

**NEW ISSUE
BOOK ENTRY ONLY**

Ratings⁺: Fitch: AAA
Moody's: Aaa
S&P: AAA
FSA Insured

In the opinion of the Attorney General of the State of Michigan and in the opinion of Bond Counsel, subject to compliance with certain covenants, under existing law, as presently interpreted, interest on the Bonds is excluded from gross income for federal income tax purposes except as described under "TAX MATTERS" herein, and the 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. (See "TAX MATTERS.")

**\$103,450,000
STATE OF MICHIGAN
STATE TRUNK LINE FUND REFUNDING BONDS, SERIES 2004**

Dated: Date of Delivery

Due: November 1, as shown below

The 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 Bonds, principal of and interest on the Bonds (commencing November 1, 2004 and semiannually thereafter) are payable by the State Treasurer, as Transfer Agent, to Cede & Co., as nominee for DTC, and payment thereof will be made to purchasers by DTC participants or indirect participants. (See "THE BONDS - DTC; Book-Entry-Only System.") Purchasers will acquire beneficial ownership interests in the Bonds in denominations of \$5,000 or integral multiples thereof. The Bonds are not subject to optional redemption prior to maturity.

The Bonds are to be issued in accordance with the authorization provided in Act 51, Public Acts of Michigan, 1951, as amended, and Section 9 of Article IX of the Michigan Constitution. The proceeds of sale of the Bonds together with investment earnings on such proceeds and other available moneys will be used for the purpose of paying the costs of refunding certain maturities of outstanding State of Michigan State Trunk Line Fund Bonds and to pay costs of issuance of the Bonds.

The Bonds are payable solely out of those funds restricted as to use for transportation purposes by the Michigan Constitution which are irrevocably pledged by law for deposit in the State Trunk Line Fund as described herein. The Bonds are not general obligations of the State of Michigan, its agencies, instrumentalities or political subdivisions.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Financial Security Assurance Inc.



<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$3,630,000	3.00%	NRO [†]	2014	\$ 8,555,000	5.25%	3.89%
2006	80,000	2.00	1.83%	2015	9,015,000	5.25	4.00
2007	1,345,000	2.10	2.10	2016	9,490,000	5.00	4.07
2008	45,000	2.50	2.52	2017	9,975,000	5.00	4.15
2009	45,000	2.80	2.83	2018	10,485,000	5.00	4.22
2010	45,000	3.00	3.10	2019	11,025,000	5.00	4.30
2011	50,000	3.30	3.36	2020	11,610,000	5.25	4.40
2012	7,700,000	5.25	3.57	2021	12,235,000	5.25	4.50
2013	8,120,000	5.25	3.73				

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 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, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Howard & Howard Attorneys, P.C., 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 Bonds. Delivery of the Bonds is expected on or about May 10, 2004 through DTC in New York, New York.

**Merrill Lynch & Co.
Comerica Securities**

Lehman Brothers

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

Dated: April 21, 2004

⁺ See "BOND RATINGS" herein

[†] Not reoffered

STATE OF MICHIGAN

Jennifer M. Granholm, *Governor*

Jay B. Rising, *State Treasurer*

State Transportation Commission

Ted B. Wahby, *Chairperson*

Betty Jean Awrey, *Vice Chairperson*

Linda Miller Atkinson, *Member*

Robert Bender, *Member*

Vincent Brennan, *Member*

John W. Garside, *Member*

Michigan Department of Transportation Staff

Gloria J. Jeff, *Director*

Myron 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, 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 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 BONDS – DTC; Book-Entry-Only System," but is not guaranteed as to accuracy or completeness and is not to be construed as a representation of 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.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and "APPENDIX IV – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

In connection with the offering of the Bonds, the Underwriters may over-allot and effect transactions that stabilize or maintain the market price of the 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.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE STATE AND THE STATE TRUNK LINE FUND AND 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.

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OFFICIAL STATEMENT

\$103,450,000
STATE OF MICHIGAN
STATE TRUNK LINE FUND REFUNDING BONDS, SERIES 2004

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 \$103,450,000 State of Michigan State Trunk Line Fund Refunding Bonds, Series 2004 (the "Bonds"). The Bonds will be issued pursuant to Section 9 of Article IX of the Michigan Constitution of 1963 (the "Michigan Constitution"), Act 51, Public Acts of Michigan, 1951, as amended ("Act 51"), and a resolution adopted by the State Transportation Commission (the "Commission") and the Director of the Michigan Department of Transportation ("MDOT") on January 29, 2004, as amended (the "Resolution"). Proceeds from the sale of the Bonds together with investment earnings on such proceeds and other available moneys will be used to refund certain maturities of outstanding State of Michigan Trunk Line Fund Bonds (as further defined in "PLAN OF REFUNDING") (the "Prior Bonds") and to pay the costs of issuance of the Bonds, including costs incidental to the refunding of the Prior Bonds. (See "PLAN OF REFUNDING.")

The Bonds, together with certain Outstanding Bonds and Additional Bonds (each defined below) of the State issued under Act 51 and described under "SECURITY FOR THE BONDS - Outstanding Bonds and Additional Bonds," will be secured by a pledge of, and will be payable solely from, funds that are restricted as to use for transportation purposes under Section 9 of Article IX of the Michigan Constitution and that are deposited in the State Trunk Line Fund established pursuant to Act 51. The principal amount of the Bonds and such Outstanding Bonds (exclusive of the Prior Bonds* and exclusive of the Refunded Bonds, as defined under "SECURITY FOR THE BONDS - Outstanding Bonds and Additional Bonds") payable from the State Trunk Line Fund is approximately \$873,545,000* (using capital appreciation bond principal accrued through April 1, 2004). (See "STATEMENT OF OUTSTANDING OBLIGATIONS.")

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 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.

* Upon the issuance of the Bonds, the Prior Bonds will be economically defeased, but not legally defeased under the resolutions authorizing their issuance. See "PLAN OF REFUNDING" and "SECURITY FOR THE BONDS" herein.

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.

The 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 five bureaus responsible for various support or operating functions: (1) Multi-Modal Transportation Services, (2) Finance and Administration, (3) Highway Development, (4) Highway Delivery and (5) Transportation Planning. As of October 1, 2003, MDOT had 3,050 appropriated State 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 established pursuant to Act 51, after payment of bonds payable solely from such fund, from the proceeds of bonds and notes and from funds provided by the federal government. 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 established pursuant to Act 51. (See "SOURCES OF CONSTITUTIONALLY RESTRICTED REVENUES OF THE MICHIGAN TRANSPORTATION FUND" and "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION.")

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 and a portion of motor fuel taxes, vehicle registration taxes, and interest and miscellaneous fees deposited into the Michigan Transportation Fund. (See "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION.")

State Highway Program

As of September 30, 2003, Michigan's total highway network consisted of 120,450 miles of highways, roads and streets of which 9,727 miles were under MDOT jurisdiction, 89,846 miles were

under the jurisdiction of the county road commissions, and 20,877 miles were under the jurisdiction of various Michigan cities and villages. Although only 8% of Michigan's roads fall under MDOT jurisdiction, such roads carry over 54% 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."

All the operation and maintenance expenditures for the State Trunk Line System as well as the general operating costs of MDOT related to State Trunk Line Fund operations are funded from the State Trunk Line Fund after payment of debt service on the Bonds and the Outstanding Bonds and the State's share of debt service on any Additional Bonds and after transfers of specified amounts to the TEDF (described below) and the Railroad Grade Crossing Account. Operation and maintenance expenditures for the State Trunk Line System were approximately \$230 million in the fiscal year ended September 30, 2003. Operation and 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. (See "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION.")

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 Michigan Transportation Fund and from other State revenues. In the fiscal year ended September 30, 2003, the TEDF expended approximately \$102 million to fund TEDF projects.

Moneys remaining in the State Trunk Line Fund after payment of debt service on any outstanding State Trunk Line bonds, operation and maintenance costs, and general operating 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, 2003, MDOT expended approximately \$276 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 \$495 million for such fiscal year (exclusive of TEDF projects and bond 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 the Bonds and the Outstanding Bonds and the State's share of debt service on any Additional Bonds.

In order to accelerate the State's program to repair roads and bridges throughout the State and to reform the State's transportation system, the State issued \$400 million in grant anticipation notes or GANs in July, 2001 and \$200 million in GANs in September, 2002. The GANs are payable solely from Federal Highway Administration Grant revenues. They are not secured by the State Trunk Line Fund.

MDOT has developed a statewide road infrastructure strategy designed to preserve our system, support current economic development investments, reduce systemwide congestion and improve safety along Michigan's highways and local roads. Funding for these efforts will come largely through the issuance of State Trunk Line bonds, approximately \$308 million of which were issued in the fiscal year ending September 30, 2001, and approximately \$480 million of which are expected to be issued over the next five fiscal years.

THE BONDS

Description of the Bonds

The Bonds will be dated and bear interest from their date of delivery. Interest on the Bonds shall be payable on November 1, 2004 and semiannually each May 1 and November 1 thereafter until maturity or redemption. Interest on the Bonds shall be computed using a 360-day year and twelve 30 day months, and the 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.

Purchases of Bonds will be made in book-entry-only form as described under "THE BONDS - DTC; Book-Entry-Only System." So long as Cede & Co., as nominee for The Depository Trust Company ("DTC"), is the Registered Owner of the Bonds, the transfer of interests in the 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 Bonds will be issued in fully registered form in the denomination of \$5,000, or integral multiples thereof not exceeding the aggregate principal amount of the Bonds maturing at any one time. So long as the Bonds are all registered in the name of Cede & Co., as the nominee of DTC under the "book-entry-only" system described below, the State Treasurer (or a bank or trust company appointed by the State Treasurer) shall be the Transfer Agent. If the Bonds are to be registered in names other than a nominee of DTC, the State Treasurer shall appoint a bank or trust company as successor Transfer Agent. The principal of the Bonds is payable at maturity or prior redemption, upon presentation at the principal office of the Transfer Agent. Interest on the Bonds shall be payable when due by check or draft mailed by the Transfer Agent to the person or entity who is, as of the 15th day of the month preceding the month in which each interest payment date occurs, the registered holder of record, at the holder's registered address. The Bonds shall **not** be subject to optional redemption prior to maturity.

Transfer of the Bonds

So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, beneficial ownership interests in the 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 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 Bond to the Transfer Agent for cancellation, together with a duly executed instrument of transfer in a form approved by the Transfer Agent. Whenever any Bond is surrendered for transfer or exchange the Transfer Agent shall authenticate and deliver a new Bond, in like aggregate principal amount, tenor, interest rate, and maturity. The Transfer Agent 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.

DTC; Book-Entry-Only System

DTC will act as securities depository for the Bonds. The 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 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants (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, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 that copies of the notices be provided directly to them.

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

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

Principal and interest payments on the 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 Transfer Agent 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 Transfer Agent or the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

THE INFORMATION IN THIS SECTION HAS BEEN OBTAINED FROM DTC. NO REPRESENTATION IS MADE BY THE STATE, THE COMMISSION, MDOT, THE DIRECTOR, THE TRANSFER AGENT 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 TRANSFER AGENT OR THE UNDERWRITERS TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE STATE NOR THE TRANSFER AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR FOR ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST PAYMENT THEREON.

PLAN OF REFUNDING

The bonds to be refunded (the "Prior Bonds") consist of the following Outstanding Bonds:

State of Michigan
State Trunk Line Fund Bonds, Series 1994A

<u>Principal Amount</u>	<u>Maturity Date</u>
\$ 3,460,000	November 15, 2005

State of Michigan
State Trunk Line Fund Bonds, Series 1996A

<u>Principal Amount</u>	<u>Maturity Date</u>
\$1,280,000	November 1, 2007

State of Michigan
State Trunk Line Fund Bonds, Series 2001A

<u>Principal Amount</u>	<u>Maturity Date</u>
\$7,660,000	November 1, 2012
8,095,000	November 1, 2013
8,555,000	November 1, 2014
9,035,000	November 1, 2015
9,545,000	November 1, 2016
10,085,000	November 1, 2017
10,655,000	November 1, 2018
11,260,000	November 1, 2019
11,880,000	November 1, 2020
12,515,000	November 1, 2021

The proceeds of the Bonds will be used to provide funds, together with other available funds in the State Trunk Line Fund, to refund the Prior Bonds and to pay the costs of issuance of the Bonds, including costs incidental to the refunding of the Prior Bonds. The Prior Bonds are being refunded to produce debt service savings.

