein by this reference.

The Series 2009 Bonds are payable from and secured solely by the moneys constituting the State Share of the Federal Aid Revenues in the Federal Grant Proceeds Subfund and the moneys in the Note Payment Fund. See "SECURITY FOR THE SERIES 2009 BONDS."

RATINGS

The Series 2009 Bonds have been assigned a municipal bonding rating of "Aa3" by Moody's Investors Service, Inc., ("Moody's") and "AA" by Standard & Poor's Ratings Service, a Division of the McGraw-Hill Companies, Inc. ("S&P"). No application was made to any other rating agency for the purpose of obtaining an additional rating on the Series 2009 Bonds. An explanation of the significance of the ratings may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by any one or more of such rating agencies if, in the judgment of any of them, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Series 2009 Bonds.

CONTINUING DISCLOSURE

General

The following is a summary of certain provisions of the Continuing Disclosure Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Continuing Disclosure Agreement.

The State will covenant for the benefit of the Noteholders and the Beneficial Owners (as defined below), pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement") to be provided at Closing to the purchasers of the Series 2009 Bonds, to undertake continuing disclosure with respect to the Series 2009 Bonds. ("Beneficial Owner" means any person or entity which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2009 Bonds (including any person holding Series 2009 Bonds through nominees, depositories or other intermediaries)). These covenants are made to assist the purchasers of the Series 2009 Bonds and registered brokers, dealers and municipal securities dealers in complying with the requirements of subsection (b)(5) of Rule 15c2-12 (the "Rule") promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

In the Disclosure Agreement, (i) the State will covenant to provide or cause to be provided each year certain financial information and operating data relating to the State (the "Annual Report") by not later than the date seven months after the close of the State's fiscal year, commencing with the Annual Report for the State's 2009 fiscal year, provided, however, that if the audited financial statements of the State are not available by this date, they will be provided when and if available, and unaudited financial statements in a format similar to the audited financial statements then most recently prepared for the State will be included in the Annual Report, and (ii) the State will covenant to provide or cause to be provided timely notices of the occurrence of certain

material enumerated events as set forth below (the "Notices of Material Events"). Currently, the State's fiscal year ends on September 30. The Annual Report and Notices of Material Events will be filed by the State (i) prior to July 1, 2009 with the Municipal Securities Rulemaking Board (the "MSRB") or each Nationally Recognized Municipal Securities Information Repository and with Michigan's State Information Depository, in each case as designated or recognized from time to time by the Securities and Exchange Commission, or (ii) on or after July 1, 2009, with the MSRB's Electronic Municipal Market Access (EMMA) system.

Notwithstanding any other provision of the Disclosure Agreement, the Disclosure Agreement may be amended, if the State receives an opinion of independent legal counsel to the effect that (i) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the types of activities in which the State is engaged; (ii) the Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (iii) the amendment does not materially impair the interests of the Bondholders or has been approved by a vote of Bondholders or Beneficial Owners (on whose behalf a Bondholder has not acted) of 51% of the aggregate principal amount of the then Outstanding Bonds.

If the amendment results in a change to the annual financial information required to be included in the Annual Report pursuant to the Disclosure Agreement, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change on the type of operating data or financial information being provided. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

Failure to Comply

In the event of a failure of the State to comply with any provision of the Disclosure Agreement, any Noteholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the State to comply with its obligations under the Disclosure Agreement. A failure to comply under the Disclosure Agreement shall not be deemed a default under the Resolution, and the sole remedy under the Disclosure Agreement in the event of any failure of the State to comply with the Disclosure Agreement shall be an action to compel performance. Notwithstanding the foregoing, if the alleged failure of the State to comply with the Disclosure Agreement is the inadequacy of the information disclosed pursuant to the Disclosure Agreement, then the Bondholders and the Beneficial Owners (on whose behalf a Bondholder has not acted with respect to this alleged failure) of not less than a majority of the aggregate principal amount of the then Outstanding Bonds must take the actions described above, before the State shall be compelled to perform with respect to the adequacy of information disclosed pursuant to the Disclosure Agreement.

The Annual Report

The Annual Report will contain or incorporate by reference at least the following items:

- (a) audited financial statements of the State, prepared pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles ("GAAP") as applicable to governments with such changes as may be required from time to time by State law; and
- (b) an update of the financial information and operating data regarding the Department of the same type as that contained in the Official Statement under Table 1 under the caption "INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS — The Federal Highway Trust Fund" and Table 3 under the caption "FEDERAL AID REVENUES."

Any or all of the items listed above may be incorporated by specific reference to other documents that previously have been provided to each of the repositories identified above or filed with the Securities and Exchange Commission. Notwithstanding the foregoing, if the document is an official statement, it need only be available from the Municipal Securities Rulemaking Board.

