NEW ISSUE - BOOK-ENTRY-ONLY

In the opinion of Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS

$562,695,000
General Obligation Refunding Bonds
(Variable Rate Demand Bonds)
2005 Series A

Dated: Date of Delivery **Price: 100%** **Due: February 1, 2028**

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds are variable rate bonds that may be in the Daily Mode, Weekly Mode, Flexible Mode, Term Mode or ARS Mode. The Bonds initially will be in the Weekly Mode and will bear interest at Weekly Rates determined by the Remarketing Agent as described herein. So long as the Bonds are in the Weekly Mode, the Interest Payment Date will be the first Business Day of each month. Bonds in the Weekly Mode may be purchased upon demand of the registered owners thereof provided in the manner described herein. All Bonds will bear interest in the same mode. The Bonds are subject to optional redemption, mandatory sinking fund redemption and optional and mandatory tender for purchase prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on the state tax revenue growth and on expenditures for debt service, see "SECURITY FOR THE BONDS" (herein) and the Commonwealth Information Statement (referred to herein) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Commonwealth will enter into a Standby Bond Purchase Agreement with Citibank, N.A. (the "Bank") with respect to the Bonds. See Appendix E hereto for information concerning the Bank. The Standby Bond Purchase Agreement is a liquidity facility that requires the Bank to pay the principal portion of the purchase price for the Bonds tendered or deemed tendered to the extent not remarketed, subject to certain funding conditions described herein. The Commonwealth has agreed to pay the portion of the purchase price equal to the accrued but unpaid interest for any Bonds tendered or deemed tendered to the extent not remarketed on the applicable purchase date for such Bonds. The Bank is not providing credit support for payment of regularly scheduled principal and interest. The Standby Bond Purchase Agreement is scheduled to expire on March 15, 2010 or, if such date is not a Business Day, the next preceding Business Day. The obligations of the Bank to purchase Bonds under the Standby Bond Purchase Agreement may be terminated prior to its Agreement Expiration Date immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required.. See Appendix D hereto under "Standby Bond Purchase Agreement."

The Bonds are offered when, as and if issued and received by the Underwriter, and subject to the unqualified approving opinion as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Gadsby Hannah LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at or through DTC in New York, New York, on or about March 15, 2005.

Citigroup

March 8, 2005

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriter of the Bonds 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 either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein or included by reference herein has been furnished by the Commonwealth and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter of the Bonds or, as to information from other sources, the Commonwealth. The information and expressions of opinion herein or included by reference 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 Commonwealth, or its agencies, authorities or political subdivisions, since the date hereof, except as expressly set forth herein.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Bonds offered hereby at levels above those which might otherwise prevail on the open market. Such stabilizing, if commenced, may be discontinued at any time.

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

W. Mitt Romney	**Governor**
Kerry Healey	**Lieutenant Governor**
William F. Galvin	**Secretary of the Commonwealth**
Thomas F. Reilly	**Attorney General**
Timothy P. Cahill	**Treasurer and Receiver-General**
A. Joseph DeNucci	**Auditor**

LEGISLATIVE OFFICERS

Robert E. Travaglini	**President of the Senate**
Salvatore F. DiMasi	**Speaker of the House**

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OFFICIAL STATEMENT

$562,695,000

THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Refunding Bonds
(Variable Rate Demand Bonds)
2005 Series A

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through F attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2005 Series A in the aggregate principal amount of $562,695,000 (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are being issued to advance refund certain bonds of the Commonwealth as set forth in Appendix F – Table of Refunded Bonds. See "THE BONDS – Plan of Finance."

Purpose and Context of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through F. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Specific reference is made to the Commonwealth's Information Statement dated March 8, 2005 (the "Information Statement"), as it appears as Appendix A hereto. A copy of the Information Statement will be filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth.

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds. Appendix D attached hereto contains definitions used in this Official Statement, a summary of certain provisions of the Bonds relating to their variable rate demand features and the Standby Bond Purchase Agreement. Appendix E attached hereto contains information concerning the Bank, which is entering into a Standby Bond Purchase Agreement with the Commonwealth. Appendix F attached hereto is a listing of the Commonwealth's bonds to be refunded with the proceeds of the Bonds.

THE BONDS

General

The Bonds will be issued initially in the Weekly Mode, will be dated the date of delivery thereof and will bear interest from their date of delivery at Weekly Rates payable on each Interest Payment Date until maturity, earlier redemption or conversion to a different mode, all as described below under "Additional Information Related to Variable Rate Demand Bonds." Interest on Bonds in the Weekly Mode will be calculated on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed and will be payable on each Interest Payment Date to the registered owner as of the Record Date. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds. The Bank of New York Trust Company, N.A. will serve as Tender Agent for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"). Bond certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts, in the Daily Mode and Weekly Mode of $100,000 and integral multiples of $5,000 in excess thereof, in the Flexible Mode of $100,000 and integral multiples of $1,000 in excess thereof, in the Term Mode of $5,000 or integral multiples thereof, and in the ARS Mode of $25,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid to DTC or its nominee as registered owner of the Bonds. The Record Date for payments on account of the Bonds bearing interest at a Weekly Rate will be the Business Day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

Additional Information Related to Variable Rate Demand Bonds

The Bonds will be in the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Mode or the ARS Mode. Bonds in the Daily Mode will bear interest at a Daily Rate. Bonds in the Weekly Mode will bear interest at a Weekly Rate. Bonds in the Flexible Mode will bear interest at a Flexible Rate. Bonds in the Term Mode will bear interest at a Term Rate. Bonds in the ARS Mode will bear interest at an ARS Rate. Depending on which mode is then in effect for the Bonds, the Interest Payment Dates, the dates interest rates are effective, the dates on which notices of tender are required to be given, the dates on which Bonds are to be tendered, the dates for notices of conversion to another mode and provisions for mandatory tender for purchase applicable to the Bonds will vary. See the description below and Appendix D for further details, other than with respect to the ARS Mode. In the event of a conversion to the ARS Mode, if any, the details of the Bonds pertaining thereto will be set forth in a supplement to this Official Statement.

The information regarding provisions for the tender and purchase of Bonds should be used in conjunction with the information set forth under "BOOK-ENTRY-ONLY SYSTEM" below. As initially issued, the Bonds will be issued in book-entry-only form through the facilities of DTC, and the procedures and practices of DTC will govern the tender and purchase procedures applicable to owners of beneficial interests in the Bonds.

Interest. Bonds shall bear interest at Daily Rates, Weekly Rates, Flexible Rates, Term Rates or ARS Rates. Initially all Bonds will be in the Weekly Mode. At the option of the Commonwealth, Bonds in any mode may be changed to any of the other modes, including a conversion from one Term Rate Period to another Term Rate Period of a different duration, as described below and in Appendix D.

Interest on Bonds in the Weekly Mode is payable monthly on each Interest Payment Date. For Bonds in the Weekly Mode, the Interest Payment Date is the first Business Day of each calendar month. Interest on Bonds in the Weekly Mode is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed and is payable to the registered owners who are such registered owners on the Record Date, which is the Business Day immediately preceding an Interest Payment Date. As long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See "BOOK-ENTRY-ONLY SYSTEM." For a description of interest payments on Bonds in the Daily Mode, the Flexible Mode and the Term Mode, see Appendix D.

Interest Rate Determination. For Bonds in the Weekly Mode, the Weekly Rate shall be determined each Tuesday, or the next succeeding Business Day if any Tuesday is not a Business Day (the "Rate Determination Date"), by the Remarketing Agent, by 4:00 p.m., Boston time, shall take effect on each Wednesday following such

Rate Determination Date, regardless of whether any such Wednesday is a Business Day, and shall be in effect to and including the following Tuesday, regardless of whether such Tuesday is a Business Day (the "Weekly Rate Period"). The Weekly Rate for each Weekly Rate Period will be determined by the Remarketing Agent as the lowest interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of Weekly Rates will be given by the Remarketing Agent to the Commonwealth by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine a Weekly Rate, the Bonds will bear interest at the most recent Interest Index until a new Weekly Rate is determined. No Weekly Rate on the Bonds may exceed 12% per annum, the Maximum Rate. For a description of the procedures for determining Daily Rates, Flexible Rates and Term Rates, see Appendix D.

Optional Tender for Purchase. Bonds in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written, electronic or telephone notice (promptly confirmed in writing) of tender to the Tender Agent and the Remarketing Agent not later than 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to a Purchase Date. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Daily Mode, Flexible Mode, Term Mode or ARS Mode. As noted below under "Book-Entry Bonds," for so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the procedures for tender of Bonds will be governed by the operational procedures of DTC.

Mandatory Tender Upon Conversion to or from the Flexible Mode, Term Mode or ARS Mode. Bonds to be converted from the Daily Mode or the Weekly Mode to the Flexible Mode, Term Mode or ARS Mode or from the Flexible Mode, Term Mode or ARS Mode to any other mode are subject to mandatory tender for purchase as described below on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest if any. Bonds are not subject to mandatory tender upon conversion from the Weekly Mode to the Daily Mode or from the Daily Mode to the Weekly Mode.

If Bonds are to be converted to the Flexible Mode, Term Mode or ARS Mode, the Commonwealth must give written notice of such conversion to the Tender Agent, the Bank and the Remarketing Agent at least 35 days prior to the Conversion Date. The Tender Agent must give written notice of such Conversion to the holders of such Bonds by first class mail or, at the Commonwealth's option, certified mail, return receipt requested, at least 30 days prior to the Conversion Date, setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. The Bonds are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement is to be terminated as a result of the occurrence of certain events of default under such Standby Bond Purchase Agreement. See Appendix D under the heading "Standby Bond Purchase Agreement" for a list of events of default for which the Bank may elect to give a termination notice. The Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to the Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the Commonwealth, shall give written notice to the applicable Bondholders at least 15 days prior to such mandatory tender date. As noted below under "Risk of Termination of Standby Bond Purchase Agreement," the Bonds are not subject to mandatory tender for purchase upon the occurrence of certain events of default under the Standby Bond Purchase Agreement for which immediate termination is permitted without the requirement of a termination notice.

Delivery and Payment for Tendered Bonds. The Tender Agent, on behalf of the Commonwealth, will purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds. Except while the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 p.m., Boston time, on the Business Day which is the Purchase Date. The Tender Agent will pay or cause to be paid tendering Bondholders in immediately available funds by 3:00 p.m., Boston time, on such day. If the Bonds are delivered after 1:00 p.m., Boston time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

Book-Entry Bonds. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a DTC Participant acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a DTC Participant or an Indirect Participant of DTC acting through a DTC Participant to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such DTC Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the Commonwealth, the Tender Agent nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any DTC Participants, by any DTC Participants to any Indirect Participants of DTC or by any DTC Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a DTC Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. Citigroup Global Markets Inc. will serve as the initial Remarketing Agent for the Bonds.

Standby Bond Purchase Agreement. The Bank has agreed, pursuant to the Standby Bond Purchase Agreement and subject to certain funding conditions, to pay the principal portion of the Purchase Price for any unremarketed tendered Bonds, other than Bonds in an ARS Mode or a Term Mode with a Term Rate Period which is greater than one year, from time to time, subject to the terms and provisions set forth in the Standby Bond Purchase Agreement. The portion of the Purchase Price equal to the accrued but unpaid interest on any unremarketed tendered Bond will be payable to the Tender Agent by the Commonwealth on the Purchase Date. The Bank will not have any obligation to pay the portion of the Purchase Price equal to the accrued but unpaid interest on Bonds tendered or deemed tendered but unremarketed. See Appendix D for a summary of certain provisions of the Standby Bond Purchase Agreement and Appendix E for certain information concerning the Bank. All information concerning the Bank has been provided by the Bank, and the Commonwealth is not responsible for its accuracy or completeness.

Risk of Termination of Standby Bond Purchase Agreement. The Standby Bond Purchase Agreement is scheduled to expire at 5:00 p.m., Boston time, on March 15, 2010 or, if such date is not a Business Day, the next preceding Business Day. The obligations of the Bank to purchase Bonds under the Standby Bond Purchase Agreement may be terminated prior to its Agreement Expiration Date immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required. Additionally, the obligations of the Bank to purchase Bonds under the Standby Bond Purchase Agreement may be suspended upon the occurrence of an Event of Default specified therein. See Appendix D under the heading "Standby Bond Purchase Agreement." In the event of such termination or suspension, the Bonds are NOT subject to mandatory tender for purchase solely as a result of such termination or suspension.

Redemption

Optional Redemption. Bonds in the Daily Mode or the Weekly Mode are subject to optional redemption prior to maturity at the election of the Commonwealth, in whole or in part at any time, and in such amounts as the Commonwealth may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium. The Commonwealth also has the right to redeem Bonds which are subject to optional or mandatory tender for purchase without notice on any optional or mandatory tender date. The Commonwealth also has the right to redeem any Bonds held by or for the benefit of the Bank without notice and prior to other Bonds.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption on June 1, 2005 and February 1 in each of the years set forth in the following table, in the principal amount specified for each such date:

Redemption Date	Principal Amount
June 1, 2005	$2,970,000
February 1, 2006	3,245,000
February 1, 2007	3,745,000
February 1, 2008	3,850,000
February 1, 2009	8,160,000
February 1, 2010	4,040,000
February 1, 2011	4,170,000
February 1, 2012	4,310,000
February 1, 2013	4,460,000
February 1, 2014	10,065,000
February 1, 2015	4,765,000
February 1, 2016	33,915,000
February 1, 2017	36,510,000
February 1, 2018	4,635,000
February 1, 2019	4,815,000
February 1, 2020	46,320,000
February 1, 2021	49,375,000
February 1, 2022	51,620,000
February 1, 2023	66,885,000
February 1, 2024	56,300,000
February 1, 2025	59,585,000
February 1, 2026	2,660,000
February 1, 2027	95,365,000
February 1, 2028*	930,000

*Stated Maturity.

The Commonwealth is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the Bonds by the principal amount of any Bonds previously purchased or optionally redeemed by the Commonwealth. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other Bonds.

Notice of Redemption. For Bonds in the Daily Mode, Weekly Mode or ARS Mode, the Commonwealth shall give notice of redemption to the owners of the Bonds not less than 15 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for the Bonds, notices of redemption will be mailed by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC Participant or any nominees of a Beneficial Owner of any Bond (having received notice from a DTC Participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

On the specified redemption date, all Bonds called for redemption shall cease to bear interest, provided the Commonwealth has moneys on hand to pay such redemption full.

Selection for Redemption. In the event that less than all of the Bonds are to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular Bonds or portion of any such Bonds to be redeemed will be selected by DTC by lot in such manner as DTC shall determine. If the book-entry-only system no longer remains if effect for the Bonds, selection for redemption of less than all of the Bonds will be made by the Commonwealth by lot in such manner as in its discretion it shall deem appropriate and fair. In no event will any Bond be outstanding in a principal amount that is not an Authorized Denomination.

Plan of Finance

The Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of advance refunding the bonds of the Commonwealth set forth in Appendix F (the "Refunded Bonds").

The Commonwealth, upon delivery of the Bonds, will enter into a refunding escrow agreement (the "Escrow Agreement") with The Bank of New York Trust Company, N.A., New York, New York, as escrow agent (the "Escrow Agent") for the Refunded Bonds. The Escrow Agreement will provide for the deposit of the net proceeds of the Bonds with the Escrow Agent, to be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, obligations of certain federal agencies specified in Section 49 of Chapter 29 of the Massachusetts General Laws or of any agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality of the United States of America, bank time deposits or certificates of deposit that are secured by such obligations, repurchase agreements with banks in respect of any such obligations or advance-refunded or defeased bonds that are secured by such obligations (the "Escrow Obligations") and to funding, if needed, a cash deposit in such account. The Escrow Agreement will require that maturing principal of and interest on the Escrow Obligations held under such Escrow Agreement, plus any initial cash deposit, be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds subject to such Escrow Agreement. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS," the Escrow Obligations will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to make such payments on the Refunded Bonds subject to such Escrow Agreement to and including their respective maturity or redemption dates, each as set forth in Appendix F.

In connection with the issuance of the Bonds, the State Treasurer has contracted to enter into an interest rate swap arrangement (the "Swap Contract") in the initial aggregate notional amount of $562,695,000, which will take effect on March 15, 2005 for a period of approximately 23 years ending February 1, 2028. Under the Swap Contract, the portion of the notional amount corresponding to each maturity of the Bonds is subject to a separate fixed swap rate. The Commonwealth will pay amounts to the swap counterparty for the period corresponding to the term of each maturity based on the fixed rates set forth in the following table and receive variable amounts from the swap counterparty for the relevant period calculated at the BMA Municipal Swap Index. The swap counterparty is Citibank, N.A.

Period Commencing March 15, 2005 and ending on the date provided below	Notional Amount	Fixed Rate
June 1, 2005	$2,970,000	2.217%
February 1, 2006	3,245,000	2.560
February 1, 2007	3,745,000	2.782
February 1, 2008	3,850,000	2.925
February 1, 2009	8,160,000	3.048
February 1, 2010	4,040,000	3.150
February 1, 2011	4,170,000	3.243
February 1, 2012	4,310,000	3.333
February 1, 2013	4,460,000	3.412
February 1, 2014	10,065,000	3.486
February 1, 2015	4,765,000	3.555
February 1, 2016	33,915,000	3.616
February 1, 2017	36,510,000	3.672
February 1, 2018	4,635,000	3.724
February 1, 2019	4,815,000	3.769
February 1, 2020	46,320,000	3.802
February 1, 2021	49,375,000	3.843
February 1, 2022	51,620,000	3.875
February 1, 2023	66,885,000	3.903
February 1, 2024	56,300,000	3.927
February 1, 2025	59,585,000	3.951
February 1, 2026	2,660,000	3.970
February 1, 2027	95,365,000	3.985
February 1, 2028	930,000	4.004

The obligation of the Commonwealth to pay interest on the Bonds is in no way conditional upon the Commonwealth's receipt of payments from the swap counterparty. The notional amount under the Swap Contract will decline on June 1, 2005 and each February 1 to match the annual amortization of the Bonds set forth on page 5.

Under certain circumstances (including certain events of default with respect to the Commonwealth or the swap counterparty), the Swap Contract may be terminated prior to its stated expiration date. Following any termination of the Swap Contract, either the Commonwealth or the swap counterparty may owe a termination payment to the other, depending upon market conditions and the events that caused the Swap Contract to terminate. Under certain market conditions, the Commonwealth could owe a termination payment to the swap counterparty that could be substantial.

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes an allowable state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See the Information Statement under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Bonds, and all claims with respect thereto. However, the property of the Commonwealth is not generally subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires a legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or state statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to the Commonwealth. Under Massachusetts law, the Bonds have all the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

LITIGATION

No litigation is pending or, to the knowledge of the Attorney General, threatened against or affecting the Commonwealth seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds.

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see the Information Statement under the headings "LEGAL MATTERS" and "LONG-TERM LIABILITIES – General Obligation Debt; Interest Rate Swap Agreement Dispute."

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially 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 will be issued for each $500,000,000 principal amount of the Bonds or portion thereof and will be deposited with DTC.

DTC 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 securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC 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 the DTC Participants 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, respectively, 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 DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Bonds in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations of their purchase providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests 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 DTC 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 the Bonds with DTC and their registration in the name of Cede & Co. 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 DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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.

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

Neither DTC nor Cede & Co. (or other such nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Commonwealth as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants having the Bonds credited to their accounts on the record date (identified in a listing attached to the omnibus proxy).

THE COMMONWEALTH WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT, THE PAYMENT OF OR THE PROVIDING OF NOTICE TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OR WITH RESPECT TO ANY OTHER ACTION TAKEN BY DTC AS BOND OWNER.

The principal of and interest and premium, if any, on the Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, as registered owner of the Bonds. Upon receipt of monies, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not DTC or the Commonwealth, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, on the Bonds to DTC is the responsibility of the Commonwealth; disbursement of such payments to DTC Participants and Indirect Participants shall be the responsibility of DTC; and disbursement of such payments to Beneficial Owners shall be the responsibility of the DTC Participants and the Indirect Participants.

The Commonwealth cannot give any assurances that DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this document.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the DTC Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bond are transferred by the DTC Participants on DTC's records.

Beneficial Owners of the Bonds will not receive or have the right to receive physical delivery of such Bonds and will not be or be considered to be the registered owners thereof. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds, except as otherwise expressly provided herein.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, in the event that a successor depository is not obtained, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondowner.

The Commonwealth may decide to discontinue the use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COMMONWEALTH BELIEVES TO BE RELIABLE, BUT THE COMMONWEALTH TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

RATINGS

Applications for ratings on the Bonds have been made with Fitch Ratings ("Fitch"), Moody's Investors Service Inc. ("Moody's") and Standard & Poor's Ratings Services ("S&P"), respectively.

The Commonwealth expects that the Bonds will be assigned long-term ratings of "AA-", "Aa2" and "AA-" by Fitch, Moody's, and S&P, respectively, and short-term ratings of "F1+", "VMIG 1" and "A-1+" by Fitch, Moody's and S&P, respectively.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Bonds.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering price of the Bonds equal to approximately 0.125% of the aggregate principal amount of the Bonds. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the cover page hereof.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., a firm of independent accountants, will deliver to the Commonwealth, on or before the settlement date of the Bonds, its verification report which will verify the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the Government Obligations to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds being refunded from proceeds of the Bonds and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

TAX EXEMPTION

In the opinion of Palmer & Dodge LLP, Bond Counsel to the Commonwealth ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon is included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Commonwealth has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective purchasers of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a holder's federal or state tax liability. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of these other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

On the date of delivery of the Bonds, the Underwriter will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix B – "Proposed Form of Opinion of Bond Counsel."

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Palmer & Dodge LLP of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Ropes & Gray LLP of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriter by its counsel, Gadsby Hannah LLP of Boston, Massachusetts.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix C attached hereto.

For information concerning the availability of certain other financial information from the Commonwealth, see the Information Statement under the heading "CONTINUING DISCLOSURE."

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Official Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Official Statement, except as expressly stated.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 or Carlo DeSantis, Director of Capital Finance and Intergovernmental Operations, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2081. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone 617/239-0389.

THE COMMONWEALTH OF MASSACHUSETTS

By: /s/ Timothy P. Cahill
Timothy P. Cahill
Treasurer and Receiver-General

By: /s/ Eric A. Kriss
Eric A. Kriss
Secretary of Administration and Finance

March 8, 2005

APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated March 8, 2005

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

W. Mitt Romney	**Governor**
Kerry Healey	**Lieutenant Governor**
William F. Galvin	**Secretary of the Commonwealth**
Thomas F. Reilly	**Attorney General**
Timothy P. Cahill	**Treasurer and Receiver-General**
A. Joseph DeNucci	**Auditor**

LEGISLATIVE OFFICERS

Robert E. Travaglini	**President of the Senate**
Salvatore F. DiMasi	**Speaker of the House**

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

March 8, 2005

This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the Commonwealth). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information Statement contains information only through its date and should be read in its entirety.

The ability of the Commonwealth to meet its obligations will be affected by future social, environmental and economic conditions, among other things, as well as by legislative policies and the financial condition of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

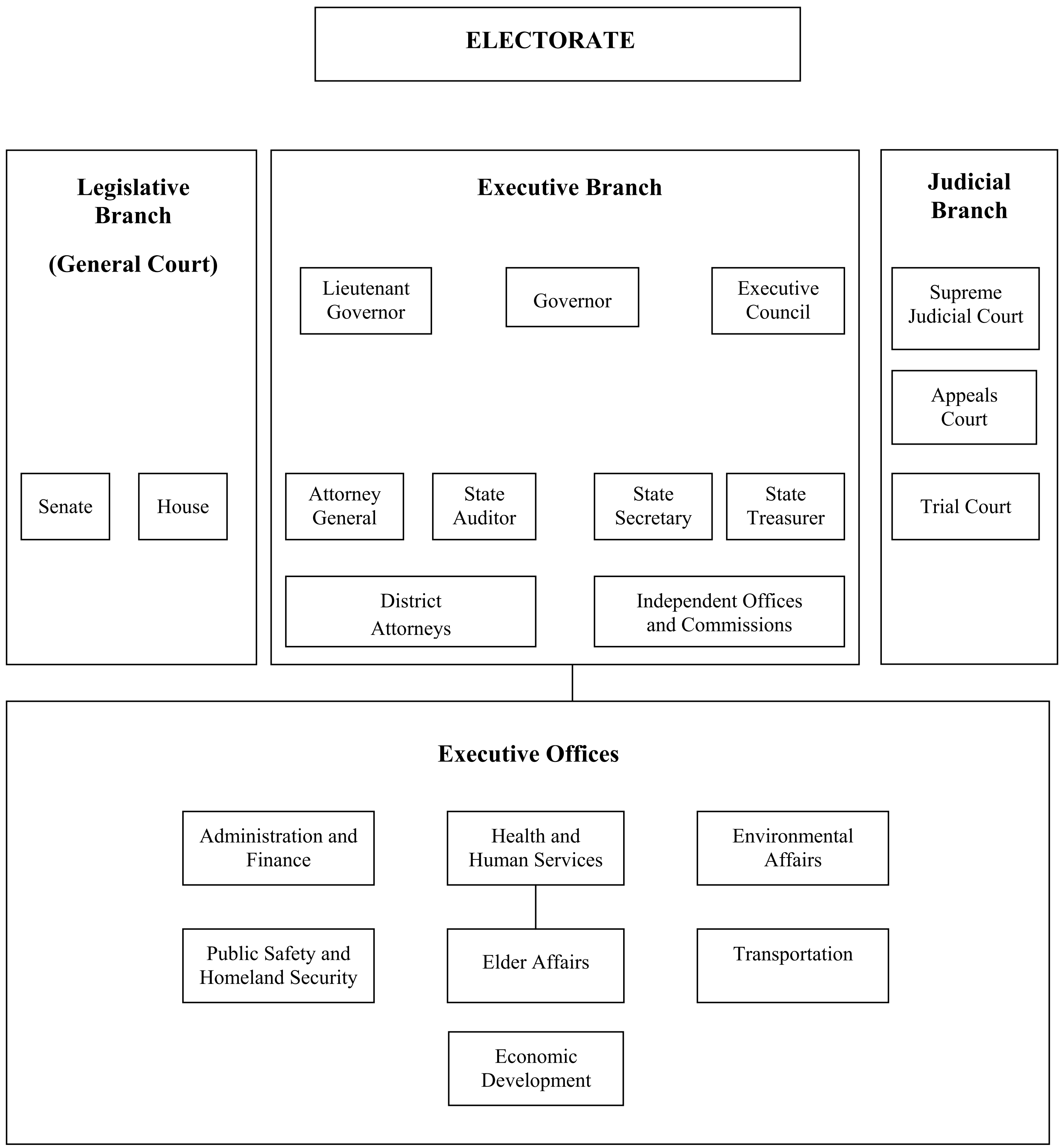
Exhibit A to this Information Statement is the Statement of Economic Information as of December 31, 2004. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2004 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2004.

Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission (SEC). The financial statements are also available at the home page of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary, as indicated by the chart below.



Executive Branch

Governor. The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January 2003.

The Executive Council, also referred to as the "Governor's Council," consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants (other than for debt service) prepared by the Comptroller for payment by the State Treasurer.

Also within the Executive Branch are certain independent offices, each of which performs a defined function, such as the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance.

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the seven Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Elder Affairs (which is a part of the Executive Office of Health and Human Services), the Executive Office of Transportation, the Executive Office of Public Safety, the Executive Office of Economic Development and the Executive Office of Environmental Affairs. The Governor's Cabinet also includes the directors of the Departments of Housing and Community Development, Business and Technology, Consumer Affairs and Business Regulation and Labor. In addition, the Chairperson of the Commonwealth Development Coordinating Council serves as an ex-officio member of the Governor's Cabinet, and within the current Administration, the Secretaries of Transportation and Environmental Affairs as well as the director of the Department of Housing and Community Development report to the Chairperson. Cabinet secretaries and executive department chiefs serve at the pleasure of the Governor. Most other agencies are grouped under one of the seven Executive Offices for administrative purposes.

The Governor's chief fiscal officer is the Secretary of Administration and Finance. The activities of the Executive Office for Administration and Finance fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth's budget and monitoring of all agency expenditures during the fiscal year; (ii) enforcement of the Commonwealth's tax laws and collection of tax revenues through the Department of Revenue for remittance to the State Treasurer; (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs and negotiation of collective bargaining agreements with certain of the Commonwealth's public employee unions; (iv) capital facilities management, including coordinating and overseeing the construction, management and leasing of all state facilities; and (v) administration of general services, including information technology services.

State Treasurer. The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments of Commonwealth funds (other than the state employee and teacher pension funds), including all cash receipts; (iii) the disbursement of Commonwealth monies and oversight of reconciliation of the state's accounts; and (iv) the issuance of almost all debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.

In addition to these responsibilities, the State Treasurer serves as Chairperson of the Massachusetts Lottery Commission, the State Board of Retirement, the Pension Reserves Investment Management Board, the Massachusetts Water Pollution Abatement Trust and the Massachusetts School Building Authority. The State Treasurer also serves as a member of numerous other state boards and commissions, including the Municipal Finance Oversight Board.

State Auditor. The State Auditor is charged with improving the efficiency of state government by auditing the administration and expenditure of public funds and reporting the findings to the public. The State Auditor reviews the activities and operations of approximately 750 state entities and contract compliance of private vendors doing business with the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

Attorney General. The Attorney General represents the Commonwealth in all legal proceedings in both the state and federal courts, including defending the Commonwealth in actions in which a state law or executive action is challenged. The Attorney General also brings actions to enforce environmental and consumer protection statutes, among others, and represents the Commonwealth in public utility and automobile and health insurance rate setting procedures. The Attorney General works in conjunction with the general counsel of the various state agencies and executive departments to coordinate and monitor all pending litigation.

State Comptroller. All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth's annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth's audited annual reports include audited financial statements on both the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Commonwealth has continued its relationship with the independent public accounting firm of Deloitte & Touche LLP for fiscal 2005 to audit the Commonwealth's financial statements and to conduct the state single audit. The Comptroller expects the SBFR and the CAFR for the fiscal year ended June 30, 2005 to be completed on or before October 31 and December 31 of 2005, respectively. The Statutory Basis Financial Report for the year ended June 30, 2004, included herein by reference as Exhibit B, and the Comprehensive Annual Financial Report for the year ended June 30, 2004, included herein by reference as Exhibit C, were audited by Deloitte & Touche LLP, as stated in its reports appearing therein. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

State Secretary. The Secretary of the Commonwealth is responsible for collection and storage of public records and archives, securities regulation, state elections, administration of state lobbying laws and custody of the seal of the Commonwealth.

Legislative Branch

The General Court (the General Court or the Legislature) is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year. The joint rules of the House and Senate require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

The House of Representatives must originate any bill that imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it. All bills are presented to the Governor for approval or veto. The General Court may override the Governor's veto of any bill by a two-thirds vote of each house. The Governor also has the power to return a bill to the branch of the Legislature in which it was originated with a recommendation that certain amendments be made therein; such bill is then before the Legislature and is subject to amendment or re-enactment, at which point the Governor has no further right to return the bill a second time with a recommendation to amend but may still veto the bill.

Judicial Branch

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on certain questions of law to the Governor, the General Court and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

The Legislature has established independent authorities and agencies within the Commonwealth (numbering 56 as of June 30, 2004), the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statement 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2004, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statement 14, with 35 of its 56 authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2004 general-purpose financial statements in the CAFR, included herein by reference as Exhibit C.

Local Government

All territory in the Commonwealth is in one of the 351 incorporated cities and towns that exercise the functions of local government, which include public safety, fire protection and public construction. Cities and towns or regional school districts established by them also provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one- or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, local governments have been forced to rely less on property taxes and more on other revenues, principally distribution of revenues from the Commonwealth, to support local programs and services. It is estimated that state aid comprised approximately 25% of municipal receipts on average in fiscal 2004, although the amount of aid received varies significantly among municipalities. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid."

The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in seven of those counties in recent years. The county governments that remain are responsible principally for the operation of correctional facilities and registries of deeds. Where county government has been abolished, the functions, duties and responsibilities of the government have been transferred to the Commonwealth, including all employees, assets, valid liabilities and debts.

Initiative Petitions

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures has been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions so approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, frequently including petitions relating to tax and fiscal policy. Initiative petitions may not make appropriations. A number of these have been approved and become law. See particularly "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid."

Constitutional amendments also may be initiated by citizens, but they follow a longer adoption process, which includes gaining at least 25% of the votes of the House of Representatives and Senate jointly assembled in constitutional convention in two successive biennial legislative sessions before being decided by the voters in a referendum.

COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with GAAP, as defined by GASB. The General Fund and those special revenue funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in the Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls."

Prior to the GAA for fiscal 2004, there were three principal budgeted operating funds used in the calculation of the consolidated net surplus: the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally accounted for approximately 93% of total expenditures of the budgeted operating funds. The remaining approximately 7% of expenditures occur in several dedicated operating funds (Minor Funds) not included in the calculation of the consolidated net surplus. State finance law also provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund, which funds relate to the use of any aggregate fiscal year-end surplus in the Commonwealth's three principal budgeted operating funds. See "SELECTED FINANCIAL DATA – Stabilization Fund and Disposition of Year-End Surpluses."

The fiscal 2004 GAA repealed the Local Aid Fund and many of the Minor Funds and amended the statutory definition of balance. As of June 30, 2003, the remaining funds include the General Fund, the Highway Fund and the Stabilization Fund, certain administrative control funds including the Temporary Holding Fund and the Intragovernmental Service Fund and the Inland Fisheries and Game Fund, the Workforce Training Fund, the Federal Medicaid Assistance Percentage Escrow Fund (which will expire in fiscal 2005), the Massachusetts Tourism Fund and the Children's and Senior's Health Care Assistance Fund. The Collective Bargaining Reserve Fund and the Tax Reduction Fund are enabled in legislation but are inactive. As of fiscal 2004, the General Fund, Highway Fund, Workforce Training Fund, Federal Medicaid Assistance Percentage Escrow Fund, Massachusetts Tourism Fund and Children's and Senior's Health Care Assistance Fund were included in the calculation of the consolidated net surplus. In fiscal 2005 the Division of Energy Resources Credit Trust Fund and any other budgeted fund, unless specifically exempted in statute, will be included in the calculation.

Overview of Operating Budget Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget begins with the Executive branch early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than March) with the Governor's budget submission to the Legislature for the fiscal year commencing in the ensuing July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the upcoming fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures are to be defrayed. By statute, the Legislature and the Governor must approve a balanced budget for each fiscal year, and no supplementary appropriation bill may be approved by the Governor if it will result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act.

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. After Senate action, a legislative conference committee develops a joint budget recommendation for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items (line item veto). The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act (also referred to herein as the GAA).

In years in which the GAA is not approved by the Legislature and the Governor prior to the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth's programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget.

State finance law requires the Commonwealth to monitor revenues and expenditures during a fiscal year. For example, the Secretary of Administration and Finance is required to provide quarterly revenue estimates to the Governor and the Legislature, and the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting." Department heads are required to notify the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for their departments from the federal government or other sources or if it appears that any appropriation will be insufficient to meet all expenditures required in the fiscal year by any law, rule, regulation or order not subject to the administrative control. The Secretary of Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary of Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that the Governor's authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor's control.

Cash and Budgetary Controls

The Commonwealth has in place controls designed to ensure that sufficient cash is available to meet the Commonwealth's obligations, that state expenditures are consistent with periodic allotments of annual appropriations and that monies are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and audit functions, respectively. The Comptroller conducts the expenditure control function. The Secretary of Administration and Finance is the Governor's chief fiscal officer and provides overall coordination of fiscal activities.

Capital Investment Process and Controls

Authorization for capital investments requires approval by the Legislature. Based on outstanding authorizations, the Executive Office for Administration and Finance, in conjunction with the Governor and the cabinet, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objective of the plan is to determine the Commonwealth's investment needs and the required level of funding necessary to support these needs.

Capital expenditures are primarily financed with debt proceeds, federal reimbursements, payments from third parties and transfers from other governmental funds. The issuance of debt also requires two-thirds approval by both houses of the Legislature. Upon such approval, the Governor submits a bill to the Legislature, which describes the terms and conditions of the borrowing for the authorized debt. The Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds in support of such authorizations, and therefore controls the amount of debt issued to finance such expenditures. See "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN."

The Comptroller has established various funds to account for financial activity related to the acquisition or construction of capital assets. In addition, accounting procedures and financial controls have been instituted to limit agency capital spending to the levels approved by the Governor. Since July 1991, all agency capital spending has been tracked against the plan on both a cash and encumbrance accounting basis on MMARS, and federal reimbursements have been budgeted and monitored against anticipated receipts.

Cash Management Practices of State Treasurer

The State Treasurer is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made pursuant to a warrant approved by the Governor's Council. The Comptroller prepares certificates which, with the advice and consent of the Governor's Council and approval of the Governor, become the warrant to the State Treasurer. Once the warrant is approved, the State Treasurer's office disburses the money.

The Cash Management Division of the State Treasurer's office accounts on a daily basis for cash received into over 600 separate accounts of the Department of Revenue and other Commonwealth agencies and departments. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each September 1, December 1, March 1 and June 1. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2005 AND FISCAL 2006 – Cash Flow." The State Treasurer's office also oversees the Commonwealth's commercial paper program. See "LONG-TERM LIABILITIES – General Obligation Debt." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System (MMARS), the centralized state accounting system that is used by all state agencies and departments except independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also has various modules for receivables, payables, fixed assets and other processes management. In fiscal 2004 the Comptroller completed a conversion of this system to a newer version utilizing updated technology.

Expenditure Controls. The Comptroller requires that the amount of all obligations under purchase orders, contracts and other commitments for the expenditures of monies be recorded as encumbrances. Once encumbered, these amounts are not available to support additional spending commitments. As a result of these encumbrances, spending agencies can use MMARS to determine at any given time the amount of their appropriations available for future commitments.

The Comptroller is responsible for compiling expenditure requests into the certificates for approval by the Governor's Council. In preparing these certificates, which become the warrant, the Comptroller's office has systems in place to ensure that the necessary monies for payment have been both appropriated by the Legislature and allotted by the Governor in each account and sub-account. By law, certain obligations may be placed upon the warrant even if the supporting appropriation or allotment is insufficient. These obligations include debt service, which is specifically exempted by the state constitution from the warrant requirement, and Medicaid payments, which are mandated by federal law.

Although state finance law generally does not create priorities among types of payments to be made by the Commonwealth in the event of a cash shortfall, the Comptroller has developed procedures, in consultation with the State Treasurer and the Executive Office for Administration and Finance, for prioritizing payments based upon state finance law and sound fiscal management practices. Under those procedures, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

Internal Controls. The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. Any violation of state finance law or regulation or other internal control weaknesses must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

Statutory Basis of Accounting. In accordance with state law, the Commonwealth adopts its budget and maintains financial information on a statutory basis of accounting. Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including receivables from federal reimbursements with respect to paid expenditures. Expenditures are measured on a modified cash basis including actual cash disbursements and encumbrances for goods or services received prior to the end of a fiscal year.

For most Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally mandated entitlement programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. The approximate net effect of this practice is to charge to a given fiscal year the Medicaid bills of the last two or three months of the preceding fiscal year and only the first nine or ten months of that fiscal year.

GAAP Basis of Accounting. Since fiscal 1986, the Comptroller has prepared Commonwealth financial statements on a GAAP basis. The emphasis is on demonstrating inter-period equity through the use of modified accrual accounting for the recognition of revenues and expenditures/expenses. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

There are two measurement foci and bases of accounting under GAAP – the economic resources management focus and the current financial resources management focus. GASB 34 added the economic resources management focus layer of GAAP reporting (otherwise known as the "entity-wide perspective"), where revenues and expenses (different from expenditures) are presented similar to a private company. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Under the current financial resources management focus of GAAP (otherwise known as "fund perspective"), revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues.

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and compensated absences such as vacation pay earned by state employees. See Exhibit C (Comprehensive Annual Financial Report for the year ended June 30, 2004).

GASB 34 presents the current and long-term portion of all liabilities on the face of a statement of net assets. See "SELECTED FINANCIAL DATA – GAAP Basis."

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every two years of all activities of the Commonwealth. The audit encompasses 750 entities, including the court system and the independent authorities, and includes an overall evaluation of management operations. The State Auditor also has the authority to audit federally aided programs and vendors under contract with the Commonwealth, as well as to conduct special audit projects. The State Auditor conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with the independent public accounting firm Deloitte & Touche LLP, the State Auditor performs a significant portion of the audit work relating to the state single audit.

Within the State Auditor's office is the Division of Local Mandates, which evaluates all proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due to the Commonwealth's cities and towns. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid; *Property Tax Limits*."

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Highway Fund and other operating budget funds. For purposes of this Information Statement, these funds will be referred to as "Budgeted Operating Funds" and revenues deposited in such funds will be referred to as "Budgeted Operating Revenues". In fiscal 2004 on a statutory basis, approximately 63.7% of the Commonwealth's Budgeted Operating Revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 21.3% of such revenues, with the remaining 15.1% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the Budgeted Operating Funds from a statutory basis differs from governmental revenues on a GAAP basis. See "SELECTED FINANCIAL DATA –GAAP Basis; *Revenues – GAAP Basis*." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its Budgeted Operating Funds for fiscal 2000 through 2004 and projected revenues for fiscal 2005.

Commonwealth Revenues - Budgeted Operating Funds

(in millions)(1)

	Fiscal 2000	Fiscal 2001(5)	Fiscal 2002	Fiscal 2003	Fiscal 2004(8)	Projected Fiscal 2005(8)
Tax Revenues:						
Alcoholic Beverages	$63.1	$64.2	$65.4	$66.3	$67.9	$69.4
Banks	92.8	179.6	137.0	344.5	238.7	203.0
Cigarettes	279.9	270.5	275.0	451.0	425.4	422.0
Corporations	1,130.5	945.3	586.7(6)	799.4(6)	997.6	1,087.0
Deeds	115.9	129.6	134.3	147.8	187.1	178.6
Income	9,041.9	9,902.7	7,912.9	8,026.1	8,830.3	8,847.4
Inheritance and Estate	166.5	203.4	200.5	181.3	194.7	216.6
Insurance	334.6	356.6	382.9	387.8	420.2	420.3
Motor Fuel	652.6	659.9	666.8	676.4	684.2	680.0
Public Utilities	83.0	86.7	88.5	40.6	64.7	65.0
Racing	7.8	7.5	2.7	-	-	-
Room Occupancy	137.0	149.6	123.3	120.0	94.9	99.0
Sales:						
Regular	2,552.0	2,705.8	2,601.4	2,583.6	2,585.6	2,774.4
Meals	456.8	482.0	500.9	512.0	531.8	580.1
Motor Vehicles	556.4	568.0	593.6	612.5	625.8	584.3
Sub-Total–Sales	3,565.3	3,755.8	3,695.9	3,708.1	3,743.2	3,938.8
Miscellaneous	17.5	17.9	15.1	14.3	14.3	4.0
Total Tax Revenues	15,688.6	16,729.2	14,287.1	14,963.8(7)	15,953.3	16,231.0
MBTA Transfer (2)	-	(654.6)	(664.3)	(684.3)	(684.3)	(704.8)
MSBA Transfer (3)	-	-	-	-	-	(395.7)
Total Budgeted Operating Tax Revenues	15,688.6	16,074.6	13,622.8	14,279.5	15,269.0	15,130.5
Non-Tax Revenues:						
Federal Reimbursements	3,645.6	3,974.2	4,334.9	4,523.6	5,098.5	4,740.0
Departmental and Other Revenues	1,359.9	1,425.9	1,485.2	1,494.8	1,847.7	2,021.5
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (4)	1,893.0	1,385.9	1,732.0	1,689.2	1,773.1	1,388.1
Budgeted Non-Tax Revenues and Other Sources	6,898.5	6,786.0	7,552.2	7,707.6	8,719.3	8,149.6
Budgeted Revenues and Revenues from Other Sources	$22,587.1	$22,860.6	$21,174.8	$21,987.2	$23,988.3	$23,280.1

SOURCE: Executive Office for Administration and Finance and Office of the State Treasurer.

(1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside of the budgeted process.

(2) If the law that moved support of the MBTA to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the MBTA had been in effect in fiscal 2000, transfers of sales tax revenue to the MBTA would have been $561.9 million. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *Massachusetts Bay Transportation Authority*."

(3) If the law that moved school building assistance to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the MSBA had been in effect prior to fiscal 2005, transfers of sales tax revenue to the MSBA would have been $271.1 million, $316.2 million, $365.4 million, $383.2 million and $551.4 million in fiscal 2000 through 2004, respectively. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*".