Pursuant to the terms of the Escrow Deposit Agreement (the "Escrow Agreement") to be entered into among the Director, the State Treasurer and The Huntington National Bank as escrow agent (the "Escrow Agent") the refunding of the Prior Bonds will be effected by MDOT depositing with the Escrow Agent in a separate escrow account for the Prior Bonds proceeds of the Bonds which will be used to purchase on the closing date of the Bonds certain noncallable direct United States government obligations and/or United States government agency obligations (the "Government Obligations"). Among the United States government agency obligations that may be used for such purposes are those issued by the

following entities: Federal National Mortgage Association, Government National Mortgage Association, Federal Financing Bank, Federal Intermediate Credit Banks, Federal Bank for Cooperatives, Federal Land Banks, Federal Home Loan Banks, Farmers Home Administration, Export-Import Bank of the United States, Student Loan Marketing Association, United States Postal Service, Tennessee Valley Authority, and Federal Home Loan Mortgage Corporation.

The Government Obligations will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their respective terms, sufficient moneys will be available therefrom (together with any uninvested cash) to pay when due interest of and principal and premium, if any, to and including the optional redemption date described in the following sentence. The Series 1994A Bonds being refunded will be called for redemption on November 15, 2004, the first available redemption date; the Series 1996A Bonds being refunded will be called for redemption on November 1, 2006, the first available redemption date; and the Series 2001A Bonds being refunded will be called for redemption on November 1, 2011, the first available redemption date. Principal of and interest on the Government Obligations will be held in trust and used solely for the payment of the principal of and interest on the Prior Bonds, subject only to the payment to MDOT in accordance with the Escrow Agreement of any cash not required for such purpose.

The refunding of the Prior Bonds as described above *will not* discharge the lien on the State Trunk Line Fund securing the Prior Bonds, and the Prior Bonds will not be legally defeased under the terms of the resolutions under which those bonds were issued. The refunding will, however, effect an economic defeasance of the Prior Bonds. Upon the refunding of the Prior Bonds, the principal of and interest and redemption premiums on the Prior Bonds will be payable first from amounts held by the Escrow Agent under the Escrow Agreement. However, the Prior Bonds remain "Outstanding Bonds" as described herein and in the event amounts held under the Escrow Agreement are not available or are insufficient for any reason, the Prior Bonds remain payable from amounts deposited in the State Trunk Line Fund on a parity with the Bonds, other Outstanding Bonds and any Additional Bonds, as further described under "SECURITY FOR THE BONDS – Outstanding Bonds and Additional Bonds" below.

Under certain circumstances, the State may undertake to re-structure the portfolio of Government Obligations held under the Escrow Agreement in order to maximize the allowable yield on the portfolio. Such re-structuring would be expected to maintain the sufficiency of the proceeds of the Government Obligations so held to pay the principal, interest and redemption premium on the Prior Bonds. In the unlikely situation that a re-structuring resulted in an insufficiency in the funds held under the Escrow Agreement, the State would be required to make up the insufficiency from moneys in the State Trunk Line Fund.

Once refunded by the Bonds, the Prior Bonds will not be taken into account in determining the State's ability to issue Additional Bonds under Act 51. See "SECURITY FOR THE BONDS – Outstanding Bonds and Additional Bonds" below.

ESTIMATED SOURCES AND USES OF FUNDS

The 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 refund the Prior Bonds and to pay costs related to the issuance of the Bonds and to the refunding.

Sources

Original Principal Amount of Bonds	\$103,450,000.00
Plus Net Original Issue Premium	<u>9,735,601.80</u>
 Total Sources	 <u>\$113,185,601.80</u>

Uses

Deposit to 2004 Bond Proceeds Fund ⁽¹⁾	\$ 518,041.65
Refunding Deposits	112,304,764.15
Underwriters' Discount	<u>362,796.00</u>
 Total Uses	 <u>\$113,185,601.80</u>

⁽¹⁾ To be used, together with investment earnings thereon, to pay costs related to issuance of the Bonds and to the refunding, including the bond insurance premium.

SOURCE: MDOT.

SECURITY FOR THE BONDS

Sources of Payment for the Bonds

The Bonds, the Outstanding Bonds, and the State's share of the debt service on any Additional Bonds are secured by a pledge of and first lien on funds deposited in the State Trunk Line Fund which are derived from the proceeds of taxes on motor vehicle fuels and registered motor vehicles, as described herein.

The Michigan Constitution provides generally that the net proceeds of all specific taxes (except general sales and use taxes and regulatory fees) imposed by the State on motor vehicle fuels and on registered motor vehicles and all or a portion of the proceeds of certain other transportation-related taxes shall be used exclusively for transportation purposes. The Constitution further provides that at least 90% of all such taxes on motor vehicle fuels and registered motor vehicles must be used for the transportation purposes of planning, administering, constructing, reconstructing, financing and maintaining state, county, city, and village roads, streets, and bridges designed primarily for the use of motor vehicles using tires, and reasonable appurtenances to those state, county, city, and village roads, streets, and bridges (herein called "Highway, Street and Road Purposes"). (See "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION.")

Act 51 provides that all proceeds of specific taxes on motor vehicle fuels and all motor vehicle registration taxes be deposited in the Michigan Transportation Fund (the "Transportation Fund"), which is held by the Michigan Department of Treasury, and that the legislatively allocated portion of the sales

taxes on motor vehicle fuels, motor vehicles and motor vehicle parts and accessories be credited directly into the Comprehensive Transportation Fund. Pursuant to law, until paid out, money credited to the Transportation Fund, the Comprehensive Transportation Fund, and the State Trunk Line Fund is deposited with other moneys of the State in the Common Cash Fund, which is managed and invested by the State Treasurer as provided by law.

Act 51 further provides for the allocation and distribution of funds deposited into the Transportation Fund (after deduction of certain specified amounts) to and among the State Trunk Line Fund, the Comprehensive Transportation Fund, the county road commissions of the State, and the cities and villages of the State, all for use for transportation purposes. Act 51 also provides for the transfer, after payment of debt service on the Bonds, the Outstanding Bonds, and Additional Bonds, of funds from the State Trunk Line Fund to the TEDF and the Railroad Grade Crossing Account. As described below under "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION," the percentage allocation and distribution formula for the funds deposited in the Transportation Fund is established by Act 51 for each fiscal year.

Act 51 provides that the first annual priority for the use of funds restricted for use for transportation purposes by the Michigan Constitution and deposited in the State Trunk Line Fund is the payment, when due, of debt service on State Trunk Line Fund bonds, notes and other obligations, including the Bonds, issued or incurred by the State under Section 18b of Act 51, and the payment of the State's contractually required contributions pledged to the payment of debt service on bonds issued under Section 18d of Act 51. Section 11 of Act 51 contains an irrevocable continuing appropriation of the funds deposited in the State Trunk Line Fund for such purpose. Pursuant to the requirements of Act 51, the Resolution contains an irrevocable pledge of the funds restricted for use by the Michigan Constitution and deposited in the State Trunk Line Fund for the payment of the principal of and interest on the Bonds, on a parity basis with the Outstanding Bonds and the State's share of debt service payments on any Additional Bonds.

In the opinion of the Attorney General of the State and Bond Counsel, any action by the State, including the adoption of legislation or constitutional amendments, which would (1) reduce the current rates of taxes on motor vehicle fuel or registered motor vehicles, or the current sales tax rates on motor vehicle fuels, motor vehicles or motor vehicle parts or accessories, or (2) alter the allocation formula for the distribution of funds deposited in the Transportation Fund from that specified in Act 51 would be invalid to the extent that such reduction in such tax rates or alteration of the allocation formula would result in insufficient funds being deposited in any future year into the State Trunk Line Fund to pay debt service on the Bonds and the Outstanding Bonds. The State legislature is not required, however, to appropriate general fund moneys to pay debt service on the Bonds or the Outstanding Bonds, or to increase the rates of taxes on motor vehicle fuels, motor vehicles or motor vehicle parts and accessories in any future year, even if the revenues produced from such taxes and allocated to the State Trunk Line Fund result in insufficient revenues to pay debt service on the Bonds and the Outstanding Bonds.

THE BONDS 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 Bonds 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.

Outstanding Bonds and Additional Bonds

The State has previously issued bonds under Section 18b of Act 51, payable from funds in the State Trunk Line Fund. (Those bonds remaining unpaid, excluding the Refunded Bonds described below but including the Prior Bonds, are called the "Outstanding Bonds.") (See "STATEMENT OF OUTSTANDING OBLIGATIONS.") Principal of and interest on bonds issued by the State for Highway, Street and Road Purposes under Section 18b are payable (unless issued as grant or bond anticipation bonds or notes) entirely from moneys deposited in the State Trunk Line Fund. Principal of and interest on bonds issued under Section 18d of Act 51 are payable partly from pledged contractual obligations of the State payable from moneys deposited in the State Trunk Line Fund and partly from pledged contractual obligations of cities, villages, or county road commissions. (See "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION.") As described above, the payment of principal of and interest on the Bonds and the Outstanding Bonds, and the State's share of principal and interest requirements on any Additional Bonds or notes issued in the future for Highway, Street and Road Purposes under Sections 18b or 18d of Act 51 and pledging for their payment funds deposited in the State Trunk Line Fund ("Additional Bonds") except when defeased, constitute a first lien on the moneys restricted as to use for transportation purposes by Section 9 of Article IX of the Michigan Constitution and deposited in the State Trunk Line Fund.

The State has previously legally defeased all or part of certain previously issued series of State Trunk Line Fund bonds under the resolutions authorizing the same. These bonds which have been legally defeased are together called the "Refunded Bonds." The Refunded Bonds are payable solely from the escrowed cash and investments held for such purposes, and the holders thereof have no claim against the State Trunk Line Fund for payment of debt service. Accordingly, the debt service requirements on the Refunded Bonds are excluded in the calculation of debt service on Outstanding Bonds in this Official Statement. The Prior Bonds are economically defeased but not legally defeased, and do not constitute "Refunded Bonds" as defined above.

The State may issue Additional Bonds for Highway, Street and Road Purposes (or incur contractual obligations in connection with bonds issued for such purposes), subject to certain limitations in Sections 18b and 18d of Act 51, and the State's share of the debt service requirements thereon shall be payable on a parity with the Bonds and the Outstanding Bonds from the constitutionally restricted moneys deposited in the State Trunk Line Fund. Additional Bonds may only be issued under Section 18b to the extent that the maximum annual debt service on bonds and notes issued under Section 18b for Highway, Street and Road Purposes under Section 18b and pledging for the payment thereof moneys deposited in the State Trunk Line Fund, together with the annual amounts contractually pledged to be paid from the State Trunk Line Fund for debt service on bonds issued under Section 18d (excluding any bonds such as the Refunded Bonds and the Prior Bonds which have been refunded or for which refunding bonds have been sold) does not exceed 50% of the total amount of money constitutionally restricted to use for transportation purposes and deposited in the State Trunk Line Fund during the State fiscal year immediately preceding the issuance of the Additional Bonds.