Notice of Material Events

The State has covenanted that it will timely provide or cause to be provided notices of the following events, provided such events are material, each such notice to constitute a Notice of Material Events:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities; and
- (11) Rating changes.

Compliance

The State has never failed to comply in all material respects with any previous undertakings in a written contract or agreement that it entered into pursuant to subsection (b)(5) of the Rule.

UNDERWRITING

The Series 2009 Bonds are being purchased, subject to certain conditions, by a group of underwriters (collectively, the "Underwriters"), represented by Merrill Lynch & Co. The Purchase Contract for the Series 2009 Bonds will provide for the Underwriters to purchase all of the Series 2009 Bonds at a discount of \$1,914,134.95 from the original public offering prices set forth on the cover of this Official Statement.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the Series 2009 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of the Series 2009 Bonds.

OTHER MATTERS

All estimates included in this Official Statement, whether or not so stated, are not to be construed as representations that the same will be realized. Section and table headings and captions are included for convenience only and should not be construed as modifying the text of this Official Statement.

The execution and delivery of this Official Statement has been duly authorized by or on behalf of the Commission and the Director.

STATE OF MICHIGAN

By: /s/ Kirk T. Steudle
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation

APPENDIX I
FORM OF OPINION OF THE
ATTORNEY GENERAL OF THE STATE OF MICHIGAN

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APPENDIX I
FORM OF OPINION OF THE
ATTORNEY GENERAL OF THE STATE OF MICHIGAN

June 25, 2009

State Transportation Commission

Kirk T. Steudle, P.E., Director
Michigan Department of Transportation

Robert J. Kleine
State Treasurer

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the State of Michigan (the "State") of Bonds designated STATE OF MICHIGAN GRANT ANTICIPATION BONDS, SERIES 2009 (Taxable – Build America Bonds – Direct Payment), in the aggregate principal sum of \$281,910,000 (the "Bonds"):

(1) 1951 PA 51, as amended (the "Act"), pursuant to which the Bonds are to be issued;

(2) certified copies of the resolutions adopted by the State Transportation Commission (the "Commission") and the Director of the Michigan Department of Transportation (the "Director") on November 30, 2000, June 28, 2001, August 23, 2002, July 27, 2006 and March 27, 2008 (the "Resolutions") authorizing the issuance of prior notes and the Bonds;

(3) executed counterparts of the trust agreement dated as of July 1, 2001, (the "Original Trust Agreement"), the first supplement to the Original Trust Agreement dated as of September 1, 2002, (the "First Supplement"), the second supplement to the Original Trust Agreement dated as of August 1, 2007 (the "Second Supplement") and the third supplement to the Original Trust Agreement dated as of July 1, 2009 (the "Third Supplement" and, together with the Original Trust Agreement, the First Supplement and the Second Supplement, the "Trust Agreement") between the State and U.S. Bank National Association, as successor to National City Bank of Michigan/Illinois, as trustee (the "Trustee"); and

(4) one Bond, as executed, or a specimen thereof.

Terms not defined herein shall have the same meanings ascribed to them as are ascribed in the Trust Agreement. The Bonds are being issued for the purpose of financing a portion of the costs of the Jobs Today highway program and to pay certain costs of issuing the Bonds.

On September 26, 2002, the State issued \$400,000,000 of State of Michigan Grant Anticipation Notes, Series 2002A, Series 2002B, Series 2002C and Series 2002D (the "2002 Notes") under the Original Trust Agreement and the First Supplement.

On August 30, 2007, the State issued \$485,115,000 of State of Michigan Grant Anticipation Bonds, Series 2007 (the "Outstanding Obligations") under the Original Trust Agreement and Second Supplement.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Bonds are valid and binding special obligations of the State enforceable in accordance with their terms, and are secured by an irrevocable pledge of the State Share of all Federal grants received each year by the State under the Federal-Aid Highway Program and by money in the Note Payment Fund.

2. Payment of the principal of, premium, if any, and interest on the Bonds, the Outstanding Obligations and any Additional Notes or Bonds or other obligations similarly secured, constitutes a first lien on and first priority use of the State Share moneys so received.

3. Interest on the Bonds is not excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended. I express no opinion regarding other federal tax consequences arising with respect to the Bonds.

4. The Bonds and the interest on the Bonds are exempt from taxation by the State or any taxing authority within the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds, the Resolutions, and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws and equitable principles, including equitable subordination, affecting creditors' rights generally, heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may be subject to the exercise of judicial discretion.