(4) Interfund transfers represent accounting transfers reallocating resources among funds, including transfers between Stabilization Fund and budgeted operating funds. Non-budgeted funds transfers to the Budgeted Operating Funds, which include profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for $902.1 million, $931.6 million, $941.3 million, $947.1 million and $974.6 million in fiscal 2000 through 2004, respectively, and are estimated to account for $1.045 billion in fiscal 2005. This figure also includes annual tobacco settlement payments, which account for $326.2 million in fiscal 2000, $242.5 million in fiscal 2001, $304.5 million in fiscal 2002, $300.0 million in fiscal 2003, $253.6 million for fiscal 2004, and an estimated $250.0 million in fiscal 2005.

(5) On July 1, 2000, the Mosquito and Greenhead Fly Control Fund was reclassified as a non-budgeted fund. The prior year has not been restated.

(6) The Department of Revenue estimates that as a result of the timing of federal tax legislation relating to the depreciation deduction for corporations and the Commonwealth's legislation in response, tax revenue collections in fiscal 2002 were reduced by approximately $30 million and tax revenue collections in fiscal 2003 were increased by the same approximate amount.
(7) Includes approximately $174.0 million in fiscal 2003 revenue resulting from a tax amnesty program.
(8) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 55% of total tax revenues in fiscal 2005, the sales and use tax, which is projected to account for approximately 24%, and the corporations and other business and excise taxes (including taxes on insurance, financial institution and public utility corporations), which are projected to account for approximately 11%. Other tax and excise sources are projected to account for the remaining 10% of total fiscal 2005 tax revenues.

Effects of Tax Law Changes. During fiscal 2000 through fiscal 2003, legislation was implemented that had the net effect of reducing revenues by decreasing income tax rates or increasing or establishing various deductions and credits. In addition, several administrative changes were implemented that reduced revenues. During fiscal 2003, legislation was implemented that reversed or delayed some of the previous tax reductions, and implemented increases in other taxes. The incremental net effect of these tax law and administrative changes (relative to the immediately preceding fiscal year) is estimated by the Department of Revenue to have been a reduction of approximately $180 million of fiscal 2000 revenues, $790 million of fiscal 2001 revenues and $700 million of fiscal 2002 revenues. In fiscal 2003, tax law changes (including the so-called loophole closing measures described below) are estimated to have increased revenue collections by a net amount of approximately $980 million. The Department of Revenue estimates that in fiscal 2004, the impact of tax law and administrative changes (including the non-recurrence of some fiscal 2003 revenues from certain loophole closings and that year's amnesty program) was to reduce tax collections by approximately $110 million compared to fiscal 2003. The Department of Revenue further estimates that tax law changes will increase tax collections by approximately $35 million in fiscal 2005.

The following table shows major tax law changes enacted since tax year 2001, with the rates and deductions in effect before and after the changes:

Tax Law Changes Since Tax Year 2001

Tax Law Change	2001	2002	2003	2004	2005
Part B Income Tax Rate (reduction to 5.0% delayed)	5.6%	5.3%	5.3%	5.3%	5.3%
Personal Exemptions	$8,800 for joint filers, $6,600 for head of household filers, $4,400 for single filers	$6,600 for joint filers, $5,100 for head of household filers, $3,300 for single filers	$6,600 for joint filers, $5,100 for head of household filers, $3,300 for single filers	$6,600 for joint filers, $5,100 for head of household filers, $3,300 for single filers	$7,150 for joint filers, $5,525 for head of household filers, $3,575 for single filers
Long-Term Capital Gains Tax Rate	0% to 5% depending on holding period	0% to 5% depending on holding period for capital gains realized before 5/1/02 5.3% for capital gains realized on or after 5/1/02	5.3%	5.3%	5.3%
Charitable Deduction	Up to 30-50% of taxable income	None	None	None	None
Cigarette Tax	$0.76 per pack	$0.76 per pack prior to July 2002 $1.51 per pack effective July 2002	$1.51 per pack	$1.51 per pack	$1.51 per pack

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% has been applied to most types of income since January 1, 2002. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12% and the tax rates on gains from the sale of capital assets owned more than one year is 5.3%. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Prior to January 1, 1999, a different rate was applied to "Part A" income (generally, interest and dividends) and "Part B" income (generally, "earned" income from employment, professions, trades, businesses, rents and royalties). The rate on Part A income was 12% prior to January 1, 1999; it was reduced to 5.95% as of January 1, 1999 and as of January 1, 2000 is the same as the rate on Part B income. The rate on Part B income was 5.95% prior to January 1, 2000, when it was reduced to 5.85%. The rate on Part B income was reduced to 5.6% on January 1, 2001 and to 5.3% on January 1, 2002 by an initiative petition approved by Massachusetts voters on November 7, 2000. This initiative petition also mandated a reduction in the Part B rate to 5.0% on January 1, 2003.

Chapter 186 of the Acts of 2002, "An Act Enhancing State Revenues," was enacted on July 25, 2002, and made several changes to the state income tax. These included a delay of the scheduled Part B tax rate reduction from 5.3% to 5.0% for at least four years, suspension of the deduction for charitable contributions and a 25% reduction in personal exemptions. This legislation also changed the tax structure for long term capital gains (i.e., capital gains on assets held for more than one year). Prior to May 2002, long term capital gains were taxed at rates ranging from 0% to 5%, depending on how long the asset had been held before sale. Effective May 1, 2002, long term capital gains are taxed at the Part B income tax income rate, which is currently 5.3%. Chapter 186 also included a mechanism by which the tax year 2001 personal exemptions and charitable deductions could be gradually restored, and the tax rate on Part B income could be gradually reduced to 5.0%, contingent upon "baseline" state tax revenue growth (i.e., revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2% more than the rate of inflation for state and government purchases. In fiscal 2002 and 2003, tax revenue growth was such that personal exemptions remained at 2002 levels for tax years 2003 and 2004, respectively. In fiscal 2004, baseline tax revenue growth was sufficient to trigger an increase in the personal exemptions for tax year 2005 (see preceding table "Tax Law Changes Since Tax Year 2001"). Based on the

October 15, 2004 fiscal 2005 revenue estimate, fiscal 2005 tax revenue growth would not be sufficient to trigger an increase in the personal exemption in tax year 2006.

The Department of Revenue estimates the following effects from the changes made in Chapter 186 of the Acts of 2002:

- Taxing capital gains at the Part B income rate increased fiscal 2003 revenues by $175 to $200 million and fiscal 2004 revenues by $360 million to $400 million.
- The delay in the Part B rate reduction resulted in approximately $200 million in additional revenues during fiscal 2003 than would have been the case had the rate been reduced to 5.0% in calendar 2003.
- The suspension of the deduction for charitable contributions increased fiscal 2003 revenues by an estimated $172 million.
- The decrease in the personal exemption amounts resulted in $325 million in additional tax collections in fiscal 2003. The 25% cut in personal exemptions was retroactive to January 1, 2002, with the retroactive portion of the tax increase being paid primarily when taxpayers filed their tax year 2002 income tax returns in the spring of 2003. The retroactive nature of the fiscal 2003 revenue impact caused the fiscal 2004 revenue gain to be smaller than it was in fiscal 2003. The Department of Revenue estimates that the fiscal 2004 impact of the personal exemption reductions was approximately $225 million, $100 million less than in fiscal 2003.
- The partial restoration of the personal exemptions in tax year 2005 will reduce income tax collections by approximately $25 million in fiscal 2005 and $60 million in fiscal 2006.

Sales and Use Tax. The Commonwealth imposes a 5% sales tax on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding 5% use tax on the storage, use or other consumption of like tangible properties brought into the Commonwealth. However, food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and a portion of residential use of telecommunications services.

Beginning January 1, 1998, sales tax receipts from establishments that first opened on or after July 1, 1997, which are located near the building site of the Boston Convention and Exhibition Center, and sales tax receipts from new hotels in Boston and Cambridge that first opened on or after July 1, 1997 are required to be credited to the Convention Center Fund. As of enactment of the fiscal 2004 GAA, this fund is no longer included in the calculation of revenues for Budgeted Operating Funds. See "LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund*."

Beginning July 1, 2000, pursuant to "forward funding" legislation contained in the fiscal 2000 GAA, a portion of the Commonwealth's receipts from the sales tax, generally the amount raised by a 1% sales tax not including meals taxes, with an inflation-adjusted floor, is dedicated to the Massachusetts Bay Transportation Authority (MBTA) under a trust fund. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *Massachusetts Bay Transportation Authority*." The amount of these dedicated sales tax receipts was $684.3 million in fiscal 2004. Such amount is projected to be $704.8 million in fiscal 2005.

Beginning July 1, 2004, pursuant to legislation adopted in June 2004, a portion of the Commonwealth's receipts from the sales tax, totaling $395.7 million in fiscal 2005 and specified percentages in each fiscal year thereafter, increasing in fiscal 2010 and thereafter to 95% of 1 cent of the Commonwealth's sales tax, subject to certain deductions and minimums, is dedicated to the Massachusetts School Building Authority (MSBA) to fund school building assistance. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings; *School Building Assistance Program*".

Legislation enacted in March 2003 and July 2004 closed several so-called tax loopholes related to the sales tax. These included changes to the taxation of promotional advertising materials, goods delivered through "drop shipments" and items that are fabricated outside of Massachusetts but sold in the state. The Department of Revenue estimates that these changes will result in additional tax collections of $20 million to $23 million in fiscal 2005 and $21 million to $35 million on an annualized basis.

The federal Internet Tax Nondiscrimination Act, P.L. 108-435, passed by the U.S. Congress in late 2004, expands the definition of "Internet access", which has the effect of exempting from Massachusetts sales tax telecommunications services purchased, used, or sold by a provider of Internet access for use in providing Internet access to its customers. Currently such telecommunications services are taxed for Massachusetts sales/use tax purposes when purchased by a provider of Internet access. The Department of Revenue is analyzing the impact of this federal law and believes that it will not begin to reduce Massachusetts sales tax collections prior to November 1, 2005. The Department of Revenue estimates that the amount of tax revenue currently collected from this source is $20 million to $25 million annually, which would be lost once the change is implemented.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax are inclusive of a 14% surtax.

Beginning January 1, 1996, legislation was phased in over five years establishing a "single sales factor" apportionment formula for the business corporations tax. The formula calculates a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The Department of Revenue estimates that the revision reduced revenues, compared to what would have been collected in the absence of the change, by $54 million in fiscal 1999, by $59 million in fiscal 2000, by $54 million in fiscal year 2001, by $49 million in fiscal 2002, by $50 million in fiscal 2003, by $52 million in fiscal 2004, and by $56 million in fiscal 2005.

Beginning January 1, 1997, legislation was phased in which sourced sales of mutual fund shares to the state of domicile of the purchaser instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services. The Department of Revenue estimates that this change resulted in a revenue reduction of approximately $110 million in fiscal 1999, $120 million in fiscal 2000, $110 million in fiscal 2001, $100 million in fiscal 2002, $101 million in fiscal 2003 and $106 million in fiscal 2004, and will reduce revenues by approximately $114 million in fiscal 2005.

Legislation enacted in March 2003 and July 2004 closed several so-called loopholes in the corporate tax structure. Among these were provisions dealing with real estate investment trusts, qualified subchapter S subsidiaries, and payments to related parties for intangible expenses. See also "*Financial Institutions Tax*."

Legislation enacted in March 2003 required certain qualified subchapter S subsidiaries (QSUBs), as defined under Section 1361 of the Internal Revenue Code of 1986, as amended and in effect for the taxable year, to pay the net income measure of the corporate excise under Section 32D of Chapter 63 of the Massachusetts General Laws. A tax rate of 3% was imposed on the net income of each QSUB if the total receipts of the QSUB, the QSUB's parent and all the parent's other QSUBs for the taxable year are at least $6 million but less than $9 million. A tax rate of 4.5% was imposed on the net income of each QSUB if the total receipts of the QSUB, the QSUB's parent and all the parent's other QSUBs for the taxable year are $9 million or more. This tax was in addition to the tax on the QSUB's income levied on its parent (or shareholder or partners, etc., as the case may be). The new law also required every QSUB that receives income that would have been taxed to it for federal income tax purposes had it been treated federally as a separate corporation to include, as a separate computation from the one above, such income in the net income measure of its corporate excise subject to tax at 9.5%. The Department of Revenue estimates that this change resulted in additional revenue of approximately $33 million in fiscal 2004.

The legislation enacted in March 2003 also provided that, in computing net income under Chapter 63 of the Massachusetts General Laws, a taxpayer must generally add back certain payments remitted directly or indirectly to related parties for intangibles expenses and costs, including interest payments that relate to the intangibles transaction and also certain payments remitted directly or indirectly to related parties for interest costs and expenses. This change has the effect of increasing taxable income for corporations that make royalty and other payments to related companies. The Department of Revenue estimates that as a result of this change, fiscal 2003 corporate tax revenue increased by approximately $40 million and fiscal 2004 corporate tax revenue increased by $77 million. The Department of Revenue estimates that this change will result in increased corporate excise tax revenues of $50 million to $65 million annually in fiscal year 2005 and thereafter.

The legislation enacted in July 2004 made a number of changes to the corporate tax laws that are expected to increase tax revenue collections. The primary changes affected treatment of sales of assets by Massachusetts business trusts, taxation of Massachusetts securities corporations and apportionment to Massachusetts of previously non-apportionable corporate income. The Department of Revenue estimates that these changes will result in increased revenues of $45 million to $50 million in fiscal 2005, and $55 million to $100 million on an annualized basis.

Financial Institutions Tax. Financial institutions (which include commercial and savings banks) are subject to an excise tax of 10.5%.

Legislation enacted in March 2003 clarified the treatment of Real Estate Investment Trust (REIT) distributions with respect to the dividends-received deduction. REIT distributions received by businesses subject to the corporate excise tax are not to be treated as dividends; and further, they have never been exempt from taxation or partially exempt. REIT distributions are subject to taxation at the recipient level. The Department of Revenue estimates that this change resulted in additional tax revenues of approximately $160 million to $180 million for fiscal 2003, about $19 million of which was the result of overpayments of estimated REIT tax liability during fiscal 2003, and was refunded or applied to companies' future tax liabilities. Of the $160 million to $180 million in additional revenue, the Department of Revenue currently estimates that approximately $129 million was due to tax liabilities prior to tax year 2003, which did not recur in fiscal 2004. Aside from the impacts of prior year overpayment, the Department of Revenue estimates that the REIT change resulted in a revenue increase of $50 million to $70 million in fiscal 2004 tax revenue, and will yield approximately the same amount in fiscal year 2005 and subsequent fiscal years.

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums. Domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2% tax on gross premiums, plus a 14% surcharge for an effective tax rate of 2.28%. Domestic companies also pay a 1% tax on gross investment income.

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, among other tax sources. The excise tax on motor fuels is $0.21 per gallon. Chapter 186 of the Acts of 2002 raised the tax on cigarettes from $0.76 per pack to $1.51 per pack and also raised the tax rate on other types of tobacco products. The Department of Revenue estimates that this change resulted in additional revenue of approximately $195 million in both fiscal 2003 and 2004, through it is likely to be lower in future years as cigarette consumption continues its long-term decline. Legislation was enacted in March 2003 that allowed the Commissioner of Revenue to provide incentives for inheritance trusts to settle future obligations during fiscal 2003. Through this program, approximately $34 million was raised in fiscal 2003, but future inheritance tax collections will be reduced.

Recently, the United States Congress made numerous changes to Internal Revenue Code provisions relating to the estate and gift tax. For the estates of decedents dying on or after January 1, 2002, federal law raises the exemption amount and phases out the amount of the allowable credit for state death taxes by 25% a year until the credit is eliminated in 2005. Because the Massachusetts estate tax, prior to the recent statutory amendments, equaled the amount of the allowable federal credit for state death taxes, this federal change meant that the Massachusetts estate tax (known as a "sponge tax") would be phased out and eliminated unless legislative action was taken. In October 2002, the Massachusetts estate tax was retained by "decoupling" the Massachusetts estate tax from the federal estate tax for decedents dying on or after January 1, 2003. The Massachusetts sponge tax is now tied to the Internal Revenue Code as in effect on December 31, 2000. These federal changes are estimated to have reduced fiscal 2003 collections by approximately $30 million to $40 million, and the decoupling is estimated to have increased fiscal 2004 tax revenues by $40 million and fiscal 2005 tax revenues by $13 million in the first three months of fiscal 2005, when the effect of the phase-in was complete.

In 1994, voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted operating funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the MBTA. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate monies from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such monies be used for motor vehicle, highway or mass transportation purposes. On five occasions, the Legislature has postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the consolidated net surplus. The fiscal 2004 GAA amended Chapter 29 of the General Laws to include the Highway Fund along with other budgeted funds in the calculation of the consolidated net surplus.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before January 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The fiscal 2004 GAA also amended state law to require that subsequent consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth's Pension Liability Fund. See "COMMONWEALTH PROGRAMS AND SERVICES—Commonwealth Pension Obligations."

Fiscal 2000. The fiscal 2000 GAA was enacted in November 1999 on the basis of a consensus tax revenue forecast of $14.850 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in late April 1999. The tax cuts incorporated into the budget, valued by the Department of Revenue at $145 million in fiscal 2000, had the effect of reducing the consensus forecast to $14.705 billion. The fiscal 2000 tax estimate was raised to $15.288 billion in the Governor's fiscal 2001 budget submission, filed on January 26, 2000. On April 18, 2000 the Secretary of Administration and Finance revised the fiscal 2000 revenue estimate upward by $170 million to $15.458 billion. Fiscal 2000 budgeted tax collections totaled approximately $15.689 billion.

Fiscal 2001. The fiscal 2001 GAA was enacted in July 2000 on the basis of a consensus tax revenue forecast of $15.928 billion. The inclusion of a charitable tax deduction in the fiscal 2001 budget had the effect of reducing the consensus forecast to $15.849 billion. The consensus forecast included $645.6 million of sales tax receipts dedicated to the MBTA. On October 11, 2000, the Secretary of Administration and Finance increased the fiscal 2001 estimate to $16.209 billion; taking into account the reduction in personal income tax rates approved by the voters on November 7, 2000 (see "State Taxes; Income Taxes"), the revised estimate was $16.074 billion. On January 24, 2001, in conjunction with the filing of the Governor's fiscal 2002 budget recommendation, the fiscal 2001 estimate was raised to $16.234 billion. Fiscal 2001 budgeted tax collections totaled approximately $16.729 billion, before transfers to the MBTA.

Fiscal 2002. No consensus tax revenue forecast for fiscal 2002 was agreed to by the Legislature and the Secretary of Administration and Finance by May 15, 2001, as required by state finance law. At that time the legislative consensus tax revenue estimate for fiscal 2002 was $16.578 billion (inclusive of sales tax revenues dedicated to the MBTA), while the estimate of the Secretary of Administration and Finance was $16.343 billion. Due to deterioration in tax collections and the weakening economy in the Commonwealth, on October 25, 2001, the Secretary of Administration and Finance announced a revised fiscal 2002 revenue estimate of $15.594 billion, a decrease of $750 million. The fiscal 2002 GAA was enacted in December 2001 on the basis of a $15.600 billion tax revenue estimate made by the Legislature. Based on continuing tax revenue declines, the fiscal 2002 tax revenue forecast was further reduced three more times before the end of fiscal 2002: in January 2002, as part of the Governor's fiscal 2003 budget recommendation, the Secretary of Administration and Finance reduced the fiscal 2002 revenue estimate by $189 million, to $15.405 billion; in April 2002 the Governor and legislative leaders agreed on a reduction to $14.750 billion and in May 2002 the Secretary of Administration and Finance again reduced the fiscal 2002 tax revenue estimate by an additional $470.0 million to $14.280 billion. Fiscal 2002 budgeted tax collections totaled approximately $14.287 billion, before transfers to the MBTA.

Fiscal 2003. On April 15, 2002, Acting Governor Swift and legislative leaders agreed to a consensus tax revenue estimate of $14.716 billion. The Department of Revenue estimated that $684.3 million of sales tax revenue dedicated to the MBTA was included in the $14.716 billion figure. On June 11, 2002, the Secretary of Administration and Finance revised the fiscal 2003 tax revenue estimate downward to $14.175 billion, reflecting a forecast of lower growth in income and corporate tax revenue. In July 2002, the Secretary of Administration and Finance again revised the tax revenue estimate downward to $14.116 billion. The revised estimate assumed that tax cuts scheduled to take effect under then-current tax law would remain in effect.

The fiscal 2003 GAA was enacted in July 2002, based on a consensus tax revenue forecast of $14.116 billion, plus $1.241 billion in estimated tax increases. The tax increase legislation, also enacted in July 2002, included increases in the cigarette tax and the tax on capital gains, elimination of the personal income tax charitable deduction, decreases in personal income tax exemptions and a delay in the implementation of scheduled tax cuts, which otherwise would have reduced the tax rate on most non-capital gains income from 5.3% in tax year 2002 to 5.0% in tax year 2003. The fiscal 2003 GAA included provisions that would conform state tax treatment of certain retirement accounts and mobile telecommunications services to federal law, which the Department of Revenue estimated would reduce fiscal 2003 tax collections by approximately $8 million. The fiscal 2003 GAA also included provisions for a tax amnesty to be implemented in fiscal 2003, which the Department of Revenue then estimated would increase tax revenue collections by $43 million. These estimates yielded a fiscal 2003 tax revenue forecast of $15.393 billion, of which $684.3 million of sales tax revenue would be dedicated to the MBTA. On October 17, 2002, the Secretary of Administration and Finance reduced the fiscal 2003 tax revenue estimate by $247.0 million to $15.145 billion. On February 3, 2003, The Secretary of Administration and Finance reduced the tax revenue estimate by an additional $497.0 million to $14.648 billion. Subsequently, the fiscal 2003 tax revenue estimate was increased to $14.748 billion to account for increased revenue estimated to result from the closing of certain so-called tax loopholes. See "State Taxes; *Financial Institutions Tax*" and "State Taxes; *Other Taxes*." Fiscal 2003 budgeted tax collections totaled approximately $14.964 billion, before transfers to the MBTA.

Fiscal 2004. On February 5, 2003 the Secretary for Administration and Finance and the legislative leadership announced a consensus estimate of Commonwealth tax revenues for fiscal 2004 of $14.678 billion, of which $684.3 million was sales tax revenue dedicated to the MBTA. The fiscal 2004 GAA was enacted on June 30, 2003 based on a tax revenue estimate of $14.808 billion, composed of the consensus tax revenue estimate of $14.678 billion, plus $174.0 million in additional revenues attributable to legislation closing various so-called tax loopholes. This figure also reflected an adjustment of $44.1 million in tax revenue dedicated to the Convention Center Fund, which was transferred from a Budgeted Operating Fund to a non-Budgeted Operating Fund. Due to a technical problem with the loophole-closing legislation that resulted in a delay in implementing one provision of the legislation, on October 15, 2003 the Secretary of Administration and Finance reduced the fiscal 2004 tax revenue estimate by $12 million, to $14.796 billion.

Based on actual revenue performance through December 2003, on January 15, 2004 the Secretary of Administration and Finance revised the fiscal 2004 tax revenue estimate to $15.230 billion, $234 million higher than the October 15, 2003 fiscal 2004 estimate. Fiscal 2004 budgeted tax collections totaled approximately $15.953 billion, before transfers to the MBTA.

Fiscal 2005. On January 14, 2004, the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means jointly announced a consensus fiscal 2005 Commonwealth tax estimate of $15.801 billion, of which $684.3 million was dedicated to the MBTA and $1.217 billion was dedicated to the Commonwealth's annual pension obligation. The estimate was based upon a revised consensus tax estimate for fiscal 2004 of $15.230 billion and assumed 3.75% baseline growth for fiscal 2005, which resulted in a $15.801 billion tax estimate.

On June 25, 2004, the Governor signed into law the fiscal 2005 GAA. The fiscal 2005 GAA was based upon a tax estimate of $15.968 billion, consisting of the fiscal 2005 consensus tax estimate of $15.801 billion, plus an additional $89.0 million generated from the closing of various tax loopholes, $65.5 million from enhanced tax audits, and $12.7 million from the taxation of lottery prize assignment. The gross tax figure includes $1.217 billion dedicated to the Commonwealth fiscal 2005 pension obligation and $704.8 million in sales tax revenues dedicated to the MBTA. In order to comply with the Commonwealth's statutory balanced budget requirement, the fiscal 2005 GAA also appropriated $340.0 million from the Stabilization Fund and $270.0 million from the FMAP Escrow Fund. The legislation contains a provision to reduce the amount appropriated from the Stabilization Fund should tax revenues, by the third quarter of the fiscal year, exceed benchmarks set by the January 14, 2004 consensus tax estimate.

On October 15, 2004, the Executive Office for Administration and Finance released a revised tax estimate for fiscal 2005 and a preliminary projection for fiscal 2006. The revised fiscal 2005 tax estimate was $16.231 billion, representing an increase of $301.0 million over the consensus fiscal 2005 tax estimate released on January 14, 2004, after factoring in tax law changes since the earlier estimate. The projection for fiscal 2006 tax revenues was $17.035 billion, an increase of $804.0 million over the fiscal 2005 tax estimate, assuming 5.0% baseline growth for fiscal 2006.

Fiscal 2004 and Fiscal 2005 Tax Revenues

Fiscal 2004. Tax revenue collections for fiscal 2004 totaled $15.953 billion, an increase of $989.4 million or 6.6% over fiscal 2003. The following table shows the tax collections for each month of fiscal 2004 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month that were dedicated to the MBTA.

Fiscal 2004 Budgeted Tax Collections (in millions)(1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion(2)	Collections, Net of MBTA
July	$1,067.0	$54.3	5.4%	$58.1	$1,008.9
August	1,089.7	25.8	2.4	53.4	1,036.3
September	1,642.0	83.8	5.4	59.6	1,582.4
October	1,075.6	142.3	15.2	56.9	1,018.6
November	1,045.5	30.6	3.0	48.7	996.8
December	1,454.0	59.6	4.3	65.4	1,388.6
January	1,507.2	20.9	1.4	58.0	1,449.1
February	902.5	62.0	7.4	46.2	856.4
March	1,370.1	(21.6)	(1.6)	66.9	1,303.2
April	1,820.9	412.5	29.3	53.2	1,767.7
May	1,205.8	(82.2)	(6.4)	54.6	1,151.2
June	1,773.0	201.3	12.8	63.3	1,709.7
Total	$15,953.3	$989.3	6.6%	$684.3	$15,269.0

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Includes adjustments of $6.7 million on the account of the first quarter, $11.9 million on the account of the second quarter, $18.2 million on the account of the third quarter, and $5.2 million on the account of the fourth quarter.

The fiscal 2004 tax revenue increase of $989 million over fiscal 2003 was attributable in large part to an increase of approximately $263 million or 28.9% in income tax payments with returns and bills, an increase of approximately $277 million or 3.9% in personal income tax withholdings, an increase of approximately $183 million or 15.2% in income tax cash estimated payments, and an increase of approximately $146 million or 9.5% in corporate and business tax collections. The increase in withholding appears to have been due at least in part to increases in bonuses paid in the first half of calendar 2004, as well as some one-time events related to mergers and acquisitions. The increase in income tax payments with returns and bills was in large part due to increases in tax year 2003 capital gains realizations. The increase in corporate and business collections appears to reflect the closing of certain tax loopholes as well as increased business profits.

Fiscal 2005. Tax revenue collections for the first eight months of fiscal 2005, ended February 28, 2005, totaled $10.355 billion, an increase of $571.6 million or 5.8% over the first eight months of fiscal 2004. The following table shows the tax collections for the first eight months of fiscal 2005 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month that are dedicated to the MBTA and to the MSBA.

Fiscal 2005 Budgeted Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion(2)	MSBA Portion	Collections, Net of MBTA and MSBA(3)
July	$1,127.2	$60.2	5.6%	$59.2	$33.0	$1,035.0
August	1,192.1	102.4	9.4	56.5	33.0	1,102.6
September	1,697.8	55.8	3.4	60.5	33.0	1,604.3
October	1,098.7	23.1	2.2	56.3	33.0	1,009.4
November	1,119.0	73.5	7.0	52.4	33.0	1,033.6
December	1,587.0	133.0	9.1	67.5	33.0	1,486.5
January	1,685.3	178.2	11.8	66.1	33.0	1,586.2
February(4)	848.0	(54.5)	(6.0)	47.9	33.0	767.2
Total	$10,355.0	$571.6	5.8%	$466.4	$263.8	$9,624.8

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Includes adjustments of $7.8 million on the account of the first quarter and $13.9 million on account of the second quarter.
(3) Net of sales tax revenues dedicated to the MBTA and the MSBA.
(4) Figures are preliminary.

The year-to-date tax revenue increase of $571.6 million over fiscal 2004 is attributable in large part to an increase of approximately $184.5 million or 3.7% in personal income tax withholdings, an increase of approximately $199.9 million or 22.8% in income tax cash estimated payments, and an increase of approximately $112.2 million or 4.5% in sales and use tax collections.

On April 6, 2004, the Supreme Judicial Court held that the effective date of a provision of Chapter 186 of the Acts of 2002 amending the capital gains tax statute violates amendment article 44 of the Massachusetts Constitution. Since the statute has a severability clause, the court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether the statute should be construed to impose the new tax rate beginning on January 1, 2003, or whether the statute instead should be construed to impose the new tax rate beginning on January 1, 2002. The Department of Revenue estimates that if the statute is construed to impose the new tax rate beginning on January 1, 2002, the Commonwealth would collect an additional $130 million to $160 million in capital gains taxes. If the statute is construed to impose the new tax rate beginning on January 1, 2003, the Commonwealth would be required to pay an additional $225 million to $275 million in refunds. Depending on when the case is decided, the revenue impact may occur in either fiscal 2005 or fiscal 2006, or be split between the two fiscal years. Included in the fiscal 2005 GAA were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. The plaintiffs have amended their complaint to challenge each of these sections. See "LEGAL MATTERS" herein.

On August 10, 2004, the Governor signed into law legislation closing various so-called tax loopholes that was filed by the Governor on January 28, 2004. Although the fiscal 2005 GAA assumes $89.0 million in additional tax revenue would be generated from the closing of the "loopholes" contained in this legislation, further analysis of the enacted legislation by the Department of Revenue indicated that $79.0 million in additional tax revenue is projected to be generated in fiscal 2005 by the law. The Department of Revenue estimates that the loophole-closing legislation will generate $90 million to $146 million in additional revenues on an annualized basis.

Fiscal 2006. On December 6, 2004, the Executive Office for Administration and Finance and House and Senate Ways and Means Committees held a joint hearing in preparation for the consensus revenue estimate due on

January 15, 2005. At that hearing, fiscal 2006 revenue estimates were presented by the Department of Revenue, the Massachusetts Taxpayers Foundation, and the Beacon Hill Institute. The Department of Revenue estimated fiscal 2006 tax revenues in the range of $17.341 billion to $17.464 billion, the Massachusetts Taxpayers Foundation forecast fiscal 2006 tax revenues of $17.368 billion, and the Beacon Hill Institute forecast fiscal 2006 tax revenues of $17.555 billion.

On January 14, 2005, the Chairpersons of the House and Senate Committees on Ways and Means and the Secretary for Administration and Finance announced that agreement could not be reached on the fiscal 2006 consensus tax revenue estimate. The Executive Office for Administration and Finance announced a fiscal 2006 tax revenue estimate of $17.336 billion, which the administration incorporated in its fiscal 2006 budget proposal released on January 26, 2005. The Chairpersons of the House and Senate Committees on Ways and Means announced a fiscal 2006 tax revenue estimate of $17.100 billion.

Federal and Other Non-Tax Revenues

Federal revenue is collected through reimbursements for the federal share of entitlement programs such as Medicaid and, beginning in federal fiscal 1997, through block grants for programs such as Transitional Assistance to Needy Families (TANF) (formerly Aid to Families with Dependent Children (AFDC)). The amount of federal revenue to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance of effort spending level determined annually by the federal government. Departmental and other non-tax revenues are derived from licenses, tuition, registrations and fees and reimbursements and assessments for services.

For the Budgeted Operating Funds, inter-fund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $902.1 million, $931.6 million, $941.3 million, $947.1 million and $974.6 million in fiscal 2000 through 2004, respectively, and account for an estimated $1.045 billion in fiscal 2005.

On November 21, 2003, the Governor signed into law "An Act Relative to Fiscal Relief Funds." The legislation established a new budgeted operating fund called the Federal Medicaid Assistance Percentage Escrow Fund (FMAP Escrow Fund). All revenue received from the federal Jobs Growth Reconciliation Act of 2003 in fiscal 2004 and 2005, unless otherwise designated for a specific purpose, was deposited into the FMAP Escrow Fund. The Commonwealth received $57.7 million in fiscal 2003, which was deposited into the General Fund. After the transfer of $55.0 million to the Uncompensated Care Trust, a total of $402.7 million was deposited into the FMAP Escrow Fund in fiscal 2004. In fiscal 2004, $33.6 million was transferred from the FMAP Escrow Fund to the Economic Stimulus Fund to fund a variety of economic development programs. The fiscal 2005 GAA reserved $270.0 million in the FMAP Escrow Fund for fiscal 2005 expenditures. The remaining $99.1 million balance was transferred to the Stabilization Fund as part of the consolidated net surplus.

Tobacco Settlement. On November 23, 1998, the Commonwealth joined with other states in a master settlement agreement that resolved the Commonwealth's and other states' litigation against the cigarette industry. Under the agreement, cigarette companies have agreed to make both annual payments (in perpetuity) and five initial payments (for the calendar years 1999 to 2003, inclusive) to the settling states. Each payment amount is subject to applicable adjustments, reductions and offsets, including upward adjustments for inflation and downward adjustments for decreased domestic cigarette sales volume.

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is more than $8.3 billion, subject to adjustments, reductions and offsets.

During fiscal 2000, the Legislature enacted two related laws to provide for disposition of the tobacco settlement payments. The legislation created a permanent trust fund (the Health Care Security Trust) into which the Commonwealth's tobacco settlement payments, other than payments for attorneys' fees, are to be deposited. The legislation contemplated that a portion of the monies in the trust fund would be available for appropriation by the Legislature to supplement existing levels of funding for health-related services and programs, and the remainder of the monies in the trust fund would be held as a reserve fund and would not be appropriated. For fiscal 2000 through fiscal 2004, the amounts to be available for such purposes were originally stipulated to be $91.2 million, $94.0 million, $96.0 million, $98.0 million and $100.0 million, respectively, adjusted for the discounted amounts received by the Commonwealth in comparison to the master settlement agreement. The fiscal 2002 GAA changed this formula to 50% of amounts received in the settlement for fiscal 2002, fiscal 2003 and fiscal 2004. Beginning with fiscal 2005, 30% of the annual payments (not including any Strategic Contribution Fund payments) and 30% of the earnings on the balance in the trust fund were to be available for such purposes. As of June 30, 2004, the Commonwealth had a statutory fund balance in this account of $420.0 million.

For fiscal 2003 through 2005, inclusive, the Commonwealth has appropriated 100% of each fiscal year's annual tobacco settlement payment for the respective year's current spending.

The Commonwealth was also awarded $414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017.

The following table sets forth the amounts received by the Commonwealth to date:

Payments Received Pursuant to the Tobacco Master Settlement Agreement (in millions)(1)

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	$186.6(2)	$139.6	$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004		253.6	253.6
2005	-	253.5(3)	253.5(3)
Total	$434.0	$1,246.2	$1,680.2

SOURCES: Fiscal 2000-2002, Office of the Comptroller; fiscal 2003-2004, Executive Office for Administration and Finance.

(1) Amounts are approximate. Totals may not add due to rounding.
(2) Payments received for both 1999 and 2000.
(3) Projected amounts; subject to change.

Limitations on Tax Revenues

Chapter 62F of the General Laws, which was enacted by the voters in November 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. The growth limit is used to calculate "allowable state tax revenue" for each fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then-current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. The law does not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that "although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems and payment of principal and interest on debt and other obligations of the Commonwealth."

Tax revenues in fiscal 2000 through 2004 were lower than the "allowable state tax revenue limit" set by Chapter 62F and will be lower than the allowable limit again in fiscal 2005.

Chapter 62F was amended by the fiscal 2003 GAA and the fiscal 2004 GAA to establish an additional tax revenue limitation. The fiscal 2003 GAA created a quarterly cumulative "permissible tax revenue" limit equal to the cumulative year-to-date actual state tax revenue collected during the same fiscal period in the prior fiscal year, increased by the sum of the most recently available year-over-year inflation rate plus two percentage points. Effective July 1, 2003, at the end of each quarter the Commissioner of Revenue must calculate cumulative permissible tax revenue. The Comptroller must then divert tax revenue in excess of permissible tax revenue from the General Fund to a temporary holding account to make such excess revenue unavailable for expenditure. If actual tax revenue collections fall short of the permissible limit, the difference flows back into the General Fund. At the end of each fiscal year, tax revenue in excess of permissible state tax revenue for the year will be held in the temporary holding account pending disposition by the Comptroller. The Comptroller is required to first use any funds in the temporary holding fund to reimburse the Commonwealth Stabilization Fund for any amounts expended from the Stabilization Fund during the fiscal year. The general law amendments in the fiscal 2004 GAA required that at the end of each fiscal year, the state comptroller must transfer remaining excess revenue from the holding account back to the General Fund for inclusion in consolidated net surplus.

In fiscal 2004, cumulative net state tax revenues used to calculate the Commonwealth's state tax revenue growth limit, as established in Chapter 62F, were $16.053 billion, exceeding the permissible state tax revenue limit of $15.695 billion by an estimated $357.5 million. The excess amount was transferred to the Commonwealth's Temporary Holding Fund, and subsequently transferred to the Stabilization Fund pursuant to Chapter 62F, to reimburse the fund for all appropriations out of the fund during fiscal 2004.

The Executive Office for Administration and Finance does not expect actual state tax revenue collected during fiscal 2005 to exceed the permissible state tax revenue limit set by Chapter 62F.

COMMONWEALTH PROGRAMS AND SERVICES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category. In addition, Budgeted Expenditures and Other Uses are further adjusted to reflect the School Building Assistance Program payments from fiscal 2000 through fiscal 2004, had they been non-budgeted in those years as they are beginning in fiscal 2005 with creation of the Massachusetts School Building Authority.

Commonwealth Expenditures—Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 2000	Fiscal 2001(4)	Fiscal 2002	Fiscal 2003	Fiscal 2004	Projected Fiscal 2005
Direct Local Aid	$4,402.8	$4,380.2	$4,823.7	$4,686.2	$4,382.6	$4,400.3
Medicaid(1)	4,269.9	4,642.3	5,259.3	5,485.1	5,742.4	6,185.6
Public Assistance	960.0	991.4	1,029.6	1,019.0	1,019.1	1,056.2
Other Health/Human Services	2,446.6	3,227.7	3,282.5	3,179.4	3,497.2	3,485.9
Debt Service and Contract Assistance	1,193.3	790.4(5)	1,415.4	1,480.9	1,569.2	1,845.1
Higher Education	995.0	1,102.3	1,029.5	969.0	831.3	881.9
Group Insurance	588.5	641.4	716.9	739.1	787.6	830.9
Public Safety(2)	881.9	942.4	1,008.4	1,022.1	1,077.8	1,245.0
Other Program Expenditures	3,953.0	2,836.7	2,786.7	2,431.2	1,997.5	2,738.8
Budgeted Pension Transfers	986.3	1,040.1	795.8	813.5	688.9(6)	1,216.9
MBTA Assistance	561.9	--	--	--	--	--
School Building Assistance	271.1	316.2	365.4	383.2	551.4(7)	--
Inter-fund Transfers to Non-budgeted Funds—Other	903.8	949.6	287.1	229.6	690.3	--
Budgeted Expenditures and Other Uses	$22,414.1	$22,133.7	$22,800.3	$22,439.1	$22,848.3	$23,886.6
Adjustment for items moved off-budget(3)	(561.9)	(316.2)	(365.4)	(383.2)	(551.4)(7)	--
Adjusted Budgeted Expenditures and Other Uses	$21,852.2	$21,817.5	$22,434.9	$22,055.9	$22,296.6	$23,886.6

SOURCES: Executive Office for Administration and Finance and Office of the State Comptroller.

(1) Excludes off-budget Medicaid spending in fiscal 2003, 2004 and 2005 estimated at $201.4 million, $329.2 million and $422.2 million, respectively. Also excludes budgeted expenditures for the administration of the Medicaid program.
(2) Public Safety was recognized as a separate expenditure category in fiscal 2005 and is comprised of expenditures under the umbrella of the Executive Office of Public Safety plus the Commonwealth's expenditures for Sheriffs. Prior fiscal years have been restated to identify public safety spending. See "Public Safety" below.
(3) Includes expenditures for MBTA and school building assistance in fiscal years preceding off-budget restructuring of those expenditures. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings". Amounts are subtracted from the years in which they were incurred to facilitate trend analysis.
(4) Restated for the Mosquito and Greenhead Fly Control Fund, which became a non-budgeted fund in fiscal 2002.
(5) In fiscal 2001, the Commonwealth enacted legislation that defeased $650.0 million of outstanding debt by transferring operating surplus and appropriations to the Debt Defeasance Trust Fund, which is non-budgeted. If such cash defeasance had not occurred, then debt service would have been $1,299.9 million in fiscal 2001.
(6) The fiscal 2004 GAA funded the Commonwealth's scheduled pension obligation using $687.3 million in cash and a transfer of assets to the pension liability fund valued at $145.0 million. See "Commonwealth Pension Obligations; *Unfunded Actuarial Accrued Liability*."
(7) Includes $150.0 million transferred from surplus for initial funding of grants from the Massachusetts School Building Authority.

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (Local Aid) to mitigate the impact of local property tax limits on local programs and services. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. In fiscal 2004, inclusive of the school building assistance program, 19.2% of the Commonwealth's budgeted spending was allocated to direct Local Aid. In fiscal 2005, exclusive of the school building assistance program, approximately 18.4% of the Commonwealth's projected budgeted spending is estimated to be allocated to direct Local Aid.

As a result of comprehensive education reform legislation enacted in June 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. For fiscal 2004, \$2.902 billion was required to reach the minimum spending level statewide as required by law, and the Commonwealth provided a total of \$3.108 billion. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. The Lottery and Additional Assistance programs, which comprise the other major components of direct Local Aid, provide unrestricted funds for municipal use. There are also several specific programs funded through direct Local Aid, such as school building construction and police education incentives.

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service, pensions for teachers, funding for road construction, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

Reductions in Local Aid. During fiscal 2003 Governor Romney reduced Local Aid in response to declining revenues, pursuant to authority under Chapter 29, Section 9C of the Massachusetts General Laws. On January 30, 2003 the Administration announced \$114.4 million in reductions to Additional Assistance and lottery distributions to cities and towns. In the fiscal 2004 GAA direct Local Aid was reduced by an additional \$288.7 million, or 5.7%, primarily through a \$150.8 million reduction in aid for education, a \$67.1 million reduction in aid for school transportation costs, a \$25.2 million reduction in Additional Assistance and a \$44.0 million reduction in lottery distributions. The fiscal 2004 final supplemental appropriations act signed into law on September 17, 2004 appropriated \$75.0 million in one-time local aid payments to be distributed in fiscal 2005.

Property Tax Limits. In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 2004, the aggregate property tax levy grew from \$3.347 billion to \$9.016 billion, a compound annual growth rate of 4.4%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) that permit communities to exceed the limits of Proposition 2½.

Initiative Law. A statute adopted by voter initiative petition at the November 1990 statewide election regulates the distribution of Local Aid to cities and towns. As enacted in 1992 and subsequently amended, this statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, corporate excise taxes and lottery fund proceeds and 32% of collections from sales and use taxes be distributed to cities and towns. By its terms, the new formula would have provided for a substantial increase in direct Local Aid in fiscal 1992 and subsequent years. Nonetheless, Local Aid payments remain subject to annual appropriation by the Legislature, and the appropriations for Local Aid since the enactment of the initiative law have not met the levels set forth in the initiative law.

Medicaid

The Medicaid program provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, which is administered by the Executive Office of Health and Human Services, receives 50% in federal reimbursement on most expenditures. Beginning in fiscal 1999, payments for some children's benefits became 65% federally reimbursable under the State Children's Health Insurance Program (SCHIP).

Over a quarter of the Commonwealth's budget is devoted to Medicaid. It is the largest item in the Commonwealth's budget and has been one of the fastest growing budget items. Medicaid spending from fiscal 2000 to fiscal 2005 grew by 7.7% on a compound annual basis. During the same period, Medicaid enrollment has increased 1.4% on a compound annual basis. The Executive Office for Administration and Finance projects total fiscal 2005 expenditures for Medicaid to be $6.729 billion, an increase of 9.0% over fiscal 2004. In fiscal 2004, the Governor filed legislation to permit the Medicaid program to transfer funds among its accounts, but it was not enacted. As a result, fiscal 2004 ended with $91.6 million in supplemental appropriations for two of the Medicaid program's accounts, and a $249.1 million reversion of unspent funds from the other accounts. At the close of fiscal 2005, MassHealth is currently projected to revert $195.4 million.