The State intends to issue Additional Bonds over the next five years as described in "THE MICHIGAN DEPARTMENT OF TRANSPORTATION – State Highway Program." Other than for such Additional Bonds, the State has no current plans to issue Additional Bonds for new money purposes payable from the State Trunk Line Fund during that period. After such period, the State expects that it may, from time to time, issue Additional Bonds payable from the State Trunk Line Fund, based on its need for funding transportation programs. The State may issue additional bonds for refunding purposes from time to time when market conditions are favorable.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix IV to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and assessment management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,104,257,000 and its total unearned premium reserve was approximately \$1,356,385,000 in accordance with statutory accounting practices. At December 31, 2003, Financial Security's total shareholders' equity was approximately \$2,307,646,000 and its total net unearned premium reserve was approximately \$1,166,562,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the State the information presented under this caption for inclusion in the Official Statement.

ADDITIONAL MDOT FINANCINGS

Pursuant to the provisions of Act 51, the State has previously issued, and may hereafter issue, bonds for comprehensive transportation purposes as defined by law payable from moneys deposited in the Comprehensive Transportation Fund. Moneys deposited in the Comprehensive Transportation Fund are not available for payment of the Bonds, the Outstanding Bonds or Additional Bonds and moneys deposited in the State Trunk Line Fund are not available for the payment of principal of and interest on bonds payable from the Comprehensive Transportation Fund.

The State has issued Grant Anticipation Notes payable solely from federal grant receipts (the "Notes") in an aggregate principal amount of \$600 million. The Notes are not payable from the sources of payment described above under "SECURITY FOR THE BONDS."

SOURCES OF CONSTITUTIONALLY RESTRICTED REVENUES OF THE MICHIGAN TRANSPORTATION FUND

Under the Michigan Constitution, the restriction of the proceeds of certain taxes for use for transportation purposes allows such proceeds to be pledged for the payment of debt service on bonds of the State issued for transportation purposes. This section describes the sources of constitutionally restricted revenues allocated by Act 51 to the Transportation Fund. The money credited to the Transportation Fund and the State Trunk Line Fund is held by the Michigan Department of Treasury as part of the State Treasurer's Common Cash Fund. A portion of the revenue of the Transportation Fund is credited to the State Trunk Line Fund and is irrevocably pledged on a first lien basis for debt service on the Bonds and the Outstanding Bonds and the State's share of debt service on any Additional Bonds. (See "SECURITY FOR THE BONDS" and "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION.")

The sources of constitutionally restricted revenues allocated by Act 51 to the Transportation Fund, including amounts transferred from the Transportation Fund to the State Trunk Line Fund, but excluding investment earnings, for the fiscal years ended September 30, 1999 through September 30, 2003, and estimated amounts for fiscal year ending September 30, 2004, are set forth below. Each revenue source is described in more detail in the subsections which follow the table.

Table 1

**Constitutionally Restricted Revenues of the
Michigan Transportation Fund
Fiscal Years 1999-2004
(in millions)**

Fiscal Year Ended September 30	Motor Fuel Taxes	Registration Taxes	Misc. Fees	Total Revenues ⁽¹⁾	Portion Transferred to State Trunk Line Fund By Formula ⁽²⁾
1999	\$1,066.3	\$709.9	\$57.0	\$1,833.2	\$608.2
2000	1,066.5	755.1	55.2	1,876.8	621.5
2001	1,067.6	777.9	54.7	1,900.2	629.1
2002	1,082.8	827.3	58.0	1,968.1	638.7
2003	1,093.2	844.7	56.7	1,994.5	644.4
2004 ⁽³⁾	1,111.4	919.1	66.9	2,097.4	718.1

(1) Line items may not add to totals due to rounding. As a result of the exclusion of transfers from the General Fund of a portion of the motor carrier fees, which are not constitutionally restricted, and investment earnings, Total Revenues shown above do not equal Total Revenues for the Michigan Transportation Fund shown in Appendix I.

(2) Excludes investment earnings.

(3) Estimated. There can be no assurance that actual amounts will be as shown.

SOURCE: Fiscal years 1999-2003: State Department of Management and Budget, Annual Financial Reports and annual reports of MDOT.

Fiscal year 2004: MDOT and Michigan Department of Treasury.

NOTE: This is a summary table. See footnotes to component tables that follow in this section.

Each of the sources of constitutionally restricted revenues of the Transportation Fund is described below.

Motor Fuel Taxes

Motor fuel taxes ("Motor Fuel Taxes") include specific State taxes imposed upon the sale of gasoline, diesel fuel and liquid petroleum gas ("LPG") used to propel motor vehicles on highways (collectively "Motor Fuel") but do not include general sales and use taxes imposed on Motor Fuel. Prior to January 1, 1993, Motor Fuel Taxes were collected from licensed wholesale distributors of gasoline and retailers of diesel fuel. Legislation was adopted on October 15, 1992, which modified the method of imposing and collecting Motor Fuel Taxes (other than "LPG") and which became effective January 1, 1993. Under this legislation "suppliers" (which include importers of Motor Fuel into the State and refiners who produce Motor Fuel within the State) are required to file monthly statements with the Michigan Department of Treasury on or before the 20th day of each month following the close of the report period, showing the number of gallons of gasoline or diesel motor fuel received by the supplier in this State, the amount sold tax-exempt to wholesale distributors and other purchasers, and other supporting information. Suppliers are responsible for payment of these taxes. In computing the tax, a deduction of 2% of the quantity of gasoline received by the supplier before October 1, 1997 and 1.5% received by the supplier after September 30, 1997 is deducted by the supplier to allow for the cost of remitting the tax. A deduction for certain uncollectible sales to wholesale distributors, retail dealers or other purchasers is also permitted in certain situations. There are approximately 69 licensed suppliers in the State. The forms and other supporting information filed by such suppliers are subject to monthly

internal review by the Department of Treasury. The Department of Treasury is empowered to audit supplies of Motor Fuel of those suppliers, which represent major oil companies and distribute approximately 50% of the Motor Fuel sold in Michigan. These suppliers are audited internally on a monthly basis, and audited on site at least once every four years. The remaining suppliers are regularly reviewed and as a result of such review may be audited. Taxes on LPG will continue to be collected and paid on a quarterly basis (by the 20th of the month following the close of the report period) at the retail level by the licensed dealer.

The Motor Fuel Tax is imposed at a cents-per-gallon rate. For the period of time commencing January 1, 1984 and ending July 31, 1997, a tax of 15 cents per gallon of gasoline was imposed. Since 1984, until April 1, 1997, the tax on diesel motor fuel was the same as that imposed on gasoline, however, operators of commercial motor vehicles with three or more axles who paid an annual registration fee of \$92 for Michigan-registered vehicles and \$25 for out-of-state registered vehicles received a six cents per gallon discount on the tax. In addition, operators of commercial motor vehicles with three or more axles who purchase fuel outside the State paid a tax calculated on the amount of diesel fuel consumed in the State. The related registration fees, however, were discontinued and a diesel fuel rate of 21 cents was established effective April 1, 1997, in accordance with Act 584 of the Michigan Public Acts of 1996 ("Act 584"). Act 584 also provided for a rebate in the amount of six cents per gallon for fuel purchased in Michigan, establishing a net 15 cents per gallon tax on diesel motor fuel. In addition, Act 584 changed the definition of Commercial Motor Vehicle to include vehicles with over two axles and 26,000 pounds gross vehicle weight to conform with the definition in the International Fuel Tax Agreement.

Effective August 1, 1997, in accordance with Act 83 of the Michigan Public Acts of 1997, the tax imposed on gasoline was increased to 19 cents per gallon, and the tax imposed on diesel motor fuel was set at a flat 15 cents per gallon rate.

Motor Fuel Tax rates and revenues for the fiscal years ended September 30, 1999 through September 30, 2003, and estimated amounts for fiscal year ending September 30, 2004, are set forth below.

Table 2
Motor Fuel Tax Revenues
Fiscal Years 1999-2004
(in millions)

Fiscal Year Ended September 30	Gasoline Tax Revenue	Diesel Tax Revenue	LPG Tax Revenue	Total Motor Fuel Tax Revenues
1999	\$931.0	\$134.5	\$0.8	\$1,066.3
2000	922.0	143.5	1.0	1,066.5
2001	933.5	133.1	1.0	1,067.6
2002	938.9	143.0	0.9	1,082.8
2003	935.7	156.9	0.6	1,093.2
2004 ⁽¹⁾	950.0	160.6	0.8	1,111.4

(1) Estimated. There can be no assurance that actual amounts will be as shown.

SOURCE: Fiscal years 1999-2003: State Department of Management and Budget, Annual Financial Reports and annual reports of MDOT.
Fiscal year 2004: Michigan Department of Treasury.

Motor vehicle fuel consumption (excluding LPG) for the fiscal years ended September 30, 1999 through September 30, 2003, and estimated amounts for fiscal year ending September 30, 2004, are set forth below.

Table 3

**Motor Vehicle Fuel Consumption⁽¹⁾
Fiscal Years 1999-2004
(millions of gallons taxed)**

<u>Fiscal Year Ended September 30</u>	<u>Gasoline⁽²⁾</u>	<u>% Annual Increase</u>	<u>Diesel Fuel</u>	<u>% Annual Increase</u>	<u>Total Fuels</u>	<u>% Annual Increase</u>	<u>Diesel Fuel as % of Total Fuel Consumed</u>
1999	4,972.0	4.5%	924.5	20.6%	5,896.5	6.7%	15.7
2000	4,958.5	(0.3)	909.6	(1.6)	5,868.1	(0.5)	15.5
2001	5,041.3	1.7	901.9	(0.9)	5,943.2	1.3	15.2
2002	4,998.0	(0.9)	913.3	1.3	5,911.3	0.5	15.5
2003	5,049.7	1.0	972.1	6.4	6,021.8	1.9	16.1
2004 ⁽³⁾	5,126.9	1.5	995.0	2.4	6,121.9	1.7	16.3

(1) The fuel consumption reported in this table when multiplied by the tax per gallon does not precisely track the tax revenues reported in Table 1 and Table 9 because of timing differences and refunds paid out.

(2) Gallons of gasoline taxed includes gasohol.

(3) Estimated. There can be no assurance that actual amounts will be as shown.

SOURCE: Fiscal years 1999-2003: MDOT, Motor Fuel Sales and Tax Collections (Report #89).
Fiscal year 2004: MDOT and Michigan Department of Treasury.

Motor Vehicle Registration Taxes

A Motor Vehicle Registration Tax (the "Registration Tax") is paid by the owner of each registered motor vehicle at the time license plates are issued by the Michigan Department of State. Registration Tax receipts are deposited daily and promptly credited to the Transportation Fund. The Registration Taxes on trucks and other commercial vehicles are established by legislative formulae generally based on vehicle weight.

Prior to 1983 automobiles were taxed based upon weight. Beginning October 1, 1983, the tax basis for passenger vehicles of model years 1984 or later purchased on or after October 1, 1983 was changed from a weight basis to a value basis. Such vehicles are taxed at the rate of 0.5% of base purchase price, or value if purchased out of State, with a descending scale for the second, third and fourth years at 90% of the previous year's rate and with the rate thereafter fixed at the rate for the fourth year. Reduced Registration Taxes are charged on farm vehicles, hearses, ambulances, public service vehicles and historical vehicles, among others.

The number of registered vehicles for the fiscal years ended September 30, 1999 through September 30, 2003, and estimated numbers for fiscal year ending September 30, 2004, are set forth below.

Table 4

**Registered Motor Vehicles
Fiscal Years 1999-2004
(in thousands)**

<u>Fiscal Year Ended September 30</u>	<u>Passenger Vehicles</u>	<u>Commercial Vehicles</u>	<u>Other Vehicles</u>	<u>Total Vehicles</u>	<u>% Annual Increase</u>
1999	6,287	1,943	1,276	9,506	2.5%
2000	6,389	1,987	1,328	9,704	2.1
2001	6,403	1,991	1,364	9,758	0.6
2002	6,462	2,013	1,411	9,886	1.3
2003	6,481	2,003	1,442	9,926	0.4
2004 ⁽¹⁾	6,521	2,023	1,474	10,018	0.9

(1) Estimated. There can be no assurance that actual amounts will be as shown.