Sincerely yours,

MIKE COX
Attorney General

Assistant Attorney General

APPENDIX II

FORM OF BOND COUNSEL OPINION

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

DICKINSON WRIGHT PLLC

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FORM OF SERIES 2009 BOND COUNSEL OPINION

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

DICKINSON WRIGHT PLLC

_____, 2009

State of Michigan
Lansing, Michigan

We have examined the Michigan Constitution of 1963, as amended (the "Constitution"), statutes of the State of Michigan (the "State") and a certified transcript of proceedings for the issue by the State of bonds in the aggregate original principal sum of \$ _____, designated STATE OF MICHIGAN GRANT ANTICIPATION BONDS, SERIES 2009B (Taxable-Build America Bonds-Direct Payment) (the "Bonds"). The Bonds are being issued for the purposes of paying part of the costs of transportation projects involving roads, streets or bridges in the State, and paying costs incidental to the issuance of the Bonds.

The Bonds are issued in fully registered form in the denominations of \$5,000 or integral multiples of \$5,000, dated as of _____, 2009, mature in the years and in the amounts, bear interest at the rates, are subject to redemption prior to maturity, and are payable at the times all as determined in accordance with the Resolution (hereinafter defined) and a Trust Agreement (the "Trust Agreement") dated as of July 1, 2001, as supplemented by a First Supplement dated September 1, 2002 (the "First Supplement"), a Second Supplement dated as of August 1, 2007 (the "Second Supplement") and a Third Supplement dated as of _____, 2009 (the "Third Supplement" and together with the Trust Agreement, the First Supplement and the Second Supplement, the "Agreement"), each by and between the State, acting through the State Transportation Commission (the "Commission") and the Director of the Michigan Department of Transportation (the "Director"), and U.S. Bank National Association, as successor to National City Bank of Michigan/Illinois, as trustee (the "Trustee").

The Bonds are issued pursuant to Act 51, Public Acts of Michigan, 1951, as amended ("Act 51") and resolutions and orders (collectively the "Resolution") of the Commission and the Director, respectively. The State has issued and outstanding Grant Anticipation Notes described in the text of the Bonds (the "Outstanding Notes"). The Bonds and the Outstanding Notes are equally secured by an irrevocable pledge of (i) the State Share (as defined in the Resolution and the Agreement) of federal grants received each year by the State under the Federal Aid-Highway Program, and (ii) monies on deposit in the Note Payment Fund established under the Agreement, and are payable solely from the State Share as appropriated each year therefor by the State Legislature and from monies on deposit in the Note Payment Fund. The State has the right to issue additional notes or bonds of equal standing and priority of lien with the Bonds and the Outstanding Notes as to the State Share and monies deposited or to be deposited in the Note Payment Fund, subject to the limitations of Act 51, the Resolution and the Agreement.

We have also examined one specimen Bond only.

From such examination, we are of opinion that under existing law, as presently interpreted:

1. The Bonds are valid and legally binding, special and not general, obligations of the State in accordance with their tenor, secured by an irrevocable pledge of the State Share and funds deposited or to be deposited in the Note Payment Fund, and are payable solely from the State Share as received each year by the State and appropriated therefor by the State Legislature and funds from time to time on deposit in the Note Payment Fund, all as described above and as provided for in the Resolution and the Agreement.

2. Payment of the principal of, premium, if any, and interest on the Bonds, the Outstanding Notes and any additional notes or bonds or other obligations similarly secured, issued within the limitations provided by Act 51, the Resolution and the Agreement, constitutes a first lien on and first priority use of the State Share and funds deposited or to be deposited in the Note Payment Fund as herein described.

3. Each of the Resolution and the Agreement is a valid and legally binding obligation of the State, enforceable in accordance with its terms, assuming as to the Agreement that the same is the valid, binding and enforceable obligation of the Trustee.

4. The interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

5. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State, except for estate taxes and taxes on gains realized on the sale, payment or other disposition thereof.

Enforceability of the Bonds, the Resolution and the Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar law affecting creditors' rights generally now existing or enacted in the future, to the extent constitutionally applicable, and may further be subject to the exercise of judicial discretion in accordance with general principles of equity, including those relating to equitable subordination.

The opinions set forth herein are not intended or provided to be used and cannot be used by an owner of the Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Bonds. The opinions set forth herein are provided to support the promotion or marketing of the Bonds. Each owner of the Bonds should seek advice based on its particular circumstances from an independent tax advisor.

Respectfully submitted,

MILLER, CANFIELD, PADDOCK
AND STONE, P.L.C.

DICKINSON WRIGHT PLLC

**OFFICIAL STATEMENT
STATE OF MICHIGAN**



Jennifer M. Granholm, Governor

Robert J. Kleine, State Treasurer

**\$281,910,000
STATE OF MICHIGAN
GRANT ANTICIPATION BONDS, SERIES 2009B
(Taxable – Build America Bonds – Direct Payment)**



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