Medicaid budget projections are calculated to fund payment for claims received in the twelve months of a fiscal year because Medicaid is budgeted on a cash-year basis and has state authorization to pay claims for prior year services from current year appropriations. Due to lower than anticipated spending in recent years, Medicaid accounts payable spending (spending from July 1 through September 15 of prior year funds for prior year services), which is not budgeted for in the forecast, has grown from $58.1 million in fiscal 2002 to $142 million in fiscal 2003 to $251.8 million in fiscal 2004 to a projected $327.6 million in fiscal 2005. The Governor's fiscal 2006 proposal takes advantage of the fiscal 2005 cash year estimated surplus of $327.6 million, which will be expended during the fiscal 2005 accounts payable period (July 1, 2005 – September 15, 2005). In response to the recent trend of lower actual Medicaid spending than initially forecasted, the Executive Office of Health and Human Services (EOHHS) has engaged the services of several consultants and created internal cross-functional teams to evaluate and recommend improvements to the current methods of forecasting rate changes and utilization. Incremental improvements to the forecasting process have been incorporated, and further updates are planned.

The Governor's fiscal 2006 Medicaid spending figure also includes $237.9 million for Medicare premium costs, which are currently funded as a deduction against the Commonwealth's federal Medicaid reimbursements, and $119.4 million for the costs of the MassHealth Essential program, which is currently funded off budget. Adjusting for these accounting changes, the Medicaid spending figure, compared to fiscal 2005 estimated spending, represents nearly 0% growth. However, on a cash year basis of accounting, Medicaid spending is expected to increase by approximately 5.5% over fiscal 2005 estimated cash year spending.

Medicaid Program Growth in Expenditures and Enrollment

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Projected Fiscal 2005
Budgeted Medicaid Administrative Expenses (in millions)	$40.8	$41.4	$46.3	$110.1	$105.1	$121.7
Budgeted Medicaid Expenses (in millions)	4,269.9	4,642.3	5,259.3	5,485.1	5,742.4	6,185.6
Off-budget Medicaid Expenses (in millions)	--	--	--	201.4	329.2	422.2
Total Expenditures (in millions)	$4,310.7	$4,683.7	$5,305.6	$5,796.6	$6,176.7	$6,729.5
Annual Percent Growth in Total Expenditures	10%	8%	12%	8%	6%	9%
Enrollment	931,451	948,378	1,004,679	986,601	951,960	980,966
Annual Percent Growth in Enrollment	5%	2%	6%	-2%	-4%	1%
Per Enrollee Expenditures	$4,627.9	$4,938.6	$5,280.9	$5,875.3	$6,488.4	$6,860.1
Annual Percent Growth in Per Enrollee Expenditures	5%	7%	7%	11%	10%	6%

SOURCE: Executive Office for Administration and Finance.

Medicaid spending varies by type of Medicaid member. Medicaid spending on disabled individuals and elders together accounts for over 70% of total spending and 30% of total caseload. Low-income children and families account for only 30% of total Medicaid spending but 70% of total caseload. In fiscal 2004, over 40% of total Medicaid expenditures were for nursing home care and prescription drugs. In fiscal 2004, many Medicaid savings initiatives were directed at controlling the rate of growth for these services. Savings initiatives target service utilization, provider rates, benefits and to a limited degree member eligibility. Utilization control measures include the implementation of the MassHealth drug list to steer prescribers' pharmacy utilization toward the use of lower cost brand name and generic drugs and monitoring of prescription utilization. Coverage for certain benefits considered optional under federal law has been dropped, including most dental coverage for adults. Cost containment and cost sharing are also being used to help control Medicaid growth. Cost sharing initiatives include the introduction of and increases in co-pay amounts for various services and the introduction of and increases in premiums for certain groups of members.

Uncompensated Care Pool. The Uncompensated Care Pool (UCP or "The Pool") reimburses acute care hospitals and community health centers (CHCs) in Massachusetts for eligible services provided to low-income uninsured and underinsured people. In Pool fiscal 2003 (October 1, 2002 through September 30, 2003), the Pool paid for an estimated 35,000 inpatient and 1.5 million outpatient visits for 405,561 different individuals. Beginning in Pool fiscal 2004, the UCP payment method for hospitals changed from a retrospective fee-for-service system to a prospective fixed payment system. Under this new system, acute care hospitals are paid a pre-determined amount from the Pool each month, based in part on historical free care costs. CHCs continue to be paid on a fee-for-service basis, up to an annual cap. Revenues into the Pool include: state funds, hospital assessments, and surcharge payer assessments.

The fiscal 2004 GAA directed the Division of Medical Assistance to provide health care benefits to long-term unemployed adults and fund such benefits using Pool revenues, described above. These individuals had previously been covered through the MassHealth Basic program and funded on budget. Eligibility for these individuals under the MassHealth Basic program was cut in April 2003. The new fiscal 2004 program (entitled MassHealth Essential) for long-term unemployed adults began October 1, 2003 with an enrollment cap of 36,000 long-term unemployed adults. Effective January 26, 2005, the Commonwealth received federal approval to impose an enrollment cap for this population that ranges from 36,000 to 44,000 individuals.

The federal Centers for Medicare and Medicaid Services (CMS, formerly Health Care Financing Administration) asserted in June 2000 that the portion of the Medicaid program funded by the Commonwealth's Uncompensated Care Pool might violate federal regulations regarding impermissible taxes on health care providers. Since 1993, the Division of Medical Assistance has been seeking a federal waiver for the Commonwealth's assessment on acute care hospitals to fund the Uncompensated Care Pool. The Executive Office of Health and Human Services believes that the assessment complies with the federal law pertaining to provider taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible provider tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. From 1993, when the first waiver request was submitted, through fiscal 2000, the Commonwealth received an estimated $1.068 billion in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool. The Commonwealth has continued to collect approximately $40 million per fiscal quarter for each quarter since fiscal 2000. Many other states have provider taxes similar to the one funding the uncompensated care pool, and CMS' interpretation of this area of federal law continues to evolve. As a result, resolution of this issue could take several years. In the fall of 2004 CMS again posed questions regarding the funding mechanism for the uncompensated care pool, but CMS has not taken any further action in regard to this matter.

Three-year Renewal of 1115 Demonstration Project. Since 1991 Medicaid has been making supplemental payments to certain hospitals. Supplemental payments to Medicaid Managed Care Organizations (MCOs) began in fiscal 1997. The hospital supplemental payments are authorized in the Massachusetts Medicaid state plan, and the MCO supplemental payments are permitted under the 1115 Demonstration waiver. Supplemental payments are in addition to ordinary Medicaid rate payments for providing care to Medicaid members. In fiscal 2005, approximately $400 million in hospital supplemental payments and $688 million of Medicaid Managed Care Organization (MCO) supplemental payments are projected. The Commonwealth has used funding provided by other government entities (primarily local governments and the state-owned medical school) as the non-federal share of these supplemental Medicaid payments. The transfer of the non-federal share to the Medicaid agency to fund supplemental payments is called an inter-governmental transfer (IGT). As a part of the waiver renewal negotiations, the Commonwealth and CMS have agreed to sunset IGTs as a mechanism for financing the non-federal share of hospital supplemental payments effective June 30, 2005. The Commonwealth and CMS further agreed to sunset IGTs as a mechanism for funding supplemental payments to Medicaid MCOs effective June 30, 2006. Under current state law, these approximately $1.1 billion in supplemental payments are conditioned on the receipt of associated IGTs equal to half the supplemental payment amount (approximately $550 million) and federal Medicaid reimbursement, also equal to half the supplemental payment amount (approximately $550 million). Absent a change in current law, the supplemental payments will cease when their associated IGT funding mechanism sunsets. Therefore, sunsetting the IGT funding mechanism and, as a result, ending the associated supplemental payments would have no net effect on the Commonwealth's financial condition because both spending and revenue would be reduced by an equal amount. The Administration is exploring alternative non-federal funding mechanisms to use in place of IGTs.

In the same negotiations, CMS approved a three-year extension of the Commonwealth's 1115 Demonstration Project ("waiver") on January 26, 2005. The extension period will run from July 1, 2005 through June 30, 2008. The waiver renewal directs certain federal funding within the Demonstration Project for the establishment of a fund dedicated to reducing the rate of uninsurance in the Commonwealth. (The availability of these funds is subject to the conditions generally described herein). Expenditures from this fund may only be used for the provision of health care services to uninsured individuals and for unreimbursed Medicaid costs. The funds can be used through any type of provider or through insurance products. Up to 10 percent of the funds may be used for expenditures for the improvement of the delivery of health care to the uninsured, such as capacity building and infrastructure. The Commonwealth may only access funds if the source of the non-federal share of such funds has received prior approval from CMS (and is a permissible source under federal law). In addition, beginning July 1, 2006, payments from the fund must be made in accordance with payment methodologies approved by CMS.

This fund is referred to in waiver documents as the Safety Net Care Pool (SNCP). The total allotment for the SNCP is projected to be $1.26 billion per year in each year of the extension period. The actual amount of dollars in the fund will be set by the amount of state fiscal 2005 supplemental payments made to the Medicaid MCOs (described above), projected to be $688 million, and the state's federal fiscal 2005 Disproportionate Share Hospital (DSH) allotment of $574 million.

Prescription Advantage Program. The Prescription Advantage Program (formerly known as the Senior Pharmacy Program) began in April 2001 and is currently administered by the Executive Office of Elder Affairs. In its first full year of operation, spending for the Prescription Advantage Program totaled approximately $81.5 million. The fiscal 2003 GAA appropriated $97.6 million for the Prescription Advantage Program, but only $85.3 million was expended as a result of allotment reductions imposed during fiscal 2003 pursuant to Chapter 29, Section 9C, which closed enrollment indefinitely and increased co-payments, premiums and the annual out of pocket spending limit. The fiscal 2004 GAA called for one-month open enrollment period for those 66 and older and reopened enrollment for individuals with exceptions to the open enrollment period. Included was a reduction in co-payment and deductibles for low-income members and the annual out of pocket spending limit for all members. On September 5, 2003, legislation was approved that would reopen enrollment for one additional month in January 2004, provided that the Secretary of Elder Affairs may establish a cap on enrollment during such open enrollment period if, without a cap, program costs were projected to exceed the fiscal 2004 appropriation for the Prescription Advantage Program. In fiscal 2004, spending for the program was $94 million. Fiscal 2005 spending is projected at approximately $115 million.

The Prescription Advantage Program will be affected by federal implementation of Medicare Part D, which will take effect January 1, 2006. The Commonwealth is currently reviewing the Medicare Part D regulations issued January 28, 2005.

Public Assistance

The Commonwealth administers four major programs of income assistance for its poorest residents: Transitional Aid to Families with Dependent Children (TAFDC), Emergency Assistance, Emergency Aid to the Elderly, Disabled and Children (EAEDC) and the state supplement to federal Supplemental Security Income (SSI). The following table illustrates the recent expenditures within these categories.

Public Assistance Program Expenditures (in millions)

Category of Public Assistance	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Projected Fiscal 2005
TAFDC(1)	$384.5	$387.1	$417.9	$404.9	$404.5(2)	$418.6
Child Care	308.1	340.8	338.4	332.8	338.7	355.0
EAEDC	59.8	58.0	64.0	67.6	66.8	70.5
SSI	207.6	205.5	209.3	209.7	209.1	212.1
Total	$960.0	$ 991.4	$1,029.6	$1,019.0	$1,019.1	$1,056.2

SOURCES: Fiscal 2000-2004, Office of the Comptroller; fiscal 2005, Executive Office for Administration and Finance.

(1) Includes expenditures for TAFDC, ESP and Emergency Assistance.
(2) Does not include $5.9 million in off budget spending from the Federal Reed Act to supplement Employment Service Programs offered to those on TAFDC and individuals making a transition off of TAFDC for up to one year.

TAFDC budgeted expenditures in fiscal 2004 were $404.5 million, a minimal decrease from fiscal 2003. The decrease in TAFDC spending was attributable to the federally mandated increase in the number of recipients required to work. TAFDC expenditures in fiscal 2005 are estimated to be $418.6 million, approximately 3.6% more than fiscal 2004. The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

The Commonwealth is federally required to provide child care to TAFDC recipients and those transitioning off TAFDC for up to one year. Child care expenditures for fiscal 2004 were $338.7 million, an increase of 1.8% from fiscal 2003. The Commonwealth provided approximately 23,000 slots for child care to TAFDC recipients and those transitioning off TAFDC in fiscal 2004. Child care expenditures for fiscal 2005 are projected to be $355.0 million, an increase of 4.8% from fiscal 2004. The Commonwealth projects that it will provide approximately 23,036 child care slots to TAFDC recipients and those transitioning off TAFDC in fiscal 2005. The Commonwealth has met federal requirements for child care in the past two fiscal years.

The Commonwealth began implementing welfare reform programs in November 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long-term assistance. The TAFDC caseload declined steadily from fiscal 1996 through fiscal 2001, resulting in an 68% decrease through fiscal 2001. However, the caseload began to grow again in fiscal 2002, from a low point of 42,013 enrolled in July 2001 to a high point of 48,550 in February 2003. In addition, Massachusetts limits TAFDC recipients to two years of benefits within a five-year period. Over 15,000 welfare recipients reached their limit in December 1998 and can now begin receiving benefits again if they meet eligibility requirements.

The EAEDC caseload declined steadily from fiscal 1996 through fiscal 2001, resulting in an 83.6% decrease through fiscal 2001, but the caseload began to grow again in fiscal 2002. The trend can be attributed to factors similar to those affecting the TAFDC caseload. For fiscal 2003, caseload increased by an estimated 5.4% and expenditures increased by approximately 6.9%. For fiscal 2004, caseload grew by 6.6%. Fiscal 2005 expenditures for EAEDC are projected to be $70.5 million, a 3.7% increase from fiscal 2004.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to $530 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from $39 to $454 per month per recipient. Fiscal 2005 expenditures for SSI are estimated to be $212.0 million, a 1.4% increase from fiscal 2004.

The following table illustrates the trend in caseload for public assistance programs:

Public Assistance Average Caseload

Category of Public Assistance	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Projected Fiscal 2005
TAFDC(1)	46,591	42,648	45,432	47,821	48,541	49,821
EAEDC	14,089	13,460	14,967	15,999	17,058	17,048
SSI(2)	163,356	163,584	163,566	163,713	164,729	162,830
Total	224,036	219,692	223,965	226,536	230,328	228,299

SOURCE: Department of Transitional Assistance.

(1) TAFDC caseload estimates do not include the Emergency Assistance caseload.
(2) SSI caseload does not include blind recipients whose benefits are administered by the Massachusetts Commission for the Blind.

Federal Welfare Reform. The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of Aid to Families with Dependent Children and replaced it with block grant funding for Transitional Assistance to Needy Families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at $459.4 million annually for federal fiscal 1997 through 2005. The Commonwealth must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. The Commonwealth successfully met the MOE requirement in each of the federal fiscal years 1997 through 2004. The Commonwealth also received approximately $102.6 million in child care block grant funds in fiscal 2005 to support child care programs. The federal waiver that has allowed the Commonwealth to calculate work participation rates using a more lenient method of assessment is set to expire in fiscal 2006.

Other Controls and Reforms. The Department of Transitional Assistance in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for TAFDC, Emergency Assistance and EAEDC benefits. The Department of Transitional Assistance also has instituted automated systems to re-determine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Revenue has improved its collection of child support payments.

Other Health and Human Services

In fiscal 2004, other health and human services spending included expenditures for the Department of Mental Retardation ($1.043 billion), Department of Mental Health ($561.9 million), Department of Social Services ($681.6 million), Department of Public Health ($412.3 million) and other human services programs ($693.7 million).

In fiscal 2005, other health and human services spending includes expenditures for the Department of Mental Retardation (projected to be $1.067 billion), Department of Mental Health (projected to be $598.7 million), Department of Social Services (projected to be $709.1 million), Department of Public Health (projected to be $414.6 million) and other human services programs (projected to be $696.5 million).

Debt Service

Debt service expenditures relate to general obligation bonds, special obligation bonds and federal grant anticipation notes issued by the Commonwealth. See "LONG-TERM LIABILITIES."

Commonwealth Pension Obligations

The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the teachers' retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. The Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost of living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. However, in 1997 legislation was enacted removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems and providing that local retirement systems fund future cost-of-living adjustments. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and teachers' retirement systems is managed by the Pension Reserves Investment Management Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. The members of these state and local retirement systems do not participate in the federal Social Security System.

Legislation approved in 1997 provided, subject to legislative approval, for annual increases in cost-of-living allowances equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index on the first $12,000 of benefits for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year's percentage increase in the United States Consumer Price Index is less than 3%. The fiscal 2005 GAA included a 3% cost of living increase.

Employee Contributions. The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996 and 9% for those hired on or after July 1, 1996, plus an additional 2% of compensation above $30,000 per year for all those members hired on or after January 1, 1979. Employee contributions are 12% of compensation for members of the state police hired after July 1, 1996. Legislation enacted in fiscal 2000 establishing an alternative superannuation retirement benefit program for members of the teachers' retirement system and teachers of the State-Boston retirement system mandates that active members who opt for the alternative program and all teachers hired on or after July 1, 2001 contribute 11% of regular compensation. Members who elect to participate are required to make a minimum of five years of retirement contributions at the 11% rate. Approximately 45,000 active teachers joined the enhanced benefit program and will retire under the terms of the program over the next 30 years.

Early Retirement Incentive Program. As a means of reducing payroll costs in fiscal 2002 and 2003, the Commonwealth adopted two Early Retirement Incentive Programs (each, an ERIP), which offered an enhanced pension benefit to retirement-eligible employees. For details of the ERIP program, see "STATE WORKFORCE – Employee Retirement Incentive Plan". Employees retiring under the 2002 and 2003 ERIP programs totaled approximately 4,600 and 3,048, respectively. The legislation authorizing each ERIP program directed the Public

Employee Retirement Administration Commission (PERAC) to file a report on the additional actuarial liabilities due to each ERIP. In its report for the 2002 ERIP program, PERAC stated that the program resulted in an increased actuarial liability of $312.2 million. PERAC's report for the 2003 ERIP program stated that the program resulted in an increased actuarial liability of $224.8 million.

Unfunded Actuarial Accrued Liability. The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. Comprehensive pension funding legislation approved in January 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liability to zero by June 30, 2028. The legislation was revised in July 1997 to require the amortization of such liabilities by June 30, 2018.

The July 1997 legislation required the Secretary of Administration and Finance to prepare a funding schedule providing for both the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and the amortization by June 30, 2018, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule was required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary was also required to conduct experience investigations every six years. Funding schedules were to be filed with the Legislature triennially by March 1 and were subject to legislative approval. Under the July 1997 pension legislation, if a schedule was not approved by the Legislature, payments were to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

On April 15, 2002, Acting Governor Swift and legislative leaders agreed to a new funding schedule that incorporated a January 1, 2001 actuarial valuation and extended amortization of the unfunded pension liability from June 30, 2018 to June 30, 2023. The schedule included updated estimates for the cost of enhanced teacher retirement benefits enacted in 2000 and preliminary cost estimates for the ERIP. The fiscal 2003 GAA appropriated $796.8 million to the Commonwealth's pension liability fund pursuant to this schedule.

In fiscal 2004, the pension funding schedule called for an $832.3 million appropriation. However, the fiscal 2004 GAA amended the General Laws to allow annual pension appropriations to include the scheduled amount less the value of any capital assets transferred to the pension liability fund. The fiscal 2004 GAA funded the $832.3 million pension obligation using $687.3 million in cash and the transfer to the pension liability fund of the Hynes Convention Center and the Boston Common Garage, valued at $145.0 million. Transfer of these capital assets to the pension liability fund has not been completed. The fiscal 2005 GAA created a commission to evaluate the potential use, sale or disposition of any interest in the Hynes Convention Center and the Boston Common Parking Garage. The commission is required to submit a final report of its findings, including legislative recommendations, by December 30, 2005. Any use, sale or disposition of these properties as recommended by the commission requires approval of the Legislature.

In fiscal 2005, Governor Romney and legislative leaders agreed to an updated funding schedule that incorporated a January 1, 2004 actuarial valuation. The assumptions underlying the new funding schedule retain the 2023 date for fully amortizing the unfunded liability and utilize an amortization growth rate of 4.5% per year. The schedule is as follows:

Extended Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2005	$1,216,936	2015	$1,936,059
2006	1,274,675	2016	2,028,266
2007	1,335,176	2017	2,124,903
2008	1,398,573	2018	2,226,183
2009	1,465,004	2019	2,332,332
2010	1,534,617	2020	2,443,587
2011	1,607,565	2021	2,560,194
2012	1,684,010	2022	2,682,414
2013	1,764,121	2023	2,810,519
2014	1,848,075		

SOURCE: Executive Office for Administration and Finance, Fiscal Affairs Division.

The fiscal 2005 GAA provided that the appropriations or transfers to the Pension Liability Fund in fiscal 2005 through 2007 would be in the amounts shown in the preceding funding schedule.

Valuation of Pension Obligation. On July 2, 2004, PERAC released its actuarial valuation of the total pension obligation dated January 1, 2004. The unfunded actuarial accrued liability as of that date for the total obligation was approximately $12.014 billion, a decrease of approximately $1.387 billion over the unfunded actuarial accrued liability as of January 1, 2003. The unfunded accrued actuarial liability as of January 1, 2004 was comprised of unfunded actuarial accrued liabilities of approximately $3.065 billion for the State Employees' Retirement System, $7.444 billion for the State Teachers' Retirement System, $982.3 million for Boston Teachers and $522.0 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2004 to be approximately $46.059 billion (comprised of $18.996 billion for state employees, $24.519 billion for state teachers, $2.022 billion for Boston Teachers and $522.0 million for cost-of-living increases). Total assets were valued at approximately $34.045 billion based on the five-year average valuation method, which equaled 107.4% of the January 1, 2004 total asset market value. The actuarial value of assets as of January 1, 2004 represented an increase of $4.416 billion from the valuation of assets as of January 1, 2003. The funded ratio increased to 73.9% as of January 1, 2004 from 68.9% as of January 1, 2003. During 2003, there was an overall actuarial gain of approximately $2.2 billion. There was a non-investment loss on actuarial liability of approximately $300 million and a gain on assets (on an actuarial value basis) of approximately $2.5 billion.

The following table shows the valuation of accrued liabilities as well as the unfunded portion from the January 1, 1998 valuation through the January 1, 2004 valuation:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

			Unfunded Accrued Liabilities		
Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(2)	Unfunded Actuarial Liability(3)	Market Value of Unfunded Liability	Valuation Date
January 1, 1998	$26,587	$20,783	$5,804	$5,160	January 1, 1998
January 1, 2000(1)	32,743	27,906	4,837	2,076	January 1, 2000(1)
January 1, 2001	35,605	29,230	6,374	5,381	January 1, 2001
January 1, 2002	39,067	31,699	7,369	10,359	January 1, 2002
January 1, 2003	43,030	29,629	13,401	17,266	January 1, 2003
January 1, 2004	46,059	34,045	12,014	14,350	January 1, 2004

SOURCE: Public Employee Retirement Administration Commission.

(1) On the basis of the January 1, 2000 valuation and PERAC's most recent six-year experience studies released in October and November 2000, the Secretary of Administration and Finance developed two new alternative estimates of unfunded actuarial accrued liability based on its $33.482 billion estimate of total actuarial accrued liability developed by the experience studies, but with different assumptions of asset valuation. One valued assets at $27.905 billion, reflecting a valuation of 91% of market value. It estimated total unfunded actuarial accrued liability at approximately $5.577 billion. The other, utilizing a valuation of 89% of market value, valued assets at approximately $27.292 billion and estimated total unfunded actuarial accrued liability to be approximately $6.190 billion. On March 1, 2001, the Secretary of Administration and Finance filed three alternative funding schedules with the Legislature, two of which were based on the foregoing alternative calculations of unfunded actuarial accrued

liability. In addition, the funding schedules also assumed additional annual costs of $50 million estimated to be attributable to 2000 legislation that enhanced certain retirement benefits for teachers. On March 7, 2001, the House Committee on Ways and Means approved the proposed funding schedule that had been based on the valuation of 89% of market value, and which reflected total estimated unfunded actuarial accrued liability of approximately $6.190 billion. The fiscal 2002 GAA did not appropriate the amount provided in the schedule approved by House Ways and Means, but did appropriate an amount in accordance with an alternative schedule filed by the Secretary of Administration and Finance reflecting a market valuation of 91% and a total unfunded actuarial accrued liability at approximately $5.577 billion.

(2) The actuarial value of assets smoothing methodology was phased-in beginning January 1, 1998, and was completely phased in as of January 1, 2001. The phase-in was 3% per year until the calculation of the actuarial value exceeded the amount of the phase-in. Therefore, as of January 1, 1998 the actuarial value of assets was determined to be 97% of the market value and on January 1, 2000, the actuarial value of assets was determined to be 91% of the market value.

(3) Based on actuarial valuation.

Retiree Health Care Benefits. GASB has indicated that it will require pension systems to calculate and report on the liability of health care benefits for retirees starting in fiscal 2008. Currently, the Commonwealth system pays for such costs on a "pay-as-you-go" basis. Such payments are included in the Group Insurance Commission appropriation. The Commonwealth has not performed an actuarial valuation of its post-retirement health care and life insurance benefit liability. Private industry typically sees an actuarial accrued liability of 10 to 20 times the current annual payments. For the Commonwealth, this would extrapolate to an actuarial accrued liability of $2.5 billion to $5 billion.

Group Insurance

The Group Insurance Commission provides health insurance benefits to approximately 78,000 active employees and 83,000 retired employees. The fiscal 2004 GAA altered contribution rates of Commonwealth employees for health care, but left the reimbursement rate for retirees unchanged. Prior to the fiscal 2004 GAA, active employees paid 15% of their health insurance premium costs, those who retired prior to 1994 paid 10% and those who retired after 1994 paid 15%. The fiscal 2004 GAA imposed a tiered contribution ratio that requires active employees who were hired on or before June 30, 2003 and earn less than $35,000 annually to pay 15% and all other employees to pay 20% of their health insurance premium costs. This tiered contribution ratio will sunset on June 30, 2005, and all employees hired on or before June 30, 2003 will contribute 15% of total premium costs. All employees hired after June 30, 2003 will pay 25% of premium costs, regardless of salary.

Public Safety

The Commonwealth of Massachusetts expects to expend a total of $1.245 billion in fiscal 2005 for the Executive Office of Public Safety and Sheriffs to ensure the safety of its citizens. There are twelve state agencies that fall under the umbrella of the Executive Office of Public Safety. The transportation restructuring act, which became law on July 21, 2004, transferred the responsibilities of the Registry of Motor Vehicles from the Executive Office of Public Safety to the Executive Office of Transportation. The largest public safety agency under the Executive Office is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth and will expend an estimated $449.6 million in fiscal 2005. Other public safety agencies include the State Police, with estimated expenditures of $247.7 million in fiscal 2005, Parole Board, Department of Fire Services, Military Division, Office of the Chief Medical Examiner, and six other public safety related agencies. In addition to expenditures for the existing twelve state public safety agencies, the Commonwealth provides funding for the operation of 16 regional jails and correctional facilities that are managed by independently elected Sheriffs, for which the Commonwealth expects to expend an estimated $388.2 million in fiscal 2005.

Higher Education

The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The system is coordinated by the appointed Commonwealth Board of Higher Education and each institution is governed by a separate board of trustees. The Board of Higher Education appoints a chancellor of the system of public higher education, who is responsible for carrying out the policies established by the board. The fiscal 2004 GAA restructured the membership of the Board of Higher Education by decreasing the number of gubernatorial appointees from ten to five and by adding three members to represent community colleges, state colleges and the University to be selected by campus presidents and the University chancellor, and adding the chairs of the legislative Joint Committee on Education, Arts and Humanities as non-voting members.

The operating revenues of each institution consist primarily of state appropriations and of student and other fees that may be imposed by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. Tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and the Massachusetts Maritime Academy have the authority to retain tuition through fiscal 2008. The University of Massachusetts may retain out-of-state tuition until the end of fiscal 2005. The Governor's fiscal 2006 budget recommendation has proposed extending this authority for an additional year. The board of trustees of each institution submits operating and capital budget requests annually to the Board of Higher Education. The Board of Higher Education uses the data to prepare operating and capital outlay budgets for the statewide system of public higher education, which are submitted to the Fiscal Affairs Division of the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

Other Program Expenditures

In fiscal 2005, the remaining $2.674 billion in projected expenditures on other programs and services cover a variety of functions of state government, including expenditures for the Judiciary ($624.7 million), District Attorneys ($79.3 million) and the Attorney General ($35.9 million) and for the Executive Office for Administration and Finance ($463.6 million), Environmental Affairs ($237.2 million), Transportation and Construction ($42.1 million), and the Department of Housing and Community Development ($86.3 million).

Unemployment Trust Fund

The cash balance in the Massachusetts Unemployment Trust Fund as of January 31, 2005 was $20.3 million. The Division of Unemployment Assistance (DUA) projects that the Fund will experience a cash deficit during March and April, 2005. This will require DUA to borrow funds from the federal government during the periods of insolvency. Estimated borrowings during these periods total $224 million. DUA has forecasted that all borrowings will be repaid prior to the end of May 2005 and no additional borrowings will be required during calendar 2005; thus the Commonwealth will not incur any interest on the borrowings.

SELECTED FINANCIAL DATA

Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 2000 through 2004 The projections for fiscal 2005 have been prepared by the Executive Office for Administration and Finance. The financial information presented includes all Budgeted Operating Funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2001 budget. For fiscal 2002, the Commonwealth reported 63 budgeted operating funds. Fund closure legislation was included in the fiscal 2003 GAA and the fiscal 2004 GAA. Effective as of June 30, 2003, 48 funds have been closed. Additional funds have been transferred off-budget. There are 13 Budgeted Operating Funds remaining as of July 1, 2004, which include the General Fund, the Highway Fund, the Stabilization Fund, the Tax Reduction Fund (which is inactive), the Temporary Holding Fund, the Intragovernmental Service Fund, the Workforce Training Fund, the Inland Fisheries and Game Fund, the Massachusetts Tourism Fund, the Children's and Seniors' Health Care Assistance Fund, the Collective Bargaining Reserve Fund (which is inactive), the Division of Energy Resources Credit Trust Fund and the Federal Medicaid Assistance Percentage Escrow Fund.

During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows. In conducting the budget process, the Executive Office for Administration and Finance excludes those inter-fund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this inter-fund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements.

Budgeted Operating Funds Operations -- Statutory Basis

(in millions)(1)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Projected Fiscal 2005
Beginning Fund Balances						
Reserved or Designated	$330.2	$278.5	$895.3	$195.2	$76.8	$664.6
Tax Reduction Fund	6.8	7.2	33.6	-	-	-
Stabilization Fund	1,388.5	1,608.4	1,715.0	881.8	641.3	1,137.3
Undesignated	386.9	391.3	369.5	311.0	34.7(7)	90.9
Total	2,112.4	2,285.4	3,013.3	1,388.0	752.8	1,892.8
Revenues and Other Sources						
Tax Revenues (2)	15,688.6	16,074.6	13,622.8	14,279.5(5)	15,269.0	15,130.5
Federal Reimbursements	3,645.6	3,974.2	4,334.9	4,523.6	5,098.5	4,740.0
Departmental and Other Revenues	1,359.9	1,425.9	1,485.2	1,494.8	1,847.7	2,021.5
Inter-fund Transfers from Non-budgeted Funds and Other Sources (3)	1,893.0	1,385.9	1,732.0	1,689.2	1,773.1	1,388.1
Budgeted Revenues and Other Sources	22,587.1	22,860.6	21,174.8	21,987.1	23,988.3	23,280.1
Inter-fund Transfers	3,634.0	931.0	1,874.4	3,310.5(6)	2,058.6(8)	947.9
Total Budgeted Revenues and Other Sources	26,221.1	23,791.6	23,049.2	25,297.7	26,047.0	24,228.0
Expenditures and Uses						
Programs and Services (4)	21,510.3	21,184.1	20,513.2	22,209.5	22,158.0	22,669.7
Inter-fund Transfers to Non-budgeted Funds and Other Uses(11)	903.8	949.6	287.1	229.6	690.3	1,216.9
Budgeted Expenditures and Other Uses	22,414.1	22,133.7	22,800.3	22,439.1	22,848.3	23,886.6
Inter-fund Transfers	3,634.0	931.0	1,874.4	3,310.5(6)	2,058.7(8)	947.9
Total Budgeted Expenditures and Other Uses	26,048.1	23,064.7	24,674.7	25,749.6	24,907.0	24,834.5
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses (12)	172.9	726.8	(1,625.4)	(451.9)	1,140.0	(606.5)
Ending Fund Balances						
Reserved or Designated	278.5	895.3	195.2	76.8	664.6(9)	26.1
Tax Reduction Fund	7.2	33.6	--	--	--	--
Stabilization Fund	1,608.4	1,715.0	881.8	641.3	1,137.3	1,167.0
Undesignated	391.3	369.5	311.0	218.0	90.9	93.2
Total	$2,285.4	$3,013.3	$1,388.0	$936.1	$1,892.8	$1,286.3

SOURCE: Fiscal 2000-2004, Office of the Comptroller; fiscal 2005, Executive Office for Administration and Finance, Office of the State Treasurer.

(1) Totals may not add due to rounding.
(2) Net of $654.6 million in fiscal 2001, $664.3 million in fiscal 2002, $684.3 million in fiscal 2003, $684.3 million in fiscal 2004, and an estimated $704.8 million in fiscal 2005 of dedicated sales tax transferred to the MBTA and moved off budget beginning in fiscal 2001 and net of $395.7 million in fiscal 2005 of dedicated sales tax transferred to the MSBA and moved off budget.
(3) Non-budgeted funds transfers to the Budgeted Operating Funds, which include profit from State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for $902.1 million, $931.6 million, $941.3 million $944.7 million, and $982.8 million in fiscal 2000 through fiscal 2004, respectively, and are estimated to account for $1.048 billion in fiscal 2005.
(4) The Executive Office for Administration and Finance estimates that approximately $201.4 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA and an additional $75.3 million were transferred off budget in fiscal 2004. Total off-budget Medicaid expenditures in fiscal 2004 were $288.5 million and projected to be $422.2 in fiscal 2005.

(5) Includes $174.0 million in one-time revenue from tax amnesty program and approximately $200.0 million from closing various so-called tax loopholes.
(6) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA, effective June 30, 2003.
(7) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflect the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
(8) Inter-fund transfers decreased in fiscal 2004 and 2005 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA and the fiscal 2005 GAA.
(9) Includes $270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, $75.0 million reserved for distribution to cities and towns in fiscal 2005, $293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and $26.1 million reserved for debt service.
(10) Reflects the transfer of $1.217 billion for the Commonwealth's fiscal 2005 pension fund obligation.
(11) The fiscal 2004 figure is inflated by $638.5 million in revenue and appropriations reserved for expenditures in fiscal 2005, which decreases the fiscal 2005 figure by an equal amount.

Recent Financial Restructurings

In recent years certain major spending programs formerly included in the Budgeted Operating Funds have been moved off-budget. In certain cases the items moved off-budget are being funded by dedicated sales tax revenue, as described below. The total amount of such off-budget funding in fiscal 2005 is projected to be $1.523 billion.

Massachusetts Bay Transportation Authority. Beginning in fiscal 2001, the finances of the Massachusetts Bay Transportation Authority (MBTA) were restructured, and its financial relationship to the Commonwealth changed materially. The MBTA finances and operates mass transit facilities in eastern Massachusetts. The Commonwealth is obligated to provide the MBTA with a portion of the revenues raised by the Commonwealth's sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor. (For fiscal 2005 the floor is $704.8 million.) This amount is dedicated to the MBTA under a trust fund. The dedicated revenue stream is disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's debt service contract assistance obligations relating to the MBTA's prior debt, as described below, and to meet the MBTA's other operating and debt service needs. The MBTA is authorized to assess a portion of its costs on 175 cities and towns in eastern Massachusetts; after a five-year phase-in of reduced assessments (from approximately $144.6 million in fiscal 2001 to approximately $136.0 million in fiscal 2006), the cities and towns are required by law to pay assessments equal to at least $136 million in the aggregate, as adjusted in each year after fiscal 2006 for inflation (with no annual increase to exceed 2.5% per year).

Prior to July 1, 2000, the Commonwealth provided financial support of the MBTA through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of its net cost of service (current expenses, including debt service and lease obligations not otherwise provided for, minus current income). The MBTA's net cost of service was financed by the issuance of short-term notes by the MBTA and by cash advances from the Commonwealth. The Commonwealth then assessed the net cost of service in arrears on the cities and towns in the MBTA territory after deducting certain subsidy amounts appropriated in the state budget. This practice resulted in the disbursement of substantial cash subsidies paid out by the Commonwealth up to 18 months before the appropriation of amounts to defray such expenses. The legislation enacted in November 1999 that provided for state sales tax receipts to be dedicated to the MBTA also provided for the "forward funding" of the MBTA by requiring the Commonwealth to defray the cost of the 18-month lag (from January 1, 1999 through June 30, 2001) in operating subsidies previously financed through the issuance of notes by the MBTA and the Commonwealth and the advancing of Commonwealth cash reserves to the MBTA. This cost has been estimated by the Comptroller of the Commonwealth to amount to $848.3 million. This cost, plus an additional $100 million to provide working capital to the MBTA, was financed in part by the issuance of $800 million of Commonwealth general obligation bonds authorized by the Legislature and by $10.5 million in operating appropriations. The balance was financed by a transfer from the Commonwealth's Highway Capital Projects Fund, which initially was expected to be amortized over 20 years in the Commonwealth's operating budget.

In order to draw down dedicated sales tax receipts or municipal assessments from the state treasury, the MBTA must first certify that it has made provision in its annual budget for sufficient amounts to be available to meet debt service payments or other payments due under pre-July 1, 2000 financing obligations for which the Commonwealth has pledged its credit or contract assistance or is otherwise liable or as to which the MBTA has covenanted to maintain net cost of service or contract assistance support. To the extent the dedicated sales tax receipts and municipal assessments are insufficient in any year to meet the MBTA's debt service payments with respect to such obligations, the Commonwealth remains liable for the payment of such pre-July 1, 2000 obligations or the provision of net cost of service or contract assistance support as to such obligations to the same extent as before the enactment of the forward funding legislation. The amount of any support provided to the MBTA beyond the dedicated sales tax receipts and municipal assessments is to be in the form of a no-interest loan repayable within five years from the MBTA's system revenues and the dedicated sales tax receipts and municipal assessments.

School Building Assistance Program. The Commonwealth has operated a school building assistance (SBA) program since 1948 to provide financial assistance to municipalities for building schools. Financial assistance was provided in the form of annual contract assistance payments to subsidize a portion of local debt issues for such purposes. Subsidies range from 50 to 90 percent of the construction and borrowing costs of approved projects. Assistance was appropriated annually through the Commonwealth's operating budget, reaching $401.4 million in fiscal 2004. By the end of fiscal 2004, the Commonwealth was reimbursing 748 school projects in cities, towns and regional school districts across the state and had remaining contract assistance liabilities of approximately [$5.5] billion for these previously approved projects. In addition to the 748 school projects currently receiving reimbursement, the Department of Education (which was responsible for administering the program) had preliminarily approved an additional 425 school projects and placed them on a waiting list for funding. The Commonwealth estimated its share of the costs associated with these waiting list projects to be between $4 billion and $5 billion.

In July 2004, the Governor signed three separate pieces of legislation that reform the Commonwealth's school building assistance program. The legislation moved the SBA program off-budget, establishing the Massachusetts School Building Authority (MSBA), an independent state authority, to administer and manage the program. The MSBA is governed by a seven-member board chaired by the State Treasurer. The legislation transfers the liabilities associated with the SBA program from the Commonwealth to the MSBA, including: making contract assistance payments for previously approved and funded projects; mandating that the MSBA fund all the projects on the waiting list at previously agreed upon subsidy levels; and providing for future projects after a moratorium on the acceptance of new school projects ends on July 1, 2007. The legislation limits the grant making of the MSBA for new projects to $500 million in fiscal 2008 and increases such amount by 4.5% in each subsequent fiscal year. Subsidies for future projects are reduced by approximately ten percentage points. The legislation also switches borrowing responsibility from local governments to the MSBA for the state's share of waiting list projects and future school project costs, although contract assistance payments will continue for previously funded projects.

The legislation dedicates 1 cent of the Commonwealth's sales tax excluding certain meals and special financing district sales taxes (Dedicated Sales Tax) to fund the MSBA and to pay for its transferred and future liabilities. Funding is phased in, providing $395.7 million in fiscal 2005, 70% of the Dedicated Sales Tax or at least $488.7 million in fiscal 2006, 78% of the Dedicated Sales Tax or at least $557.4 million in fiscal 2007, 85% of the Dedicated Sales Tax or at least $634.7 million in fiscal 2008, 90% of the Dedicated Sales Tax or at least $702.3 million in fiscal 2009 and 95% of the Dedicated Sales Tax in fiscal 2010, and 100% of the Dedicated Sales Tax thereafter. In addition to Dedicated Sales Tax revenues, the legislation authorizes the Commonwealth to issue $1.0 billion of general obligation bonds to help the MSBA fund, in part, its liabilities. The Commonwealth expects to issue these bonds during fiscal 2005 and 2006. The legislation also transferred $150.0 million from the fiscal 2004 surplus to the MSBA as start-up funding. The MSBA is expected to finance a substantial portion of its liabilities through the issuance of revenue bonds, and the legislation authorizes up to $10.0 billion of such issuance.

Medicaid. Beginning in fiscal 2003 certain expenditures included in the Commonwealth's Medicaid program have been funded off-budget. These included providing supplemental payments to nursing facilities and, commencing in fiscal 2004, the MassHealth Essential program. The sources of funds included transfers from the Uncompensated Care Pool and assessments on nursing facilities, together with related federal reimbursements. These off-budget expenditures totaled $201.4 million, $329.2 million and $422.2 million in fiscal 2003, 2004 and 2005, respectively. See "COMMONWEALTH PROGRAMS AND SERVICES – Medicaid".

Summary. The following table is presented for the purpose of clarifying the effect of the recent financial restructurings on the Budgeted Operating Funds operations of the Commonwealth by identifying off-balance sheet items.

Budgeted Operating Funds Operations as Affected by Recent Financial Restructurings (in millions)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Projected Fiscal 2005
Revenues						
Budgeted Revenues and Other Sources	$22,587.1	$22,860.6	$21,174.8	$21,987.1	$23,988.3	$23,280.1
Certain Off-Budget Revenues:						
MBTA	-	654.6	664.3	684.3	684.3	704.8
MSBA	-	-	-	-	-	395.7
Medicaid	-	-	-	201.4	329.2	422.2
Subtotal	-	654.6	664.3	885.7	1,013.5	1,522.7
Total	22,587.1	23,515.2	21,839.1	22,872.8	25,001.8	24,802.8
Budgeted Expenditures and Other Uses	22,414.1	22,133.7	22,800.3	22,439.1	22,848.3	23,886.6
Certain Off Budget Expenditures:						
MBTA	-	654.6	664.3	684.3	684.3	704.8
MSBA	-	-	-	-	-	395.7
Medicaid	-	-	-	201.4	329.2	422.2
Subtotal	-	654.6	664.3	885.7	1,013.5	1,522.7
Total	22,414.1	22,788.3	23,464.6	23,324.8	23,861.8	25,409.3
Excess (Deficiency) of Total Revenues Over Total Expenditures and Other Uses	172.9	726.8	(1,625.4)	(451.9)	1,140.0	(606.5)

SOURCE: Office of the State Treasurer.

Stabilization Fund and Disposition of Year-End Surpluses

The Commonwealth deposits 100% of any consolidated net surplus at the close of the fiscal year into the Stabilization Fund.

- Beginning June 30, 2003 all budgeted operating fund balances, except the Stabilization Fund, the Inland Fish and Game Fund, and the Tax Reduction Fund are included in the calculation of the consolidated net surplus. These funds currently include the General Fund, the Highway Fund, the Intragovernmental Service Fund, the Workforce Training Fund, the Massachusetts Tourism Fund, the Children's and Seniors' Health Care Assistance Fund, and the FMAP Escrow Fund. The FMAP Escrow Fund will expire on June 30, 2005.