SOURCE: Fiscal years 1999-2003: MDOT, Monthly Motor Vehicle Registration Report (Report #812).
Fiscal year 2004: MDOT and Michigan Department of State.

The Registration Tax revenues for the fiscal years ended September 30, 1999 through September 30, 2003, and estimated amounts for fiscal year ending September 30, 2004, are set forth below.

Table 5

**Motor Vehicle Registration Tax Revenues⁽¹⁾
Fiscal Years 1999-2004
(in millions)**

<u>Fiscal Year Ended September 30</u>	<u>Passenger Vehicles</u>	<u>Commercial Vehicles</u>	<u>Other Vehicles</u>	<u>Total Vehicles</u>	<u>% Annual Increase</u>
1999	\$435.9	\$245.1	\$28.1	\$709.1	6.7%
2000	465.6	262.2	29.7	757.4	6.8
2001	483.6	262.5	30.6	776.7	2.5
2002	506.9	283.9	34.0	824.8	6.2
2003	528.0	286.1	33.4	847.5	2.8
2004 ⁽²⁾	572.6	310.3	36.2	919.1	8.4

(1) Registration Tax Revenues shown above differ from Registration Taxes as shown in Table 1 and Table 9 due to the Michigan Department of State reporting on a cash basis in contrast to the State Department of Management and Budget reporting on an accrual basis.

(2) Estimated. There can be no assurance that actual amounts will be as shown.

SOURCE: Fiscal years 1999-2003: Michigan Department of State, Annual Report.
Fiscal year 2004: MDOT and Michigan Department of State.

Miscellaneous Fees

Miscellaneous Fees include motor vehicle title fees, special license plate registration taxes (not based on vehicle weight, purchase price or value), and license plate transfer fees paid by the vehicle owner to the Michigan Department of State. The title and license plate transfer fees are usually occasioned by the purchase of a new or used vehicle. Upon receipt by the Michigan Department of State, such funds are deposited daily and promptly credited to the Transportation Fund. Miscellaneous fees for the fiscal years ended September 30, 1999 through September 30, 2003, and estimated fees for fiscal year ending September 30, 2004, are set forth below.

Table 6
Miscellaneous Fee Revenues
Fiscal Years 1999-2004
(in millions)

Fiscal Year Ended September 30	Miscellaneous Fees
1999	\$57.0
2000	55.2
2001	54.7
2002	58.0
2003	56.7
2004 ⁽¹⁾	66.9

(1) Estimated. There can be no assurance that the actual amount will be as shown.

SOURCE: Fiscal years 1999-2003: State Department of Management and Budget, Annual Financial Reports and annual reports of MDOT.
Fiscal year 2004: Michigan Department of Treasury.

STATEMENT OF OUTSTANDING OBLIGATIONS

The following table shows the amounts of State bonds issued under Section 18b of Act 51 payable from the State Trunk Line Fund and the Comprehensive Transportation Fund and outstanding as of September 30, 1999, 2000, 2001, 2002 and 2003, and pro forma as of May 15, 2004, assuming the Bonds have been issued. The table excludes the Prior Bonds* and the Refunded Bonds.

* Upon the issuance of the Bonds, the Prior Bonds will be economically defeased, but not legally defeased under the resolutions authorizing their issuance. See "PLAN OF REFUNDING" and "SECURITY FOR THE BONDS" herein.

Table 7
Act 51 Bonds as of September 30, 1999-2003,
and Pro Forma as of May 15, 2004
(in thousands) ⁽¹⁾

	Amounts Outstanding September 30 ⁽²⁾					Pro Forma
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	as of <u>May 15, 2004</u>
State Trunk Line Fund Bonds ⁽³⁾						
Outstanding Bonds ⁽⁴⁾	\$645,990	\$633,219	\$928,052	\$912,596	\$891,770	\$874,570 ⁽⁵⁾
The Bonds	--	--	--			\$103,450
Comprehensive Transportation Bonds ⁽⁶⁾	<u>\$212,952</u>	<u>\$203,485</u>	<u>\$193,445</u>	<u>\$260,615</u>	<u>\$283,980</u>	<u>\$268,710</u>
Total	<u>\$858,941</u>	<u>\$836,704</u>	<u>\$1,121,497</u>	<u>\$1,173,211</u>	<u>\$1,175,750</u>	<u>\$1,246,730</u>

- (1) The numbers in this table differ from the debt numbers shown in Appendix I because the numbers shown here include the accreted value of capital appreciation bonds, while those in Appendix I show the original principal amount of capital appreciation bonds.
- (2) Does not include \$600 million in grant anticipation notes outstanding in eight series as of the date of this Official Statement secured by Federal Highway Administration Grant revenues and amortizing on September 15 in the years 2005 through 2009.
- (3) Secured by State Trunk Line Fund revenues.
- (4) Not including the Refunded Bonds.
- (5) Not including the Prior Bonds.
- (6) Secured by Comprehensive Transportation Fund revenues.

SOURCE: MDOT.

DEBT SERVICE ON THE OUTSTANDING BONDS AND THE BONDS

The debt service requirements for the Bonds and the Outstanding Bonds (excluding the Prior Bonds* and the Refunded Bonds), which will constitute all bond debt service payable from the State Trunk Line Fund upon the issuance of the Bonds are set forth on the following table.

* Upon the issuance of the Bonds, the Prior Bonds will be economically defeased, but not legally defeased under the resolutions authorizing their issuance. See "PLAN OF REFUNDING" and "SECURITY FOR THE BONDS" herein.

Table 8
State Trunk Line Fund
Annual Debt Service Requirements for the Outstanding Bonds and the Bonds
Fiscal Years 2004-2031

Fiscal Year Ending September 30	Debt Service on Outstanding Bonds and Prior Bonds ⁽¹⁾	Debt Service on Prior Bonds ⁽²⁾	The Bonds		Total Debt Service	Total Debt Service on the Outstanding Bonds (Excluding the Prior Bonds) and the Bonds ⁽¹⁾
			Principal Requirements	Interest		
2004	\$67,902,489	\$ 90,825				\$67,811,664
2005	68,264,476	5,636,340		\$ 5,067,775	\$ 5,067,775	67,695,911
2006	68,164,150	9,005,515	\$ 3,630,000	5,143,268	8,773,268	67,931,902
2007	68,166,823	5,454,690	80,000	5,088,018	5,168,018	67,880,150
2008	68,172,196	6,701,090	1,345,000	5,073,095	6,418,095	67,889,191
2009	68,160,237	5,387,490	45,000	5,058,410	5,103,410	67,876,157
2010	68,160,659	5,387,490	45,000	5,057,218	5,102,218	67,875,386
2011	68,175,178	5,387,490	45,000	5,055,912	5,100,912	67,888,600
2012	68,180,253	5,387,490	50,000	5,054,412	5,104,412	67,897,175
2013	68,172,528	12,836,840	7,700,000	4,850,462	12,551,462	67,887,150
2014	68,168,896	12,838,578	8,120,000	4,436,188	12,556,188	67,886,506
2015	68,174,709	12,840,703	8,555,000	3,998,469	12,553,469	67,887,475
2016	68,169,621	12,836,978	9,015,000	3,537,256	12,552,256	67,884,900
2017	68,166,896	12,836,028	9,490,000	3,063,362	12,553,362	67,884,231
2018	68,162,678	12,836,203	9,975,000	2,576,738	12,551,738	67,878,212
2019	68,166,315	12,835,853	10,485,000	2,065,238	12,550,238	67,880,700
2020	68,173,446	12,838,190	11,025,000	1,527,488	12,552,488	67,887,744
2021	68,182,748	12,839,660	11,610,000	947,100	12,557,100	67,900,188
2022	68,180,590	12,840,390	12,235,000	321,169	12,556,169	67,896,369
2023	34,531,825					34,531,825
2024	34,542,325					34,542,325
2025	34,540,950					34,540,950
2026	24,146,075					24,146,075
2027	24,147,069					24,147,069
2028	20,387,225					20,387,225
2029	20,387,281					20,387,281
2030	20,387,988					20,387,988
2031	20,391,588					20,391,588

(1) Excludes the Refunded Bonds as defined under "SECURITY FOR THE BONDS – Outstanding Bonds and Additional Bonds."

(2) Includes only debt service to be refunded by the Bonds. Debt service on the Prior Bonds for the 2004 fiscal year, which has already been paid, is included in the immediately preceding column.

Note: Totals may not add due to rounding.

SOURCE: MDOT.

**HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE
ON THE BONDS AND THE OUTSTANDING BONDS**

The following tables show the estimated coverage of maximum future annual debt service on the Bonds and the Outstanding Bonds (excluding the Prior Bonds* and the Refunded Bonds) by the

* Upon the issuance of the Bonds, the Prior Bonds will be economically defeased, but not legally defeased under the resolutions authorizing their issuance. See "PLAN OF REFUNDING" and "SECURITY FOR THE BONDS" herein.

constitutionally restricted revenues credited to the State Trunk Line Fund, and the amounts of non-federal funds available, after payment of actual debt service, for transportation program costs of the State Trunk Line Fund during the fiscal years ended September 30, 1999 through 2003, and estimated amounts for fiscal year ending September 30, 2004. (See "SECURITY FOR THE BONDS" and "SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN CONSTITUTION, ACT 51, AND THE RESOLUTION.")

Table 9
State Trunk Line Fund
Historical Pro Forma
Debt Service Coverage on the Bonds and the Outstanding Bonds
(in millions)

	Fiscal Year Ended September 30					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004⁽¹⁾</u>
Constitutionally Restricted Transportation Fund Revenues:						
Motor Fuel Taxes	\$1,066.3	\$1,066.5	\$1,067.6	\$1,082.8	\$1,093.2	\$1,111.4
Registration Taxes	709.9	755.1	777.9	827.3	844.7	919.1
Miscellaneous Fees	<u>57.0</u>	<u>55.2</u>	<u>54.7</u>	<u>58.0</u>	<u>56.7</u>	<u>66.9</u>
Total:	\$1,833.2	\$1,876.7	\$1,900.2	\$1,968.1	\$1,994.5	\$2,097.4
Less Deductions:	<u>352.5</u>	<u>363.2</u>	<u>364.5</u>	<u>412.2</u>	<u>417.4</u>	<u>356.4</u>
Constitutionally Restricted Revenues Available for Distribution by Formula	<u>\$1,480.7</u>	<u>\$1,513.6</u>	<u>\$1,535.7</u>	<u>\$1,555.9</u>	<u>\$1,577.2</u>	<u>\$1,741.0</u>
Constitutionally Restricted Revenues Transferred by Formula	\$ 608.2	\$ 621.5	\$ 629.1	\$ 638.7	\$ 644.4	\$ 718.1
Additional Constitutionally Restricted Revenues ⁽²⁾	<u>\$ 117.7</u>	<u>\$ 118.7</u>	<u>\$ 118.7</u>	<u>\$ 118.7</u>	<u>\$ 118.5</u>	<u>\$ 119.3</u>
Total Constitutionally Restricted Revenues Available for Debt Service:	<u>\$ 725.9</u>	<u>\$ 740.2</u>	<u>\$ 747.8</u>	<u>\$ 757.4</u>	<u>\$ 762.9</u>	<u>\$ 837.4</u>
Maximum Future Annual Debt Service on the Bonds and the Outstanding Bonds ⁽³⁾	\$67.9	\$67.9	\$67.9	\$67.9	\$67.9	\$67.9
Debt Service Coverage	10.7x	10.9x	11.0x	11.2x	11.2x	12.3x

Note: Line items may not add to totals due to rounding.

(1) Estimated. There can be no assurance that actual amounts will be as shown.

(2) Includes distribution to the State Trunk Line Fund for subsequent allocation to the Local Program Fund, the Transportation Economic Development Fund and debt service.

(3) Excludes the Prior Bonds and Refunded Bonds as defined under "SECURITY FOR THE BONDS – Outstanding Bonds and Additional Bonds."

SOURCE: Fiscal years 1999-2003: State Department of Management and Budget Annual Financial Report and annual reports of MDOT.

Fiscal year 2004: MDOT and Michigan Department of Treasury.

Table 10

**State Trunk Line Fund
Funds Available for Program After Debt Service
(in Millions)**

Fiscal Year Ended September 30

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> ⁽¹⁾
Constitutionally Restricted Revenues Available for Debt Service	\$725.9	\$740.2	\$747.8	\$757.4	\$762.9	\$837.4
Actual Debt Service	<u>57.8</u>	<u>47.2</u>	<u>48.2</u>	<u>65.6</u>	<u>65.7</u>	<u>67.8</u>
Constitutionally Restricted Revenues Available After Debt Service	\$668.1	\$693.0	\$699.6	\$691.8	\$697.2	\$769.6
Additional Nonfederal Revenues ⁽²⁾	<u>43.6</u>	<u>176.2</u>	<u>80.9</u>	<u>88.9</u>	<u>41.3</u>	<u>57.2</u>
Total Nonfederal Revenues Available After Debt Service for Program	<u>\$711.7</u>	<u>\$869.2</u>	<u>\$780.5</u>	<u>\$780.7</u>	<u>\$738.5</u>	<u>\$826.8</u>

(1) Estimated. There can be no assurance that actual amounts will be as shown.

(2) Includes investment earnings, sales of assets and miscellaneous revenues.

SOURCE: MDOT.

**SUMMARY OF CERTAIN PROVISIONS OF THE MICHIGAN
CONSTITUTION, ACT 51, AND THE RESOLUTION**

The following is a summary of certain provisions of the Michigan Constitution of 1963, Act 51, and the Resolution. This summary does not purport to be a complete statement of all provisions of the documents summarized, and reference is made to said documents for a complete statement of the provisions thereof.

Transportation Tax Provisions of the Michigan Constitution

Section 9 of Article IX of the Michigan Constitution provides as follows:

All specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and to propel aircraft and on registered motor vehicles and aircraft shall, after the payment of necessary collection expenses, be used exclusively for transportation purposes as set forth in this section.

Not less than 90 percent of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles shall, after the payment of necessary collection expenses, be used exclusively for the transportation purposes of

planning, administering, constructing, reconstructing, financing, and maintaining state, county, city, and village roads, streets, and bridges designed primarily for the use of motor vehicles using tires, and reasonable appurtenances to those state, county, city and village roads, streets and bridges.

The balance, if any, of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles, after the payment of necessary collection expenses; 100 percent of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel aircraft and on registered aircraft, after the payment of necessary collection expenses; and not more than 25 percent of the general sales taxes, imposed directly or indirectly on fuels sold to propel motor vehicles upon highways, on the sale of motor vehicles, and on the sale of the parts and accessories of motor vehicles, after the payment of necessary collection expenses; shall be used exclusively for the transportation purposes of comprehensive transportation purposes as defined by law.

The legislature may authorize the incurrence of indebtedness and the issuance of obligations pledging the taxes allocated or authorized to be allocated by this section, which obligations shall not be construed to be evidence of State indebtedness under this constitution.

Act 51

Allocation of Tax Proceeds

Act 51 provides for the distribution of funds received by the State for transportation purposes. Section 10 of Act 51 requires that all money received and collected under (a) Act 150, Public Acts of Michigan, 1927, as amended, being gasoline, diesel fuel and liquified petroleum gas taxes (see "SOURCES OF REVENUES OF THE MICHIGAN TRANSPORTATION FUND"), except a license fee provided in that act; (b) Sections 801 to 810 of Act 300, Public Acts of Michigan, 1949, as amended (Registration Taxes, title fees, special registration taxes and transfer fees) except a truck safety fund fee; and (c) Act 254, Public Acts of Michigan, 1933, as amended (taxes on trailers and common carriers) be deposited into the State Treasury to the credit of the Transportation Fund. Except for investment income or profit from investing moneys of the Transportation Fund which are deposited therein, no other moneys from any other source are deposited into the Transportation Fund.

Before distributions are made from the Transportation Fund pursuant to the formula outlined below, the following distributions must be made: (a) payment of the amounts appropriated by the legislature for the necessary expenses incurred in the collection and administration of the transportation taxes and enforcement of the statutes described in the section hereof entitled "SOURCES OF CONSTITUTIONALLY RESTRICTED REVENUES OF THE STATE TRUNK LINE FUND"; (b) payment of amounts equal to 2% of the net gasoline tax (excluding aircraft gasoline taxes), which are credited to the Recreational Improvement Fund, and used to improve recreational facilities; and (c) payment of certain administrative costs of the State's transportation system.

Subsequent to these initial distributions, moneys remaining in the Transportation Fund are apportioned and appropriated as follows:

(a) Not more than \$3,000,000 as may be annually appropriated each fiscal year to the State Trunk Line Fund for subsequent deposit in the Railroad Grade Crossing Account.

(b) Not less than \$3,000,000 each year to the Critical Bridge Fund for the purpose of payment of the principal, interest and redemption premium on any notes or bonds issued by the State Transportation Commission under Section 11b of Act 51.

(c) Revenue from 3 cents of the tax levied under section 2(1) of 1950 PA 127, MCL 207.102, to the State Trunk Line Fund, county road commissions, and cities and villages in the percentages provided in subdivision (i).

(d) Revenue from 1 cent* of the tax levied under section 2(1) of 1950 PA 127, MCL 207.102, to the State Trunk Line Fund for repair of state bridges under Section 11 of Act 51.

(e) \$43,000,000.00 to the State Trunk Line Fund for debt service costs on state of Michigan projects.

(f) 10% to the Comprehensive Transportation Fund.

(g) \$36,775,000 to the State Trunk Line Fund for subsequent deposit in the Transportation Economic Development Fund, and with first priority for allocation to debt service on bonds issued to fund Transportation Economic Development Fund Projects. In addition, \$3,500,000.00 is appropriated from the Michigan Transportation Fund to the State Trunk Line Fund for subsequent deposit in the Transportation Economic Development Fund to be used for economic development road projects in any of the targeted industries described in section 9(1)(a) of 1987 PA 231, MCL 247.909.

(h) Not less than \$33,000,000 as may be annually appropriated each fiscal year to the Local Program Fund created in Section 11e of Act 51.

(i) The balance of the Michigan Transportation Fund as follows, after deduction of the amounts appropriated in subparagraphs (a) through (h) and deduction of \$5,000,000 appropriated to the Critical Bridge Program created pursuant to Section 11b of Act 51:

(i) 39.1% to the State Trunk Line Fund for the purposes described in Section 11 of Act 51.

(ii) 39.1% to the county road commissions of the State.

(iii) 21.8% to the cities and villages of the State.

* House Bill 5319, recently passed by the Michigan House of Representatives, would redirect ½ cent of the 1 cent to a local bridge fund for distribution to cities, villages, and county road commissions only. If passed by the Senate and signed into law by the Governor, House Bill 5319 would be implemented in fiscal year 2005. The projected impact of the enactment of House Bill 5319 in its current form on the State Trunk Line Fund would be a decrease in available funding of approximately \$25.6 million in fiscal year 2005.

Use of Pledged Specific Taxes and Limitations

Section 11 of Act 51 provides that money deposited in the State Trunk Line Fund is appropriated for the following purposes in the following order of priority:

(a) For the payment, but only from money restricted as to use by Section 9 of Article IX of the Michigan Constitution, of bonds, notes, or other obligations issued under Section 18b of Act 51 for Highway, Street and Road Purposes and which have pledged for their payment money deposited in the State Trunk Line Fund and the payment of contributions of the Commission to be made pursuant to contracts entered into under Section 18d of Act 51 which contributions are pledged to the payment of principal and interest on bonds issued under the authorization of Section 18d of Act 51. A sufficient portion of the Fund is irrevocably appropriated to pay, when due, the principal and interest on bonds or notes issued under Section 18b of Act 51 for Highway, Street and Road Purposes, and which have pledged for their payment money deposited in the State Trunk Line Fund and to pay the annual contributions of the Commission as are pledged for the payment of bonds issued pursuant to contracts authorized by Section 18d of Act 51. (Section 11 of Act 51 also identifies payments for contracts and bonds which have now been fully paid and with respect to which the statutory authority to issue obligations has been repealed. Thus, currently, under Section 11 the payment of principal and interest on bonds issued under Section 18b of Act 51 and contract obligations issued under Section 18d of Act 51 have first priority for payments from the State Trunk Line Fund.)

(b) For the transfer of funds appropriated pursuant to Section 10(1)(g) of Act 51 to the Transportation Economic Development Fund, but the transfer shall be reduced each fiscal year by the amount of debt service to be paid in that year from the State Trunk Line Fund for bonds, notes, or other obligations issued to fund projects of the Transportation Economic Development Fund, which amount shall be certified by MDOT.

(c) For the transfer of funds appropriated pursuant to Section 10(1)(a) of Act 51 to the Railroad Grade Crossing Account in the State Trunk Line Fund for expenditure to meet the cost, in whole or in part, of providing for the improvement, installation, and retirement of new or existing safety devices at railroad grade crossings on public roads and streets subject to the procedures set forth on Act 51.

(d) For the total operating expenses of the State Trunk Line Fund for each fiscal year as appropriated by the legislature.

(e) For the maintenance of the State Trunk Line highways and bridges.

(f) For the opening, widening, improving, construction and reconstruction of state trunk line highways and bridges, including the acquisition of necessary rights of way and the work incidental to that opening, widening, improving, construction or reconstruction. Those sums in the State Trunk Line Fund not otherwise appropriated, distributed, determined or set aside by law shall be used for the construction or reconstruction of the national system of interstate and defense highways, referred to in Act 51 as "the interstate highway system" to the extent necessary to match federal aid funds as the federal aid funds become available for that purpose; and, for the construction and reconstruction of the State Trunk Line system.

(g) MDOT may enter into agreements with county road commissions and with cities and villages to perform work on a highway, road or street. MDOT also may contract with a county road commission, city and village to advance money to a county road commission, city and village to pay their costs of improving railroad grade crossings on the terms and conditions agreed to in the contract. A contract may be executed before or after the Commission borrows money for the purpose of advancing

money to a county road commission, city, or village, but the contract shall be executed before the advancement of any money to a county road commission, city or village by the commission and shall provide for the full reimbursement of any advancement by a county road commission, city or village to MDOT, with interest, within 15 years after advancement, from any available revenue sources of the county road commission, city or village or, if provided in the contract, by deduction from the periodic disbursements of any money returned by the State to the county road commission, city or village.

- (h) For providing inventories of supplies and materials required for the activities of MDOT.

Issuance of Bonds and Notes

The State may borrow money and issue bonds and notes pursuant to Section 18b of Act 51 for the following transportation purposes:

- (a) To pay all or any portion of, or to make loans, grants or contract payments to pay all or any portion of, any capital costs for the purposes described in Section 9 of Article IX of the Michigan Constitution, including the funding of State Trunk Line Fund projects and Transportation Economic Development Fund projects.

- (b) To pay the principal or the principal and interest on notes issued for transportation purposes.

- (c) If the Commission considers refunding to be expedient, to refund bonds payable from money in the State Trunk Line Fund or the Comprehensive Transportation Fund or received or to be received from the Motor Vehicle Highway Fund or the Transportation Fund regardless of when the refunded bonds were issued, by the issuance of new bonds, whether or not the bonds to be refunded have matured or are subject to prior redemption or are to be paid, redeemed or surrendered at the time of issuance of the refunding bonds; and to issue new bonds partly to refund bonds or pay notes then outstanding and partly for any other transportation purpose authorized by Act 51.

- (d) To pay all costs relating to the issuance of bonds permitted by Section 18b of Act 51 including funding capitalized interest and debt service reserves.