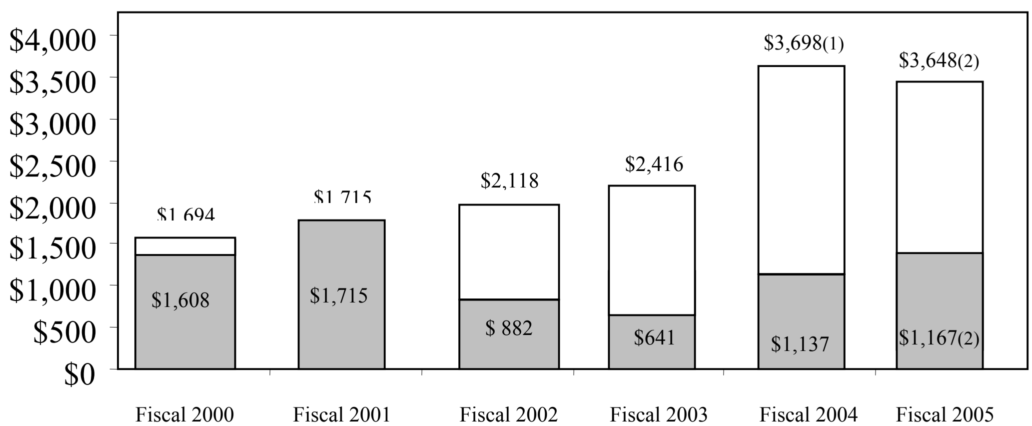
- Beginning July 1, 2004 .5% of current year net tax revenues must be deposited into the Stabilization Fund, and .5% of current year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated.

- Prior to fiscal 2003, year-end surplus dollars were deposited into the Capital Projects Fund, the One-Time Capital Projects Improvement Fund, the Commonwealth's sinking fund, and the Open Space Acquisition Fund based upon a formula that the fiscal 2004 GAA repealed. The fiscal 2004 GAA also repealed the One-Time Capital Projects Improvement Fund and the Open Space Acquisition Fund.

- The fiscal 2004 GAA increased the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues. Once this limit has been reached, surplus dollars are deposited into the Tax Reduction Fund. For fiscal 2005, the ceiling is estimated to be $3.648 billion.

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2000 through fiscal 2004 and the estimate for fiscal 2005. The total of each column equals the maximum balance permitted under the statutory formula, and the gray area shows the amount of the actual balance.

Stabilization Fund (in millions)



SOURCES: Fiscal 2000-2004 Office of the Comptroller; and fiscal 2005, Executive Office for Administration and Finance.

(1) The fiscal 2004 GAA changed the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues.
(2) Fiscal 2005 is projected; subject to change.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2004, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The new GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances has also been completely reorganized into a statement of activities.

The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements to the Commonwealth's "entity wide" governmental financial position. Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid, taxes, compensated absences, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect between the GAAP basis measurement when viewed using a fund perspective under GASB 34 and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction.

Governmental Funds – Statutory to GAAP – Fund Perspective and to Governmental Net Assets (in millions)

Governmental Funds – Statutory Basis, June 30, 2004:	
Budgeted Fund Balance	$1,892.8
Non-Budgeted Special Revenue Fund Balance	1,592.3
Capital Project Fund Balance	364.8
Governmental Fund Balance – Statutory Basis, June 30, 2004	**$3,849.9**
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds under GASB 34	
Expendable Trust and Similar Statutory Balances that are considered Governmental Funds for GAAP Reporting Purposes	371.1
Owner Controlled Insurance Program Net Assets	159.0
Adjusted Statutory Governmental Fund Balance – June 30, 2004	**$4,380.4**
Accruals, net of allowances and deferrals for {Increases / (decreases)}:	
Taxes	788.9
Medicaid	(178.0)
Master Settlement Agreement and other receivables	268.2
Compensated absences	(248.4)
Contract Assistance Due to Component Units	211.7
Uncompensated care liability	(141.9)
Claims, judgments and other risks	(737.8)
Workers' compensation and group insurance	(158.3)
Other accruals	(41.6)
Governmental Fund Balance (fund perspective)	**$4,424.4**
Plus: Fixed assets including infrastructure	28,585.1
Less: Accumulated depreciation	(6,811.6)
Plus: Deferred revenue	642.2
Less: Long term liabilities	(33,181.6)
Total Governmental Net Assets (entity-wide perspective)	**$(6,341.5)**

SOURCE: Office of the Comptroller

The largest portion of the Commonwealth's net assets reflects its investment in capital assets, such as land, buildings, equipment and infrastructure (roads, bridges and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to citizens. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additional restrictions are put on net assets. These restrictions represent resources that are subject to external restrictions on how they must be used. The remaining balance of unrestricted net assets may be used to meet the Commonwealth's ongoing obligations to citizens and creditors. However, due to the factors discussed previously, the negative unrestricted net assets presented are not indicative of the Commonwealth's fiscal well being, as they represent accounting adjustments and funding decisions.

Revenues – GAAP Basis. The measurement of revenues for the Budgeted Operating Funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2004:

Comparison of Fiscal 2004 Governmental Revenues (in millions)

		GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$16,054.6	$16,133.4	$16,406.6
Federal Revenue	8,354.9	8,519.4	8,519.9
Departmental Revenue and Transfers	8,283.2	8,782.5	8,963.9
Total	$32,692.7	$33,535.5	$33,990.4

SOURCE: Office of the Comptroller

Financial Results—GAAP Basis. The following table provides financial results on a GAAP basis for fiscal 2000 through fiscal 2004 for all budgeted operating funds of the Commonwealth.

Governmental Fund Operations – GAAP Basis – Fund Perspective (in millions)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
Beginning fund balances	$1,704.9	$ 2,826.1	$4,255.4	$2,467.9	$2,021.0
Restatement due to the implementation of GASB 34	-	-	551.2	-	-
Revenues and Financing Sources	38,174.4	39,256.4	36,476.6	42,798.0	44,371.7
Expenditures and Financing Uses	38,021.6	38,827.1	38,815.3	43,244.9	41,968.3
Excess (deficit)	152.8	1,429.3	(1,787.5)	(446.9)	2,403.4
Ending budgeted fund balances—GAAP fund perspective	$ 2,826.1	$ 4,255.3	$2,467.9	$2,021.0	$4,424.4

SOURCE: Office of the Comptroller

(1) The Mosquito and Greenhead Fly Fund became a non-budgeted fund in fiscal 2002.

GASB Statement 34. Beginning with fiscal 2002, the Commonwealth's GAAP financial statements have changed to reflect the implementation of GASB Statement 34. The changes present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. The CAFR has been reorganized, with additional elements, such as a management's discussion and analysis.

Financial Reports. The Commonwealth's fiscal year ends on June 30. For fiscal 1986 through fiscal 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, the SBFR and the CAFR. The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2004 and the CAFR for the year ended June 30, 2004 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2004 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2004 and the CAFR for fiscal 1994 through fiscal 2004 are also available on the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits." Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

The Comptroller retains an independent certified public accounting firm to audit the Commonwealth's financial statements and issue certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems.

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2003 marked the thirteenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2004 has been submitted to the GFOA for the award.

Discussion of Financial Condition – GAAP Basis

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS–Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2004 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2004 is included herein by reference as Exhibit C.

Auditor's Report on Fiscal 2004 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2002 were audited by Deloitte & Touche LLP (Deloitte & Touche). The Deloitte & Touche audit report dated December 23, 2004 on the general purpose financial statements included in the CAFR for the year ended June 30, 2004 as originally issued contained an unqualified opinion. A copy of the audit report of Deloitte & Touche dated December 23, 2004 has been filed with each NRMSIR currently recognized by the SEC and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2004.

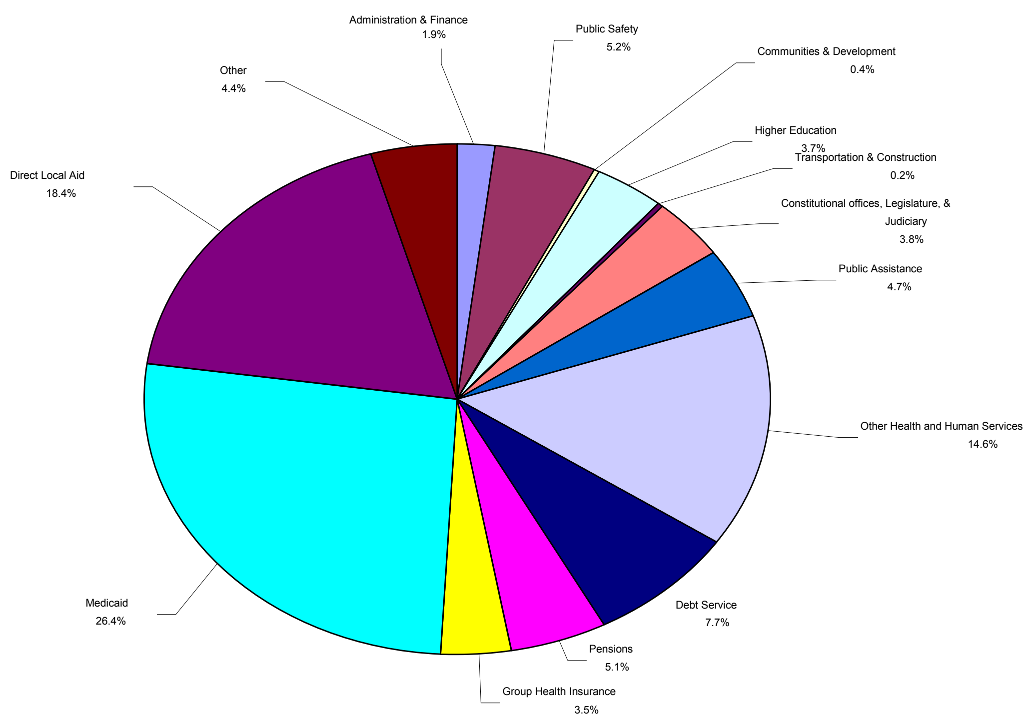
FISCAL 2005 AND FISCAL 2006

Fiscal 2005

The fiscal 2005 GAA, as supplemented to date, provides for $23.886 billion of appropriations in the Budgeted Operating Funds, including $1.217 billion for fiscal 2005 pension obligations. In addition to the spending appropriated in the GAA, the Commonwealth has significant "off-budget" expenditures in the amounts of dedicated sales taxes transferred to the MBTA and MSBA, projected to be in the amounts of $704.8 million and $395.7 million, respectively, and $422.2 million of off-budget expenditures in the Medicaid program. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings".

The following is a graph depicting the breakdown of major categories of projected budgeted operating spending for fiscal 2005:

Fiscal 2005 Projected Operating Spending



On July 9, 2004, the Governor signed into law "An Act relative to the Financial Stability in the City of Springfield." The legislation established the Springfield Recovery Trust Fund and transferred $52.0 million to the fund to provide interest-free loans to the City of Springfield to address the budgetary imbalance of the City. The loans are contingent on terms and conditions set forth in the legislation and subject to the approval of the Secretary of Administration and Finance.

On September 17, 2004, the Governor signed into law $423.8 million in supplemental appropriations and vetoed approximately $76.1 million in additional spending recommended by the Legislature. The legislation included $92.3 million for one-time capital improvements, $90.8 million to fulfill fiscal 2004 Medicaid deficiencies, $75.0 million in one-time local aid payments to be distributed in fiscal 2005, $21.6 million to implement a new funding formula for charter public schools, $16.8 million for private counsel public defenders, and $92.7 million for all other programs and services. The bill also reserved an additional $34.6 million in fiscal 2004 appropriations for expenditure in fiscal 2005. A total of $382.1 million of approved spending was appropriated from the Commonwealth's Stabilization Fund, with the balance of the expenditures funded from the General Fund.

On February 24, 2005 the Governor signed into law $88.6 million in supplemental appropriations and vetoed approximately $32.1 million in additional spending for retroactive collective bargaining agreements for higher education employees. The legislation included $33.7 million for costs associated with snow and ice removal, $11.9 million for private counsel compensation for public defenders and $43.0 million for a variety of other programs and services.

Cash Flow

On February 28, 2005 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2005. The cash flow projection for fiscal 2005 is based on the GAA for fiscal 2005 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2005 from the prior fiscal year. The cash flow projection also reflects all 2004 supplemental appropriations bills either filed or enacted that would impact the Commonwealth's cash flow in fiscal 2005. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The fiscal 2005 projection is based on the Executive Office for Administration and Finance's revised fiscal 2005 tax estimate released on October 15, 2004 of $16.231 billion, including $1.217 billion dedicated to the Commonwealth's fiscal 2005 pension obligation, $704.8 million in sales tax revenues dedicated to the MBTA and $362.7 million in sales tax revenues dedicated to the Massachusetts School Building Authority. The figure excludes local option tax revenues of $247.0 million.

The cash flow projection has a July 1, 2004 starting balance of $2.617 billion and projects a June 30, 2005 ending balance of $2.121 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for capital projects totaling $864.0 million and $418.8 million, respectively. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at $1.753 billion, and is projected to end the year at $1.703 billion, a $50.0 million decline.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately $1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. The Commonwealth began fiscal 2005 with $75.1 million in commercial paper outstanding in the form of Bond Anticipation Notes (BANs). In December 2004, the Commonwealth issued $700 million of revenue anticipation notes (RANs) under its commercial paper program, bringing outstanding commercial paper to $775.1 million. $300 million of RANs were subsequently repaid and $300 million of BANs were issued for capital purposes. As of March 1, 2005, a total of $775.1 million in commercial paper was still outstanding. The Commonwealth also anticipates issuing an additional $200 million of RANs prior to the end of March 2005. At the end of March the Commonwealth projects that $600 million of RANs will be outstanding, all of which are expected to be retired by the end of April 2005.

The cash flow projection included an estimated $1.750 billion in long-term borrowing for capital projects, including a $316 million general obligation bond issue completed in August 2004 and a $317 million general obligation bond issue completed in October 2004. Additional general obligation bond issues of $500 million in March 2005, $325 million in April 2005, and $292 million in June 2005 are projected.

The February 28, 2005 cash flow forecast also includes an initial projection for fiscal 2006. The fiscal 2006 projection is based on the Governor's House 1 budget proposal. The Governor's budget proposal provides for budgetary appropriation of $23.217 billion and is based upon a tax estimate of $17.281 billion. The fiscal 2006 projection has an estimated opening balance of $2.121 billion and an estimated ending balance of $1.060 billion. Exclusive of segregated capital monies, the fiscal 2006 projection shows a decline in the Commonwealth's operating cash balance from $1.703 billion on July 1, 2005 to $891 million on June 30, 2006. A portion of the overall decline n the operating cash balance is due to the anticipated transfer of $360.0 million to the Commonwealth's Stabilization Fund and $328.0 million in fiscal 2005 accounts payable spending for Medicaid occurring in July 2005. The projection anticipates short-term borrowing for operating purposes of $200 million in November 2005, $200 million in December 2005 and $150 million in March 2006. All such borrowing is expected to be retired before the end of April 2006.

The Commonwealth's next cash flow projection is expected to be released on or before May 31, 2005.

Governor's Fiscal 2006 Budget Proposal

On January 26, 2005 the Governor submitted his budget proposal for fiscal 2006, constituting a balanced budget as required by state finance law. The Governor's budget is based upon a gross tax estimate of $17.281 billion, which includes $1.275 billion for the annual pension obligation, $716.4 million in sales tax dedicated to the MBTA, and $488.7 million in sales tax dedicated to the Massachusetts School Building Authority. The tax estimate is comprised of a baseline tax estimate of $17.336 billion plus $170.0 million in revenue that is expected from the closing of various tax loopholes contained in a companion bill filed on the same day. The tax estimate also assumes the loss of $225.0 million in fiscal 2006 associated with the enactment of a provision in the budget that will reduce the personal income tax from 5.3% to 5.0% effective January 1, 2006. For fiscal 2006, a consensus tax revenue estimate was not agreed upon between the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means. The Chairpersons of House and Senate Committees on Ways and Means have announced that they had agreed on a tax estimate of $17.100 billion.

The $23.217 billion appropriation bill would represent a 2.4% increase in spending as compared to fiscal 2005 budgeted estimated spending. However, adjusting for the change in accounting of Medicare premium costs and the transfer of the MassHealth Essential program on budget, the growth rate is less than 1%. The spending plan would allocate $6.640 billion for Medicaid, $4.709 billion for education, $1.793 billion for debt service, and $10.075 billion for all other programs and services. The Governor's proposal would implement the Department of Early Education and Care and allocate $454.9 million for the newly formed agency. The Governor's recommendation also includes provisions that would merge the operations of the Massachusetts Turnpike Authority (MTA) with the Massachusetts Highway Department (MHD) and accelerate the effective dates of provisions contained in the transportation restructuring legislation signed into law on July 21, 2004 that named the Secretary of Transportation as the chairperson of the MTA. If the Governor's recommendation is enacted, none of the MTA's operating costs or debt obligations would be assumed by the Commonwealth or impact the Commonwealth's operating budget.

Medicaid budget projections are calculated to fund payment for claims received in the twelve months of a fiscal year because Medicaid is budgeted on a cash year basis and has state authorization to pay claims for prior year services from current year appropriations. Due to lower than anticipated spending in recent years, Medicaid accounts payable spending (spending from July 1 – September 15 of prior year funds for prior year services), which is not included in the budgeted forecast, has grown from $58.1 million in fiscal 2002 to $142 million in fiscal 2003 to $251.8 million in fiscal 2004 to a projected $327.6 million in fiscal 2005. The Governor's fiscal 2006 proposal takes advantage of the fiscal 2005 cash year estimated surplus of $327.6 million, which will be expended during the fiscal 2005 accounts payable period (July 1, 2005 – September 15, 2005). In response to the recent trend of lower actual Medicaid spending than initially forecasted, the Executive Office of Health and Human Services (EOHHS) has engaged the services of several consultants and created internal cross-functional teams to evaluate and recommend improvements to the current methods of forecasting rate changes and utilization. Incremental improvements to the forecasting process have been incorporated, and further updates are planned.

The Governor's fiscal 2006 Medicaid spending figure also includes $237.9 million for Medicare premium costs, which are currently funded as a deduction against the Commonwealth's federal Medicaid reimbursements, and $119.4 million for the costs of the MassHealth Essential program, which was previously funded off budget. Adjusting for these accounting changes, the Medicaid spending figure, compared to fiscal 2005 estimated spending, represents nearly 0% growth. However, on a cash year basis of accounting, Medicaid spending is expected to increase by approximately 5.5% over fiscal 2005 estimated cash year spending. See "COMMONWEALTH PROGRAMS AND SERVICES – Medicaid".

COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

Capital Spending Plan

The Executive Office for Administration and Finance develops and manages a multi-year capital investment plan. This plan coordinates capital expenditures by state agencies and authorities that are funded by the Commonwealth's debt obligations, operating revenues, third-party payments and federal reimbursements. The Executive Office for Administration and Finance sets an annual administrative limit on certain types of capital expenditures by state agencies. This annual administrative limit is $1.28 billion in fiscal 2005. In addition to capital expenditures subject to the annual administrative limit, the Commonwealth also will invest significant funds during fiscal 2005 in the construction of the CA/T Project (estimated at $801 million), the Boston and Springfield convention centers (estimated at $55 million) and other projects. Most notable among these other expenditures during fiscal 2005 is providing the Massachusetts School Building Authority with the first $500 million of the $1 billion in funds from state general obligation bonds authorized by the legislation creating the authority. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*.").

The Commonwealth aggregates its capital expenditures into the following seven major categories:

- *Economic Development*. The Commonwealth expends funds in this category to support and develop its economy. Types of investments include construction of convention centers, parking facilities and local grants. Various state agencies are responsible for coordinating the Commonwealth's economic development investments. Fiscal 2005 spending is this category is projected to be $108 million.

- *Environment*. The Commonwealth expends funds in this category to provide a safe environment to its citizens. Types of investments include environmental remediation projects, open space acquisitions and water supply protection. The Executive of Environmental Affairs is responsible for coordinating the Commonwealth's environmental investments. Fiscal 2005 spending in this category is projected to be $131 million.

- *Housing*. The Commonwealth expends funds in this category to finance an affordable and growing housing stock. Types of investments include rehabilitation of public housing units and financial support of developers for the construction of affordable housing units. The Department of Housing and Community Development is responsible for coordinating the Commonwealth's housing investments. Fiscal 2005 spending in this category is projected to be $123 million.

- *Information Technology*. The Commonwealth expends funds in this category to improve productivity and program outcomes through the use of technology. Types of investments include the purchase of enterprise infrastructure systems and applications, telecommunications equipment, program and web-based applications and other computing hardware and software. The Information Technology Division within the Executive Office for Administration and Finance coordinates the Commonwealth's technology investments. Fiscal 2005 spending in this category is projected to be $82 million.

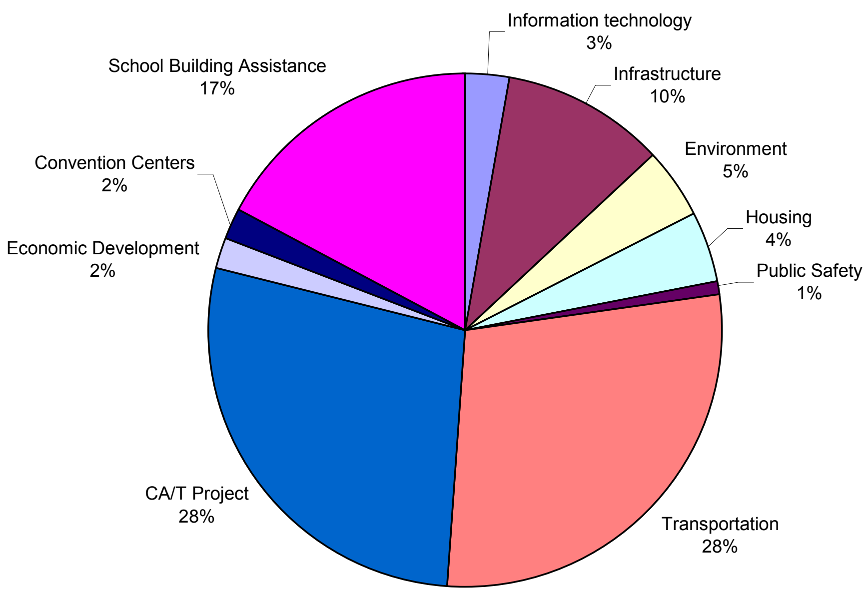
- *Infrastructure and Facilities*. The Commonwealth expends funds in this category to build and maintain its facilities, which enable the delivery of state services to its citizens. Types of investments include construction of courthouses and prisons, rehabilitation of state office buildings and the demolition of abandoned state property. The Division of Capital Asset Management and Maintenance within the Executive Office for Administration and Finance is responsible for coordinating the Commonwealth's investments in this category. Fiscal 2005 spending in this category is estimated to be $293 million.

- *Public Safety*. The Commonwealth expends funds in this category to ensure the safety of its citizens. Types of investments include public safety vehicles, communications equipment and facility rehabilitation and maintenance. The Executive Office of Public Safety is responsible for coordinating the Commonwealth's public safety investments. Fiscal 2005 spending in this category is projected to be $24 million.

- *Transportation*. The Commonwealth expends funds in this category to provide a transportation network to support its economy. Types of investments include rehabilitation of bridges, repairs of roadways and financing of mass transportation. The Executive Office of Transportation and Construction is responsible for coordinating the Commonwealth's transportation investments. Fiscal 200 spending in this category is projected to be $1.619 billion, including $801 million for the CA/T Project and $818 million for the balance of state transportation projects.

The following is a graph depicting the breakdown of major categories of capital expenditures for fiscal 2005:

Fiscal 2005 Capital Expenditures



The following table sets forth the current capital investment plan of the Executive Office for Administration and Finance. It contains current estimates for capital investment by the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2004 through fiscal 2008. However, the Administration is in the process of reviewing the existing plan, and planned spending may change materially upon completion of this review.

Commonwealth Historical and Proposed Capital Spending (in millions)(1)(2)

USES:	**Fiscal 2000**	**Fiscal 2001**	**Fiscal 2002**	**Fiscal 2003**	**Fiscal 2004**	**Projected Fiscal 2005**	**Projected Fiscal 2006**	**Projected Fiscal 2007**	**Projected Fiscal 2008**
Information Technology	$68	$64	$86	$76	$75	$82	$82	$82	$82
Infrastructure	197	179	235	274	251	293	293	293	293
Environment	142	140	156	134	113	131	131	131	131
Housing	80	79	106	112	121	123	123	123	123
Public Safety	15	23	8	37	20	24	24	24	24
Transportation									
CA/T Project	1,446	1,258	1,296	1,015	691	801	496	-	-
Non-CA/T Project	560	732	612	682	767	818	866	909	909
Economic Development									
Convention Centers	11	124	134	225	113	55	-	-	-
Other	87	102	99	86	64	53	53	53	53
School Building Assistance	-	-	-	-	-	500	500	-	-
Reserve	-	-	-	-	-	-	17	31	31
Total Uses:	$2,606	$2,701	$2,732	$2,641	$2,215	$2,880	$2,585	$1,646	$1,646
SOURCES:									
Funds from General Obligation Debt	$1,133	$1,489	$1,847	$1,472	$1,285	$2,032	$1,750	$1,250	$1,250
Funds from Special Obligation Debt	-	176	139	230	119	55	-	-	-
Funds from Grant Anticipation Notes	408	353	9	24	-	-	-	-	-
Operating Revenues(3)	96	141	195	354	133	152	195	-	-
Third-Party Payments	481	82	52	52	63	154	281	-	-
Federal Reimbursements	487	460	490	509	615	487	359	396	396
Total Sources:	$2,606	$2,701	$2,732	$2,641	$2,215	$2,880	$2,585	$1,646	$1,646

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) The Executive Office for Administration and Finance reviews capital expenditures on an annual basis and reserves the right to change out-year projections.
(3) Operating revenues include Registry of Motor Vehicle fees transferred to the CA/T Project and the Statewide Road and Bridge Infrastructure Fund.

Central Artery/Ted Williams Tunnel Project

The largest single component of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel Project (CA/T Project), a major construction project that is part of the completion of the federal interstate highway system. The CA/T Project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), formerly an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) linking the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. As of December 31, 2004, the major elements of the CA/T Project are open to traffic, with the exception of a portion of the Interstate 93 southbound roadway. In addition, completion of various ramps, surface reconstruction projects and other features is required for substantial completion of the CA/T Project as a whole. The date of the complete opening of Interstate 93 southbound is projected for March 2005 to June 2005, and the date of substantial completion of the CA/T Project is projected for May 2005 to September 2005. The CA/T Project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

The most recent CA/T Project cost/schedule update (CSU 11) was completed and filed by the Turnpike Authority on July 1, 2004. Under CSU 11, total project costs remain at $14.625 billion. As of December 31, 2004, approximately $13.986 billion was under contract or agreement, which constitutes 95.6% of total budgeted costs for the CA/T Project. Moreover, as of December 31, 2004, CA/T Project construction was 95.7% complete, based on the CSU 11 construction budget. The Turnpike Authority has begun the process of updating CSU 11. Elements of the budget are expected to be revised based on utilization of contingency reserves, realization of cost savings and other factors. An interim report is expected in April 2005. The Turnpike Authority does not expect the total CA/T Project cost estimate to be increased as the result of this revision.

Project Budget Oversight. In recent years, the Executive Office for Administration and Finance has engaged an independent auditor to review the annual CA/T Project cost/schedule update prepared by the Turnpike Authority. With respect to CSU 11, the report of the auditor concluded that the total cost estimate of $14.625 was aggressive but did not recommend that the estimate be increased.

Increased federal oversight of the CA/T Project commenced in early 2000 following a federal task force's review of the February 1, 2000 announcement by project officials of substantially increased project cost estimates. In June 2000, the Federal Highway Administration designated the Turnpike Authority as a "high-risk grantee" with respect to activities related to the CA/T Project. The designation meant that more detailed financial reports and additional project monitoring would be required on the CA/T Project. On June 22, 2000, the Federal Highway Administration, the Executive Office of Transportation and Construction, the Turnpike Authority and the Massachusetts Highway Department signed a project partnership agreement setting out certain federal reporting and monitoring requirements for the project and stipulating that federal funding for the project will not exceed $8.549 billion, including $1.500 billion to pay the principal of federal grant anticipation notes.

On October 23, 2000, federal legislation was approved that requires the U. S. Secretary of Transportation to withhold obligation of federal funds and all project approvals for the CA/T Project in each federal fiscal year unless the Secretary has approved an annual update of the CA/T Project finance plan for such year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least $400 million each state fiscal year for construction activities and transportation projects other than the CA/T Project. In addition, the legislation limited total federal funding to $8.549 billion, consistent with the project partnership agreement. Finally, the legislation tied future federal funding for the project to an annual finding by the Inspector General of the U.S. Department of Transportation that the annual update of the CA/T Project finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the CA/T Project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

The CA/T Project finance plans submitted pursuant to this legislation through October 2003 have received the requisite approvals. The most recent finance plan, based on CSU 11, was submitted on July 30, 2004. Federal review of the 2004 finance plan is ongoing. Federal authorities have requested information regarding the existence of certain leaks in the CA/T Project and have withheld approval of the finance plan and disbursement of $81 million in federal funds pending their determination that project costs, schedule, and funding in the plan are reasonable and the leak issues are adequately addressed. An independent engineer retained by the CA/T Project has examined this issue, and the Turnpike Authority believes that correcting this issue is within the scope of existing contracts and will not result in significant additional costs for either the Turnpike Authority or the Commonwealth. In addition, the 2004 finance plan includes among the sources of funding $94 million to be realized from the disposition of the CA/T Project headquarters and contiguous parcels at Kneeland Street in Boston. Based on the response in December 2004 to a request for bids for the Kneeland Street property, the Turnpike Authority is no longer relying on this source of funding and is reviewing alternative sources (including in particular investment earnings on funds previously set aside to finance project costs). The Turnpike Authority expects these issues to be resolved in time to receive federal approval of the 2004 finance plan before the end of June 2005. The Commonwealth has not independently evaluated the adequacy of alternatives to replace the proceeds from a sale or lease of the Kneeland Street properties.

Claims and Economic Risks. The annual finance plan budgets for the potential cost of change orders and contractor claims on awarded and un-awarded contracts. The Claims and Changes Department of the CA/T Project has made substantial progress in recent years in resolving contractor claims, although significant items remain open. The CA/T Project reports that recent settlements have been within expectations on an overall basis and that contingency reserves are expected to be adequate.

The weak economy and resolution of contractor claims, including global settlements, at amounts lower, and/or received later, than anticipated by contractors, among other factors, create cash flow and credit issues for affected CA/T Project contractors. Such financial difficulties could affect the ability of a contractor to complete CA/T Project contract work. If an affected contractor with significant critical path contract work toward an overall project completion milestone were to become insolvent, or otherwise fail to complete its contract work, it is possible that there would be a substantial or material impact on CA/T Project schedule and cost, although the likelihood and potential severity of such impact diminish as the CA/T Project progresses towards completion.

Recent media reports refer to the financial difficulties of a particular CA/T Project contractor. The Turnpike Authority is monitoring that contractor's progress with respect to its obligations under CA/T Project contracts and its continuing ability to complete those obligations on an ongoing basis. The contractor continues to progress its work on the CA/T Project, and the Turnpike Authority has not received information that the contractor's financial status will prevent its contractual obligations from being met or the CA/T Project from being completed in accordance with the current schedule.

CA/T Project Cash Flow. The following table provides cash flow estimates that were presented in the 2004 finance plan based on CSU 11 and are currently under review as described above. Actual amounts and timing of construction costs may differ significantly from such estimates.

Central Artery Construction Cash Flow (in millions)(1)

	Cumulative Through 2004(2)	Projected 2005	Projected 2006 and After	Totals
Project Construction Uses:	$13,327	$801	$497	$14,625
Project Construction Sources:				
Federal Highway Reimbursements (3)	6,861	182	6	7,049
Commonwealth GO Bond/Note (4)	1,515	60	13	1,588
State Interest on Turnpike Authority Funds	45	--	--	45
Third Party Contributions (5)	1,668	11	281	1,960
Grant Anticipation Notes	1,500	--	--	1,500
Transportation Infrastructure Fund (6)	1,682	543	117	2,343
Insurance Trust Revenue	56	5	79	140
Total Sources	$13,327	$801	$497	$14,625

SOURCES: Massachusetts Turnpike Authority.

(1) Totals may not add due to rounding.
(2) This table is based on the Commonwealth's fiscal year, which ends on June 30; the Turnpike Authority's fiscal year ends on December 31.
(3) Assumes that successor legislation to the federal Transportation Equity Act for the 21st Century will be passed for federal fiscal 2004 and subsequent years. Projections assume federal authorizations equal to federal fiscal 2003 in federal fiscal 2004 – 2006.
(4) Does not include bonds or notes authorized by May 17, 2000 legislation, which are included in the TIF line.
(5) Payments to be received from the Turnpike Authority and the Port Authority described in the October 2000, 2001 and 2002 Finance Plans, but excluding payments to be received from the Turnpike Authority and the Port Authority as required by May 17, 2000 legislation. (The latter payments are included in the TIF line). The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.
(6) Central Artery and Statewide Road and Bridge Transportation Infrastructure Fund (TIF) established pursuant to legislation approved by the Governor on May 17, 2000. Includes $200 million received from the Turnpike Authority and $65 million received from the Massachusetts Port Authority.

LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2001 through fiscal 2004:

Long-Term Debt Issuance and Repayment Analysis (in thousands)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003(2)	Fiscal 2004
Fiscal Year Beginning Balance (as of July 1)	$11,808,461	$12,383,101	$13,999,454	$14,955,135	$15,962,506
General and Special Obligation Debt Issued(1)	1,758,142	1,752,198	1,470,272	1,845,458(3)	1,925,990
County Debt Assumed	525	-	-	-	-
Grant Anticipation Notes Issued(1)	-	577,605	-	-	-
Subtotal	13,567,128	14,712,904	15,469,726	16,800,593	17,888,496
Debt Retired or Defeased, Exclusive of Refunding	(1,184,027)	(770,434)	(692,341)	(737,832)	(758,444)
Refunding Debt Issued, Net of Refunded Debt	-	56,984	177,750	(100,255)	252,120(4)
Fiscal Year Ending Balance (June 30)	$12,383,101	$13,999,454	$14,955,135	$15,962,506	$17,382,172

SOURCE: Office of the Comptroller.
(1) Including premium and discount.
(2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately $408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010.

(3) Includes $116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.

(4) Includes $408.0 million of grant anticipation notes, which, although not legally defeased, will be paid from fiscal 2010 through 2015 from funds held in escrow by a third-party trustee.

General Authority to Borrow

Under its constitution, the Commonwealth may borrow money (a) for defense or in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (b) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which term includes bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states.

Statutory Limit on Direct Debt. Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of Commonwealth refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 127 of the Acts of 1999, bonds issued to pay the operating notes issued by the Massachusetts Bay Transportation Authority or to reimburse the Commonwealth for advances to the MBTA are not to be counted in computing the amount of the bonds subject to this limit. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings; *Massachusetts Bay Transportation Authority*." Pursuant to Chapter 87 of the Acts of 2000, as amended, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund are not to be counted in computing the amount of the bonds subject to this limit. See "Central Artery/Ted Williams Tunnel Project." Pursuant to Chapter 201 of the Acts of 2004, up to $1 billion of bonds issued to finance the Massachusetts School Building Authority are not to be counted in computing the amount of bonds subject to this limit. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings; *School Building Assistance Program*." The statutory limit on "direct" bonds during fiscal 2005 is $13.464 billion.

The outstanding Commonwealth debt amounts excluded from the limit are shown in the following table:

Calculation of the Debt Limit (in thousands)

	2000	2001	2002	2003	2004
Balance as of June 30	$12,383,101	$13,999,454	$14,995,135	$15,962,506	$17,382,172
Less amounts excluded:					
(Discount)/Premium and issuance costs	(358,938)	(282,829)	(181,910)	(68,718)	1,120
Ch. 5, Acts of 1992 Refunding	(114,761)	(71,054)	(22,043)	(10,600)	-
Special Obligation Principal	(561,335)	(539,242)	(772,812)	(748,124)(1)	(1,347,822)
Federal Grant Anticipation Notes Principal	(899,991)	(1,500,000)	(1,500,000)	(1,500,000)(2)	(1,908,015)(2)
County Debt Assumed	(2,103)	(1,375)	(1,115)	(855)	(675)
MBTA Forward Funding	(325,000)	(325,000)	(625,000)	(680,869)	(601,027)
CA/T Project		(999,995)	(838,193)	(1,386,869)	(1,066,638)
Outstanding Direct Debt	10,120,971	$10,279,959	$11,054,062	$11,566,472	$12,459,055
Statutory Debt Limit	10,549,632	$11,076,483	$11,630,307	$12,211,823	$12,822,414

SOURCE: Office of the Comptroller.

(1) Includes $116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.

(2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately $408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010. The refunding notes will effectively lower outstanding debt in comparison to the statutory debt limit on grant anticipation notes.

Limit on Debt Service Appropriations. In January 1990, legislation was enacted to impose a limit on debt service appropriations in Commonwealth budgets beginning in fiscal 1991. The law, which is codified as Section 60B of Chapter 29 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth. Debt service relating to bonds that are excluded from the debt limit on direct debt is not included in the limit on debt service appropriations. See "*Statutory Limit on Direct Debt*." Section 60B is subject to amendment or repeal by the Legislature at any time and may be superseded in the annual appropriations act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on bonds excluded from the debt limit) in the fiscal years indicated:

Debt Service Expenditures (in millions)(1)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
2000	$1,114.6	$22,414.1	5.8%
2001	599.7(2)	22,133.7	2.7
2002	1,219.0	22,800.3	5.4
2003	1,203.5	22,439.1	5.4
2004	1,227.0	22,848.3	5.4

SOURCE: Office of the Comptroller.

(1) Reflects budgeted debt service subject to the provisions of Section 60B of Chapter 29 of the Massachusetts General Laws.

(2) Does not include $624.6 million of debt defeased from operating surplus that was non-budgeted.

Commonwealth Debt. The Commonwealth is authorized to issue three types of debt directly – general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund or with a pledge of receipts credited to the Convention Center Fund. See "Special Obligation Debt." Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See "Federal Grant Anticipation Notes."

Other Long-Term Liabilities. The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth.

These Commonwealth liabilities are classified as either (a) general obligation contract assistance liabilities, (b) budgetary contractual assistance liabilities or (c) contingent liabilities.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency and the Foxborough Industrial Development Financing Authority of 100% of the debt service of certain bonds issued by those authorities, as well as payments to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority that are not explicitly tied to debt service. Such liabilities constitute a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contractual assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases, including leases supporting certain bonds issued by the Chelsea Industrial Development Financing Authority and the Route 3 North Transportation Improvements Association and other contractual agreements, including a contract supporting certain certificates of participation issued for Plymouth County and the grant agreements underlying the school building assistance program. Such liabilities do not constitute a pledge of the Commonwealth's credit.

Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth's credit has been pledged, as in the case of certain debt obligations of the MBTA, certain regional transit authorities, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and the higher education building authorities; and of statutorily contemplated payments with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of January 1, 2005:

Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities As of January 1, 2005

(in thousands)

	Long-Term (4)	Short-Term
COMMONWEALTH DEBT		
General Obligation Debt	$13,965,870(5)	$75,100(7)
Special Obligation Debt (1)	1,405,930	-
Federal Grant Anticipation Notes (2)	1,907,340(6)	-
Subtotal Commonwealth Debt	$17,279,140	$75,100
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)		
Massachusetts Convention Center Authority	$ 35,493	-
Massachusetts Development Finance Agency	33,100	-
Foxborough Industrial Development Financing Authority	63,855	-
Subtotal GO Contract Assistance Debt	$ 132,448	-
TOTAL	$17,411,588	$75,100

SOURCE: Office of the State Treasurer, Office of the Comptroller and respective authorities and agencies.

(1) Includes $116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.

(2) Includes $408.0 million of federal grant anticipation notes which, although not legally defeased, will be paid in fiscal 2009 and fiscal 2011 from funds held in escrow by a third-party trustee.

(3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority.
(4) Long-term debt includes discount and costs of issuance.
(5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2005 through their maturity in the amount of $57.6 million.
(6) Includes capital appreciation interest accrued from January 1, 2005 through their maturity in the amount of $34.4 million.
(7) Includes $75.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project.

General Obligation Debt

The Commonwealth issues general obligation bonds and notes pursuant to Chapter 29 of the General Laws. General obligation bonds and notes issued thereunder are deemed to be general obligations of the Commonwealth to which its full faith and credit is pledged for the payment of principal and interest when due, unless specifically provided otherwise on the face of such bond or note.

Notes. The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth currently has liquidity support for a $1 billion commercial paper program for general obligation notes, through five $200 million credit lines which expire in September 2005, December 2006, March 2007, December 2007 and November 2015, respectively.

Synthetic Fixed Rate Bonds. In connection with the issuance of certain general obligation bonds that were issued as variable rate bonds, the Commonwealth has entered into interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable rate payment on the related bonds and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty, and the Commonwealth is responsible for making interest payments to the variable rate bondholders. The effect of the agreements is to fix the Commonwealth's interest payment obligations with respect to the variable rate bonds. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap agreements are terminated. Termination of a swap agreement may also result in the Commonwealth's making or receiving a termination payment. The variable rate bonds associated with such swaps are supported by stand-by bond purchase liquidity facilities with commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime rate. In addition, the Commonwealth would be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities expire well before the final maturity date of the related bonds and are expected to be renewed. As of January 1, 2005, the amount of such variable rate bonds outstanding with a synthetic fixed rate agreement was $1.548 billion.

Variable Rate Demand Bonds, Auction Rate Securities and U.Plan Bonds. As of June 30, 2004, the Commonwealth had outstanding approximately $184.0 million of variable rate demand bonds (not converted to a synthetic fixed rate as described above) in a daily interest rate mode, with liquidity support provided by commercial banks under agreements terminating in February 2006. As of June 30, 2004, the Commonwealth had outstanding $401.5 million of auction rate securities in a seven-day interest rate mode. As of June 30, 2004, the Commonwealth had outstanding approximately $83.6 million of variable rate "U.Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

Interest Rate Swap Agreement Dispute. The Commonwealth is party to an interest rate swap agreement relating to the Commonwealth's General Obligation Refunding Bonds, 2001 Series B and 2001 Series C, pursuant to which the Commonwealth makes payments at a fixed rate of 4.15% per annum and receives payments from its swap counterparty at a floating rate based on the actual rate on its bonds, which are variable rate obligation bonds. The notional amount of the swap currently is $496,225,000 and the scheduled termination date is January 1, 2021. Swap payments are made monthly, with the Commonwealth netting its fixed rate obligation against the floating rate amount due from the swap counterparty. The swap documentation provides that the method for determining the floating rate obligation of the counterparty may change upon an "Event of Taxability" as defined therein. The swap counterparty has asserted that an Event of Taxability has occurred and that, as a result, commencing May 3, 2004, the Commonwealth's monthly net payments to the counterparty must be increased. The Commonwealth disagrees with this assertion and, on April 23, 2004, filed a complaint in Suffolk County Superior Court seeking a declaratory judgment and related preliminary injunction relief (the "Action"). The swap payment made by the Commonwealth on May 3, 2004 and each monthly payment made thereafter have been calculated based on the pre-existing method. The Commonwealth and the swap counterparty have agreed that the Commonwealth may continue to make payments based on the pre-existing method pending the resolution of the Action, subject to the swap counterparty's right to recover the difference if the Action is decided adversely to the Commonwealth. As of March 3, 2005 this difference is estimated to have aggregated to date approximately $1.1 million. The Commonwealth estimates that the present value to the Commonwealth of paying under the pre-existing method instead of the method asserted by the swap counterparty is approximately $28.4 million calculated as of March 2, 2005.

Special Obligation Debt

Highway Fund. Section 2*O* of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of June 30, 2004, the Commonwealth had outstanding $719.2 million of such special obligation bonds, including $645.2 million of such bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax.

Convention Center Fund. Chapter 152 of the Acts of 1997 authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are payable from monies credited to the Convention Center Fund created by legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June 2004, the Commonwealth issued $686.7 million of special obligation bonds, secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities.

Federal Grant Anticipation Notes

The Commonwealth has issued federal grant anticipation notes yielding aggregate net proceeds of $1.5 billion, the full amount authorized, to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel project in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The notes are not general obligations of the Commonwealth. The notes mature between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million. Such notes are secured by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises.