In addition Act 51 permits issuance by the State of notes payable from money deposited in the State Trunk Line Fund subject to the same limitations on the amount that may be issued as are applicable to the Additional Bonds. The State may issue notes in anticipation of the issuance of grants and in anticipation of bonds which, to the extent they do not pledge the deposits in the State Trunk Line Fund, are not subject to the debt service limitations described below. Any bonds to be issued to pay such notes would, however, be subject to such limitations.

Bonds or notes issued for Highway, Street and Road Purposes under Section 18b can be issued only after authorization by resolution of the Commission, which resolution (except with respect to grant or bond anticipation bonds or notes) shall contain, among other items, an irrevocable pledge providing for the payment of all or part of the principal and interest on such bonds from money restricted as to use by Section 9 of Article IX of the Michigan Constitution and which is deposited or to be deposited in the State Trunk Line Fund.

Section 18d of Act 51 also permits the Commission to enter into contracts with county road commissions, cities or villages providing for the construction or reconstruction of highways, including limited access highways, under the jurisdiction and control of one of the contracting parties. Under Section 18d, the Commission is authorized to issue bonds payable from an irrevocable pledge of the

receipts by each of the contracting parties of funds allocated and distributed to it from the Transportation Fund. As described above, any contractual obligation of the State under Section 18d is to be paid as a first priority from the funds deposited in the State Trunk Line Fund, on a parity basis with all other Section 18d contract obligations of the State, and on a parity basis with the obligations of the State to pay debt service on bond and notes issued under Section 18b for Highway Street and Road Purposes and payable from money deposited to the State Trunk Line Fund, including the Bonds. The obligation of the State to pay debt service on bonds issued under Section 18d is limited to the amount of the State's contractual obligation, with the balance of the debt service to be paid from the funds pledged by the other contracting parties.

The State may issue bonds or notes under Section 18b for Highway, Street and Road Purposes and payable from money deposited to the State Trunk Line Fund, or enter into contractual obligations under Section 18d only to the extent that the maximum annual debt service on bonds or notes issued under Section 18b for Highway, Street and Road Purposes together with the amounts contractually pledged by the State for debt service on bonds issued under Section 18d (excluding bonds which have been refunded or for the refunding of which refunding bonds have been sold, and excluding debt service not payable from the State Trunk Line Fund) does not exceed 50% of the total amount of money constitutionally restricted to use for transportation purposes and deposited in the State Trunk Line Fund during the State fiscal year (October 1 to September 30) immediately preceding the issuance of the bonds or notes.

Act 51 allows the State to utilize techniques such as grant anticipation notes and variable rate demand bonds in its transportation financing program under Act 51. If such bonds or notes are subject to payment or purchase on demand or prior to maturity at the option of the holder, and the obligation of the State to make payment or effect purchases on demand or prior to maturity at the option of the holder is limited to the proceeds of one or more additional security devices (such as letters of credit or bond purchase agreements) and is not payable from constitutionally restricted funds deposited in the State Trunk Line Fund, then, for purposes of computing maximum annual principal and interest requirements as described in the preceding paragraph, the principal and interest on the bonds or notes subject to payment or purchase on demand or prior redemption at the option of the holder shall be disregarded and the maximum annual principal and interest requirements which would arise with respect to the repayment of the proceeds of the additional security device shall be substituted therefor.

Section 11b of the Act also provides for the borrowing of \$30,000,000 for the Critical Bridge Program under a resolution consistent with the requirements of Section 18b. Section 18l of the Act permits the borrowing of funds in anticipation of the receipt of federal aid under the Intermodal Surface Transportation Efficiency Act of 1991, also under a resolution consistent with the requirements of Section 18b.

The Resolution

Establishment of Funds and Accounts

The Resolution requires the establishment of the following funds and accounts in the State Treasury: (a) the 2004 State Trunk Line Refunding Bond Proceeds Fund (the "2004 Bond Proceeds Fund"); and (b) the 2004 Bond Payment Account (the "2004 Bond Payment Account") in the combined State Trunk Line Bond and Interest Redemption Fund (the "Bond Payment Fund"). The Resolution provides that the proceeds of the sale of the Bonds shall be deposited as follows:

A. All accrued interest, if any, received on delivery of the Bonds shall be deposited in the 2004 Bond Payment Account and used to pay interest on the Bonds on the first interest payment date;

B. The sum determined to be necessary, together with other available funds from the State Trunk Line Fund as may be specified by the Director, to purchase investments sufficient (including investment earnings thereon), with any uninvested cash, to pay all principal of, and premium and accrued interest on the Prior Bonds to and including the date fixed for payment or redemption thereof as shall be specified by the Director, shall be deposited in the Escrow Fund established pursuant to the Escrow Deposit Agreement and used as provided therein.

C. The balance of the net proceeds shall be deposited in the 2004 Bond Proceeds Fund and used to pay costs related to the issuance of the Bonds and the refunding.

In accordance with Act 51, the Resolution creates an irrevocable pledge for the payment of the principal of, and interest on the Bonds as the same become due, of sufficient money restricted as to use by Section 9 of Article IX of the Michigan Constitution and deposited by law in the State Trunk Line Fund. This pledge creates a first lien against the money so deposited in the State Trunk Line Fund for the payment of principal of and interest on the Bonds, on a parity with the debt service requirements on the Outstanding Bonds and any Additional Bonds which may hereafter be issued under the conditions and limitations prescribed in Act 51. The Resolution provides that there shall be deposited into the 2004 Bond Payment Account sufficient moneys (together with funds then on deposit in the account) allocated to the State Trunk Line Fund to pay, as the same becomes due by maturity, redemption prior to maturity or otherwise, the principal, redemption premiums, if any, and interest on the Bonds, and sufficient amounts to pay the fees and expenses of the Transfer Agent. On or before each date specified for the payment of principal, premium, if any, and/or interest on the Bonds, the State Treasurer shall transfer from the 2004 Bond Payment Account sufficient immediately available funds to pay the principal, premium, if any, and/or interest, respectively, due, whether by maturity, redemption prior to maturity, or otherwise, on such date to the Transfer Agent or the holders of the Bonds if the State Treasurer is the acting Transfer Agent. Periodically, the State Treasurer shall pay the fees and expenses of the Transfer Agent, if any, from the 2004 Bond Payment Account.

Money in the 2004 Bond Payment Account shall, if deposited therein prior to the date it is required to be transferred to the Transfer Agent or paid to the holders of the Bonds, be held as part of the State's Common Cash Fund and as nearly as may be practicable, be continuously invested and reinvested by the State Treasurer in such investments as are permitted and authorized by law and described below. Investments of money in the 2004 Bond Payment Account shall be deemed at all times to be part of the 2004 Bond Payment Account, and the interest accruing thereon and any loss or profit realized from such investment shall be applied to the 2004 Bond Payment Account. Permitted investments include:

1. Certificates of deposit of eligible financial institutions.
2. Bonds, notes, and other evidences of indebtedness of the United States Government and its agencies (or funds composed of such obligations or fully collateralized repurchase agreements with respect thereto).
3. Prime commercial paper.
4. Emergency loans to municipalities.

Investments of money in the 2004 Bond Proceeds Fund and the interest accruing thereon and any loss or profit realized from such investment shall be applied to the appropriate account in the 2002 Bond Proceeds Fund.

Designation, Removal, Resignation and Replacement of Transfer Agent

The Resolution provides that so long as the Bonds remain in the book-entry-only system, the State Treasurer (or a bank or trust company appointed by the State Treasurer) shall perform the duties of Transfer Agent for the Bonds. In the event DTC discontinues the book-entry-only system or the Director determines that the continuation of the system of book-entry-only transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners of the Bonds, or the State, the Director will notify the Transfer Agent and the Transfer Agent will direct DTC to make Bond certificates available to the Beneficial Owners through DTC. In such event, the Transfer Agent shall transfer and exchange Bonds as requested by DTC of like tenor principal amount, series, maturity, and interest rate in authorized denominations to the identifiable Beneficial Owners in replacement of the beneficial interests of such Beneficial Owners in the Bonds. In addition, the State Treasurer shall, in such event, appoint a successor Transfer Agent.

Any Transfer Agent other than the State Treasurer may resign by giving not less than 90 days' prior written notice to the State Treasurer, and the State Treasurer may remove the successor Transfer Agent by giving not less than 90 days' prior written notice to the successor Transfer Agent, but no resignation shall be effective until the appointment of a successor Transfer Agent. In such event, the State Treasurer shall designate a successor Transfer Agent and shall mail notice of the appointment of the successor Transfer Agent to each registered owner of the Bonds not less than 60 days prior the first interest payment date for which the appointment is effective. Upon the appointment of a successor Transfer Agent, the predecessor Transfer Agent shall transfer all money and funds, the registration books, and all other documents and instruments relating to the Bonds held by it as Transfer Agent to the successor Transfer Agent. In addition, the State Treasurer shall, in such event, appoint a successor Transfer Agent. In addition, the substitution or removal of the Transfer Agent shall occur only with the consent of Financial Security.

Amendment of the Resolution

The Resolution provides that the Commission and the Director may amend the Resolution, without the consent of the holders of any Bonds, (i) to increase or decrease the amount of Bonds which may be issued thereunder, (ii) to provide for the issuance of Bonds thereunder to refund any Bonds then outstanding thereunder, (iii) to cure any ambiguity or defect in the form of the Resolution, (iv) to maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes, and (v) to make any other changes therein determined in good faith by the Commission to be not to the detriment of the holders of the Bonds.

Exclusive of amendments undertaken pursuant to the preceding paragraph, the holders of not less than 51% in the aggregate principal amount of the Bonds outstanding shall have the right to consent to the adoption by the Commission and the Director of such amendments to the Resolution as shall be deemed necessary and desirable by the Commission and the Director and as are approved in writing by the Bond Insurer, if any; provided, however, that nothing contained in the Resolution permits, or should be construed as permitting, (i) an extension of the maturity of the principal of or the interest on any Bond, (ii) a reduction in the principal amount of any Bond or the rate of interest or principal appreciation thereon, (iii) a privilege or priority of any Bond or Bonds over any other bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to an amendment to the Resolution. With respect to any Insured Bond, the Resolution provides that the consent of Financial Security shall constitute consent of the holder of such Insured Bond for purposes of this paragraph.

If the Commission and the Director shall propose to adopt an amendment to the Resolution requiring consent of the Bondholders, the Director shall have notice of the proposed adoption of the

amendment mailed to the Bond Insurer, if any, and to each registered holder at the registered address as shown on the registration books kept by the Transfer Agent. Such notice shall briefly set forth the nature of the proposed amendment and shall state that copies thereof are on file at the principal office of the Transfer Agent for inspection by all Bondholders. If within six months following the mailing of such notice, Financial Security and the holders of not less than 51% in aggregate principal amount of the Bonds outstanding (determined as provided in the Resolution) at the time of the mailing of such notice consent in writing to the adoption thereof, upon the adoption of the amendment to the Resolution, the Resolution will then be so amended.

Nothing contained in the Resolution shall in any way be construed to prevent the issuance of bonds or notes for any purpose authorized by law, within and subject to the limitations provided by Act 51.

Defeasance of the Bonds

If all the Bonds (i) shall have become due and payable in accordance with their terms, or (ii) are to be paid at their maturity or maturities, or (iii) if to be redeemed prior to maturity, shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given to the Transfer Agent by the Director, and the whole amount of the principal of and the interest and the premium, if any, so due and payable upon all of the Bonds then outstanding shall be paid or sufficient cash, or cash and non-callable direct obligations of, or non-callable obligations fully guaranteed by, the United States Treasury ("Government Obligations"), or specifically maturing interests in a fund composed entirely of Government Obligations, the principal of and the interest on which without reinvestment, when due and payable, will provide sufficient money for such payment, shall be segregated and held by the State Treasurer in the 2004 Bond Payment Account or by the Transfer Agent or other escrow agent in trust for the benefit of the holders of the Bonds, then and in that case the Resolution shall be defeased and terminated and all obligations of the State of Michigan, the Commission and the Director thereunder and under Act 51 with respect to the Bonds shall thereupon cease; provided, that the applicable provisions of the Resolution pertaining to the payment of the principal of and interest and redemption premium, if any, on the Bonds, to redemption of Bonds and to the replacement, registration, transfer and exchange of Bonds and the covenant regarding the tax-exempt status of the Bonds shall be continued in force until such have been fully paid. On demand of the Director, any surplus in the 2004 Bond Payment Account other than money held for redemption or payment of the Bonds shall be transferred to the State Trunk Line Fund.

Bonds or portions of Bonds for which cash or cash and Government Obligations, or specifically maturing interests in a fund composed entirely of Government Obligations (including principal of and interest thereon), shall be segregated and held by the State Treasurer, Transfer Agent or other escrow agent in trust for the holders of said Bonds or portions of Bonds sufficient to pay all principal, premium, if any, and interest through maturity or earlier specified redemption date for which notice shall have been duly given, or irrevocable instructions to give such notice shall have been given by the Director to the Transfer Agent, shall no longer be outstanding under the Resolution, and shall be deemed to be refunded, and the holders thereof shall have no further rights thereunder or under the Bonds except the right to receive payment from the cash or cash and Government Obligations held in trust as specified above. Bonds and interest payments on Bonds which have become due, and for the payment of which funds shall be held in trust by the Transfer Agent, or segregated and held in the 2004 Bond Payment Account by the State Treasurer, in trust for the holders of the Bonds or the persons entitled to receive said interest payments shall, on the date of maturity thereof, be deemed to be paid, and the holders of the Bonds and the person entitled to receive such interest shall have no further rights under the Resolution or under the Bonds except the right to receive payment from the funds held in trust as specified above.

All money and Government Obligations held by the State Treasurer, Transfer Agent or other escrow agent as described above shall be segregated and held in trust and applied to the payment, when due, of the Bonds and interest thereon payable therewith. If funds are held for the payment of Bonds, as described in the preceding two paragraphs, by the State Treasurer, the Resolution shall only be defeased, or the lien of the Resolution only be released with respect to such Bonds, if (i) such money and Government Obligations are held in trust for the sole and exclusive benefit of the registered owner of the Bonds (subject to the right of the State to require the release of moneys therefrom to the extent such moneys are not required for the payment of the applicable Bonds) and (ii) the registered owners of such Bonds have a valid and binding first lien and security interest in such money and Government Obligations held by the State Treasurer.

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 Bonds or the security therefor and are not expected to have an adverse effect upon the Bonds or security therefor.

The State of Michigan Comprehensive Annual Financial Report for the fiscal year ended September 30, 2003 ("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 Bonds or the security therefor and are not expected to have an adverse effect on the Bonds or security therefor.

Legality for Investment in Michigan

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

Approval of Legality and Counsel Responsibility

The delivery of the 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 II and III. 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 Underwriters of the Bonds with respect to matters unrelated to the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Howard & Howard Attorneys, P.C., Lansing, Michigan.

TAX MATTERS

General

In the opinion of the Attorney General of the State of Michigan and in the opinion of Bond Counsel, based on their examination of the documents described in their opinions, under existing law, as presently interpreted, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Their opinions are subject to the condition that the State comply with all requirements of the Internal Revenue Code of 1986, as amended, (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The State has covenanted in the Resolution to comply with all such requirements. They will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon. They are further of the opinion that under existing law, as presently interpreted, the 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.

There are additional federal tax consequences relative to the Bonds and the interest thereon. The following is a general description of some of these consequences but is not intended to be complete or exhaustive and investors should consult their tax advisors with respect to these matters. For federal income tax purposes: (a) tax-exempt interest, including interest on the Bonds, is included in the calculation of modified adjusted gross income required to determine the taxability of social security or railroad retirement benefits; (b) the receipt of tax-exempt interest, including interest on the Bonds, by life insurance companies may affect the federal income tax liabilities of such companies; (c) the amount of certain loss deductions otherwise allowable to property and casualty insurance companies will be reduced (in certain instances below zero) by 15% of, among other things, tax-exempt interest, including interest on the Bonds; (d) interest incurred or continued to purchase or carry the Bonds may not be deducted in determining federal income tax; (e) commercial banks, thrift institutions and other financial institutions may not deduct their costs of carrying certain obligations such as the Bonds; (f) interest on the Bonds will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States; (g) passive investment income, including interest on the Bonds, may be subject to federal income taxation for Subchapter S Corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S Corporation is passive investment income; (h) holders acquiring the Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income; and (i) the receipt or accrual of interest on the Bonds may cause disallowance of the earned income credit under Section 32 of the Code.

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE WILL NOT CAUSE THE INTEREST ON THE BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE BONDS, OR OTHERWISE PREVENT THE HOLDERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON. FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY SUCH FUTURE LEGISLATION, OR

ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING, BUT NOT LIMITED TO, SELECTION OF THE BONDS FOR AUDIT EXAMINATION, OR THE COURSE OR RESULT OF ANY EXAMINATION OF THE BONDS, OR OTHER BONDS WHICH PRESENT SIMILAR TAX ISSUES, WILL NOT AFFECT THE MARKET PRICE OF THE BONDS.

Treatment of Original Issue Discount

Under existing law as presently interpreted, if the initial offering yield of a Bond as shown on the cover of this Official Statement is greater than the stated interest rate (such Bonds are hereinafter referred to as the "OID Bonds"), the difference between the initial offering prices to the public (excluding bond houses and brokers) of the OID Bonds and the amount payable at their maturity constitutes "original issue discount" for federal income tax purposes. Such discount is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner of an OID Bond. The original issue discount accrues over the term to maturity of each such OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during such period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

The Code contains provisions relating to the accrual of original issue discount in the case of purchasers of the OID Bonds who purchase such OID Bonds after the initial offering of a substantial amount of the OID Bonds. Owners who do not purchase such OID Bonds in the initial offering at the initial offering prices should consult their own tax advisors as to the tax consequences of the purchase of such OID Bonds. All holders of OID Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that such loss is attributable to accrued original issue discount.

Treatment of Amortizable Bond Premium

For Federal income tax purposes, if the initial offering yield of a Bond as shown on the cover of this Official Statement is less than the stated interest rate (such Bonds are hereinafter referred to as the "Premium Bonds"), then the difference between a purchaser's cost basis of the Premium Bonds and the amounts payable on the Premium Bonds (other than the payment of the stated interest thereon) constitutes an amortizable bond premium. Such amortizable bond premium is not deductible from gross income, but is treated for federal income tax purposes as an offset of the amount of stated tax-exempt interest paid on the Premium Bonds, and is taken into account by certain corporations in determining adjusted current earnings for the purpose of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code.

In general, the amount of amortizable bond premium allocated to each "accrual period" is the excess of the stated interest on a Premium Bond allocable to such accrual period over the product of the bond purchaser's adjusted acquisition price at the beginning of the accrual period multiplied by the discount rate that, which used in computing the present value of all remaining payments to be made on such Premium Bond (including stated interest) produces an amount equal to the holder's basis in the Premium Bond. For purposes of this calculation, the adjusted acquisition price at the beginning of any accrual period is equal to the purchaser's original basis in the Premium Bond decreased by (i) the amount of bond premium amortized in prior accrual periods and (ii) the amount of any payments previously made on the Premium Bond other than payments of stated interest on such Premium Bond.

The amount of amortizable bond premium allocable to each taxable year is deducted from the bond purchaser's adjusted basis on such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such bonds.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS, INCLUDING THE TREATMENT OF ORIGINAL ISSUE DISCOUNT AND AMORTIZABLE BOND PREMIUM.

FINANCIAL INFORMATION

The financial information on the Michigan Transportation Fund and State Trunk Line Fund included herein as Appendix I has been excerpted from financial statements prepared by the Michigan Department of Management and Budget and audited by the State's Auditor General. The notes to such financial statements are not included in Appendix I.

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 by clicking on the "Financial Reports" button at www.michigan.gov/budget.

The State of Michigan Comprehensive Annual Financial Report for the fiscal year ended September 30, 2003, which was released December 23, 2003 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.

BOND RATINGS

The Bonds have been rated "Aaa" by Moody's Investors Service ("Moody's"), "AAA" by Standard & Poor's Ratings Services ("S&P") and "AAA" by Fitch Ratings ("Fitch"), with the understanding that upon delivery of the Bonds a municipal bond insurance policy guaranteeing the scheduled payment of principal of and interest on the Bonds will be issued by Financial Security. (See "BOND INSURANCE" herein.) The Bonds have been rated with underlying ratings of "Aa3" by Moody's, "AA" by S&P, and "AA-" by Fitch. No application was made to any other rating agency for the purpose of obtaining an additional rating on the 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 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 Bondholders 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 Bonds, to undertake continuing disclosure with respect to the 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 Bonds (including any person holding Bonds through nominees, depositories or other intermediaries)). These covenants are made to assist the purchasers of the 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 2003/2004 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 will be filed by the State with 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. The Notices of Material Events will be filed by the State with the Municipal Securities Rulemaking Board or with each Nationally Recognized Municipal Securities Repository and with Michigan's State Information Depository.

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 Bondholder 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 the tables under the captions "SOURCES OF CONSTITUTIONALLY RESTRICTED REVENUES OF THE MICHIGAN TRANSPORTATION FUND" and "HISTORICAL AND PROJECTED DEBT SERVICE COVERAGE ON THE BONDS AND THE OUTSTANDING BONDS."

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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, Minneapolis, Minnesota, a firm of independent accountants, upon delivery of the Bonds, will deliver to the State its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of computations prepared by the Underwriters on behalf of the State relating to (a) the sufficiency of the anticipated receipts from the Government Obligations, together with the initial cash deposit, if any, to pay when due, the principal, interest and early redemption premium requirements, if any, of the Prior Bonds, and (b) the "yield" on the Government Obligations and on the Bonds.

The report of Grant Thornton LLP will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

UNDERWRITING

The Bonds are being purchased, subject to certain conditions, by a group of underwriters (collectively the "Underwriters"), represented by Merrill Lynch & Co. The Purchase Contract provides for the Underwriters to purchase all of the Bonds, if any are purchased, at an underwriters' discount of \$362,796.00.

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.

Dated: April 21, 2004

STATE OF MICHIGAN

By /s/ Gloria J. Jeff
Gloria J. Jeff, Director
Michigan Department of Transportation

APPENDIX I
EXCERPTED FINANCIAL STATEMENTS
(EXCLUDING NOTES TO FINANCIAL STATEMENTS)

STATE TRUNK LINE FUND

AND

MICHIGAN TRANSPORTATION FUND

The information included herein relates to the years ended September 30, 1999 through 2003. Complete financial statements of all of the State's funds, as included in the State of Michigan Annual Financial Reports 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.

The State of Michigan Comprehensive Annual Financial Report for the year ended September 30, 2003, which was released December 23, 2003 and speaks only as of its date, is available upon request from the Department of Management and Budget, Office of Financial Management, State of Michigan, Lansing, Michigan 48909, may also be found by clicking on the "Financial Reports" button at www.michigan.gov/budget, and has been filed with each Nationally Recognized Municipal Securities Information Repository and the State Information Depository for Michigan.