On July 16, 2003, the Commonwealth issued special obligation refunding notes for the purpose of crossover refunding approximately $408.0 million of outstanding federal grant anticipation notes in 2008 and in 2010. Until the crossovers occur, interest on the notes will be paid solely by an escrow account established with the proceeds of the notes. Upon the refunding of $408.0 million of outstanding federal grant anticipation notes on the crossover dates, the refunding notes will become secured by the Grant Anticipation Note Trust Fund.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 2005, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds January 1, 2005

(in thousands)

	General Obligation Bonds				*Federal Grant Anticipation Notes*			*Special Obligation Bonds*			
Fiscal Year	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	Total Debt Service Commonwealth Bonds
2005	$183,606	-	$ 323,491	$507,097	-	$47,612	$47,612	$27,370	$20,578	$47,948	$602,657
2006	870,281	$4,536	688,618	1,563,435	$117,895	93,817	211,712	28,565	76,009	104,574	1,879,721
2007	902,234	5,189	646,469	1,553,891	123,825	87,887	211,712	30,560	73,862	104,422	1,870,026
2008	916,915	5,801	601,026	1,523,742	130,240	81,469	211,709	40,205	70,983	111,188	1,846,639
2009	915,116	6,904	555,098	1,477,117	137,230	74,478	211,708	42,020	68,129	110,149	1,798,975
2010	837,537	6,913	508,379	1,352,829	158,815	66,835	225,650	44,015	66,143	110,158	1,688,637
2011	844,915	7,202	462,533	1,314,650	214,620	57,206	271,826	46,190	62,881	109,071	1,695,547
2012	719,561	7,391	416,571	1,143,522	226,420	45,694	272,114	48,590	60,501	109,091	1,524,727
2013	785,090	8,157	376,602	1,169,848	208,410	35,110	243,520	51,115	57,949	109,064	1,522,432
2014	681,568	6,197	338,601	1,026,367	302,820	21,697	324,517	49,435	55,163	104,598	1,455,481
2015	661,961	5,590	304,017	971,568	287,065	7,185	294,250	98,520	52,594	151,114	1,416,931
2016	649,947	4,180	271,781	925,909	-	-	-	74,040	47,323	121,363	1,047,272
2017	657,659	2,673	238,832	899,163	-	-	-	65,920	43,405	109,325	1,008,489
2018	453,640	1,943	209,884	665,467	-	-	-	47,755	40,054	87,809	753,275
2019	453,990	1,338	186,357	641,685	-	-	-	50,230	37,702	87,932	729,617
2020	504,588	714	161,548	666,850	-	-	-	52,935	35,033	87,968	754,818
2021	697,898	530	129,397	827,825	-	-	-	55,775	32,228	88,003	915,828
2022	481,740	315	98,958	581,013	-	-	-	58,670	29,371	88,041	669,054
2023	356,542	167	77,308	434,017	-	-	-	30,195	26,366	56,561	490,578
2024	222,756	65	61,786	284,607	-	-	-	31,820	24,781	56,601	341,208
2025	142,927	6	52,031	194,963	-	-	-	33,535	23,110	56,645	251,608
2026	61,790	-	46,451	108,241	-	-	-	35,345	21,350	56,695	164,936
2027	197,460	-	39,954	237,414	-	-	-	37,250	19,494	56,744	294,159
2028	134,955	-	31,982	166,937	-	-	-	39,260	17,538	56,798	223,736
2029	178,335	-	24,000	202,335	-	-	-	41,375	15,477	56,852	259,187
2030	184,090	-	14,580	198,670	-	-	-	43,720	13,305	57,025	255,695
2031	192,960	-	4,669	197,629	-	-	-	46,310	10,791	57,101	254,730
2032	-	-	-	-				49,050	8,128	57,178	57,178
2033	-	-	-	-				51,755	5,308	57,063	57,063
2034	-	-	-	-				54,405	2,720	57,125	57,125
TOTAL	$13,890,060	$75,810	$6,870,924	$20,836,794	$1,907,340(1)	$618,989	$2,526,329	$1,405,930(2)	$1,118,277(2)	$2,524,207	$25,887,330

SOURCE: Office of the State Treasurer and Office of the Comptroller.

General Obligation Contract Assistance Liabilities

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority (MCCA) was created for the purpose of promoting the economic development of the Commonwealth through the operation of the Hynes Convention Center, the Boston Common Parking Garage and the Springfield Convention Center. In addition, the MCCA is overseeing the construction of the Boston Convention and Exhibition Center. The MCCA has issued bonds which are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit is pledged. As of June 30, 2004, the MCCA had $30.6 million of such bonds outstanding.

Massachusetts Development Finance Agency. On September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency (MassDevelopment). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power. The Commonwealth is required to provide contract assistance payments necessary to defray debt service on up to $80 million of bonds issued to redevelop the former federal military base at Fort Devens. The contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth is pledged. As of June 30, 2004, MassDevelopment had $33.1 million of bonds outstanding**,** which are secured by the contract assistance from the Commonwealth. No more such bonds may be issued under current law.

Foxborough Industrial Development Financing Authority. Pursuant to legislation approved May 24, 1999, the Commonwealth entered into a contract for financial assistance with the Foxborough Industrial Development Financing Authority in June 2000 obligating the Commonwealth to pay the full amount of the debt service on bonds issued to finance up to $70 million of capital expenditures for infrastructure improvements related to the construction of a new professional football stadium in the town of Foxborough. The obligation of the Commonwealth to make such payments is a general obligation for which the full faith and credit of the Commonwealth is pledged. Under the authorizing legislation the Commonwealth is to receive $400,000 per year in parking fees for stadium-related events, an administrative fee of $1 million per year from the stadium lessee and will be entitled to recover from the stadium lessee a portion of its contract assistance payments if professional football ceases being played at the stadium during the term of the bonds. As of June 30, 2004, the Foxborough Industrial Development Financing Authority had $63.8 million of such bonds outstanding. No more such bonds may be issued under current law.

Massachusetts Turnpike Authority. The Commonwealth is obligated to pay contract assistance to the Massachusetts Turnpike Authority pursuant to legislation enacted in 1998 and a contract for financial assistance dated as of February 19, 1999 between the Turnpike Authority and the Commonwealth. The payments are in recognition of the financial burden imposed on the Turnpike Authority by virtue of its assumption of the responsibility for operation and maintenance of certain roadways in the Metropolitan Highway System that were formerly maintained by the Commonwealth. The Commonwealth's obligation to make such payments is a general obligation for which the faith and credit of the Commonwealth is pledged for the benefit of the Turnpike Authority and its bondholders. The contract provides that no later than September 1 of each year the Turnpike Authority is to submit to the Secretary of Transportation and Construction a certificate setting forth the total amount of costs incurred by the Turnpike Authority during the prior fiscal year in connection with the operation and maintenance of the roadways covered by the contract. The contract further provides that as soon as practicable following receipt of such certificate, but no later than December 1 of such year, the Commonwealth is to pay the Turnpike Authority the amount set forth in such certificate, subject to Commonwealth review, provided that such payment may not be less than $2 million on account of fiscal 2000, may not be less than $5 million on account of fiscal 2001 and each fiscal year thereafter prior to the fiscal year in which the final segment of the affected roadways is transferred to the Turnpike Authority and may not be more than $25 million on account of the fiscal year in which such transfer occurs and each fiscal year thereafter.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a net zero percent interest or two percent interest loan. Pursuant to Sections 11 and 12 of Chapter 236 of the Massachusetts General Laws, respectively, the annual contract assistance maximum for the Clean Water program is $71 million and the contract assistance maximum for the Safe Drinking Water program is $17 million. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit is pledged, and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. As of June 30, 2004, the Trust had approximately $2.3 billion of bonds outstanding. Approximately 22% of the aggregate debt service on such bonds is expected to be paid from Commonwealth contract assistance.

Boston Housing Authority West Broadway Homes IV Project. In December 2003 the Boston Housing Authority (BHA) issued $10 million of housing project bonds to finance a portion of the costs of construction of a 133-unit lower income public housing project in South Boston. Proceeds of the bonds were lent by the BHA to the West Broadway Redevelopment Limited Partnership (Partnership) which will own and operate the project. The general partner of the Partnership is a Massachusetts non-profit corporation controlled by the BHA. In addition, proceeds of an approximately $10.8 million modernization grant from the Commonwealth and an approximately $3.6 million grant from the City of Boston have been loaned to the Partnership by the BHA to be applied to costs of the project. The Partnership also expects to apply an equity investment from its limited partners to construction costs in the approximate amount of $10 million. In December 2003 the BHA also issued $9 million of housing project notes to mature December 1, 2006, the proceeds of which were loaned to the Partnership to be applied to construction costs in anticipation of the Partnership's equity investment. In accordance with an Amendment to Contract for Financial Assistance between the Commonwealth, acting by and through the Department of Housing and Community Development, and the BHA, the Commonwealth has agreed to advance additional grant funds to the BHA to be applied to the payment of the notes to the extent the Partnership's equity investment is not received in time or amount sufficient to pay the principal amount of the notes at maturity. The Commonwealth has also agreed in the Amendment to Contract for Financial Assistance to advance additional grant funds to the BHA in an amount sufficient to redeem all or a portion of the bonds on December 1, 2006 to the extent the project has failed to demonstrate budgeted revenue sufficiency by that date. Thereafter, the bonds will be secured by and payable solely from an assignment by the BHA of state operating subsidy funds allocable to the project, and other state assisted public housing projects owned by the BHA, loan repayments from the Partnership payable from project net income and reserve funds funded from bond and grant loan proceeds to the Partnership.

The following table sets forth, as of June 30, 2004, the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Convention Center Authority, MassDevelopment, the Foxborough Industrial Development Financing Authority, the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust.

General Obligation Contract Assistance Requirements (in thousands)(1)

Fiscal Year	Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Water Pollution Abatement Trust	Turnpike Authority(2)	Foxborough Industrial Development Financing Authority	Total
2005	$16,302	$13,281	$57,490	$25,000	$5,336	$117,409
2006	14,735	13,280	57,032	25,000	5,336	115,383
2007	2,532	10,162	57,271	25,000	5,337	100,302
2008	2,533	--	56,894	25,000	5,336	89,763
2009	2,534	--	56,798	25,000	5,340	89,672
2010	2,534	--	56,604	25,000	5,338	89,476
2011	2,534	--	55,938	25,000	5,338	88,810
2012	2,533	--	54,322	25,000	5,338	87,193
2013	2,536	--	51,767	25,000	5,341	84,644
2014	2,536	--	48,822	25,000	5,339	81,697
2015	--	--	47,221	25,000	5,337	77,558
2016	--	--	42,497	25,000	5,337	72,834
2017	--	--	35,426	25,000	5,336	65,762
2018	--	--	30,123	25,000	5,339	60,462
2019	--	--	29,841	25,000	5,336	60,177
2020	--	--	24,141	25,000	5,335	54,476
2021	--	--	16,733	25,000	5,337	47,070
2022	--	--	7,448	25,000	5,340	37,788
2023	--	--	7,291	25,000	5,340	37,631
2024	--	--	--	25,000	5,340	30,340
2025	--	--	--	25,000	5,340	30,340
2026 through 2045	--	--	--	500,000(3)	--	500,000
Total	$51,309	$36,723	$793,659	$1,025,000	$112,096	$2,018,787

SOURCES: Massachusetts Water Pollution Abatement Trust, Massachusetts Convention Center Authority and MassDevelopment columns – Office of the State Treasurer; Foxborough Industrial Development Financing Authority and Massachusetts Turnpike Authority columns - Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Reimbursement funds operating and maintenance costs expended in the prior state fiscal year. These costs are projections and are subject to review pursuant to the contract for financial assistance. These projections do not include certain costs submitted by the Massachusetts Turnpike Authority for reimbursement, which the Executive Office for Administration and Finance have determined not to be reimbursable under the contract. The disputed costs remain subject to review and discussion.

(3) Twenty-five million dollars per year for fiscal 2026 through fiscal 2045, inclusive.

Budgetary Contractual Assistance Liabilities

Plymouth County Certificates of Participation. In May 1992, Plymouth County caused to be issued approximately $110.5 million of certificates of participation to finance the construction of a county correctional facility. In March 1999, Plymouth County caused to be issued approximately $140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay for the availability of 380 beds (out of 1,140) in the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature in the annual budgetary line item for the Executive Office of Public Safety. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of June 30, 2004, Plymouth County had not more than $125.5 million of such certificates of participation outstanding.

City of Chelsea Commonwealth Lease Revenue Bonds. In November 1993, the Chelsea Industrial Development Financing Authority issued approximately $95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and under an interest rate swap agreement that was entered into at the time, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provides for the payment of debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and are subject to annual appropriation by the Legislature. The Commonwealth's lease obligations related to these bonds are set forth in the table below. As of June 30, 2004, the Chelsea Industrial Development Financing Authority had $78.2 million of such lease revenue bonds outstanding.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August 2000, the Route 3 North Transportation Improvements Association issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May 2002, the Route 3 North Transportation Improvements Association issued approximately $312.7 million of refunding lease revenue bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's sublease obligations related to these bonds are set forth in the table below. As of June 30, 2004, the Route 3 North Transportation Improvements Association had $410.1 million of such lease revenue bonds outstanding.

Saltonstall Building Redevelopment Corporation Project. In May 2002, MassDevelopment issued $195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building's redevelopment, the building was leased to MassDevelopment for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment will pay $2.45 million per year to the Commonwealth for the lease. MassDevelopment will renovate the building and sublease half of it back to the Commonwealth for office space and related parking (for a comparable lease term) in respect of which sublease, the Commonwealth will make sublease payments to MassDevelopment. The remainder of the building has been redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's sublease obligations related to these bonds are set forth in the table below. The Commonwealth's full year costs include $7.065 million per year of base rent and parking space rent for the first five years, after which the parking space rent may be adjusted for fair market value every five years. In addition, included in the table below are the Commonwealth's estimated pro-rata share of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at $.21 per rental square foot per year. As of June 30, 2004, MassDevelopment had $195.8 million of such lease revenue bonds outstanding for the Saltonstall redevelopment project.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2003 are set forth in the table below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Budgetary Contractual Assistance Liabilities (in thousands)(1)

Fiscal Year	Plymouth County Certificates of Participation	City of Chelsea Commonwealth Lease Revenue Bonds	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(3)	Other Leases	Total
2005	$10,243	$6,465	$26,755	$9,422	$209,505	$262,390
2006	10,248	6,465	26,755	9,491	144,614	197,573
2007	10,246	6,465	26,756	9,562	109,319	162,348
2008	10,243	6,465	26,757	9,635	77,104	130,204
2009	10,247	6,465	26,756	9,710	45,292	98,470
2010	10,244	6,465	26,755	9,964	26,645	80,073
2011	10,245	6,453	26,756	10,043	26,645	80,142
2012	10,240	6,453	26,754	10,126	26,645	80,218
2013	10,245	6,453	26,754	10,210	26,645	80,307
2014	10,244	6,453	26,756	10,298	26,645	80,396
2015	10,250	6,453	26,756	10,601	9,537	63,597
2016	10,245	6,435	26,754	10,694	9,537	63,665
2017	10,238	6,435	26,758	10,789	9,537	63,757
2018	10,244	6,435	26,756	10,887	9,537	63,859
2019	10,244	6,435	26,754	10,989	9,537	63,959
2020	10,246	6,435	26,757	11,353	9,197	63,988
2021	10,243	6,435	26,754	11,460	9,197	64,089
2022	10,252	6,395	26,752	11,571	9,197	64,167
2023	--	6,379	26,752	11,685	9,197	54,013
2024	--	--	26,754	11,802	9,199	47,753
2025 through 2034	--	--	240,827(2)	130,410	82,766	454,003
Total	$184,407	$122,439	$775,929	$340,702	$895,497	$2,318,974

SOURCES: Plymouth County Certificates of Participation, City of Chelsea Commonwealth Lease Revenue Bonds and Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds columns –Executive Office for Administration and Finance and Other Leases column –Office of the Comptroller.

(1) Totals may not add due to rounding.
(2) Approximately $27 million per year for fiscal 2024 through fiscal 2033, inclusive.
(3) Cash flows from the Commonwealth represent gross payments to MassDevelopment. Table does not include lease payments from MassDevelopment to the Commonwealth in the amount of $2.45 million per year, under a lease for the undeveloped property which extends through the initial 50 year term of the lease, plus any extension periods. Table also do not include an initial $10 million payment made from MassDevelopment to the Commonwealth or potential parking space rent adjustments made every five years. Operating cost reimbursements are estimated; subject to change.

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of June 30, 2004, the Massachusetts Bay Transportation Authority had approximately $2.278 billion of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $270 million to $292 million through fiscal 2013 and declining thereafter. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *Massachusetts Bay Transportation Authority*."

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes.

Commonwealth support of the bonds and notes of Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of December 31, 2004, the Steamship Authority had $36.0 million (unaudited) of bonds and notes outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

Regional Transit Authorities (RTAs). There are 15 regional transit authorities organized in various areas of the state. Prior to July 1, 2003, the bonds and notes of the RTAs included a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of the RTAs with funds sufficient to meet the principal of and interest on their bonds and notes as they matured to the extent that funds sufficient for this purpose were not otherwise available and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the RTAs (current expenses, including debt service, minus current income). As of June 30, 2004, the RTAs had not more than $100.6 million of bonds and notes outstanding to which the Commonwealth's full faith and credit have been pledged. The fiscal 2003 GAA amended the General Laws pertaining to RTA financing, pursuant to which amendment bonds and notes issued by the RTAs on and after July 1, 2003 are no longer guaranteed by the Commonwealth and are not general obligations of the Commonwealth.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of June 30, 2004 the University of Massachusetts Building Authority had approximately $191.0 million of Commonwealth-guaranteed debt outstanding, and the Massachusetts State College Building Authority had approximately $65.5 million of Commonwealth-guaranteed debt outstanding.

Massachusetts Housing Finance Agency. MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date. As of June 30, 2004, MassHousing had outstanding approximately $527.6 million of multi-family housing bonds secured by capital reserve funds. There are no outstanding single-family housing bonds secured by capital reserve funds. As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations, and no payments from such funds have been necessary.

Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS –Capital Investment

Process and Controls." Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. The table below presents authorized but unissued debt at year end:

Authorized but Unissued Debt (in thousands)

Fiscal Year	Authorized But Unissued Debt
1999	$12,004,017
2000	11,585,706
2001	9,590,418
2002	8,483,658
2003	8,721,581
2004	6,827,993

SOURCE: Office of the Comptroller.

Authorized but unissued debt is measured in accordance with the statutory basis of accounting, which is different from GAAP. Only the net proceeds of bonds issued (exclusive of discount and costs of issuance) are deducted from the amount of authorized but unissued debt. Therefore, the change in authorized but unissued debt at the end of any fiscal year is not intended to correlate to the change in the amount of debt outstanding as measured and reported in conformity with GAAP.

There is $45.0 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, at the discretion of the Governor and the State Treasurer.

On August 10, 2004, the Governor signed into law a transportation bond authorization bill totaling $2.501 billion. The bill authorized $425.0 million to leverage federal funds for the statewide road and bridge program, $589.1 million for non-federally assisted transportation projects, $450.0 million for Chapter 90 local road assistance, $849.8 million to leverage federal funds for various MBTA mass transit projects, $30.0 million for assistance in promoting transit oriented development, $50.9 million in capital assistance to Regional Transit Authorities, $56.6 million for rail improvement projects, $28.6 million for public works and economic development and state road assistance programs, $10.5 million for technology projects and durable equipment, $8.0 million for Mobility Assistance Program and $3.0 million for safety and security equipment.

On August 10, 2004, the Governor signed into law a courts and housing bond authorization bill totaling $520.0 million. The bill authorized $220.0 million in trial court planning and construction, $25.0 million to assist homeowners with blindness or severe physical disabilities in making modifications to their primary residence, $100.0 million for the development of community-based housing for the mentally ill and mentally retarded, $25.0 million for the development of community-based housing for persons with disabilities who are institutionalized or at risk of being institutionalized, $50.0 million for the state's Home Innovation Fund Program, and $100.0 million for the purpose of financing construction and preservation of affordable housing.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 2000 through 2004 and in December 2004.

Budget-Funded Workforce (1)

	June 2000	June 2001	June 2002	June 2003	June 2004	Dec. 2004
Executive Office	89	88	72	86	65	64
Office of the Comptroller	106	109	107	102	102	123
Executive Departments						
Administration and Finance	3,225	3,180	2,974	2,921	2,791	2,865
Environmental Affairs	2,583	2,555	2,312	2,156	1,997	1,847
Housing and Community Development	111	117	109	98	92	95
Health and Human Services	23,483	23,157	21,803	21,440	20,682	20,835
Transportation and Construction	1,284	1,254	843	445	344	334
Board of Library Commissioners	20	20	18	13	12	12
Economic Development	1,160	1,140	1,094	922	879	919
Department of Education	270	272	277	248	223	234
Board of Higher Education	15,251	15,481	14,038	14,117	11,844	13,157
Public Safety	9,409	9,686	9,567	9,148	8,765	8,947
Elder Affairs	38	41	43	38	28	35
Subtotal under Governor's authority (3)	57,029	57,100	53,257	51,734	47,824	49,465
Judiciary	8,013	7,944	7,379	7,233	7,175	7,279
Other (2)	7,171	7,418	7,119	7,056	7,020	7,106
Total (3)	72,213	72,462	67,755	66,024	62,019	63,850

SOURCE: Executive Office for Administration and Finance.

(1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions and staff of independent authorities. Year-to-year differences reflect changes in staffing and transfers between budgeted and unbudgeted funding sources. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.

(2) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.

Employee Retirement Incentive Plan

As a means of reducing payroll costs, in the fiscal 2002 GAA and the fiscal 2004 GAA, the Commonwealth adopted two ERIPs, which offered an enhanced pension benefit to retirement-eligible employees. Employees retiring under the 2002 and 2004 ERIP programs totaled approximately 4,600 and 3,048, respectively. PERAC stated that the 2002 ERIP and 2004 ERIP resulted in an increased actuarial pension liability of $312.2 million and $224.8 million, respectively.

The fiscal 2004 GAA prescribed the following terms for its ERIP. Those eligible must have 20 years of creditable service at any age or be of at least 55 years of age with 10 years of credible service. Eligible employees may add 5 years to age or years of service, with a maximum benefit of 80% of salary. A statewide backfill limit of 20% of the value of the total of annualized salary paid was imposed for both fiscal 2004 and fiscal 2005. In order to be backfilled, vacated positions have to be deemed vital to public health or safety or critical for essential operations.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Labor contracts are funded by supplemental appropriations.

The Trial Court, the Lottery Commission, the Registries of Deeds under the control of the Secretary of the Commonwealth and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by the Lottery Commission, Registries of Deeds and higher education management are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 39,935 executive branch full-time-equivalent state employees are organized in twelve bargaining units; the employees of the Commonwealth's colleges and universities are organized in 33 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

Negotiations are currently underway with the International Brotherhood of Correctional Officers/National Association of Government Employees and the Massachusetts Organization of State Engineers and Scientists to replace their individual contracts which expired December 31, 2002; the National Association of Government Employees, representing Units 1, 3 and 6, and the Massachusetts Nurses Association, representing employees in Unit 7, to replace their contracts which expired June 30, 2003; the State Police Association of Massachusetts, representing Unit 5A, and the Massachusetts Correction Officers Federated Union, representing employees in Unit 4, to replace their contracts which expired December 31, 2003; and Alliance Units 8 and 10 and the Coalition of Public Safety to replace contracts which expired June 30, 2004.

In July 2004 the Commonwealth reached agreement with the Alliance Unit 2 (American Federation of State, Country and Municipal Employees and the Service Employees International Union) on a three-year contract to run from July 1, 2003 to June 30, 2006. The contract provides for average 2% increases effective July 2004, January 2005 and July 2006. The total estimated cost of the contract is $29.8 million.

The following table sets forth information regarding the twelve bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units(1)(2)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Expiration Dates
1	National Association of Government Employees	Clerical	3,136	6/30/03
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,370	06/30/06
3	National Association of Government Employees	Skilled trades	522	6/30/03
4	Massachusetts Correction Officers Federated Union	Corrections	3,811	12/31/03
4A	Corrections Captains	Corrections	79	12/31/02
5	Coalition of Public Safety	Law enforcement	215	6/30/04
5A	State Police Association of Massachusetts	State Police	1,648	12/31/03
6	National Association of Government Employees	Administrative professionals	7,528	6/30/03
7	Massachusetts Nurses Association	Health professionals	1,700	6/30/03
8	Alliance/Service Employees International Union	Social workers	7,010	6/30/04
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	2,657	12/31/02
10	Alliance/Service Employees International Union	Secondary education	603	6/30/04
	Total		38,278	

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of December 25, 2004, whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

LEGAL MATTERS

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments.

Ricci v. Murphy. Challenges by residents of five state schools for the retarded (U.S. District Court C.A. No. 72-469-T) resulted in a consent decree in the 1970's which required the Commonwealth to upgrade and rehabilitate the facilities in question and to provide services and community placements in western Massachusetts. The District Court issued orders in October 1986, leading to termination of active judicial supervision. On May 25, 1993, the District Court entered a final order vacating and replacing all consent decrees and court orders. In their place, the final order requires lifelong provision of individualized services to class members and contains requirements regarding staffing, maintenance of effort (including funding) and other matters.

On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. Another subgroup of plaintiffs (representing class members from the Dever and Wrentham Developmental Centers) continues to engage in a mediation process with the Department pursuant to a process prescribed by the final order. The Department filed a responsive pleading on August 16, 2004, asserting that all of the requirements of the final order were met. On August 28, 2004, the Disability Law Center filed a motion to intervene, asserting an interest on behalf of persons with disabilities in the closing of the facility which was allowed. Following hearings in November 2004 and January 2005, the Court declined to issue any relief to the plaintiffs at this time. The parties have reached agreement on some of the issues raised in plaintiffs' motion, but further attempts to re-open the case may be forthcoming from these and other plaintiffs.

Rolland v. Romney (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The court approved a settlement agreement entered into by the parties which will provide certain benefits to nursing home residents with mental retardation and other developmental disabilities until 2007. The Department of Mental Retardation estimates that the agreement will cost approximately $5 million per fiscal year for seven years. In March 2001, the court found the defendants in noncompliance with the settlement agreement and lifted the agreement's stay of litigation concerning the provision of services to nursing home residents. In May 2002, the U.S. District Court held that the Commonwealth was in violation of federal law as well as the agreement by its failure to provide specialized services to residents who required them. The Commonwealth appealed the decision of the District Court. On January 28, 2003, the U.S. Court of Appeals for the First Circuit affirmed the decision of the District Court.

Lima v. Preston (Suffolk Superior Court No. 033747G). Plaintiffs in a class action seek to enjoin the Executive Office of Health and Human Services from eliminating Medicaid eligibility for certain immigrants. The Division of Medical Assistance estimates that its expenditures would be expected to increase by less than $20 million if the plaintiffs successfully enjoin elimination of the program. The Superior Court denied the plaintiffs' motion for a preliminary injunction and the plaintiffs appealed. The Appeals Court also denied the plaintiffs' motion for a preliminary injunction.

Rosie D. v. Governor. The plaintiff asserted claims under the Early and Periodic Screening, Diagnostic and Treatment provisions of the federal Medicaid law. Specifically, the plaintiffs asserted that the Commonwealth is required to, yet does not, provide them with intensive home-based mental health services. The Governor's motion to dismiss based on sovereign immunity was denied in the United States District Court and on November 7, 2002, the First Circuit Court of Appeals affirmed the United States District Court's denial of the Governor's motion. The plaintiffs have not quantified the cost of the services they seek, but it could amount to more than $20 million. Trial is scheduled to begin on April 25, 2005, and continue for four to six weeks.

Health Care for All v. Romney et al. (United States District Court). A group of individual plaintiffs brought this complaint for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs assert that the Commonwealth's administration of the dental program fails to comply with the requirements allegedly imposed by federal Medicaid law. Discovery concluded in or about March 2004. The defendants have filed a motion for summary judgment as to all claims, and on October 1, 2004, the court issued a decision allowing the defendants' motion as to one count, finding that the so-called "equal access" provision of the federal Medicaid law contained no language establishing an individual right of action. The plaintiffs voluntarily dismissed two additional counts. No decision has yet issued on the plaintiffs' renewed request for class certification. Trial on the remaining claims began on October 18, 2004. The evidentiary portion of the trial concluded October 25, 2004. Following further briefing, closing arguments occurred on February 3, 2005. The liability portion of the case is now under advisement. Any proceedings on damages would take place separately.

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA), *United States v. South Essex Sewerage* (U.S.D.C.). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately $3.142 billion in current dollars, with approximately $131 million to be spent after June 30, 2001. With CSO costs, the MWRA anticipates spending approximately $633 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Wellesley College is seeking contribution from the Commonwealth for costs related to the clean up of environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. On September 5, 2001, the court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean up of hazardous materials at the campus and the northern shoreline of Lake Waban, which is expected to cost approximately $40 million. Pursuant to the terms of the partial settlement, the Commonwealth has reimbursed the College $400,000 (about 1%) from an escrow account, and may reimburse the College up to an additional $1 million from the escrow fund once the Department of Environmental Protection makes a final determination that the clean up has been properly performed. The clean up of the remainder of Lake Waban, downstream areas and groundwater is not addressed under the current settlement, because the Department of Environmental Protection has not yet selected a remedy for these areas. Once a remedy is determined and costs are known, negotiations may be reopened with the College. The Commonwealth and the College have reserved their rights against each other regarding liability for the future clean up costs for this part of the site, which could involve tens of millions of dollars.

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Environmental Affairs, the Department of Environmental Protection and the Attorney General's Office, is engaged in preliminary discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of Interior and the National Oceanic and Atmospheric Administration regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. The Commonwealth's Executive Office of Environmental Affairs is the State Natural Resources Trustee. Federal Trustees claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation. This asserted liability also may extend to response actions and related activities necessary to remediate the site. The assessment process for natural resource damages is set forth in federal regulations and is expected to take many months to complete. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

Environmental (pre-litigation). Suit is expected to be filed in U.S. District Court in March, 2005 by the Conservation Law Foundation and others seeking an injunction against the Commonwealth to complete certain expansions and improvements to public transit systems.

Taxes and Revenues. There are several other tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. As of June 30, 2004, approximately $386 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases, including those summarized below, comprise a sizeable share of these liabilities.

Peterson v. Commissioner of Revenue. On April 6, 2004, the Supreme Judicial Court held that the effective date in the act amending the capital gains tax statute (Act) violates amendment article 44 of the Massachusetts Constitution. Because the Act has a severability clause, the Court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether it should be construed to impose the new tax rate beginning on calendar year January 1, 2003, or calendar year January 1, 2002. Included in the fiscal 2005 GAA – and signed by the Governor on June 25, 2004 – were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. The plaintiffs have amended their complaint to challenge each of these sections. The Supreme Judicial Court will hear oral argument on plaintiffs' claims on March 7, 2005.

Eminent Domain. Shwachman v. Commonwealth. The Commonwealth, through its Division of Capital Asset Management, took by eminent domain certain property in Worcester to build a new courthouse for Worcester County. Suit was filed in Worcester Superior Court in May 2004 seeking additional compensation for the taking of land for the new Worcester County courthouse. The plaintiff may seek an additional $30 million in such an action. Discovery is ongoing.

Perini Corp., Kiewit Construction. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In seven consolidated cases and related potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of $150 million.

American Council of Engineering Cos. v. Mass Turnpike, Mass Highway Department and the Commonwealth. Suffolk Superior Court. The plaintiff, a trade association of consulting engineers, asserts that, due to the financial difficulties of two insurers who are part of the Central Artery/Tunnel Project's Owner-Controlled Insurance Program (OCIP), the CA/T Project is contractually required to replace two insurance policies totaling $25 million. The Commonwealth's motion to dismiss was argued in 2004 and has remained under advisement for several months.

Nathaniel Lavallee et al. v. Justices of Hampden Superior Court et al.; Michael Carabello et al. v. Justices of Hampden Superior Court et al.; Arianna S. et al. v. Commonwealth and two other cases. Supreme Judicial Court for Suffolk County. These cases invoke the Supreme Judicial Court's extraordinary power of superintendence to remedy alleged deprivations of the constitutional rights to counsel and due process. The petitioners are indigent criminal defendants and parents of children involved in child-welfare proceedings. Petitioners allege that they have not been provided with state-compensated counsel because of a shortage of private attorneys that results from the low hourly rates of compensation authorized by the Legislature to be paid by the Commonwealth to the bar advocates through CPCS. The relief sought is a court-ordered increase in the rates to double their present levels.

On July 28, 2004, the Supreme Judicial Court decided that the petitioners' rights have been violated and ruled that a petitioner may not be incarcerated pending trial for more than seven days without counsel, and that charges must be dismissed without prejudice after 45 days without counsel. The Court declined, at this time, to order an increase in rates of bar advocate compensation. The cases were remanded to a single justice of the Supreme Judicial Court to create, and to modify from time to time, a mechanism for enforcement of the decision.

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

This Information Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates" and others.

All estimates and assumptions in this Information Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Information Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the Commonwealth's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to this Information Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Information Statement, except as expressly stated.

CONTINUING DISCLOSURE

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's web site located at http://www.state.ma.us/osc/Reports/reportsfinancial.htm.

On behalf of the Commonwealth, the State Treasurer will provide to each NRMSIR within the meaning of Rule 15c2-12 of the SEC, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 564), or to Carlo DeSantis, Director of Capital Finance and Intergovernmental Operations, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2081. Questions regarding legal matters relating to this Information Statement should be directed to Lawrence D. Bragg, III, Ropes & Gray LLP, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Timothy Cahill
Timothy Cahill
Treasurer and Receiver-General

By /s/ Eric A. Kriss
Eric A. Kriss
Secretary of Administration and Finance

March 8, 2005

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ECONOMIC INFORMATION

The information in this section was prepared by the Massachusetts State Data Center (MassSDC) at the University of Massachusetts Donahue Institute and may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth of Massachusetts. The State Data Center archives much of the data about Massachusetts. The demographic information and statistical data, which have been obtained by the MassSDC from the sources indicated, do not necessarily present all factors that may have a bearing on the Commonwealth's fiscal and economic affairs.

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on January 6, 2005. Information in the text, tables, charts, and graphs was current as of December 31, 2004.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

	Massachusetts	United States
Population ***(p. A-2)***		
Estimated Percent Change in Population, July 1, 2000–July 1, 2004	1.1%	4.3%
Personal Income, Consumer Prices, and Poverty ***(p. A-7)***		
Per Capita Personal Income, 2003	$39,815	$31,632
Average Annual Pay, All Industries, 2003	$46,323	$37,765
Percent Change in CPI-U, 2002-2003*	3.8%	2.3%
Percent Change in CPI-U, Nov. 2003-Nov. 2004*	2.5%	3.5%
Poverty Rate, 2002-2003 Average	10.1%	12.3%
Average Weekly Earnings, Manufacturing Production Workers: Nov. 2004(p)	$697.22	$665.86
Percent Change, Nov. 2003-Nov. 2004(p)	2.1%	1.5%
Employment ***(p. A-15)***		
Percent Change in Nonfarm Payroll Employment, Nov. 2003-Nov. 2004(p)	0.1%	1.6%
Unemployment Rate, 2003	5.4%	6.0%
Unemployment Rate, November, 2004	4.6%	5.4%
Economic Base and Performance ***(p. A-21)***		
Percent Change in Gross State Product, 2002-2003	3.2%	4.8%
Percent Change in International Exports, 2002-2003	11.7%	4.4%
Percent Change in Housing Permits Authorized, 2002-2003	8.5%	5.1%
Human Resources and Infrastructure ***(p. A-36)***		
Expenditure Per Pupil, 2002 (estimate)	$10,232	$7,524
Percent of Adults with a Bachelor's Degree, 2003	35.8%	26.5%

* NOTE: Percent changes in the CPI-U are for the Boston area & the U.S.

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, low rates of unemployment, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty years, significant changes have occurred in the age distribution of the population: dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in 2015 and 2025. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher amounts of annual income than the national average. These higher levels of income have been accompanied by a significantly lower poverty rate and, with the exception of the recession of the early 1990s, considerably lower unemployment rates in Massachusetts than in the United States since 1980. The state is now recovering from the recession of 2001, but is lagging behind the nation in many indicators, particularly employment levels.

The following five sections provide detailed information on population characteristics, personal income, employment, economic base and performance, and human resources and infrastructure.

Population Characteristics

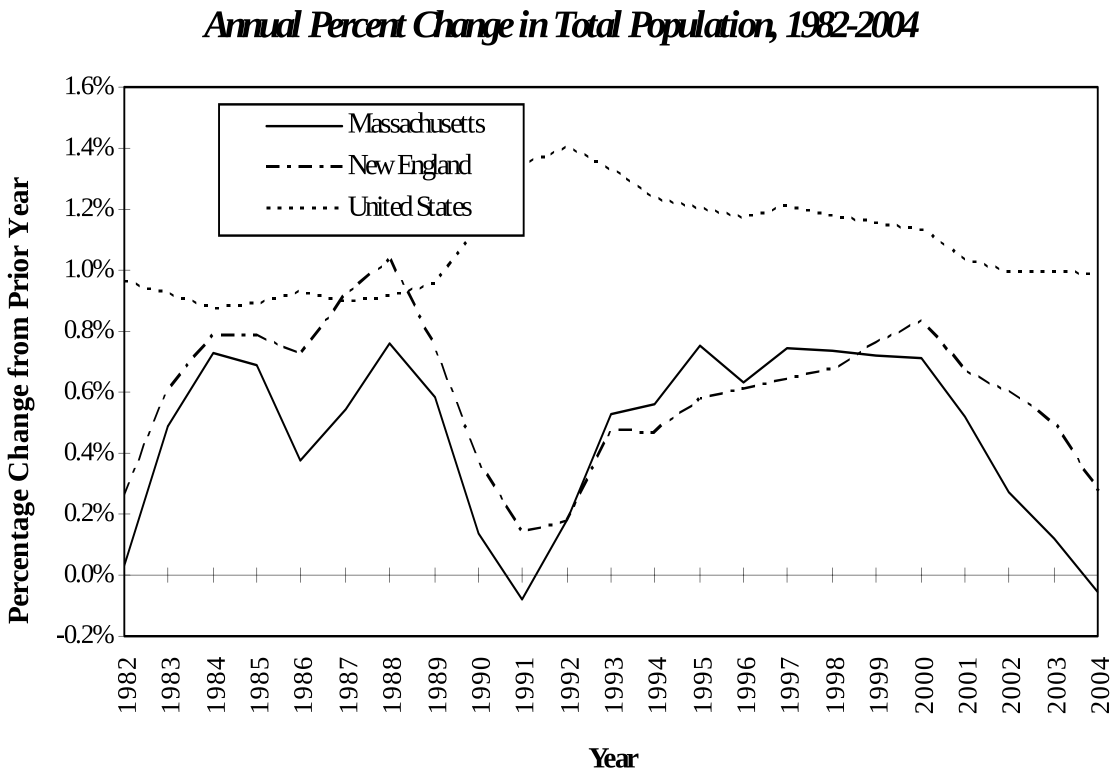
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. According to the 2000 census, the population density of Massachusetts is 809.8 persons per square mile, as compared to 79.6 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranks third among the states in percentage of residents living in metropolitan areas as they were defined at the time of the Census: 96.1 percent of Massachusetts residents live in metropolitan areas, compared with a national average of 80.3 percent. According to the 2003 metropolitan definitions based on whole counties, the entire state is to be considered metropolitan except for the two island counties (99.6 percent of state residents in 2000.) Under these new definitions, which are still not widely used in New England, four states and DC are wholly metropolitan. The metropolitan areas described in this section use the 1993 definitions.

The State's population is concentrated in its eastern portion. The City of Boston is the largest city in New England, with a 2000 population of 589,141. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area (CMSA), which also includes all of southeastern New Hampshire, as well as towns in Maine and Connecticut, and which had a total population in 2000 of 5,819,100; over 40 percent of the total New England population. The Boston, MA-NH Primary Metropolitan Statistical Area (PMSA)—which stretches from the town of Plymouth on the south shore to Seabrook, New Hampshire on the north shore—is the largest component of that CMSA, with a total population in 2000 of 3,406,829.

The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 2000 population of 511,389. Worcester, situated approximately 40 miles west of Boston with a 2000 population of 172,648, is the second largest city in New England. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve other colleges and universities.

The largest Metropolitan Statistical Area (MSA) within Massachusetts which is not a part of this larger CMSA is the Springfield MSA, with a 2000 population of 591,932. Springfield, the third largest city in the Commonwealth with a 2000 population of 152,082, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart and table both indicate, the population in Massachusetts generally grows more slowly than the population of New England and of the nation as a whole. According to the Census Bureau's latest estimates, only six states have grown more slowly than Masachusetts since Census 2000 and the state may even have had a slight population loss in 2004.



SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Figures for all years shown are estimates as of July 1.

The following table compares the population level and percentage change in the population level of Massachusetts with those of the New England states and the United States.

Population, 1972-2004
(in thousands)

	Massachusetts		New England		United States	
		Percent		Percent		Percent
Year	Total	Change	Total	Change	Total	Change
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,023	0.1%	13,230	0.4%	249,623	1.1%
1991	6,018	-0.1%	13,248	0.1%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,272	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,362	0.7%	13,953	0.8%	282,192	1.1%
2001	6,395	0.5%	14,046	0.7%	285,102	1.0%
2002	6,413	0.3%	14,130	0.6%	287,941	1.0%
2003	6,420	0.1%	14,201	0.5%	290,789	1.0%

SOURCE: United States Department of Commerce, Bureau of the Census. 1980 figures are census counts as of April 1, 1980; figures for all other years shown are estimates as of July 1.

The next two decades are expected to bring about a continued change in the age distribution of the Massachusetts population. As the following table and chart show, the share of the 65 and over age groups will continue to grow. The chart and table show the projected population by age for Massachusetts for 2005 through 2025.

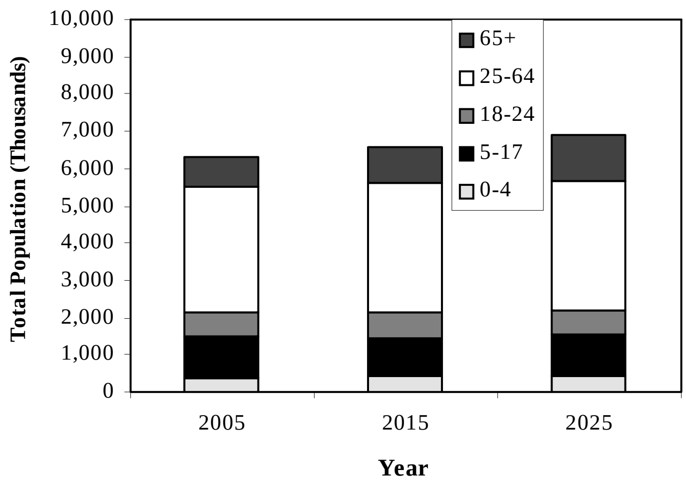
Projected Massachusetts Population by Age Group, 2005-2025

(in thousands)

Year	*0-4*	*5-17*	*18-24*	*25-64*	*65+*
2005	382	1,106	633	3,362	827
2015	411	1,053	681	3,464	965
2025	439	1,128	650	3,433	1,252

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Projections released in 1996; new projections benchmarked to Census 2000 are expected in 2005.

Projected Massachusetts Population by Age Group, 2005-2025



SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Projections released in 1996; new projections benchmarked to Census 2000 are expected in 2005

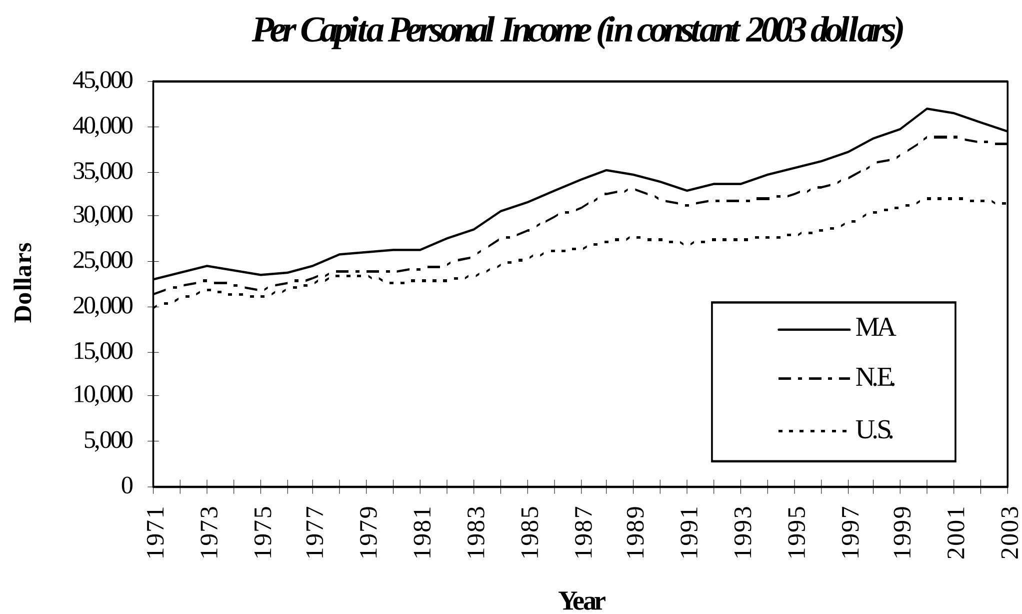
The state's population growth has been unevenly distributed across the state, with five coastal counties leading the way, and the four western counties well behind.

Massachusetts Population by County
1990 and 2000 Census

County	1990	2000	% Change 1990-00
Barnstable	186,605	222,230	19.1%
Berkshire	139,352	134,953	-3.2%
Bristol	506,325	534,678	5.6%
Dukes	11,639	14,987	28.8%
Essex	670,080	723,419	8.0%
Franklin	70,092	71,535	2.1%
Hampden	456,310	456,228	0.0%
Hampshire	146,568	152,251	3.9%
Middlesex	1,398,468	1,465,396	4.8%
Nantucket	6,012	9,520	58.3%
Norfolk	616,087	650,308	5.6%
Plymouth	435,276	472,822	8.6%
Suffolk	663,906	689,807	3.9%
Worcester	709,705	750,963	5.8%
Massachusetts	**6,016,425**	**6,349,097**	**5.5%**

SOURCE: United Department of Commerce, Bureau of the Census.

Personal Income. Since at least 1929, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1994 and 1997. In 2000 Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 1.6 percentage points. In 2001 and 2002, nominal and real income in both Massachusetts and the United States declined, while in 2003 the state showed a slight decline while the nation was essentially flat. Even with slight declines in income, both real and nominal income levels in Massachusetts remain well above the national average. Again in 2003 as in the past several years, only two states had higher levels of per capita personal income. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1971.



SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1969-2003.

Per Capita Personal Income, 1969-2003

	Nominal Income (in current dollars)			Real Income (in 2003 dollars)			Percent Change in Real Income		
Year	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1969	4,201	4,185	3,836	22,661	20,982	19,232			
1970	4,483	4,445	4,085	22,738	21,079	19,372	0.3%	0.5%	0.7%
1971	4,752	4,680	4,342	22,960	21,262	19,727	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	23,838	22,137	20,764	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	24,428	22,714	21,678	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	23,958	22,237	21,300	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	23,602	21,823	21,109	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	23,782	22,504	21,841	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	24,623	23,055	22,484	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	25,887	23,742	23,268	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	26,142	23,803	23,180	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	26,171	23,735	22,585	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	26,205	23,979	22,764	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	27,630	24,542	22,757	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	28,622	25,548	23,310	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	30,620	27,311	24,600	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	31,517	28,294	25,237	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	32,980	29,752	25,925	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	34,085	30,967	26,304	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	35,036	32,369	26,956	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	34,696	32,768	27,481	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	33,826	31,974	27,420	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	32,950	31,030	26,873	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	33,670	31,701	27,350	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	33,573	31,518	27,181	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	34,624	31,892	27,528	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	35,299	32,396	27,861	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	36,126	33,064	28,351	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	37,037	34,034	29,043	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	38,623	35,758	30,346	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	39,653	36,586	30,857	2.7%	2.3%	1.7%
2000	37,756	36,121	29,847	41,931	38,596	31,892	5.7%	5.5%	3.4%
2001	38,944	37,328	30,580	41,466	38,782	31,771	-1.1%	0.5%	-0.4%
2002	38,913	37,420	30,795	40,378	38,273	31,497	-2.6%	-1.3%	-0.9%
2003	39,408	38,018	31,459	39,408	38,018	31,459	-2.4%	-0.7%	-0.1%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

Notes: Estimated population as of July 1. Massachusetts real income is calculated using Boston CPI-U data.

New England and United States real incomes are calculated using national CPI-U data.

Annual pay in nominal dollars has grown steadily in Massachusetts over the past decade. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. The level of annual pay in Massachusetts in 2003 was 23 percent higher than the national average: $46,323 compared to $37,765.

Wage and Salary Disbursements. Wage and Salary Disbursements by Place of Work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts share of the overall New England total steadily increase to 51.3 percent, but by 2003 its share had dropped back to slightly below 50 percent.

Annual Wage and Salary Disbursements, 1990-2003

(in millions of dollars)

Year	*U.S.*	*N.E.*	*MA*	*MA as a pct. of N.E.*
1990	$ 2,743,016	$171,448	$83,129	48.5%
1991	$ 2,811,076	$170,333	$82,311	48.3%
1992	$ 2,972,287	$177,810	$86,014	48.4%
1993	$ 3,076,276	$183,236	$89,047	48.6%
1994	$ 3,227,483	$190,661	$93,164	48.9%
1995	$ 3,415,368	$201,946	$99,194	49.1%
1996	$ 3,615,699	$213,667	$105,573	49.4%
1997	$ 3,874,011	$230,032	$113,579	49.4%
1998	$ 4,179,922	$247,851	$123,054	49.6%
1999	$ 4,463,650	$266,554	$134,045	50.3%
2000	$ 4,825,906	$293,889	$150,842	51.3%
2001	$ 4,939,453	$300,663	$153,110	50.9%
2002	$ 4,970,270	$298,009	$149,894	50.3%
2003	$ 5,095,173	$303,861	$151,633	49.9%

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

Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2003. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in the Consumer Price Index for All Urban Consumers from the previous year. In 2003, the CPI-U for Boston increased 3.8 percent compared to an increase of 2.3 percent for the United States as a whole. However, the latest available data for November 2004 show that the CPI-U for the Boston metropolitan area grew at a rate of only 2.5 percent from November 2003 compared with 3.5 percent for the U.S.

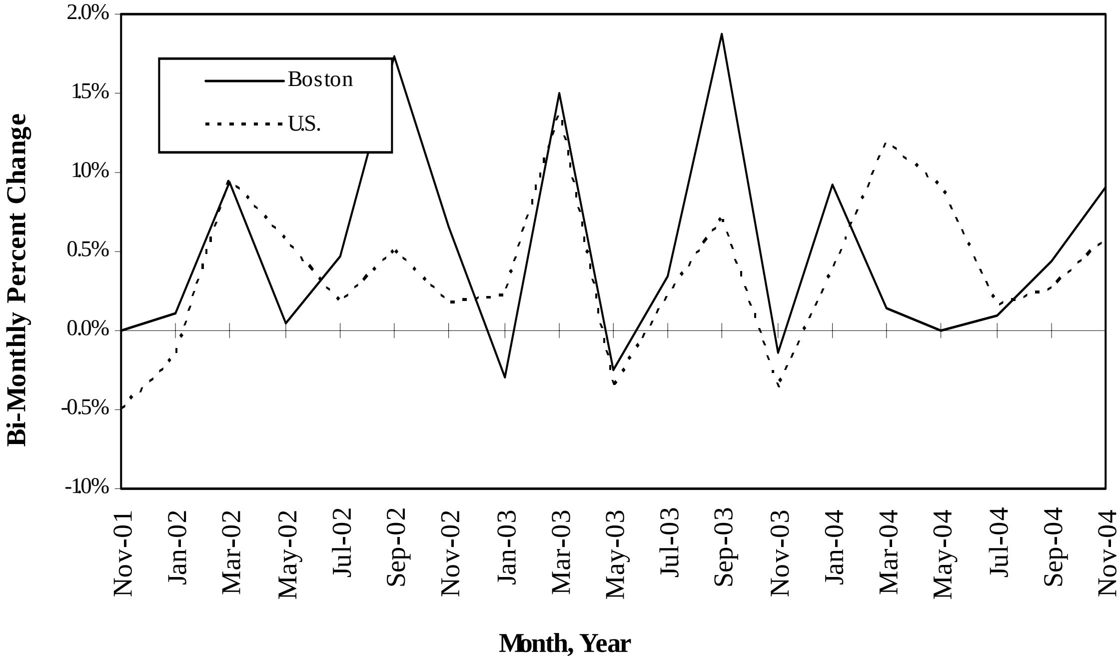
Consumer Price Index for all Urban Consumers (CPI-U), 1970-2003

(not seasonally adjusted, (1982-1984=100))

	Boston Metro Area		United States	
Year	*CPI-U*	*Pct.Change*	*CPI-U*	*Pct. Change*
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
Nov-03	206.5		184.5	
Nov-04	211.7	2.5%	191.0	3.5%

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Bi-Monthly Percent Change in Consumer Price Index for all Urban Consumers, November 2001 - November 2004



SOURCE: United States Department of Labor, Bureau of Labor Statistics.

Consumer Confidence, Present Situation, and Future Expectations. These three measures offer multiple insights into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Boston is conducted in a similar manner and the results are published by the Mass Insight Corporation, based on quarterly polling of 500 adult residents of Massachusetts. The "Present Situation" index measures consumers' appraisal of business and employment conditions at the time of the survey. The "Future Expectations" index focuses on consumers' expectations six months hence regarding business and employment conditions, as well as expected family income. The overall "Consumer Confidence" index is a weighted average of the two sub-indices. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 2000.

Quarterly measures of Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S., January 2000 - October 2004

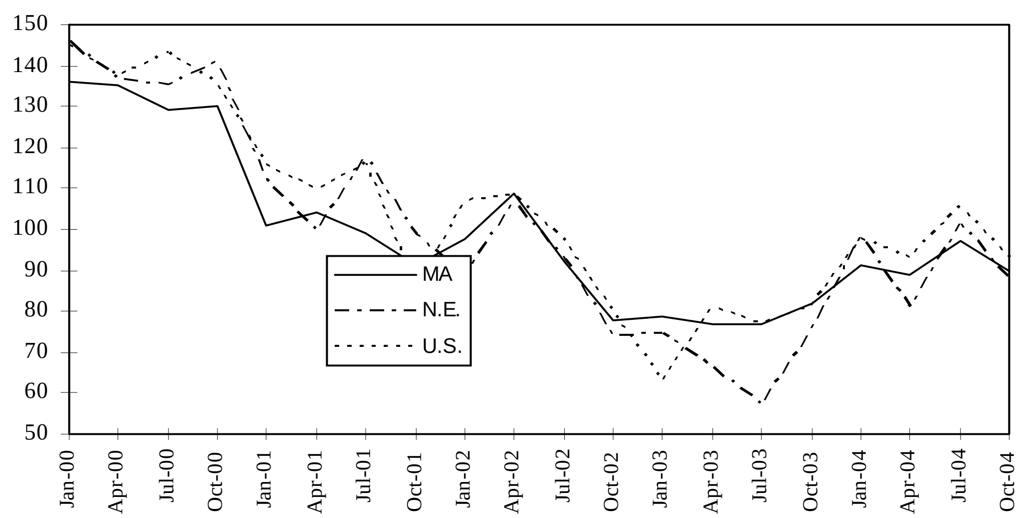
(Not Seasonally Adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
Jul-02	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
Oct-02	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1
Jan-03	78.8	74.4	63.0	75.3	63.9	28.0	81.1	81.5	86.0
Apr-03	77.0	66.4	81.0	31.0	52	75.2	108.0	76.0	84.8
Jul-03	77.0	56.8	77.0	41.0	42.8	63.0	101.0	66.2	86.3
Oct-03	82.0	75.5	81.7	36.0	57.4	67.0	112.0	87.6	91.5
Jan-04	91.0	98.2	97.7	48.0	86.5	86.1	119.0	106.1	105.3
Apr-04	89.0	81.2	93.0	53.0	74.8	90.4	113.0	85.5	94.8
Jul-04	97.0	101.4	105.7	66.0	102.9	106.4	119.0	100.3	105.3
Oct-04	90.0	87.7	92.9	64.0	91.4	94.0	108.0	85.3	92.2

SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), Mass Insight Corporation (for MA measure).

Consumer Confidence for Massachusetts, New England, and the U.S. January 2000 – October 2004

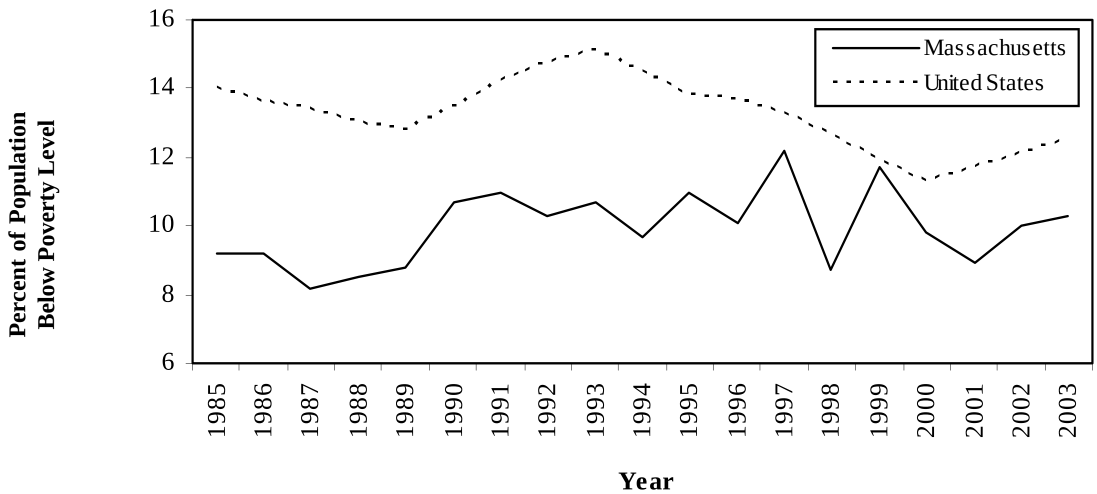
(Not Seasonally Adjusted, except United States (1985=100))



SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), Mass Insight Corporation (for MA measure).

Poverty. The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. In 2003, the poverty rate in Massachusetts increased slightly to 10.3 percent while the poverty rate in the United States rose a similar amount to 12.5 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.99 in 1999. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985 - 2003) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high.

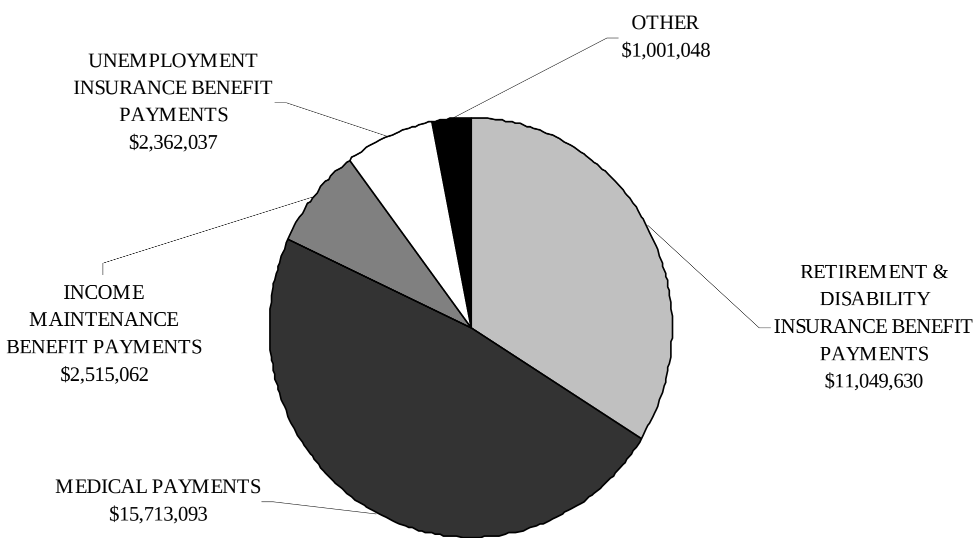
Poverty Rate, 1985-2003



SOURCE: United States Department of Commerce, Bureau of the Census.

Transfer Payments. Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income in Massachusetts in 2003. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts totaled 33.9 billion dollars for 2003.

Transfer Payments from Governments to Individuals in 2003 Massachusetts
(from annual State Personal Income Estimates)
(thousands of dollars)



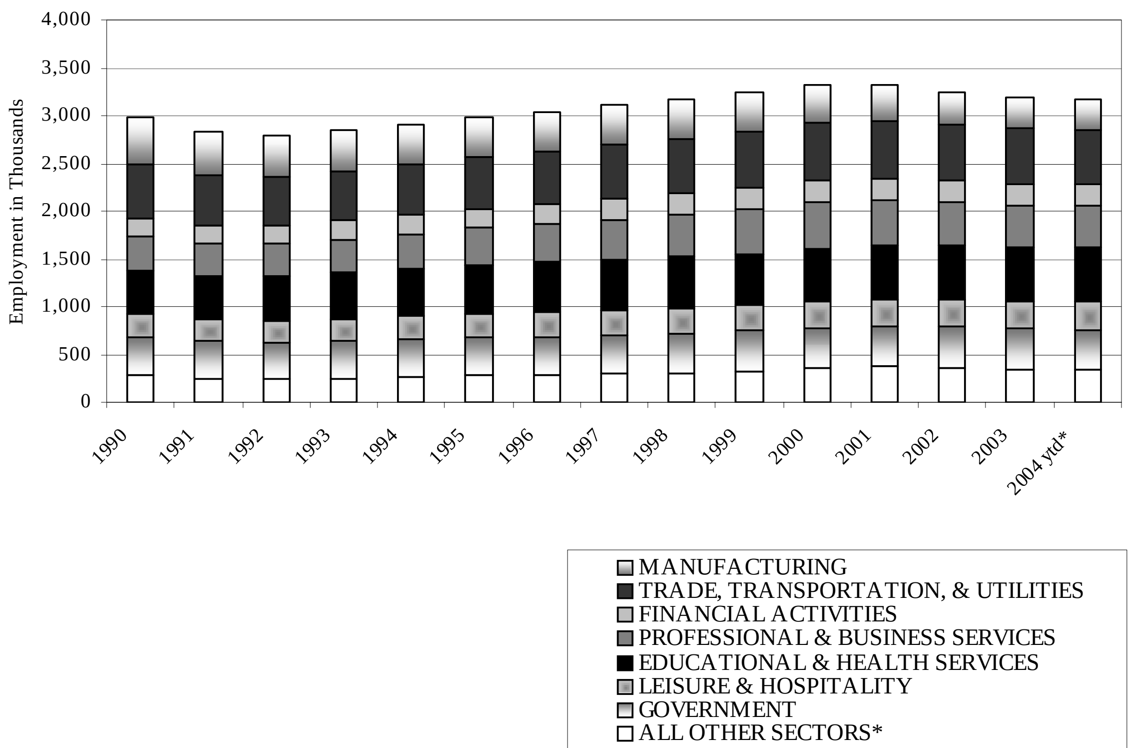
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.
NOTE: The category "other" includes payments for: veterans benefit payments, federal education and training assistance payments, and other payments to individuals.

EXHIBIT A-14

Employment by Industry. The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts on the new North American Industry Classification System (NAICS) basis for the seven largest NAICS super-sectors starting with 1990, the earliest year for which NAICS data are available. The 2004 figures charted are averages for the 11-month period through November 2004. The chart on the following page compares the super-sector shares for the 2002-2003 period with the corresponding shares for the 1990-1991 period. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, both absolutely and as a share of total employment. Several NAICS service sectors have grown to take the place of manufacturing in driving the Massachusetts economy. The combined service sectors now account for more than half of total payroll employment.

Total non-agricultural employment in Massachusetts declined 2.4 percent in 2002 and another 2.0 percent in 2003 but only 0.5 percent in the first eleven months of 2004. The preliminary unadjusted estimates for October and November are in fact slightly above those for the same months in 2003. In the first eleven months of 2004, manufacturing employment (on the seasonally adjusted NAICS basis) declined 0.9 percent from the same period in 2003, a much smaller decline than the annual declines in the previous three years (5.0%, 10.3%, and 6.2% in 2001, 2002, & 2003 respectively.) The last five months of unadjusted estimates for manufacturing are above those of the corresponding 2003 estimates.

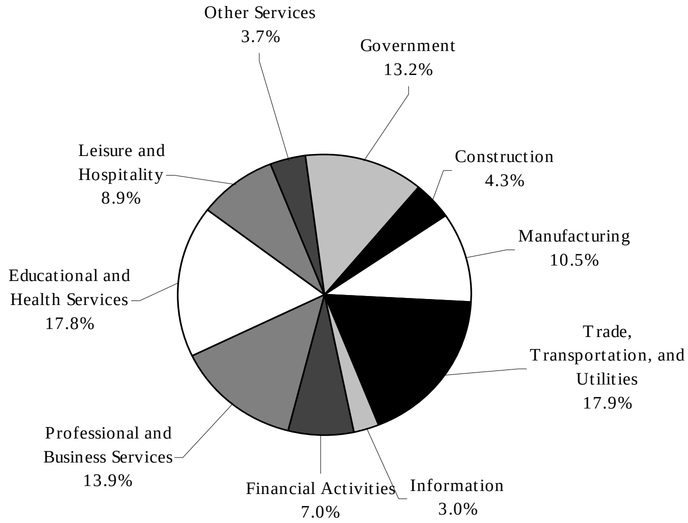
Annual Average Employment in Massachusetts,
NAICS Super-Sectors
1990-2003 with Year-To-Date through November, 2004



MA Division of Unemployment Assistance
*Includes Mining & Natural Resources, Construction, Information, and Other Services

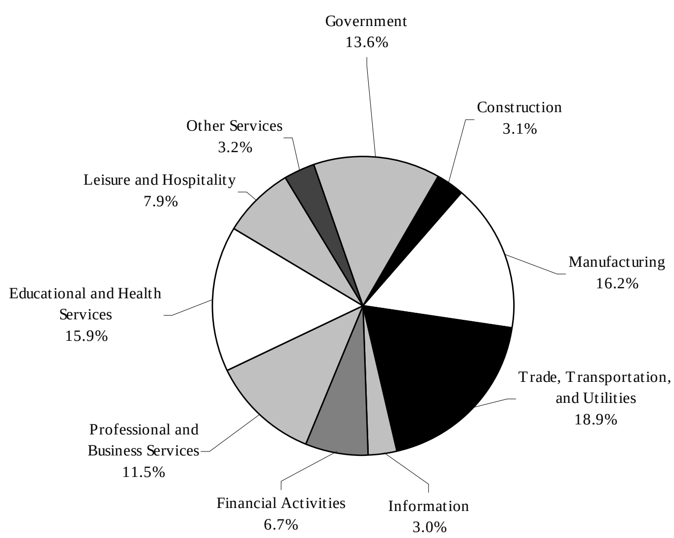
Massachusetts Non-Farm Payroll Employment (NAICS Industry basis)

NAICS Super-Sectors: 2002-2003 Average Share



SOURCE: MA Division of Unemployment Assistance.

NAICS Super-Sectors: 1990-1991 Average Share



SOURCE: MA Division of Unemployment Assistance.

Largest Employers in Massachusetts. The following table lists the twenty-five largest private employers in Massachusetts based upon employment data for June 2004. The Boston Medical Center Corporation is the new member of the list, replacing Sears, Roebuck & Company.

Twenty-five Largest Private Employers in Massachusetts in June 2004
(Listed Alphabetically)

Baystate Medical Center, Inc.	Massachusetts Institute of Technology
Beth Israel Deaconess Medical Center	The May Department Stores Company
Boston Medical Center Corporation	Raytheon Company
Boston University	S & S Credit Company, Inc.
Brigham & Women's Hospital, Inc.	Shaw's Supermarkets, Inc.
The Children's Hospital Corporation	Southcoast Hospitals Group, Inc.
Demoulas Super Markets, Inc.	State Street Bank & Trust Company
E.M.C. Corporation	Tufts University
Fleet National Bank	UMass Memorial Medical Center, Inc.
Friendly Ice Cream Corporation	United Parcel Service, Inc.
General Hospital Corporation	Verizon New England, Inc.
Harvard University	Wal-Mart Associates, Inc.
Home Depot U.S.A., Inc.	

SOURCE: MA Division of Unemployment Assistance.

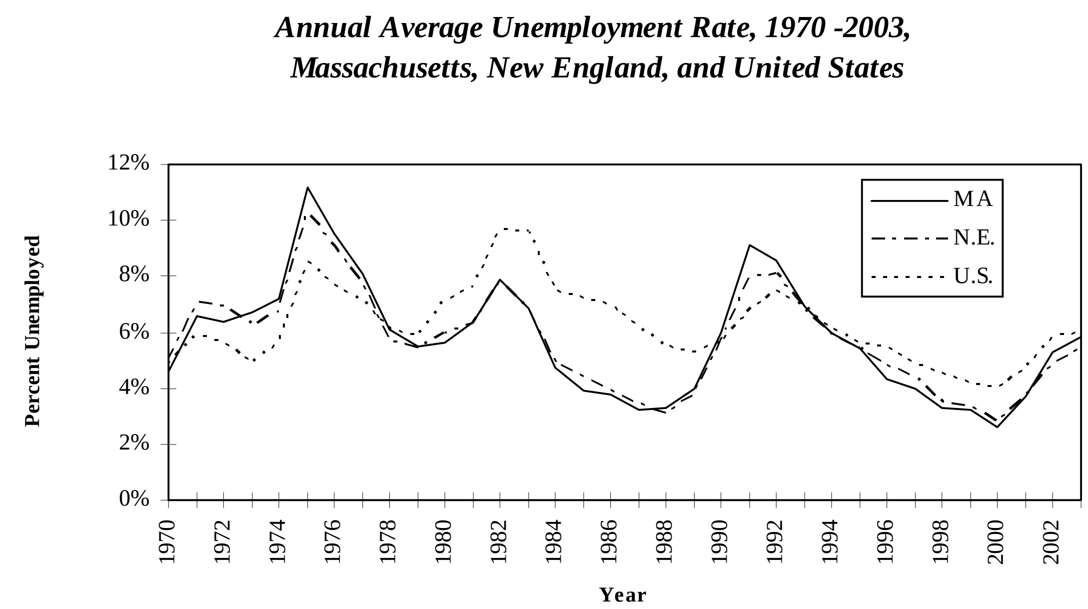
Unemployment. The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.3 points above in 1991. However, since 1994 the unemployment rate in Massachusetts has been consistently below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rates of Massachusetts, the New England states, and the United States between 1970 and 2003.

Annual Average Civilian Labor Force and Unemployment, 1970-2003

(in thousands)

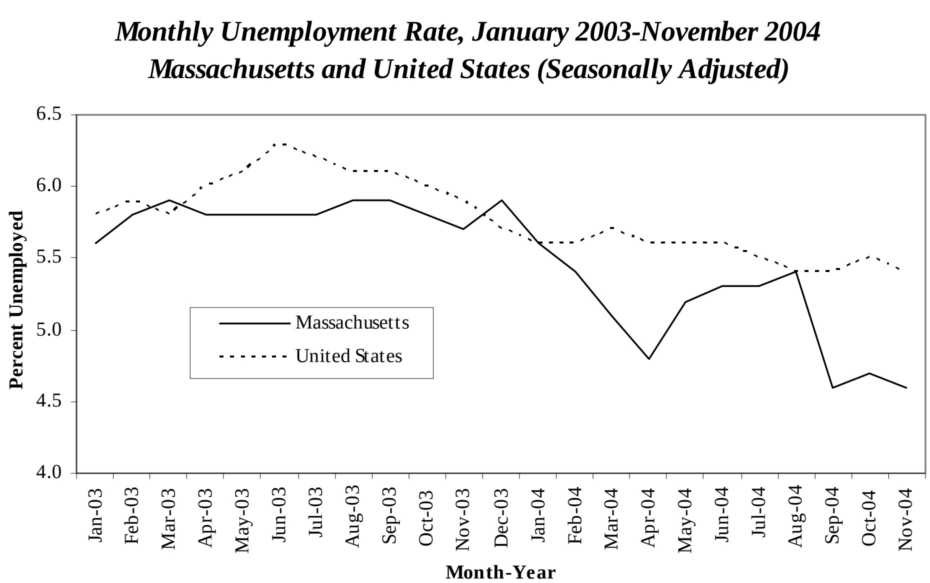
	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
Year	**MA**	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**	**Pct. of U.S.**
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,025	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,121	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,318	7,358	140,863	88	203	5,655	2.6%	2.8%	4.0%	65.0%
2001	3,393	7,422	141,815	125	272	6,742	3.7%	3.7%	4.7%	78.7%
2002	3,486	7,565	142,535	185	367	8,266	5.3%	4.9%	5.8%	91.4%
2003	3,416	7,554	146,510	198	409	8,774	5.8%	5.4%	6.0%	96.7%

SOURCE: United States Department of Labor, Bureau of Labor Statistics.



SOURCE: United States Department of Labor, Bureau of Labor Statistics.

The unemployment rate in Massachusetts has been consistently below that of the United States ever since the recovery from the recession of the early 1990's, with the exception of two months in 2003. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year, generally rising for much of 2003, then falling slightly in recent months. The unemployment rate in Massachusetts shows a somewhat mor erratic pattern, but it dropped from 5.7 to 4.6 percent between November 2003 and November 2004, while the United States unemployment rate dropped from 5.9 to 5.4 percent over those same months. The following chart shows the unemployment rates for Massachusetts and the United States from each of the past twenty-three months.



SOURCE: MA Division of Employment Assistance.

Help Wanted Advertising Index. This index is an additional measure of the employment conditions in various regions across the country and for the nation as a whole. Compiled by The Conference Board, Inc., the index is based on the volume of help wanted advertising in 51 major newspapers across the country whose circulation covers about half of the country's nonagricultural employment. The index is compiled for each of the 51 markets, then weighted into regional averages which are then weighted into the national index. The index is intended to be a proxy measure for labor demand. According to the Conference Board, Inc., rising trends in want-ad volume have generally corresponded to improved labor market conditions and declining volume has indicated a decline in new employment.

Help Wanted Advertising Index, 1989-2004

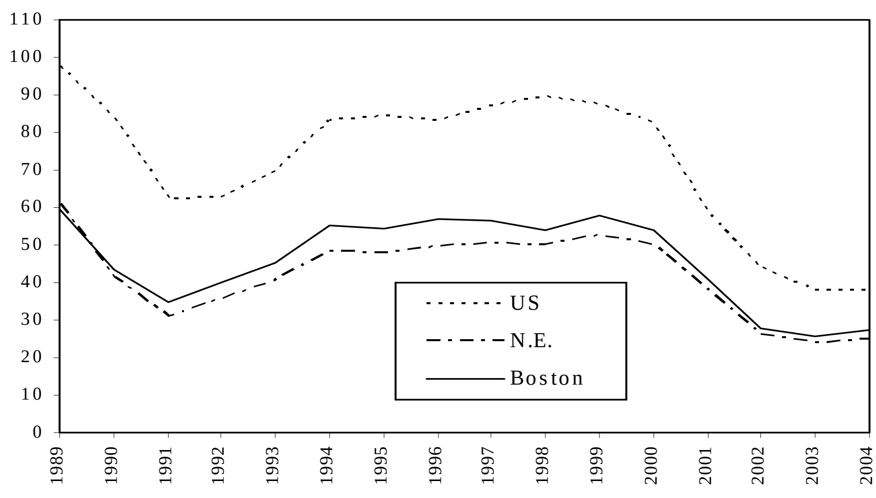
seasonally adjusted 1987-100)

	US	% Change	N.E.	% Change	Boston	% Change
1989	98.0		60.8		59.5	
1990	83.8	-14.5%	41.5	-31.8%	43.5	-26.9%
1991	62.0	-26.0%	31.0	-25.3%	34.7	-20.3%
1992	62.5	0.8%	35.8	15.3%	39.9	15.1%
1993	69.4	11.1%	40.3	12.6%	45.4	13.8%
1994	82.9	19.4%	48.1	19.5%	55.4	22.0%
1995	84.3	1.6%	47.8	-0.7%	54.5	-1.7%
1996	83.2	-1.3%	49.8	4.2%	56.8	4.3%
1997	87.0	4.6%	50.6	1.7%	56.7	-0.3%
1998	89.4	2.8%	50.0	-1.2%	54.0	-4.7%
1999	87.3	-2.4%	52.4	4.8%	57.8	7.1%
2000	82.4	-5.5%	50.0	-4.6%	54.1	-6.5%
2001	58.3	-29.3%	37.7	-24.7%	40.9	-24.3%
2002	43.8	-24.9%	25.9	-31.2%	28.0	-31.6%
2003	37.8	-13.5%	23.8	-8.4%	25.8	-7.7%
2004	38.0	0.4%	24.7	4.0%	27.6	6.7%

SOURCE: The Conference Board, Inc.

Help Wanted Advertising Index, 1989-2004

(seasonally adjusted 1987=100)



SOURCE: The Conference Board, Inc.

EXHIBIT A-20

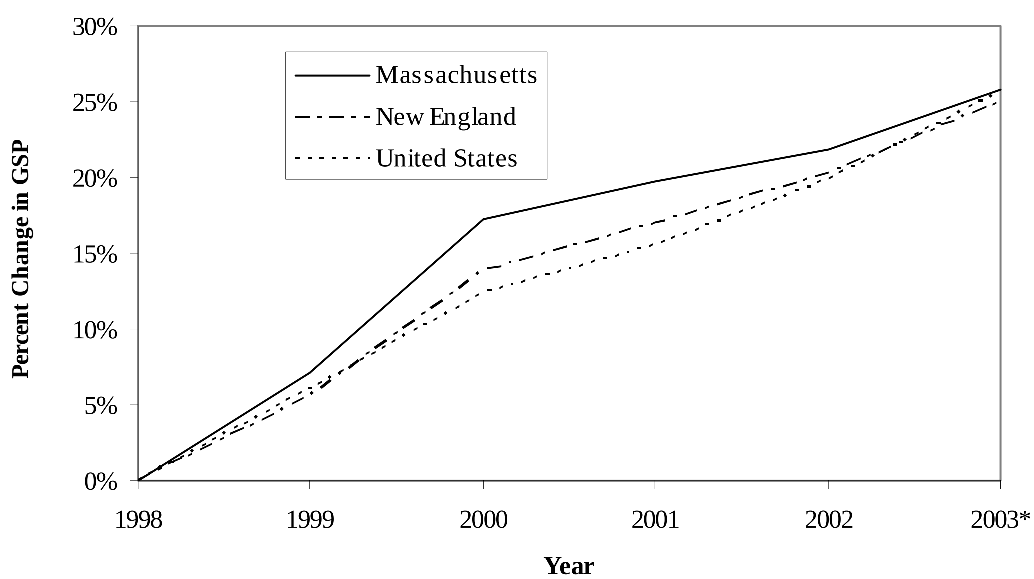
Unemployment Insurance Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth. As of December 31, 2004, the Massachusetts Unemployment Trust Fund had a balance of $97.3 million, of which the private contributory sector portion was $10.6 million, and the Division of Unemployment Assistance's October 2004 Unemployment Insurance Trust Fund report indicates that Chapter 142 of the Massachusetts Acts of 2003, effective January 1, 2004, provides for employer contributions that should result in private contributory account reserves of $1.259 billion at the end of 2008.

ECONOMIC BASE AND PERFORMANCE

Gross State Product (GSP) is the value added in production by the labor and property located in a state. GSP for a State is derived as the sum of the gross state product originating in all industries in a State. In concept, an industry's GSP, referred to as its "value added", is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported). Thus, GSP is often considered the state counterpart of the nation's gross domestic product (GDP), Bureau of Economic Analysis's featured measure of U.S. output.

In the years 1998 to 2003, gross state product in Massachusetts, New England and the United States has grown approximately 25%. Massachusetts had larger increases than those in New England and the United States for 1999 and 2000, but then lagged both areas respectively after the recession of 2001. The Massachusetts economy is the largest in New England, contributing approximately 48 percent to New England's total GSP and thirteenth largest in the U.S., contributing 2.7 percent to the nation's total GSP.

Cumulative Percent Change in Gross State Product, 1998-2003



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, December 2004

EXHIBIT A-21

The table below indicates the Gross State Product for Massachusetts, the New England states, and the United States. The United States figure is the sum of the fifty states.

Gross State Product, 1998-2003
(millions of current dollars)

	Massachusetts		New England		United States	
Year	GSP	Change	GSP	Change	GSP	Change
1998	$236,347		$495,753		$8,679,658	
1999	253,195	7.1%	523,099	5.5%	9,201,138	6.0%
2000	277,103	9.4%	564,534	7.9%	9,749,105	6.0%
2001	283,012	2.1%	579,858	2.7%	10,031,393	2.9%
2002	288,088	1.8%	595,910	2.8%	10,407,141	3.7%
2003*	297,343	3.2%	619,967	4.0%	10,911,103	4.8%

*Prototype estimates
U.S. Department of Commerce, Bureau of Economic Analysis. December 15

The commercial base of Massachusetts is anchored by the fourteen 2003 Fortune 500 industrial and service firms headquartered within the state, as the following table indicates. The Fortune 500 firms are ranked according to total revenues in 2003. All companies listed in the 2003 Fortune 500 are also in the 2004. Nine out of thirteen companies improved their rank and Boston Scientific was added at 478.

Massachusetts Companies in the 2004 Fortune 500

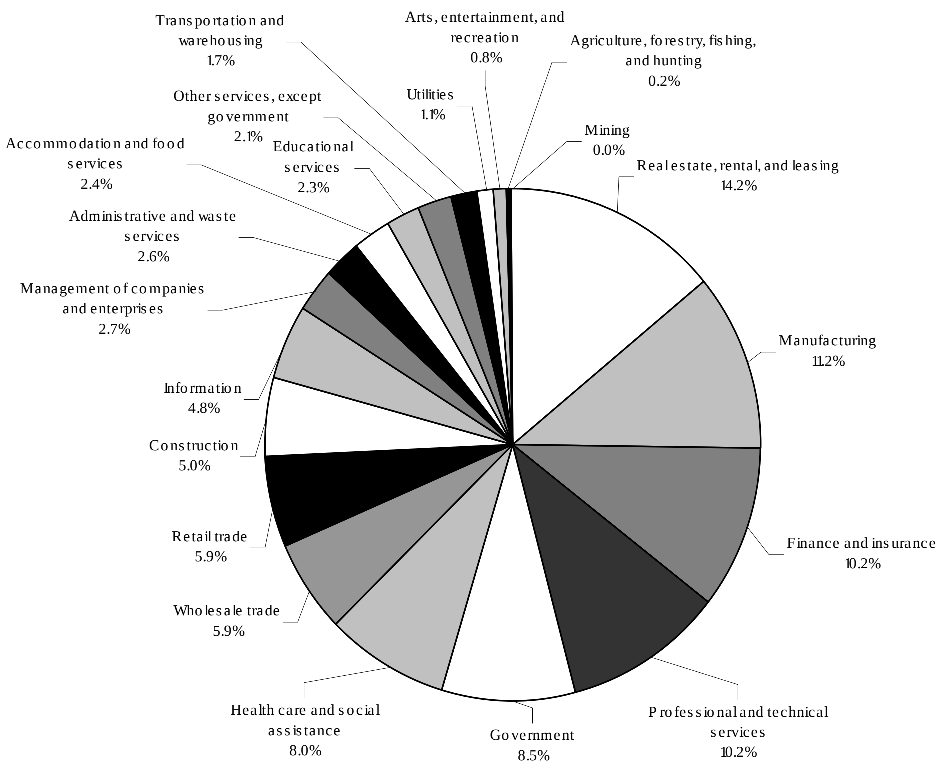
Rank				2003 revenues
2004	2003	Company	Industry	(millions)
90	**84**	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	$21,080
107	**105**	Raytheon (Lexington)	Aerospace	18,109
116	**129**	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	16,914
140	**115**	FleetBoston (Boston)	Commercial Banks	14,362
148	**161**	TJX (Framingham)	Specialty Retailers	13,328
152	**165**	Staples (Framingham)	Specialty Retailers	13,181
192	**208**	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	10,071
215	**218**	Gillette (Boston)	Metal Products	9,252
277	**295**	BJ's Wholesale Club (Natick)	Specialty Retailers	6,724
299	**308**	EMC (Hopkinton)	Computer Peripherals	6,237
330	**340**	State Street Boston Corp. (Boston)	Commercial Banks	5,463
477	**483**	Reebok International (Canton)	Apparel	3,485
478	**--**	Boston Scientific (Natick)	Medical Products & Equipment	3,476
494	**456**	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,264

SOURCE: *Fortune*, April 5, 2004.

ECONOMIC BASE AND PERFORMANCE - SECTOR DETAIL (NAICS AND SIC BASIS)

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy (real estate and rental and leasing, manufacturing, finance and insurance, and professional and technical services, on the 2002 NAICS basis) contributed 45.8 percent of the GSP in 2002. The data below show the contributions to the Massachusetts real Gross State Product of all industrial and non-industrial sectors.

NAICS Sector Composition of Massachusetts Gross State Product 2002



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (NAICS), Released Dec 2004

Gross State Product by Industry in Massachusetts, 1992-2000

(millions of chained 1996 dollars)

Industrial Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Ag., Forestry, Fishing	$1,173	$1,194	$1,124	$1,098	$1,143	$1,280	$1,263	$1,362	$1,465	$1,539
Mining	99	94	107	97	94	82	88	79	92	97
Construction	5,696	6,130	6,753	6,933	7,477	8,026	8,780	9,479	10,136	10,469
Manufacturing	27,281	27,402	28,789	29,835	30,687	32,813	35,486	36,688	41,808	38,543
Trans., Util., Comm.	11,940	12,621	13,035	12,683	13,334	13,063	13,245	14,034	15,354	15,354
Wholesale Trade	12,457	12,548	13,367	13,645	15,100	16,677	19,131	21,411	22,885	21,385
Retail Trade	13,791	13,996	14,695	15,163	16,591	17,683	19,228	20,219	22,039	23,243
F.I.R.E.	42,213	43,415	46,077	47,742	49,536	51,595	56,158	60,732	65,517	66,609
Services	48,822	49,610	51,261	53,055	55,508	57,576	59,717	61,867	66,263	66,268
Government	19,285	19,690	19,969	20,315	20,657	20,968	21,135	21,872	22,092	22,292
Total GSP	182,789	186,680	195,171	200,537	210,127	219,716	233,981	247,354	266,840	265,722

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. (SIC basis)

Finance, Insurance, Real Estate. The F.I.R.E. sector, the second largest contributor to the Massachusetts Gross State Product over the last decade, took the leading position in 2001 at 25.1 percent of GSP. In 2000, it contributed 24.0 percent of the Gross State Product. The sector has experienced yearly growth since the declines of 1989 to 1991, and was the only one of the top three sectors to grow in 2001, increasing by 1.7 percent over 2000.

Services. In 2001, the services sector, long the largest contributor to the Massachusetts Gross State Product, lost its leading position as it declined slightly in real terms from its 2000 level to represent 24.9 percent of GSP. After a period of stagnation and slight decline from 1989 to 1991, the sector showed solid growth through the 1990s and a 7.1 percent jump in 2000, but no growth in 2001.

Manufacturing. The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 2000, contributing 14.5 percent of the Gross State Product. Manufacturing in New England was hit hard during the recession of 1989-1991, and posted only moderate growth during the mid-nineties. The manufacturing sector grew at least 6.9 percent in three of the years from 1997 to 2000, including a gain of 14.0 percent in 2000, but suffered a 7.8 percent decline in 2001.