**STATE OF MICHIGAN
STATE TRUNK LINE FUND
BALANCE SHEET
SEPTEMBER 30, 1999, 2000, 2001, 2002 and 2003
(In Thousands)***

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
ASSETS					
Cash (in transit and imprest funds)	\$ 10	\$ 160	\$ 263	\$ 1,026	\$ 21
Equity in State Treasurer's Common Cash Fund	293,797	368,113	380,268	460,541	80,579
Amounts due from other funds	86,687	72,165	75,304	75,857	545,976
Amounts receivable from Federal governmental agencies	74,035	106,424	99,224	102,321	77,625
Amounts receivable from local units of government	49,648	48,234	57,927	63,779	60,509
Inventories	8,568	6,951	8,079	8,287	5,594
Land contracts outstanding	3,653	3,777	3,935	3,007	3,847
Other assets	<u>5,255</u>	<u>6,944</u>	<u>6,453</u>	<u>8,726</u>	<u>8,486</u>
TOTAL ASSETS	<u>\$521,652</u>	<u>\$612,768</u>	<u>\$631,454</u>	<u>\$723,544</u>	<u>\$782,637</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants outstanding	\$ 19,666	\$ 19,895	\$ 6,786	\$ 6,854	\$ 26,326
Accounts payable	145,016	169,684	142,994	135,392	128,525
Amounts due to other funds	897	1,062	1,314	849	1,095
Deferred revenue	<u>17,028</u>	<u>17,720</u>	<u>18,181</u>	<u>23,367</u>	<u>29,076</u>
TOTAL LIABILITIES	<u>\$182,608</u>	<u>\$208,362</u>	<u>\$169,275</u>	<u>\$166,462</u>	<u>\$185,022</u>
FUND BALANCE					
Reserve for encumbrances/Multi- year projects	\$160,111	\$105,046	\$154,196	\$216,732	\$253,662
Reserve for unencumbered restricted revenue balances (except capital outlay)	84,575	210,312	209,164	232,920	233,602
Reserve for noncurrent assets	31,367	23,964	25,985	29,690	29,217
Reserve for construction and and debt service	35,905	35,901	35,902	45,315	55,247
Reserve for revolving loans	3,082	13,989	21,746	18,390	14,472
Unreserved	<u>24,004</u>	<u>15,197</u>	<u>15,185</u>	<u>14,034</u>	<u>11,415</u>
Total Fund Balances	<u>\$339,043</u>	<u>\$404,406</u>	<u>\$462,178</u>	<u>\$557,081</u>	<u>\$597,615</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$521,652</u>	<u>\$612,768</u>	<u>\$631,454</u>	<u>\$723,544</u>	<u>\$782,637</u>

*Totals may not add due to rounding.

STATE OF MICHIGAN
STATE TRUNK LINE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES FISCAL YEARS ENDED SEPTEMBER 30, 1999, 2000, 2001, 2002 and 2003
(In Thousands)*

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
REVENUES					
From federal agencies	\$523,295	\$696,174	\$655,096	\$567,187	\$552,141
From local agencies	43,302	32,520	36,205	31,514	28,589
From licenses and permits	18,553	20,357	18,898	15,794	17,990
Miscellaneous	<u>34,111</u>	<u>32,487</u>	<u>33,473</u>	<u>36,916</u>	<u>38,356</u>
Total Revenues	<u>\$619,260</u>	<u>\$781,539</u>	<u>\$743,674</u>	<u>\$651,411</u>	<u>\$637,075</u>
EXPENDITURES					
Current:					
Transportation	446,764	449,411	500,823	504,936	489,788
Capital outlay	959,998	1,065,011	931,854	791,233	794,069
Capital Lease Payments	<u>405</u>	<u>413</u>	<u>463</u>	<u>252</u>	<u>160</u>
Total Expenditures	<u>1,407,167</u>	<u>1,514,835</u>	<u>1,433,140</u>	<u>\$1,296,420</u>	<u>\$1,284,017</u>
Excess of Revenues over (under) expenditures	<u>\$(787,907)</u>	<u>\$(733,296)</u>	<u>\$(689,466)</u>	<u>\$(645,009)</u>	<u>\$(646,942)</u>
OTHER FINANCING SOURCES (USES)					
Capital Lease Acquisitions	755	-0-	-0-	-0-	-0-
Operating transfers in	745,455	865,110	808,802	830,788	792,641
Operating transfers out	<u>(71,810)</u>	<u>(66,451)</u>	<u>(61,563)</u>	<u>(90,877)</u>	<u>(105,166)</u>
Total other financing sources (uses)	<u>\$674,400</u>	<u>\$798,659</u>	<u>\$747,239</u>	<u>\$739,911</u>	<u>\$687,475</u>
Excess of Revenues and other sources over (under) Expenditures and other uses after accounting change	<u>(113,508)</u>	<u>65,363</u>	<u>57,773</u>	<u>94,902</u>	<u>40,534</u>
Fund Balances - October 1	<u>452,551</u>	<u>339,043</u>	<u>404,406</u>	<u>462,179</u>	<u>557,081</u>
Fund Balances - September 30	<u>\$339,043</u>	<u>\$404,406</u>	<u>\$462,179</u>	<u>\$557,081</u>	<u>\$597,615</u>

*Totals may not add due to rounding.

**STATE OF MICHIGAN
MICHIGAN TRANSPORTATION FUND
BALANCE SHEET
SEPTEMBER 30, 1999, 2000, 2001, 2002 and 2003
(In Thousands)**

ASSETS	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Equity in State Treasurer's Common Cash	\$197,470	\$177,929	\$181,976	\$208,954	\$186,685
Taxes, interest and penalties Receivable	99,814	98,316	120,756	125,571	118,510
Other Assets	<u>3,512</u>	<u>4,176</u>	<u>4,614</u>	<u>7,429</u>	<u>6,892</u>
TOTAL ASSETS	<u>\$300,796</u>	<u>\$280,421</u>	<u>\$307,345</u>	<u>\$341,954</u>	<u>\$312,087</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants Outstanding	\$ 1,503	\$ 1,182	\$ 1,430	\$ 654	\$ 540
Accounts Payable	235,647	226,971	232,969	236,958	236,512
Amounts Due to Other Funds	62,894	47,916	54,634	78,060	51,641
Other Liabilities and Deferred Revenues	<u>753</u>	<u>4,351</u>	<u>18,313</u>	<u>26,281</u>	<u>23,395</u>
TOTAL LIABILITIES	<u>\$300,796</u>	<u>\$ 280,421</u>	<u>\$ 307,345</u>	<u>\$ 341,954</u>	<u>\$ 312,087</u>
Fund Balance	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$300,796</u>	<u>\$280,421</u>	<u>\$307,345</u>	<u>\$341,954</u>	<u>\$312,087</u>

*Totals may not add due to rounding.

STATE OF MICHIGAN
MICHIGAN TRANSPORTATION FUND
STATEMENT OF REVENUES & EXPENDITURES
FISCAL YEARS ENDED SEPTEMBER 30, 1999, 2000, 2001, 2002 and 2003
(In Thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
REVENUES					
Taxes	\$1,776,210	\$1,821,564	\$1,845,514	\$ 1,910,117	\$1,937,851
From licenses and permits	56,971	55,171	54,671	58,024	56,670
Miscellaneous	<u>11,075</u>	<u>13,278</u>	<u>11,366</u>	<u>4,754</u>	<u>3,938</u>
Total Revenues	<u>\$1,844,257</u>	<u>\$1,890,014</u>	<u>\$1,911,550</u>	<u>\$ 1,972,895</u>	<u>\$1,998,459</u>
EXPENDITURES					
Current:					
Transportation	\$ 879,662	\$ 901,713	\$ 914,782	\$ 920,948	\$ 936,439
Total Expenditures	<u>879,662</u>	<u>901,713</u>	<u>914,782</u>	<u>920,947</u>	<u>936,439</u>
Excess of Revenues over (under) Expenditures	<u>\$ 964,595</u>	<u>\$ 988,301</u>	<u>\$ 996,768</u>	<u>\$ 1,051,947</u>	<u>\$1,062,020</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 572	\$ 2,557	\$ 1,990	\$ 1,340	\$ 1,947
Operating transfers out	(965,167)	(990,858)	(998,758)	(1,053,286)	(1,063,967)
Total Other	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Financing Sources (Uses)	<u>\$ (964,595)</u>	<u>\$ (988,300)</u>	<u>\$ (996,768)</u>	<u>\$ (1,051,947)</u>	<u>\$ (1,062,020)</u>
Excess of Revenues and Other Sources over (under) Expenditures	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Fund Balances - October 1	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances - September 30	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>

*Totals may not add due to rounding.

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APPENDIX II

FORM OF OPINION OF THE ATTORNEY GENERAL

State Transportation Commission

Gloria J. Jeff, Director
Michigan Department of Transportation

Jay B. Rising
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 STATE TRUNK LINE FUND REFUNDING BONDS, SERIES 2004 in the aggregate principal sum of \$_____ (the "Bonds"):

(1) Const 1963, art 9, §9 and 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 January 29, 2004 (the "Resolution") authorizing the issuance of the Bonds;

(3) a Non-arbitrage and Tax Compliance Certificate of the State; and

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

The Bonds are being issued to refund certain State of Michigan State Trunk Line Fund Bonds and to pay the cost of issuing the Bonds.

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

1. The Bonds are valid and binding obligations of the State enforceable in accordance with their terms, secured by and payable solely from funds irrevocably pledged by law which are restricted as to use by Const 1963, art 9, §9 and deposited or to be deposited in the State Trunk Line Fund created pursuant to the Act.

2. Payment of the principal of, premium, if any, and interest on the Bonds, certain outstanding bonds and any additional bonds or other obligations similarly secured, issued within the limitations provided by Const 1963, art 9, §9 and the Act, constitutes a first lien on and first priority use of the funds so restricted and deposited or to be deposited to the credit of the State Trunk Line Fund.

3. Interest on the Bonds (i) is excluded from gross income for federal income tax purposes and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the State comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with each such requirement to the extent permitted by law. Failure to comply with certain of those requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. 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 all 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 and the Resolution 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

Assistant Attorney General

APPENDIX III

FORM OF BOND COUNSEL APPROVING OPINION

DICKINSON WRIGHT PLLC

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

_____, 2004

State of Michigan
Lansing, Michigan

We have examined the Constitution and 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 STATE TRUNK LINE FUND REFUNDING BONDS, SERIES 2004 (the "Bonds"). The Bonds are being issued for the purposes of providing funds to refund certain outstanding bonds of the State issued for transportation purposes involving roads, streets or bridges in the State, and paying costs incidental to the issuance of the Bonds and to the refunding.

The Bonds are issued in fully registered form in the denominations of \$5,000 or integral multiples thereof, dated as of _____, 2004, 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).

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 State Transportation Commission and the Director of the Michigan Department of Transportation respectively. The Bonds are of equal standing and priority of lien as to the moneys in the State Trunk Line Fund with the outstanding State Trunk Line Fund Bonds of the State described in the text of the Bonds (the "Outstanding Bonds").

The State has the right to issue additional bonds of equal standing and priority of lien with the Bonds and the Outstanding Bonds as to the constitutionally restricted moneys deposited or to be deposited in the State Trunk Line Fund, subject to the limitations of Section 9 of Article IX of the Michigan Constitution of 1963, as amended, and Act 51.

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 obligations of the State in accordance with their tenor, secured by and payable solely from funds irrevocably pledged by law which are restricted as to use by Section 9 of Article IX of the Michigan Constitution of 1963, as amended, and deposited or to be deposited in the State Trunk Line Fund, being a special fund in the State Treasury wherein a portion of certain gasoline and other motor vehicle taxes, all as imposed by law, are required by law to be set aside.

2. Payment of the principal of, premium, if any, and interest on the Bonds, the Outstanding Bonds and any additional bonds or other obligations similarly secured, issued within the limitations provided by Section 9 of Article IX of the Michigan Constitution of 1963, as amended, and by Act 51, constitutes a first lien on and first priority use of the funds so restricted and deposited or to be deposited to the credit of the State Trunk Line Fund as herein described.

3. The interest on the Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. This opinion is subject to the condition that the State comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The State has covenanted in the Resolution to comply, to the extent permitted by law, with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

4. 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 and the Resolution 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.

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

DICKINSON WRIGHT PLLC

APPENDIX IV



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



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