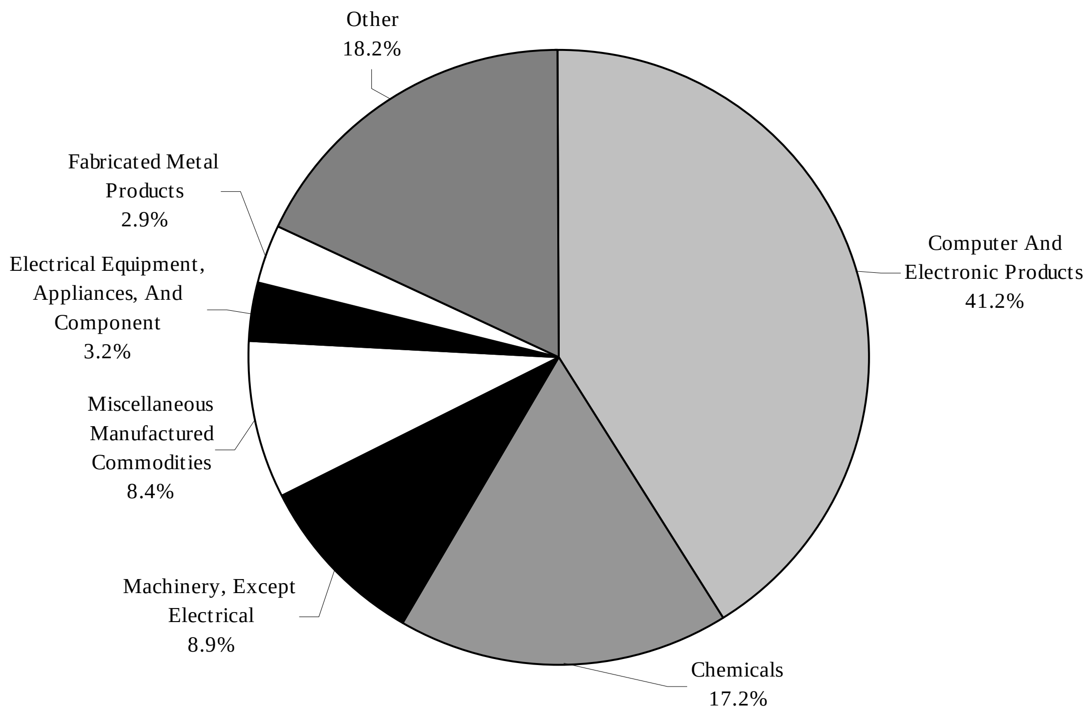
Wholesale and Retail Trade. Combined, the wholesale and retail trade sectors contributed 16.7 percent of the Massachusetts Gross State Product in 2001, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector rebounded in 1991 and varied through the early 1990s but was very strong in the period from 1996 to 1999, increasing by more than 10 percent in each of those years. Growth of 6.9 percent in 2000 was offset by a decline of 6.6 percent in 2001, returning to 1999 levels. The retail sector was harder hit during the 1989-1991 recession, and did not rebound as quickly, with annual growth not exceeding 1.5 percent until 1994. In each of the six years from 1996 to 2001, however, retail growth exceeded 5 percent, including a 5.5 percent increase in 2001.

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked 10th in the United States, and first in New England, with $18.7 billion in international exports in 2003. This represents an 11.7 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 4.4 percent in the same period. Through July 2004, Massachusetts's exports totaled $12.76 billion, an increase of 21.9 percent compared with exports in the first seven months of 2003. National exports were up 13.4 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' five most important trading partners for 2003 were: Canada, with $2.64 billion in purchases of Massachusetts exports; the Netherlands, with $1.76 billion; Japan, with $1.64 billion; Germany, with $1.60 billion; and the United Kingdom, with $1.43 billion in purchases. Between 2002 and 2003, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to the Netherlands, Malaysia and the Philippines, which increased by 66.9 percent, 74.9 percent and 63.9 percent, respectively.

Massachusetts' most important exports, as shown in the following chart, are computer and electronic products, chemical products, and non-electrical machinery. These categories reflect the adoption of the NAICS classification system, which groups computers with electronic products, rather than with machinery.

Composition of Massachusetts Exports by Industry Group, 2003



SOURCE: U.S. Census Bureau, Foreign Trade Division. Prepared by the World Institute for Strategic Economic Research (WISER).

Value of International Shipments from Massachusetts, 1997-2003

(top ten industry groups ranked by value of 2003 sales, in millions)

Major Industry Group	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Computer And Electronic Products	$7,857	$7,458	$8,056	$10,215	$8,122	$7,024	$7,688
Chemicals	$1,174	$1,223	$1,357	$1,600	$1,534	$2,267	$3,216
Machinery, Except Electrical	$1,885	$1,694	$1,705	$2,545	$2,044	$1,786	$1,668
Miscellaneous Manufactured Commodities	$768	$835	$925	$1,053	$1,213	$1,210	$1,571
Electrical Equipment, Appliances, And Component	$570	$596	$720	$834	$691	$649	$592
Fabricated Metal Products	$748	$597	$601	$649	$569	$692	$539
Primary Metal Manufacturing	$282	$335	$283	$358	$272	$248	$425
Transportation Equipment	$655	$637	$698	$659	$449	$346	$383
Plastics And Rubber Products	$323	$357	$389	$374	$400	$406	$375
Paper	$311	$334	$364	$435	$386	$373	$355
Total Exports, Top Massachusetts Industries	$14,574	$14,065	$15,098	$18,722	$15,679	$15,002	$16,812
Total Massachusetts Exports	$16,526	$15,878	$16,805	$20,514	$17,490	$16,708	$18,663
Percent Change from Prior Year		-3.9%	5.8%	22.1%	-14.7%	-4.5%	11.7%

SOURCE: World Institute for Strategic Economic Research (WISER). These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems. Pre-1997 data is not available.

Transportation and Warehousing, and Utilities. Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2003 operating income of $25.4 million (up 49 perenct from fiscal 2002), with operating revenues up 18 percent ($373.8 million in 2003 versus $317.9 million in 2002) and operating costs up 16 percent ($348.4 million in 2003 versus $300.9 million in 2002).

In fiscal 2003, 22.5 million passengers (a 2.1 percent decrease from fiscal 2002) passed through Logan. Based on otal passenger volume in calendar year 2002 data, Logan Airport was the most active airport in New England, the 20th most active in the U.S. and the 37th most active in the world, according to the Airports Council International (ACI). As of June 30, 2003, airline service at Logan, both scheduled and unscheduled, was provided by 54 airlines, including 7 U.S. major air carrier airlines, 17 non-U.S. flag carriers, and 12 regional and commuter airlines. JetBlue Airways commenced service from Logan January 7, 2004.

According to ACI, in calendar year 2002, Logan Airport ranked 17th in the nation in total air cargo volume. In fiscal year 2003, the airport handled more than 818 million pounds of cargo and mail (a 2.9 percent decrease from FY 2002). As of June 30, 2003, Logan was served by 9 all-cargo and small package/express carriers.

At Massport's Port of Boston properties, 2003 cargo throughput was 13.2 million metric tons (a 18.5 percent increase from 2002), automobile processing decreased 81percent to 12,578 units, and cruise passenger trips decreased 4.4 percent to 200,352. Massachusetts total waterborne cargo shipped or received in 2002, from the Army Corps of Engineers data, decreased 1.2 percent (26,117 short tons), as did New England and the U.S., 3.9 and 1.9 percent respectively.

Construction and Housing. In 2001, construction activity contributed 3.9 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991, with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, and by at least 6.9 percent in each year from 1995 to 2000. Growth tapered to 3.3 percent in 2001.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline from 1987 to 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. With the exception of a 12.9 percent drop in 1995, Massachusetts housing permit authorizations increased each year from 1992 to 1999, for a total increase in that period of 50.3 percent. All three regions experienced declines in 2000, and Massachusetts and New England saw continuing, if milder, decreases in authorizations for 2001. All regions experienced growth in 2002 and 2003, with New England surging by 14.2 percent from 2001, Massachusetts rebounding with 11.5 percent growth, while nationwide growth in authorizations was similar at 15.4 percent.

Housing Permits Authorized, 1969-2003

	Massachusetts		***New England***		***United States***	
Year	*Total Permits*	*Percent Change*	*Total Permits*	*Percent Change*	*Total Permits*	*Percent Change*
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
2000	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
2001	16,654	-4.0%	42,786	-2.2%	1,636,700	2.4%
2002	17,122	2.8%	47,173	10.3%	1,747,600	6.8%
2003	18,574	8.5%	48,845	3.5%	1,889,400	8.1%

SOURCES: Federal Reserve Bank of Boston; United States Department of Commerce.

EXHIBIT A-27

Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the New England and national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.3 percent while growth in existing home sales nationally was 6.0 percent. In 2000, existing home sales in Massachusetts declined by 10 percent and did not start growing again until 2002. On a seasonally adjusted annual basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

Existing Home Sales, 1981-2003

(seasonally adjusted annual rates, in thousands)

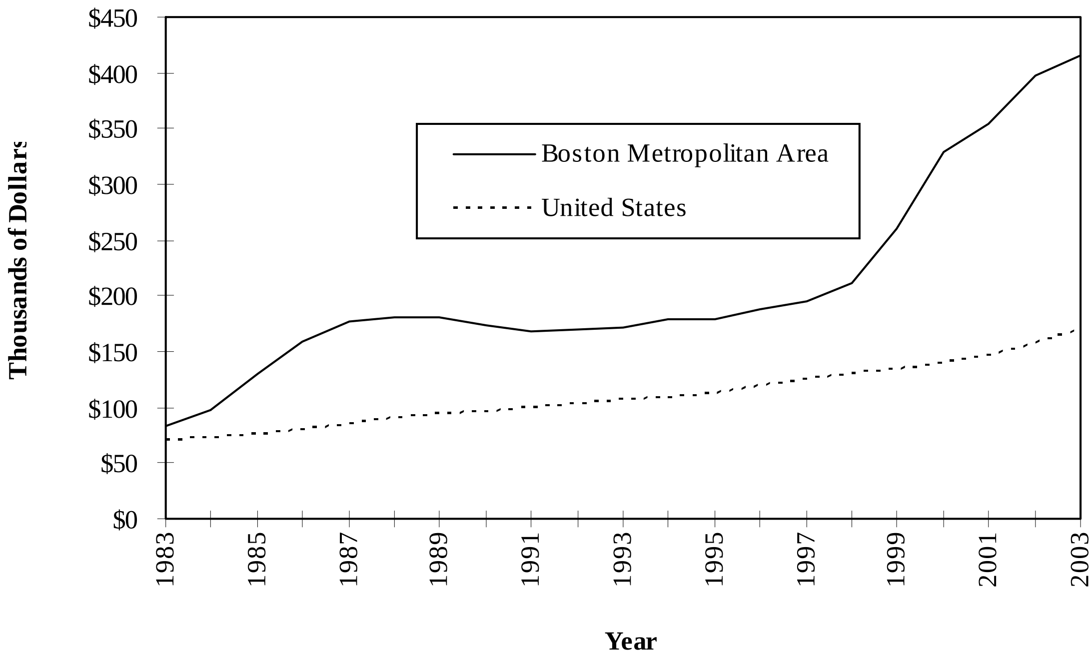
	Massachusetts		*New England*		*United States*	
Year	*Sales*	*% Change*	*Sales*	*% Change*	*Sales*	*% Change*
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	88.7	-10.0%	242.0	-4.4%	5,831.8	-1.5%
2001	87.5	-1.4%	239.6	-1.0%	6,026.3	3.3%
2002	91.9	5.0%	244.5	2.0%	6,421.3	6.6%
2003	96.5	5.0%	279.2	14.2%	6,994.8	8.9%

SOURCES: Federal Researve Bank of Boston; National Association of Realtors. Revised May 2004
N/A: Not Available

Median single-family home prices for the Boston Metropolitan area appear below. While Boston housing prices were 118.1 percent of the U.S. median in 1983, by 1987 Boston housing prices as a percent of the national median had reached 205.7 percent. After dipping to 160.9 percent of the national median in 1993 and remaining as low as 162.9 percent of the national median in 1998, Boston home prices soared to 237 percent of the national median in the fourth quarter of 2003. The Boston metropolitan area median home price rose to $406,800 in the fourth quarter of 2003, compared to the national home price of $171,600.

Boston Metropolitan Area and U.S. Median Annual Home Prices, 1983-2003

(single-family, not seasonally adjusted)

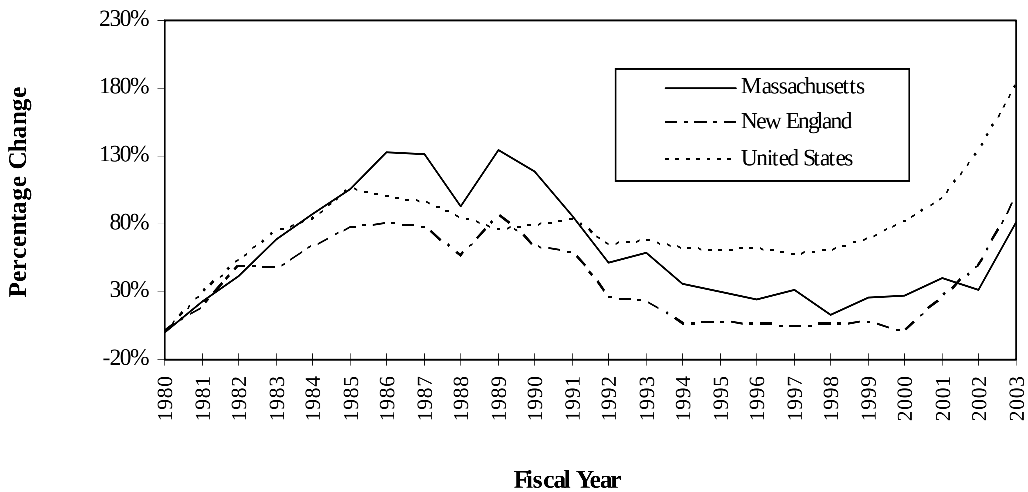


SOURCES: National Association of Realtors; Federal Reserve Bank of Boston.

Defense. Following a peak at $8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to $7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to $4.8 billion. The net value of prime contract awards in Massachusetts oscillated between $4.2 and $5.2 billion from 1995 to 2002, but jumped 38 percent from 2002 to 2003 to reach $6.8 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1981 to 2003.

Cumulative Percent Change in Net Value of Prime Contract Awards Since 1980

(baseline year = 1980)



SOURCE: U.S. Department of Defense.
Prime Contract is defined as $10,000 or more before 1983 and as $25,000 or more from 1983 onwards.

The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1980 and 2003. Since the early 1980s, the Commonwealth's share of New England's prime contract awards had remained around or above 50 percent. In 1998, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent and in 1999, the Commonwealth's share recovered only some of its losses, rising to 49.9 percent. In 2000, the Commonwealth's share of New England's prime contract awards rose to a recent peak of 54.2 percent, but large increases elsewhere in New England in 2001 offset the Massachusetts increase and pushed the Commonwealth's share in the region back down to 47.3 percent. In 2002, the Commonwealth's share of the national total reached its lowest point in over two decades, but increased slightly to 3.6 percent in 2003 due to a $1.6 billion increase in aircraft engine, missile and space system, services and weapons procurement contracts. Despite this trend, Massachusetts remains the eighth largest recipient in defense spending.

Net Value of Department of Defense Prime Contract Awards, 1980-2003

(in millions)

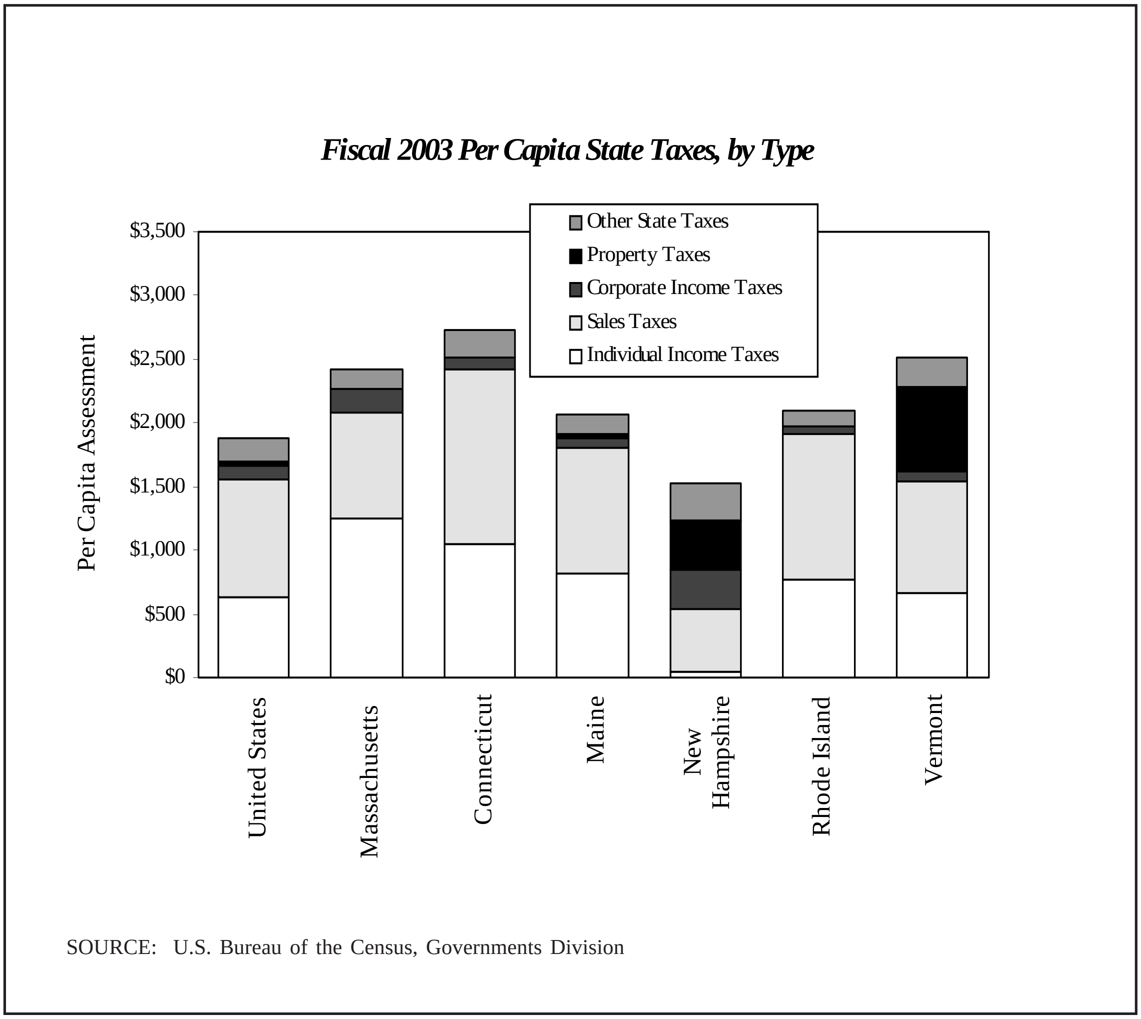
Fiscal Year	MA	N.E.	U.S.	Massachusetts' Share (as a Percent) of New England	of U.S.
1980*	$3,743	$8,775	$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%
2002	4,929	13,029	158,737	37.8%	3.1%
2003	6,800	17,544	191,221	38.8%	3.6%

SOURCE: United States Department of Defense. *Prime Contract is defined as $10,000 and above for these years; beginning in 1983 it is defined as $25,000 and above.

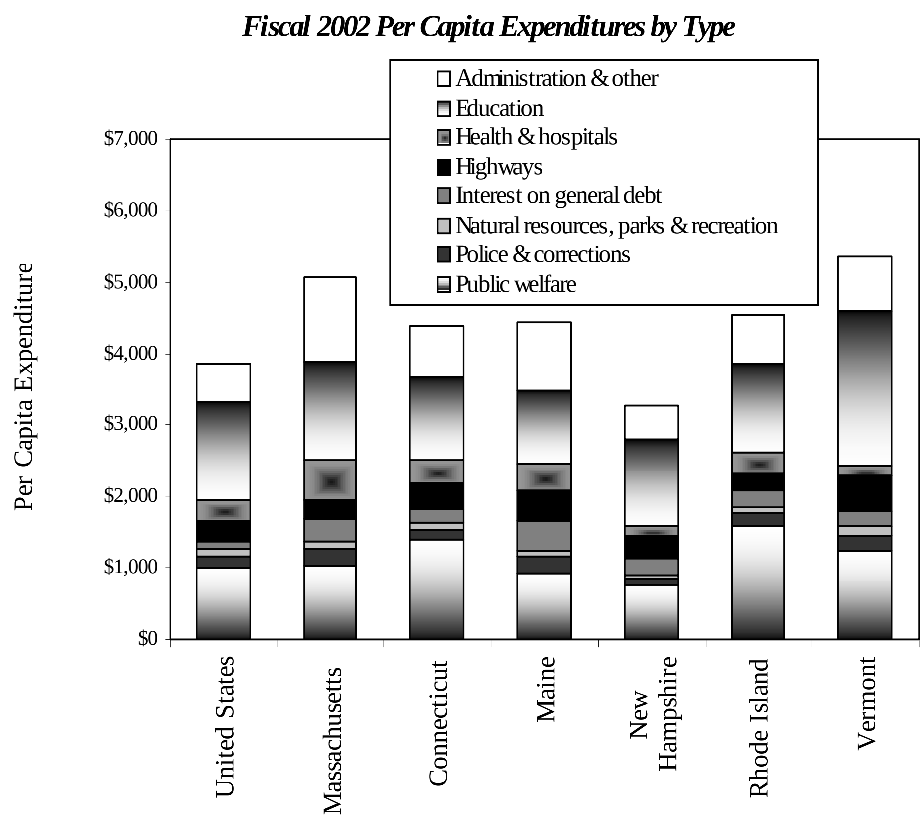
Travel and Tourism. The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and international visitors. The greater Boston area is New England's most popular destination, as the site of many popular and historic attractions including the New England Aquarium, Boston's Museum of Fine Arts, Boston's Museum of Science, the U.S.S. Constitution, the Kennedy Library and Museum, and Faneuil Hall Marketplace.

The Massachusetts Office of Travel and Tourism estimates that 24.3 million domestic travelers traveled to or within the Commonwealth in 2002, a decrease of 6.9 percent from 2001. Additionally, 1.8 million international travelers visited Massachusetts in 2002. Leisure is the primary reason for 77 percent of tourist trips to Massachusetts. The latest available economic impact data indicates that direct spending by visitors to Massachusetts totaled $11.7 billion in 2001, a decrease of 12.0 percent from the 2000 level.

State Taxes. Per capita state taxes in Massachusetts are significantly higher, 28.8%, than the national average. In 2003, the total per capita state tax bill in the United States was $1,884. Citizens of the Commonwealth, however, paid $2,427 on average, the seventh highest rate in the nation. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire, 44th, ranked in the top 15 for per capita state tax collections. In 2003, over half (51.4%) of the state taxes in Massachusetts came from the state income tax. Per capita individual income taxes in Massachusetts were $1,248, down 6.7% from $1,332 in 2002. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

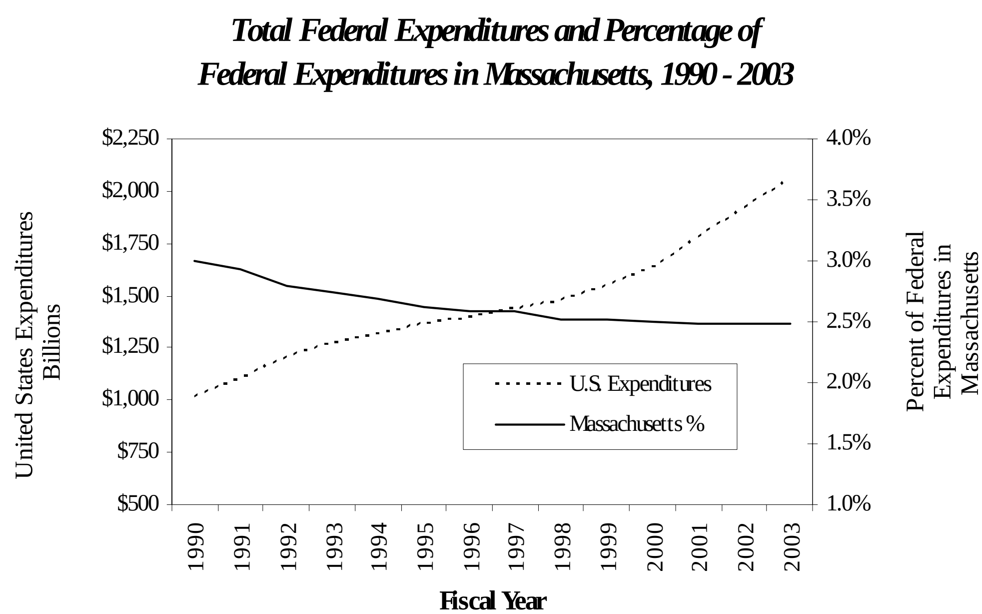


State Government Spending in Massachusetts. The following chart depicts fiscal 2002 per capita state expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts spent more state funds per capita on debt service ($418) and less on education ($1020) than any of its New England neighbors. The differences between states in per capita spending are similar to those in taxation, with intergovernmental transfers (to and from local and federal governments) accounting for the degree to which per capita spending exceeds per capita taxation. While all New England states used less than the national average of 28.5 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 13.0 percent of Rhode Island expenditures, 19.1 percent of Massachusetts expenditures, and 26.1percent of Vermont expenditures.



SOURCE: U.S. Census Bureau, Governments Division

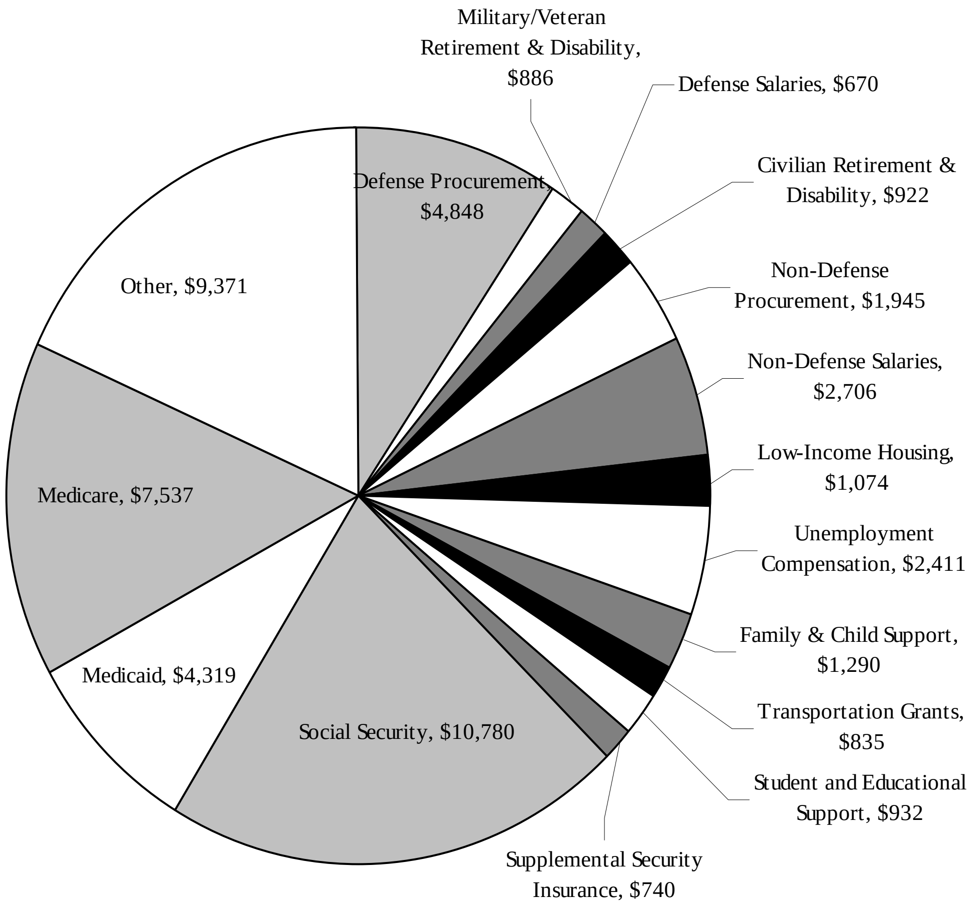
Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2003, Massachusetts ranked eleventh among states in per capita distribution of federal funds, with total spending of $7,969 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.48 percent to 2.52 percent between 1998 and 2003. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures that can be associated with individual states and territories.



SOURCE: U.S. Department of Commerce, Bureau of the Census, 2003 Consolidated Federal Funds Report.

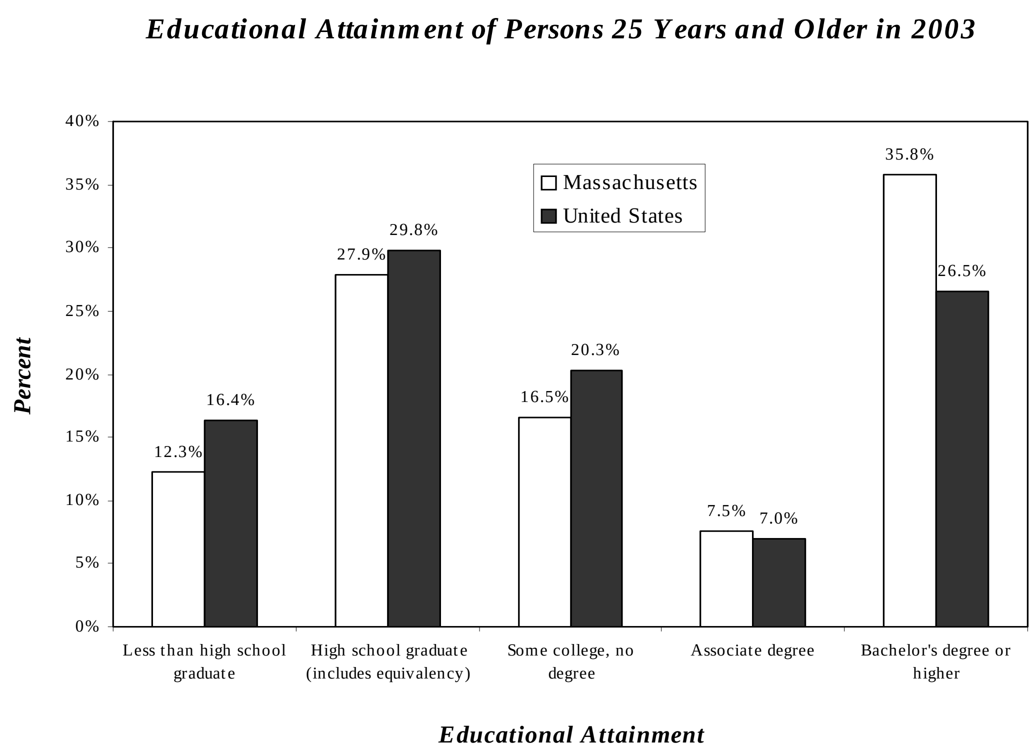
A large percentage of FY 2003 federal spending in Massachusetts was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving $2,071.73 per capita compared to a national average of $1,496. Per capita federal spending on salaries and wages in 2003 was lower in Massachusetts than in the rest of the nation ($535 compared to a national average of $713) but Massachusetts was above the national average in per capita direct federal payments to individuals ($4,062 compared to a national average of $3,690). Massachusetts ranked 14th among states in per capita procurement contract awards ($1,299 compared to a national average of $1,011) in 2003. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2003, excluding loans and insurance.

Composition of Direct Federal Spending in Massachusetts by Program, Fiscal 2003, millions of dollars



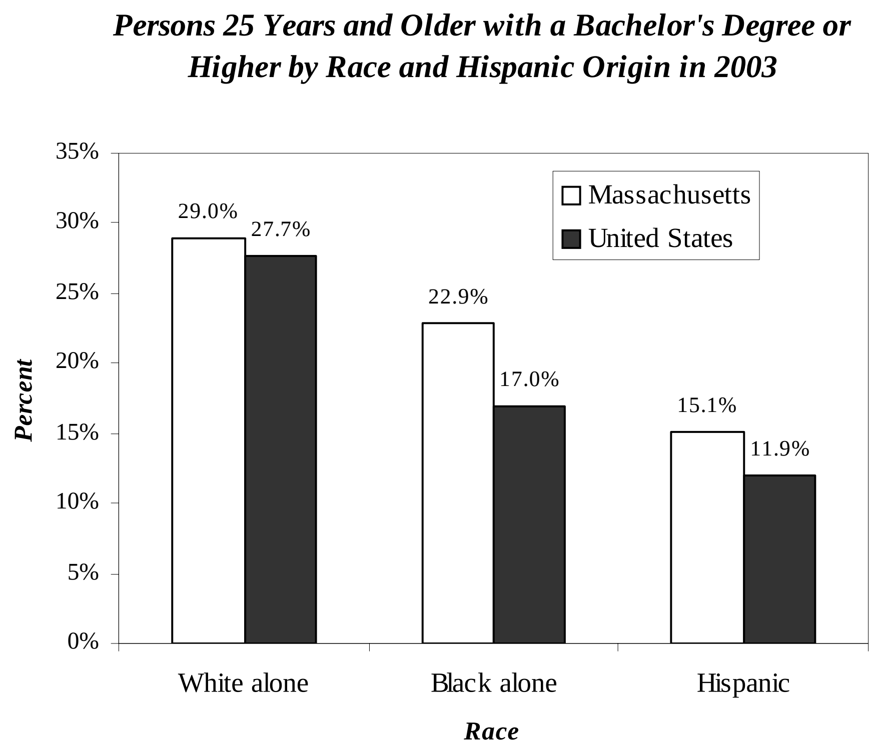
SOURCE: U.S. Department of Commerce, Bureau of the Census, 2003 Consolidated Federal Funds Report.

Human Resources. The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2003, the Census's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (12.3%) than the national average (16.4%) and a much higher proportion of persons with a bachelor's degree or more (35.8%), than the nation (26.5%). Massachusetts ranked eighteenth in the nation in percentage of its 25 and older population having received a high school diploma or more and second in percentage of the same population with a bachelor's degree or more in 2003.



SOURCE: U.S. Census Bureau, 2003 A.C.S. PCT34

While Massachusetts' black and Hispanic population achieved college degrees at roughly half the rate of the white population, they fared much better than the national average.



SOURCE: U.S. Census Bureau, 2003 A.C.S. PCT35A-I

Massachusetts has a higher minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks, Hispanics, and Asians in higher education in Massachusetts is below the national average. These percentages, which do not include military academy enrollment, are seen in the chart below.

Higher Education Enrollment by Race and Hispanic Origin in 2002

	Black	Asian	Native American	White	Hispanic	Race Unknown
Massachusetts	6.0	5.9	0.4	60.9	4.8	15.3
New England	5.8	4.6	0.5	68.7	4.6	13.6
United States (2001)	11.0	5.9	0.9	64.2	9.1	NA

Note: Black, Asian, Native American and White totals reflect non-Hispanic population. Does not include the category non-resident alien.Table does not include enrollment at military academies. U.S. data from the U.S. Dept of Education.
SOURCE: New England Board of Higher Education analysis of U.S. Department of Ed. Data.

Massachusetts is an internationally recognized center for higher education, with 431,855 students in undergraduate, professional and graduate programs in 2002, according to data supplied by the New England Board of Higher Education. The Institute of International Education reported the number of foreign students enrolled in Massachusetts colleges and universities in the 2002/2003 school year was 30,039, representing 5.41 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 187,492 students in 2002, almost half of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.7 percent of total enrollment in Massachusetts in 2002, and in which approximately one quarter of students attend school part-time. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 64.5 percent of New England's graduate science and engineering students attending Massachusetts institutions in 2001. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 2001-2002, Massachusetts institutions conferred a total of 2,287 doctoral degrees.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 4.8 percent of total national expenditures on R&D at such institutions in fiscal 2001, ranking Massachusetts fifth in the nation behind California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 7.9 percent ($2.53 billion) of the total research and development funds ($32.2 billion) spent by such institutions in fiscal 2001. Massachusetts institutions spent 61.6 percent of these funds ($1.56 billion). [Source: National Science Foundation, Division of Science Resources Statistics, *Academic Research and Development Expenditures: Fiscal Year 2001*, NSF 03-316, Table B-23.]

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the $1.16 billion in total fiscal 2000 federal outlays for science and engineering research to universities and colleges in Massachusetts (and their affiliated federally funded research and development centers), 48.8 percent was from the Department of Health and Human Services, 14.1 percent was from the National Science Foundation, 25.6 percent was from the Department of Defense, 6.2 percent was from the Department of Energy, and 3.6 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4th in the nation in 2000 in total federal outlays for research and development, with total federal spending of $4.15 billion in the state. The educational sector captured 28.0 percent of this pool, while industry garnered 40.4 percent and non-profit institutions received 25.2 percent. [Source: National Science Foundation, Division of Science Resources Statistics, *Federal Funds for Research and Development: Fiscal Years 2000, 2001, and 2002*, NSF 02-321, Tables C-85, C-83b.]

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with telephone, computer, and internet access. According to a 1998 survey, 95.5 percent of homes in Massachusetts had telephones compared with 94.1 percent of homes in the United States. In 2001, among homes in Massachusetts, 59.1 percent had a computer compared with 56.5 percent nationally, and 54.7 percent of homes in Massachusetts had internet access while 50.5 percent of homes nationwide had such access. In New England, however, only Rhode Island had a lower percentage of households with a computer and only Vermont, Rhode Island and Maine had a lower percentage of households with internet access. [Sources: National Telecommunications and Information Administration (NTIA), *A Nation Online*, 2/2002; NTIA, *Falling Through The Net—Toward Digital Inclusion*, 10/2000.]

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1981-2002

(in current, unadjusted dollars)

Fiscal Year	*Massachusetts*	*United States*	*Ratio (MA/U.S.)*
1981	$2,735	$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,778	6,189	1.26
1999	8,260	6,508	1.27
2000	8,761	6,911	1.27
2001	9,509	7,376	1.29
2002	10,232	7,524	1.36

SOURCE: United States Department of Education, National Center for Education Statistics.

Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 36 percent more per pupil on primary and secondary education than the national average since at least 1981. During the 2001-2002 school year, Massachusetts increased per student expenditures to $10,232; 36 percent higher than the national average. The preceding table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

In the 2003 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th graders and 8th graders around the nation were given standardized exams in reading and math. Massachusetts's 2003 4th grade average scale reading scores were lower than 2002 but still higher than 48 other states and jurisdictions and not statistically different from the remaining 4. Massachusetts's 8th grade reading scores were higher in 2003 but not statistically different from 2002. Nationally, they were higher than 49 other jurisdictions and not statistically different from the remaining 3. Massachusetts's math scores for both 4th and 8th graders in 2003 were significantly higher than 2000. Nationally, 4th grade scores were higher than 49 other jurisdictions and not statistically different from the remaining 3 while 8th grade scores were higher than 42 other jurisdictions, not significantly different than 9 and lower than 1.

In 2002, the U.S. Department of Education tested 4th and 8th grade student's writing skills. Massachusetts's 4th grade average scale score was higher than those in 46 other jurisdictions, and lower than those in 1 jurisdiction. The 8th grade scores were higher than 1998 and higher than those in 41 jurisdictions and not statistically different from those in 5 in 2002.

In 2000, 4th and 8th graders were given standardized exams in science. Massachusetts 4th graders scored highest in the nation on the science exam and only 8th graders in Montana achieved statistically significant higher scores than 8th graders in Massachusetts. [Source: U.S. Department of Education, Institute of Education Sciences, National Center for Educational Statistics, National Assessment of Educational Progress (NAEP). "Jurisdictions" includes participating states and other jurisdictions such as the District of Columbia and the Department of Defense Dependents Schools.]

Major Infrastructure Projects. Several major public sector-sponsored construction projects are underway in the Boston region, providing significant economic and employment benefits to the state.

The "Big Dig," the world's largest highway project, includes the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand and is anticipated to carry 245,000 vehicles per day by 2010 with minimal congestion. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. The Ted Williams Tunnel, which stretches under Boston Harbor from South Boston to Logan Airport, opened to commercial traffic in late 1995 and to all traffic in December 2001, and will carry an estimated 98,000 vehicles daily in 2010. The Central Artery Project is due to be completed by 2005 at an estimated total cost of $14.63 billion, with nearly half funded by the federal government. More than $1.5 billion of the state's share of future federal funding is slated to go toward the Big Dig until 2012. As of April 4, 2004, construction is 93.5 percent complete.

The $385 million Route 3 North project improves safety and travel along the Route 3 highway mainline and the adjacent roadways. Route 3 North is 21 miles in length from the Route 128 interchange in Burlington to the New Hampshire border. Initial survey and sub-surface work commenced along the Route 3 corridor in the fall of 2000 and the total project is estimated to take 42 months to complete. This design-build project includes adding a travel lane and two 10' shoulders in each direction, the replacement of 47 bridges, a park and ride facility as well as various environmental improvements.

The MBTA Silver Line project creates the first new MBTA rapid transit line in 90 years. The Silver Line is a state-of-the-art Bus Rapid Transit (BRT) system. This transit line is being completed in three phases. The first and second segments are being introduced as two, separate BRT lines: Silver Line Phase I, which has been open since 2002, travels along Washington Street between Dudley Square and Downtown; and Silver Line Phase II, now under construction and set to open in 2004, will run underground from South Station to the South Boston Waterfront and continue aboveground to the Boston Convention and Exhibition Center, Marine Industrial Park, and Logan Airport. The third phase, Silver Line Phase III, which is currently in design, will link Phases I and II. When the final phase has been completed, all three segments will connect to become the MBTA's fifth rapid transit line. It will offer a seamless link between the communities of Roxbury, the South End, Chinatown, Downtown, and South Boston. More than $450 million has been invested in the Washington Street corridor in both commercial and residential development projects.

The MBTA Greenbush project will restore commuter rail service on the existing right-of-way known as the Greenbush corridor through the towns of Braintree, Weymouth, Hingham, Cohasset and Scituate, Massachusetts. The project begins at the connection with the existing MBTA Old Colony Main Line at the Braintree Wye in East Braintree, and extends 18 miles easterly along the former New Haven Railroad Greenbush Branch to the terminus in the Greenbush section of Scituate. Notice to proceed for design was issued in April of 2002 and the project is targeted for completion in June of 2006.

The Massachusetts Executive Office of Transportation and Construction's Lawrence Gateway Project, generally regarded as an integral step in the renaissance of this historic mill city, will offer 1.2 million square feet of cost-effective, quality office space in the mills along the Merrimack River and the canal district, as well as dramatically improved access to Routes 495, 93 and 95.

On February 10, 2004, the governor filed a $1.15 billion bill for capital transportation spending that guarantees the state will invest at least $400 million every year in upgrading the Commonwealth's roads and bridges until the year 2012. The 2004 Transportation Bond Bill will provide three years worth of new capital authorization for critical transportation priorities. Funding provisions in the Bond Bill include $425 million for federally assisted transportation projects to support the road and bridge program, $300 million for Chapter 90 local aid, $210 million for non-federally assisted roadway projects, $102 million to protect rail freight properties and to provide capital assistance to Regional Transit Authorities (RTAs) and $23 million for various local grant programs.

The Massachusetts Port Authority (Massport) owns and operates Logan International Airport, Hanscom Field, Worcester Regional Airport, the Port of Boston, and several smaller assets. Logan Airport is undergoing a more than $4 billion modernization program that will result in improved access, modern facilities, and the latest customer amenities. In addition, Massport, which owns and operates Logan Airport, has been nationally-recognized for being the first U.S. airport authority to design and build an inline 100% bag screening system, deploy an anti-terrorism unit armed with submachine guns and hand held wireless computers, and implement behavior profiling to spot potential terrorists.

The Port of Boston has instituted port optimization, which consolidated all container operations at Conley Terminal in South Boston, where Massport invested $50 million in four post-Panamax cranes, deeper berths and a modern, timesaving 10-lane gate facility. At the same time, Moran Terminal was transformed into Boston Autoport, a state-of-the-art facility that can offload 400 cars an hour and process over 100,000 cars a year. It increased warehousing by replacing two unused cargo buildings with a 200,000-square-foot warehouse and cargo transfer facility in South Boston, International Cargo Port Inc. Harbor dredging is now underway and, when complete, will improve navigation and safety, reduce cargo handling costs and further control product costs to New England businesses and consumers. It introduced value-added services for customers, such as the Harbor Maintenance Tax, which provides a dollar-for-dollar tax credit for shippers using the Port of Boston. It anticipates the expansion of 120,000 square feet of rehabilitated space to respond to increased demands by cruise lines and their passengers at the Black Falcon Cruise Terminal.

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds described below, Bond Counsel proposes to deliver an opinion in substantially the following form:

PALMER & DODGE LLP
111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

[Date of Delivery]

The Honorable Timothy P. Cahill
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

$562,695,000
The Commonwealth of Massachusetts
General Obligation Refunding Bonds
2005 Series A
Dated Date of Delivery

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Commonwealth contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of the Commonwealth and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of the Commonwealth establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes.

However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Commonwealth with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with all such requirements. Failure by the Commonwealth to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Palmer & Dodge LLP

The Commonwealth of Massachusetts

$562,695,000
GENERAL OBLIGATION REFUNDING BONDS
(Variable Rate Demand Bonds)
2005 Series A

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated March 8, 2005 (the “Information Statement”), as it appears as Appendix A to the Official Statement dated March 8, 2005 of the Commonwealth with respect to its $562,695,000 General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2005 Series A.

	Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1.	Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	“SELECTED FINANCIAL DATA - Statutory Basis”
2.	Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	“COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Selected Financial Data - GAAP Basis”
3.	Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	“COMMONWEALTH REVENUES - Statutory Basis Distribution of Revenues”
4.	So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	“COMMONWEALTH REVENUES - Limitations on Tax Revenues”

Financial Information and Operating Data Category		Reference to Information Statement for Level of Detail
5.	Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	"COMMONWEALTH PROGRAMS AND SERVICES"
6.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations"
7.	If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"STATE WORKFORCE"
8.	Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Investment Plan"
9.	Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
10.	Five-year comparative presentation of long term Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
11.	Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
12.	Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	"LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities"
13.	Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities"
14.	Five-year summary presentation of authorized but unissued general obligation debt	"LONG-TERM LIABILITIES - Authorized But Unissued Debt"
15.	So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow-Statutory Limit on Direct Debt"

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to each NRMSIR. If the document incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the Municipal Securities Rulemaking Board ("MSRB"). The Commonwealth's annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time and (ii) general purpose financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Commonwealth.

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby further undertakes for the benefit of the owners of the Bonds to provide in a timely manner to the MSRB and to the SID notice of any of the following events with respect to the Bonds (numbered in accordance with the provisions of the Rule), if material:

- **principal and interest payment delinquencies;**
- **non-payment related defaults;**
- **unscheduled draws on debt service reserves reflecting financial difficulties1/;**
- **unscheduled draws on credit enhancements reflecting financial difficulties;**
- **substitution of credit or liquidity providers, or their failure to perform;**
- **adverse tax opinions or events affecting the tax-exempt status of the security;**
- **modifications to the rights of security holders;**
- **bond calls;**
- **defeasances;**
- **release, substitution or sale of property securing repayment of the securities 2/ and**
- **rating changes.**

Nothing herein shall preclude the Commonwealth from disseminating any information in addition to that required hereunder. If the Commonwealth disseminates any such additional information, nothing herein shall obligate the Commonwealth to update such information or include it in any future materials disseminated.

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an

1/Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

2/Not applicable to the Bonds, since there is no property securing repayment of the Bonds that could be released, substituted or sold.

economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE BONDS RELATING TO VARIABLE RATE DEMAND BONDS AND THE STANDBY BOND PURCHASE AGREEMENT

The following is a summary of certain provisions of the Bonds relating to the variable rate demand features and the Standby Bond Purchase Agreement. The summary is not to be regarded as a full statement of the terms of the Bonds or the Standby Bond Purchase Agreement, and, accordingly, is qualified by reference to the Bonds and the Standby Bond Purchase Agreement and is subject to the full text thereof.

See also "THE BONDS—Additional Information Related to Variable Rate Demand Bonds" in the Official Statement for a description of certain other provisions relating to variable rate demand bonds.

Pursuant to the Bonds, the Tender Agent and the Commonwealth are entitled to treat the owner of each Bond (including Cede & Co. or any other nominee of DTC as to any such Bond registered in the name thereof) as the owner of such Bond, for all purposes. Neither the Tender Agent nor the Commonwealth shall have any duty or responsibility to recognize the beneficial ownership interest of a Beneficial Owner who has acquired such an interest in Bonds registered in the name of Cede & Co. or any other nominee of DTC. The procedures established by DTC, the Tender Agent and the Remarketing Agent for trading, exchanging and registering beneficial ownership interests in Bonds shall be implemented by such persons consistent with the terms of the relevant agreements.

DEFINITIONS

"*Agreement Expiration Date*" means the stated expiration date set forth in a Standby Bond Purchase Agreement, initially 5:00 p.m., Boston time, on March 15, 2010 or the next preceding Business Day.

"*Agreement Termination Event*" means an event of default set forth in a Standby Bond Purchase Agreement which would result in the immediate termination of the Standby Bond Purchase Agreement prior to the Agreement Expiration Date without at least thirty days' prior notice from the Bank to the Tender Agent and the Remarketing Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

"*Alternate Liquidity Facility*" means any liquidity facility, insurance policy, line of credit, standby bond purchase agreement or other liquidity support or mechanism obtained, delivered, made, entered into or otherwise obtained for the purpose of securing the purchase of tendered Bonds and as a replacement for or in substitution of the Standby Bond Purchase Agreement.

"ARS Mode" means the Mode in which the Bonds bear interest at the ARS Rate in accordance with the provisions of the Bonds.

"*ARS Rate*" means the rate of interest to the borne by the Bonds while in the ARS Mode as determined in accordance with the Bonds.

"*Authorized Denominations*" means, for Bonds in the Daily Mode or in the Weekly Mode, $100,000 or any integral multiple of $5,000 in excess thereof, for Bonds in the Flexible Mode, $100,000 or any integral multiple of $1,000 in excess thereof, for Bonds in the Term Mode, $5,000 or any integral multiple thereof and for Bonds in the ARS Mode, $25,000 or any integral multiple thereof.

"*Bank*" means the issuer of a Standby Bond Purchase Agreement or Alternate Liquidity Facility pursuant to which the issuer thereof agrees to purchase Bonds tendered for purchase in accordance with the optional or mandatory tender provisions thereof, but not remarketed; initially Citibank, N.A., its successors or assigns.

"*Bank Bonds*" means Bonds which are purchased and held by or for the benefit of the Bank, its designee or assignee pursuant to the Standby Bond Purchase Agreement.

"*Bank Interest Rate*" means the per annum rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially for each period specified below, the interest rate specified with respect to such period which interest rates shall be computed on the basis of the actual number of days elapsed and a 365 or 366 day year, as applicable:

Period	**Rate**
Date of advance to and including the 180th day thereafter	Base Rate
The 181st day after the date of advance for one year	Base Rate plus 1.50%
Thereafter	Base Rate plus 2.00%

Notwithstanding anything in the Standby Bond Purchase Agreement to the contrary, from and after an Event of Default thereunder, the Bank Interest Rate shall equal the Default Rate.

"*Base Rate*" means as of any day the higher of (a) the Prime Rate or (b) the sum of the Federal Funds Rate plus 0.50%.

"*Bond Register*" means the records maintained on behalf of the Commonwealth containing the name and mailing address of each owner of the Bonds or the nominee of such owner, and such other information as the Bond Registrar shall determine.

"*Bond Registrar*" means, initially, the Commonwealth, or any bank or banks, if any, appointed by the Commonwealth for the purposes of registering the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds and paying interest on and principal of the Bonds.

"*Bondholder*" or "*Bondowner*" or "*Holder*" or "*Owner*" means a REGISTERED OWNER of any of the Bonds.

"*Bonds*" means any of the $562,695,000 Commonwealth of Massachusetts General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2005 Series A.

"*Business Day*" means a day except a Saturday, Sunday, any holiday or other day on which the business offices of the Commonwealth are closed, any other day on which banks in New York, New York, or Boston, Massachusetts, are required or authorized to remain closed or on which the New York Stock Exchange or the payment system of the Federal Reserve System is closed.

"*Commonwealth*" means The Commonwealth of Massachusetts.

"*Conversion*" means the conversion of the interest rate on the Bonds at the option of the Commonwealth, from time to time, to a Daily, Weekly, Flexible, Term or ARS Mode, as provided herein and in the Bonds.

"*Conversion Date*" means for any Bond the date upon which Conversion of the Mode on such Bond takes effect.

"*Daily Mode*" means the Mode in which the Bonds bear interest at a Daily Rate.

"*Daily Rate*" means, for or on any Bond in a Daily Mode, the rate of interest thereon determined in accordance with the provisions hereof.

"*Default Rate*" means the default rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially a rate per annum equal to the Base Rate plus 3.00%.

"*Delivery Date*" means the date of initial delivery of the Bonds.

"*DTC*" means The Depository Trust Company, New York, New York, or any substitute securities depository appointed by the Commonwealth.

"Electronic Means" means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication providing a confirmation of receipt, including a telephonic communication confirmed by writing or written transmission.

"*Federal Funds Rate*" means, for any day, the rate of interest per annum as determined by the Bank at which overnight federal funds are offered to the Bank for such day by major banks in the interbank market, with any change in such rate to become effective as to the Commonwealth on the date of any change in such rate. Each determination of the rate by the Bank shall be conclusive and binding on the Commonwealth absent manifest error.

"Flexible Mode" means the Mode in which the Bonds bear interest at a Flexible Rate.

"Flexible Rate" means, when used with respect to any particular Bond, the interest rate determined for each Flexible Rate Period applicable thereto pursuant to the provisions hereof.

"Flexible Rate Period" means a period during which a Bond bears interest at a Flexible Rate.

"Interest Index" means the interest rate or rates determined by the Remarketing Agent to be equal to (a) the BMA Municipal Swap Index formerly, the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the "BMA Municipal Swap Index") or (b) if the BMA Municipal Swap Index is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) or (c) if neither of the BMA Municipal Swap Index nor the Kenny Index are published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bond Market Association to determine the BMA Municipal Swap Index just prior to when the Bond Market Association stopped publishing the BMA Municipal Swap Index. The Tender Agent shall make the determinations required by this definition, upon notification from the Commonwealth, if there is no Remarketing Agent or if the Remarketing Agent fails to make any such determination.

"Interest Payment Date" means (a) when used with respect to Bonds in the Daily Mode or the Weekly Mode the first Business Day of each calendar month to which interest at such rate has accrued; (b) when used with respect to any particular Bond bearing interest at a Flexible Rate, the first Business Day following the last day of each Flexible Rate Period applicable thereto; (c) when used with respect to Bonds in the Term Mode, the first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is

followed by a conversion to a Daily, Weekly, Flexible or ARS Mode (but not a conversion to a Term Rate Period of a different duration) shall be the first Business Day of the sixth calendar month following the month in which the immediately preceding Interest Payment Date occurs; and (d) when used with respect to Bonds in the ARS Mode, as defined in the Bonds. In any case, the final Interest Payment Date shall be the Maturity Date.

"*Maximum Rate*" means 12% per annum.

"*Mode*" means the Daily Mode, the Weekly Mode, the Flexible Mode, the ARS Mode or the Term Mode, as the context may require.

"*Mode Change Date*" means the date one Mode terminates and another Mode begins.

"*Prime Rate*" means for any day the rate of interest announced by the Bank from time to time as its prime commercial rate for U.S. dollar loans, or equivalent, as in effect on such day, with any change in the Prime Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate.

"*Purchase Date*" means, for any Bond required to be purchased pursuant to the terms thereof, the date on which the Purchase Price is required to be paid pursuant to the Bonds.

"*Purchase Price*" means, for any Bond required to be purchased pursuant to the terms thereof, an amount equal to 100% of the principal amount thereof, plus accrued interest, if any, thereon, to the Purchase Date.

"*Rate Determination Date*" means the date on which the interest rate on a Bond shall be determined, which, (i) in the case of the Daily Mode, shall be each Business Day, (ii) in the case of the Weekly Mode, shall be each Tuesday, or the next succeeding Business Day if Tuesday is not a Business Day, (iii) in the case of the Flexible Mode, shall be the first day of a Flexible Rate Period, and (iv) in the case of the Term Mode, shall be a Business Day determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"Rate Period" means a period during which a particular rate of interest determined for Bonds is to remain in effect until a subsequently determined rate of interest becomes effective pursuant to the terms hereof. In any case, the final Rate Period shall end on (and include) the date immediately preceding the Maturity Date.

"*Rating Agency*" means FitchRatings, Moody's Investors Service, Inc. or Standard & Poor's Ratings Services, their successors and assigns, and if any such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Commonwealth.

"*Record Date*" means 5:00 p.m., Boston time, on (a) the fifteenth day of the month preceding each Interest Payment Date in the case of Bonds bearing interest at a Term Rate; (b) the Business Day immediately preceding the Interest Payment Date in the case of Bonds bearing interest at a Daily Rate or Weekly Rate; and (c) the last day of the Flexible Rate Period applicable to Bonds bearing interest at a Flexible Rate.

"*Remarketing Agent*" means any firm or firms designated by the Commonwealth to remarket tendered Bonds pursuant to a Remarketing Agreement, initially Citigroup Global Markets Inc., its successors and assigns.

"*Remarketing Agreement*" means an agreement entered into by the Commonwealth and a Remarketing Agent setting forth the provisions pursuant to which tendered Bonds are to be remarketed, as the same may be amended from time to time.

"*Tender Agent*" means the bank or banks, if any, designated by the Commonwealth to perform the duties of tender agent pursuant to the Bonds, initially The Bank of New York Trust Company, N.A., its successors or assigns.

"*Tender Agent Agreement*" means the Tender Agent Agreement dated as of March 15, 2005, between the Commonwealth and The Bank of New York Trust Company, N.A., as amended from time to time and any substitute Tender Agent Agreement hereafter provided.

"*Term Mode*" means the Mode in which the Bonds bear interest at a Term Rate.

"*Term Rate*" means, for or on any Bond in a Term Mode, the rate of interest thereon for a term of one or more whole years or for a term to maturity determined in accordance with the provisions hereof.

"Term Rate Period" means a period during which the Bonds bear interest at a particular Term Rate.

"Term Rate Period of a different duration" means a conversion to a Term Rate Period of a different duration than the then current Term Rate Period and, if the conversion is occurring on a date other than that originally scheduled as the last Interest Payment Date of the then current Term Rate Period, a conversion to a Term Rate Period of the same duration as the then current Term Rate Period.

"Variable Rate" means, as the context requires, the Daily, Weekly, Flexible, Term or ARS Rate applicable from time to time to the Bonds.

"*Weekly Mode*" means the period during which the Bonds bear interest at a Weekly Rate.

"*Weekly Rate*" means, for or on any Bond in a Weekly Mode, the rate of interest thereon determined weekly in accordance with the provisions hereof.

PROVISIONS OF THE BONDS

Interest Rates

Initial Period - Interest Rate Modes

The Bonds shall initially bear interest from the Delivery Date in the Weekly Mode, unless and until converted to the Daily Mode, Flexible Mode, Term Mode or ARS Mode. Bonds in the Daily Mode shall bear interest at a Daily Rate until maturity or earlier redemption or the Conversion Date. Bonds in the Weekly Mode shall bear interest at a Weekly Rate until maturity or earlier redemption or the Conversion Date. Bonds in the Flexible Mode shall bear interest at a Flexible Rate for the Flexible Rate Period selected for that Bond by the Remarketing Agent until maturity or the Conversion Date. Bonds in the Term Mode shall bear interest at a Term Rate until maturity or earlier redemption or Conversion from one Term Rate Period to a Term Rate Period of a different duration or to a Daily Mode, Weekly Mode, Flexible Mode or ARS Mode. Bonds in the ARS Mode shall bear interest as provided in the Bonds until maturity or earlier redemption or the Conversion Date.

Daily Mode

Determination of Rate. Bonds in the Daily Mode bear interest at the Daily Rate payable on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the Bondowners who are such registered owners on the Record Date. The Daily Rate shall be determined each day by the Remarketing Agent by 9:30 a.m., Boston time, on each Rate Determination Date, shall take effect on such date and shall be in effect to, but not including, the next succeeding Business Day (the "Daily Rate Period"). The Daily Rate for each Daily Rate Period shall be the current interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Daily Rate exceed the Maximum Rate.

Notice of Interest Rate. The Remarketing Agent shall give notice to the Commonwealth and the Tender Agent by the last Business Day of each calendar week of the Daily Rates in effect for such calendar week. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Daily Rate.

Weekly Mode

Determination of Rate. Bonds in the Weekly Mode bear interest at the Weekly Rate payable on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the Bondowners who are such registered owners on the Record Date. The Weekly Rate shall be determined each week by the Remarketing Agent by 4:00 p.m., Boston time, on each Rate Determination Date and shall take effect on each Wednesday, regardless of whether any such Wednesday is a Business Day, and be in effect to and including the following Tuesday, regardless of whether such Tuesday is a Business Day (the "Weekly Rate Period"). The Weekly Rate for each Weekly Rate Period shall be the lowest interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Weekly Rate exceed the Maximum Rate.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Weekly Rate to the Commonwealth and the Tender Agent by the close of business on the Business day next succeeding each Rate Determination Date. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Weekly Rate.

Flexible Mode

Determination of Rate. Bonds in the Flexible Mode bear interest at Flexible Rates payable on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the Bondowners who are such registered owners on the Record Date. While the Bonds bear interest at Flexible Rates, the interest rate for each particular Bond will be determined by the Remarketing Agent on each Rate Determination Date and will remain in effect for the duration (not exceeding 270 days) of the Flexible Rate Period selected for that Bond by the Remarketing Agent. While the Bonds bear interest at Flexible Rates, Bonds may have successive Flexible Rate Periods of any duration up to 270 days, and any Bond may bear interest at a Flexible Rate and for a Flexible Rate Period different from any other Bond. While the Bonds bear interest at Flexible Rates, the Remarketing Agent shall offer and accept purchase commitments for Bonds for such Flexible Rate Periods and at such Flexible Rates as it deems to be advisable in order to minimize the net interest cost on Bonds taking into account prevailing market conditions; provided, however, that the foregoing shall not prohibit the Remarketing Agent from accepting purchase commitments for longer Flexible Rate Periods (and at higher Flexible Rates) than are otherwise available at the time of any remarketing if the Remarketing Agent determines that, taking into account prevailing market conditions, a lower net interest cost on Bonds can be achieved over the longer Flexible Rate Period. The Flexible

Rate shall be the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on the commencement date of such Flexible Period at a price equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall any Flexible Rate exceed the Maximum Rate.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Flexible Rate and applicable Flexible Rate Period to the Commonwealth and the Tender Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Flexible Rate and applicable Flexible Rate Period.

Term Mode

Determination of Rate. Bonds in the Term Mode bear interest at the Term Rate payable on the first day of the sixth calendar month following the month in which the Rate Period begins and on the first day of each sixth calendar month thereafter. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months. Interest is payable to the Bondowners who are such registered owners on the Record Date. While the Bonds bear interest at a Term Rate, the interest rate will be determined by the Remarketing Agent to remain in effect for a term of one or more whole years subject to certain exceptions, selected from time to time by the Commonwealth. The duration and beginning and ending dates of any Rate Period may vary in the event conversions occur between Rate Periods. The Term Rate shall be determined by the Remarketing Agent by 4:00 p.m., Boston time, on each Rate Determination Date and shall take effect as described in the Bonds. The Term Rate for each Term Rate Period shall be the lowest interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Term Rate exceed the Maximum Rate.

A Term Rate shall be determined for each Term Rate Period as follows:

(i) Term Rate Periods shall (A) commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and (B) extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which a different Mode shall become effective.

(ii) The Term Rate for each Term Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate shall be determined by the Remarketing Agent not later than 4:00 p.m., Boston time, on the Business Day immediately preceding the commencement date of such period.

(iii) The duration of each successive Term Rate Period shall be the same as the then current Term Rate Period until the Commonwealth exercises its option, or is deemed to exercise its option, to effect a Conversion from the Term Rate, or to a Term Rate Period of a different duration, all as provided in the Bonds.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Term Rate to the Commonwealth and the Tender Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Term Rate.

Optional Redemption. During a Term Rate Period, the Bonds shall be subject to optional redemption by the Commonwealth, in whole or in part, on any date which occurs on or after the first day of the optional redemption period, and at the redemption prices, plus accrued and unpaid interest, if any, to the redemption date, as follows:

Length of Term Rate Period	First Day of Optional Redemption Period	Redemption Price (Expressed as a Percentage of the Principal Amount Being Redeemed)
More than 5 years	Tenth anniversary of commencement of Term Rate Period	100%
5 years or less	Non-callable	Non-callable

Prior to the commencement of any Term Rate Period, the Commonwealth may change the redemption provisions applicable to the Bonds, subject to receipt by the Tender Agent of an opinion of Bond Counsel to the effect that a change in the redemption provisions of the Bonds will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Failure to Determine Interest Rate

In the event the Remarketing Agent fails for any reason to determine any interest rate on the Bonds:

(i) The interest rate then in effect for Bonds in the Daily Mode shall be equal to the most recent Interest Index and will remain in effect from day to day until the Tender Agent is notified of a new Daily Rate determined by the Remarketing Agent;

(ii) The interest rate then in effect for Bonds in the Weekly Mode shall be equal to the most recent Interest Index and will remain in effect from week to week until the Tender Agent is notified of a new Weekly Rate determined by the Remarketing Agent;

(iii) The interest rate for any Bond in the Flexible Mode and for which a Flexible Rate and Flexible Rate Period is not determined shall be equal to the most recent Interest Index and the Flexible Rate Period for such Bond shall extend through the day preceding the next Business Day, until the Tender Agent is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent; and

(iv) The interest rate then in effect for Bonds in the Term Mode will be automatically converted to Flexible Rates with Flexible Rate Periods beginning on each Business Day and extending through the day preceding the next Business Day until the Tender Agent is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

Optional Tender

Bonds in the Daily Mode or in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon notice (promptly confirmed in writing) of tender to the Tender Agent and the

Remarketing Agent, as described below. The Purchase Date may be any Business Day prior to conversion of the Bonds to the Flexible Mode, ARS Mode or Term Mode.

Notice of Tender. At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described in the Bonds), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing or by Electronic Means, in a form satisfactory to the Tender Agent, or by telephone (and promptly confirmed in writing in such form) to the Tender Agent and the Remarketing Agent at its corporate trust office by 11:00 a.m., Boston time, on any Business Day, in the case of a Bond in the Daily Mode, and by 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to the Purchase Date, in the case of a Bond in the Weekly Mode;

(ii) state, (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an Authorized Denomination and which leaves the retained portion of the Bond in an amount which is an Authorized Denomination, (C) in the case of Bonds in the Weekly Mode, the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing, by Electronic Means or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder. The Tender Agent shall promptly notify the Commonwealth, the Bank and the Remarketing Agent upon receipt of a notice of tender.

Tender of Portions of Bonds. In the event a Bondholder files with the Tender Agent a tender notice with respect to a portion of a Bond in an Authorized Denomination, such Bondholder shall be required to deliver such Bond to the Tender Agent along with the tender notice. The Tender Agent shall pay the Purchase Price for such portion as provided in the Bonds and the Commonwealth shall issue in the name of such Bondholder a new Bond in the amount not so purchased, which Bond the Tender Agent shall forward to such Bondholder. Notwithstanding anything to the contrary contained in the provisions of the Bonds, no Bondholder shall be entitled to tender a portion of such Bond for purchase unless the portion of such Bond not to be so purchased shall be in an Authorized Denomination.

Conversion

At the option of the Commonwealth, the Bonds may be converted from one Rate Period to another, including a conversion from one Term Rate Period to another Term Rate Period of a different duration, or to or from the ARS Mode as follows:

> The Conversion Date shall be an Interest Payment Date for the Rate Period from which the conversion is to be made; provided, however, that
>
> (A) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date shall be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption or the last Interest Payment Date of that Term Rate Period, as the case may be;
>
> (B) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date also may be any Business Day, regardless of whether the Business Day is an Interest Payment Date;
>
> (C) if the conversion is from a Flexible Rate Period, the Conversion Date shall be the last Interest Payment Date on which interest is payable for any Bond bearing a Flexible Rate theretofore established pursuant to the Bonds; provided, however, that if the conversion is from a Flexible Rate Period to a Daily or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Bonds and in that case, the Conversion Date with respect to each Bond shall be an Interest Payment Date for that Bond; and
>
> (D) if the conversion is from a Daily, Weekly or Flexible Rate Period to a Term Rate Period, the duration of the Term Rate Period shall not be more than one year unless the term to the Maturity Date that would remain following the initial Term Rate Period would be more than one year or that initial Term Rate Period extends to the Maturity Date.

The Commonwealth shall give notice of any proposed Conversion to the Bank, the Remarketing Agent, the Tender Agent and the Bond Registrar not fewer than 35 days before the proposed Conversion Date. Such notice shall specify (A) the proposed Conversion Date, (B) the type of Rate Period to which the conversion will be made, (C) if there will be a Standby Bond Purchase Agreement in effect during the Rate Period commencing on the Conversion Date and information relating thereto, and (D) in the case of conversion to a Term Rate Period, the length of such Term Rate Period. The Tender Agent shall give written notice of such conversion to Bondholders (with a coy of such notice provided to the Remarketing Agent) not less than 15 days or, in case of a conversion from a Term Rate Period, 30 days, before the proposed Conversion Date. Such notice shall state:

> (A) the Mode to which the conversion will be made and the Conversion Date,
>
> (B) except in the case of a Conversion from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode, that the Bonds will be subject to mandatory tender for purchase on the Conversion Date and the purchase price of the Bonds,
>
> (C) if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of bond certificates and payment of the purchase price; and
>
> (D) that the conversion to or from the Term Mode or to or from the ARS Mode will not become effective unless the Commonwealth, the Tender Agent and the Remarketing Agent shall have received, no later than one day before the proposed Conversion Date an opinion of Palmer & Dodge LLP or any other lawyer or firm of lawyers nationally recognized in

the field of municipal finance and satisfactory to the Commonwealth ("Bond Counsel") to the effect that the conversion to or from the Term Mode or the ARS Mode is permitted under the laws of the Commonwealth and will not adversely affect the exclusion of interest on the Bonds from the gross income of the Bondholders for federal income tax purposes.

If the Bonds bear interest at a Term Rate for a Term Rate Period of a duration of more than one year and the term to the Maturity Date that would remain following a successive Term Rate Period of the same duration would be one year or less, or the term to the Maturity Date that would remain after the then current Term Rate Period is of lesser duration than the current Term Rate Period, unless the Commonwealth shall have given written notice of conversion to a Daily, Weekly or Flexible Rate Period or a successive Term Rate Period of a different duration after which the term to the Maturity Date would be more than one year, all in accordance with the Bonds, the Commonwealth shall be deemed to have exercised its option to convert, on the last Interest Payment Date for the then current Term Rate Period, to a Term Rate Period of a duration from that Interest Payment Date to the Maturity Date, and the Tender Agent shall so notify the Commonwealth, Remarketing Agent and the Bank, specifying in writing the information described above, and thereafter shall give notice to Holders in accordance with the Bonds.

The following conditions precedent shall be applicable to conversions:

(i) Any conversion (A) from a Daily, Weekly or Flexible Rate Period to a Term Rate Period or ARS Mode, (B) from a Term Rate Period or ARS Mode to a Daily, Weekly or Flexible Rate Period or, (C) from a Term Rate Period to a Term Rate Period of a different duration, shall be subject to the condition that on or before the Conversion Date, the Commonwealth shall have delivered to Tender Agent, the Bank and the Remarketing Agent an Opinion of Bond Counsel to the effect that the conversion is authorized hereunder and, with respect to conversion of any Bond, to the effect that the conversion will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

(ii) The Standby Bond Purchase Agreement, if any, to be held by the Tender Agent after the Conversion Date must be sufficient to cover the principal of the then outstanding Bonds and, except as otherwise provided in the Bonds if a Standby Bond Purchase Agreement is to be held by the Tender Agent after the conversion of the Bonds to a Term Rate Period, that Standby Bond Purchase Agreement must also extend for the entire Term Rate Period.

If for any reason a condition precedent to a conversion of the Bonds is not met, the conversion shall not be effective (although any mandatory tender shall be made on such date if notice has been sent to Holders stating that such Bonds would be subject to mandatory purchase on that date), and the Bonds, (i) shall be converted to a Weekly Rate Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur so long as, in the case of the Bonds, an Opinion of Bond Counsel has been delivered to the Tender Agent to the effect that the conversion to a Weekly Rate Period will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes; provided, that if such Opinion of Bond Counsel has not been delivered, the Bonds shall automatically be converted to a Weekly Rate, and shall bear interest at a Weekly Rate equal to a Weekly Rate for such period determined by the Remarketing Agent as of the date on which the conversion was to occur, or if in that instance the Remarketing Agent fails to determine that rate, then at a rate of interest equal to 100% of the most recently published Interest Index. The Tender Agent shall promptly notify the Commonwealth, the Bank and each Holder of such fact and shall give all additional notices and take all further actions required pursuant to the Bonds.

The Commonwealth, the Bank, the Tender Agent and the Remarketing Agent shall not be liable to any Holder for failure to give any notice required under the provisions of the Bonds or for failure of any Holders to receive any such notice or to take any other actions under the Bonds.

Mandatory Tender

Agreement to Tender Bonds

Any Bondholder, by its acceptance of the Bonds, agrees to tender its Bonds to the Tender Agent for purchase on dates on which such Bonds are subject to mandatory tender, and upon such transfer, to surrender such Bonds, properly endorsed for transfer in blank.

Any notice mailed as provided in this section shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice, and the failure of such Bondholder to receive any such notice shall not affect the validity of the action described in such notice.

Bonds in the Daily Mode and in the Weekly Mode are subject to mandatory tender for purchase as described below. Such Bonds are not subject to mandatory tender upon conversion from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode. Such Bonds are also not subject to mandatory tender solely as a result of the occurrence of an Agreement Termination Event resulting in the termination of a Standby Bond Purchase Agreement prior to the Agreement Expiration Date. The Tender Agent shall give notice to the Bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement.

Each Bond bearing interest at a Flexible Rate is subject to mandatory tender for purchase on the Interest Payment Date applicable to such Bond at a purchase price equal to 100% of the principal amount thereof, without premium. No notice of such mandatory tender is required to be given to the Holders of such Bonds.

Each Bond bearing interest at a Term Rate is subject to mandatory tender for purchase on the first day of the succeeding Term Rate Period of the same duration at a purchase price equal to 100% of the principal amount thereof, without premium, provided that the Tender Agent shall give written notice of such mandatory tender to the Bondholders by first class mail, or, at the Commonwealth's option, certified mail, return receipt requested, at least 30 days before the mandatory tender date.

The Bonds are also subject to mandatory tender on the effective date of the conversion (a) from one Rate Period to another (other than a conversion from Daily Mode to Weekly Mode or a conversion from Weekly Mode to Daily Mode) or (b) from a Term Rate Period to a Term Rate Period of a different duration, provided that the Tender Agent shall give written notice of such mandatory tender to the Bondholders by first class mail, or, at the Commonwealth's option, certified mail, return receipt requested, at least 30 days before the mandatory tender date.

Bonds shall be purchased on a mandatory tender date (as described in the Bonds) at a purchase price equal to 100% of the principal amount thereof, without premium.

Mandatory Tender Upon Conversion to or from Flexible Mode, Term Mode or ARS Mode. If Bonds are to be converted from the Weekly Mode or the Daily Mode to the Flexible Mode, a Term Mode or the ARS Mode or from the Flexible Mode, Term Mode or ARS Mode, Bonds to be so converted are subject to mandatory tender for purchase on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest, if any. The Commonwealth shall give written notice of such Conversion to the Tender Agent, the Bank and the Remarketing Agent at least 35 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders by first class mail or, at the Commonwealth's option, certified mail, return receipt requested, at least 30 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

***Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement**.* The Bonds are also subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement; or (ii) the date set forth in a termination notice as the date the Standby Bond Purchase Agreement is to be terminated as a result of the occurrence of certain events of default under the Standby Bond Purchase Agreement which do not constitute Agreement Termination Events. Such Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest, if any. The Tender Agent, at the request of the Commonwealth, shall give written notice to Bondholders at least 15 days prior to such mandatory tender date.

Delivery and Payment for Tendered Bonds

The Tender Agent, on behalf of the Commonwealth (and solely from amounts provided to it by the Remarketing Agent from the remarketing of Bonds, amounts derived from a draw under the Standby Bond Purchase Agreement (solely with respect to the principal portion of the Purchase Price) and amounts provided to it by the Commonwealth), shall purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds.

Except while the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 p.m., Boston time, on the Business Day which is the Purchase Date. The Tender Agent shall pay tendering Bondowners or cause tendering Bondowners to be paid in immediately available funds by 3:00 p.m., Boston time, on such day. If the Bonds are delivered after 1:00 p.m., Boston time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

On any date when Bank Bonds are released to the Tender Agent by the Bank, the Sale Price (as defined in the Standby Bond Purchase Agreement) of such Bonds released to the Tender Agent shall be paid by wire transfer to the Bank at the wire transfer address specified in the Standby Bond Purchase Agreement.

Notwithstanding any provision of the Bonds to the contrary, on each Purchase Date the Commonwealth shall pay to the Tender Agent no later than 2:30 p.m. in immediately available funds, the portion of the Purchase Price equal to the accrued interest, if any, due and payable to such Purchase Date.

Book-Entry Bonds

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a

Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the Commonwealth, the Tender Agent nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book-entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date in accordance with the customary practices and procedures of DTC.

For so long as the Bonds are registered in the name of Cede & Co., Inc. as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC in accordance with any Letter of Representation with DTC.

Remarketing of Tendered Bonds; Bank Bonds

Citigroup Global Markets Inc., New York, New York, is appointed the initial Remarketing Agent for the Bonds. The Remarketing Agent shall accept the duties and obligations thereof by execution and delivery of an agreement with the Commonwealth under which the Remarketing Agent will agree, among other things, to perform the duties of Remarketing Agent as provided in the Bonds, to keep records regarding the remarketing of Bonds and determining the interest rates on the Bonds and to make such records available for inspection by the Commonwealth at all reasonable times.

The Remarketing Agent shall be authorized by law to perform all the duties imposed upon it by the Bonds. The Remarketing Agent may resign or may be removed at any time upon written notice as specified in the Remarketing Agreement. The Remarketing Agent may terminate its duties in certain circumstances upon notice to the Commonwealth as provided in the Remarketing Agreement.

If the Remarketing Agent resigns or is removed, the Commonwealth shall have the power to appoint another Remarketing Agent, with the consent of the Bank, and the former Remarketing Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity, other than Bonds held for its own account, to its successor.

The Tender Agent, the Bank, or the Remarketing Agent, each in its individual capacity, may in good faith and to the extent otherwise permitted by law, buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any Bondholder of the Bonds may be entitled to take with like effect as if it did not act in any capacity hereunder. The Bank, the Tender Agent or the Remarketing Agent, each in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Commonwealth, and may act as depository, trustee, or agent for any committee or body of Bondholders of any Bonds or other obligations of the Commonwealth as freely as if it did not act in any capacity under the provisions of the Bonds or under the Standby Bond Purchase Agreement.

The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. In the event the Remarketing Agent is unable to remarket any tendered Bonds, such Bonds (in Authorized Denominations) shall be purchased by the Bank in accordance with the Standby Bond

Purchase Agreement, which shall provide that the Bank agrees to purchase any such Bonds from time to time in an amount not to exceed the principal amount thereof, subject to the terms and conditions set forth in the Standby Bond Purchase Agreement. Notwithstanding any provision of the Bonds to the contrary, Bank Bonds shall bear interest at the Bank Interest Rate and shall be payable at the times and in the amounts and shall have such other terms as are set forth in the Standby Bond Purchase Agreement. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other Bonds.

Alternate Liquidity Facility

The Standby Bond Purchase Agreement may be replaced or substituted with an Alternate Liquidity Facility at the option of the Commonwealth in accordance with the terms of the existing Standby Bond Purchase Agreement. Any Alternate Liquidity Facility may contain such terms as the Commonwealth and the Bank may determine, and the Bonds may be amended without consent of the Bondholders to reflect the terms of an Alternate Liquidity Facility which are applicable to Bank Bonds, provided that no such amendment shall take effect until the prior Standby Bond Purchase Agreement is no longer in effect and any Bank Bonds held by the prior Bank have been purchased by the provider of the Alternate Liquidity Facility or otherwise remarketed.

If, at any time, in accordance with the Standby Bond Purchase Agreement, the Commonwealth obtains an Alternate Liquidity Facility, it shall give notice thereof to the Tender Agent and to the Remarketing Agent, and then the Tender Agent shall give prompt notice to the Bondholders and any Rating Agency (as defined in the Standby Bond Purchase Agreement) that the Commonwealth has obtained an Alternate Liquidity Facility and that the Standby Bond Purchase Agreement will terminate pursuant to the terms of the Standby Bond Purchase Agreement. The notice shall state: (a) the principal terms of the Alternate Liquidity Facility and (b) that the Bonds shall be subject to mandatory tender on the substitution date and explaining the terms of such mandatory tender.

Any Alternate Liquidity Facility shall meet the following criteria:

(a) Any Alternate Liquidity Facility shall provide that funds may be advanced for the purposes, in the amounts and at the times provided in the Bonds and shall contain administrative provisions satisfactory to the Tender Agent.

(b) At least five Business Days prior to the delivery to the Commonwealth of the Alternate Liquidity Facility, the Commonwealth shall have received an irrevocable commitment to issue or enter into such Alternate Liquidity Facility and on the substitution date the Commonwealth shall have received an opinion of counsel for the provider or providers of the Alternate Liquidity Facility that the Alternate Liquidity Facility and any documents related to it constitute legal, valid and binding obligation(s) of such provider of the Alternate Liquidity Facility enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, moratorium or insolvency or by equitable principles.

(c) No Alternate Liquidity Facility shall be effective unless the provider of an Alternate Liquidity Facility shall purchase all Bonds held by or for the account of the Bank on the substitution date, and all Bonds held by the Bank shall be paid in full on or prior to the substitution date.

If at any time 30 days remain until the Agreement Expiration Date and the Standby Bond Purchase Agreement has not been renewed or replaced or the Commonwealth has not obtained a written commitment for such renewal or replacement, the Tender Agent shall promptly give notice to the Bondholders and the Remarketing Agent that (i) the Standby Bond Purchase Agreement is scheduled to expire and stating the date of such expiration, (ii) the Commonwealth has not obtained an Alternate Liquidity Facility, and (iii) the Bonds shall be subject to mandatory tender and explaining the terms of such mandatory tender.

Tender Agent

Tender Agent Custody. The Tender Agent shall hold all Bonds (or portions thereof in Authorized Denominations) delivered to it for purchase for the benefit of the respective Bondholder thereof until moneys representing the Purchase Price or redemption price of such Bonds (or portions thereof in Authorized Denominations), as the case may be, shall have been delivered to or for the account of or to the order of the Bondholders thereof.

Procedure for Purchase of Bonds. On the date any Bonds are to be purchased, the Tender Agent shall purchase, but only from the funds and in the order of priority listed below, such Bonds at the Purchase Price thereof:

(a) Moneys derived from the remarketing of Bonds;

(b) With respect to the principal portion of the Purchase Price, any amounts derived from a draw against the Standby Bond Purchase Agreement; and

(c) Any amounts paid to it by the Commonwealth therefor.

Any amounts held pursuant to paragraph (a) or (b) above shall be held uninvested until applied as provided in the Bonds. The Tender Agent shall not pay any portion of the Purchase Price of tendered Bonds unless and until it has received from the Remarketing Agent, the Bank and the Commonwealth moneys sufficient to pay the Purchase Price in full. The Tender Agent shall have no personal obligation to purchase, or to advance its own funds to fund the purchase of any Bonds.

By the close of business (Boston time) on the Business Day following the date on which Bondholders of Bonds in the Weekly Mode have delivered a tender notice to the Tender Agent (or immediately upon such receipt, in the case of Bonds bearing interest at Daily Rates), the Tender Agent shall provide to the Bank and the Remarketing Agent a notice from the Tender Agent specifying the applicable Purchase Date and the aggregate principal amount of Bonds to be purchased on such Purchase Date.

By 11:45 a.m., Boston time, on the Purchase Date, the Remarketing Agent shall give notice to the Tender Agent of the principal amount of tendered Bonds that have been remarketed.

By 12:00 p.m., Boston time, on the Purchase Date, the Tender Agent shall provide to the Bank in accordance with the terms of the Standby Bond Purchase Agreement and the Commonwealth a notice from the Tender Agent indicating the exact amounts that will be required to be paid by the Bank and the Commonwealth, respectively, in order to pay the Purchase Price of all tendered Bonds that have not been remarketed at or prior to such time; and

On the Purchase Date, the Tender Agent shall make provision for the account of the Bank at DTC to be credited such that the Bank becomes the beneficial owner of the tendered Bonds that have not been remarketed and have been purchased by the Bank, in accordance with the standing procedures of DTC.

Notice to Rating Agencies. The Tender Agent shall give notice to each Rating Agency of (i) any change to the Standby Bond Purchase Agreement or the Bonds, (ii) the termination, substitution, expiration or extension of the Standby Bond Purchase Agreement or (iii) any redemption of Bonds or (iv) any change in the identity of the Tender Agent or the Remarketing Agent.

Non-Delivery of Bonds. In the event that any Bonds required to be tendered or with respect to which a tender notice has been sent are not delivered to the Tender Agent at the time, in the manner and at the place required, the undelivered Bonds will be deemed to have been tendered and purchased by the Tender Agent, and interest accruing on such Bonds on and after the applicable Purchase Date shall no longer be payable to the prior Bondholders thereof. Such prior Bondholders shall have recourse solely to the funds held by the Tender Agent for the purchase of the undelivered Bonds, and the Tender Agent and the Commonwealth shall not recognize any further transfer of such undelivered Bonds by such prior Bondholders. The Commonwealth or Tender Agent, as the case may be, shall register the transfer of such Bonds to the purchaser thereof and shall issue a new Bond or Bonds and deliver the same pursuant to the Bonds, notwithstanding such non-delivery.

The Tender Agent shall at the end of the fifth Business Day after each date upon which Bonds are deemed tendered, deposit with the Commonwealth all funds then held by the Tender Agent by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the provisions thereof, and thereafter the prior Bondholders of such Bonds shall look only to the Commonwealth for the payment of the Purchase Price of such Bonds.

Other Duties. Any unremarketed Bonds, the principal portion of the Purchase Price of which was provided by the Bank by funds advanced to the Tender Agent under the Standby Bond Purchase Agreement shall be registered in the name of the Bank or its designee (as specified in writing by Bank) and shall be delivered to the Bank or its designee on the applicable Purchase Date. At any time the Bonds are registered in the name of a securities depository, the Bonds shall be deemed purchased under the Standby Bond Purchase Agreement upon the making of appropriate entries on the books of the securities depository showing such Bonds entered in the account of the Bank or its nominee maintained at such securities depository.

The Commonwealth hereby authorizes the Tender Agent to hold such unremarketed Bonds as custodian for the account of the Bank as Bank Bonds, and to deliver such Bank Bonds to or at the direction of the Bank. With respect to such Bank Bonds the Remarketing Agent shall be required, subject to the provisions of the Remarketing Agreement, to offer for sale, and use its best efforts to sell, such Bank Bonds, at the principal amount thereof. The Remarketing Agent may not, however, sell any such Bank Bonds at a discount or a premium. The Remarketing Agent shall remarket such Bank Bonds as if such Bank Bonds were in the same Mode, bearing interest at the same interest rate as Bonds not held by the Bank. No Bank Bonds purchased with proceeds from the Standby Bond Purchase Agreement shall be sold unless the commitment of the Bank to purchase Bonds as provided in the Standby Bond Purchase Agreement is immediately reinstated upon each sale and the Commonwealth shall have deposited with the Tender Agent accrued interest, if any, on such Bonds at the Bank Interest Rate. The principal portion of the proceeds received from the purchaser of any Bank Bonds so remarketed and resold pursuant to the foregoing sentence shall be paid to the Bank and the accrued interest portion, if any, of such proceeds shall be paid to the Commonwealth.

In the event of a redemption of any Bank Bonds, the Commonwealth shall remit to the Bank the redemption price of such Bank Bonds.

The Tender Agent agrees (subject to the terms of the Tender Agent Agreement) to:

(a) hold all Bonds properly tendered to it for purchase as agent and bailee of, and in escrow for the benefit of, the respective Bondholders which shall have so tendered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders;

(b) hold all moneys delivered to it for the purchase of Bonds as agent and bailee of, and in escrow for the benefit of, the purchaser which shall have so delivered such moneys, until the Bonds purchased with such moneys shall have been delivered to or for the account of such purchaser;

(c) keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the other parties;

(d) hold all Bank Bonds delivered to it as agent and bailee of, and for the benefit of the Bank on behalf of the Bank in accordance with the Standby Bond Purchase Agreement until such Bonds are released by the Bank upon payment therefor or until such Bonds are deemed tendered;

(e) provide to the Commonwealth as soon as practicable after the close of business on each Record Date, but in no case later than 1:00 p.m., Boston time, on the applicable Interest Payment Date, a list of the names and addresses of the Bondholders as of such Record Date; and

(f) give notices as required at the times and in the manner specified in the Bonds.

Upon receipt by the Tender Agent of any tender notice or upon receipt by the Tender Agent of any Bonds delivered pursuant to such tender notice for purchase, the Tender Agent shall, upon request, deliver to the party delivering the tender notice and the Bonds, written evidence of the Tender Agent's receipt of such tender notice or Bonds. The Tender Agent shall promptly return any tender notice (together with the Bonds submitted in connection therewith) that is incomplete or improperly completed or not delivered by the date and time required hereunder to the party submitting such notice upon surrender of the receipt, if any, issued therefor. The Tender Agent's determination of whether a tender notice is properly completed or delivered on a timely basis shall be binding on the Commonwealth and the Bondholder of the Bonds submitted therewith.

The Tender Agent shall initially be The Bank of New York Trust Company, N.A. Any successor Tender Agent shall be a commercial bank having trust powers or a trust company or a national banking association, having a capital and surplus aggregating at least $50,000,000 and authorized by law to perform all the duties imposed upon it hereby and shall be rated Baa3 or higher by Moody's Investors Service, Inc. The Tender Agent may at any time resign and be discharged of the duties and obligations created hereby by giving at least 60 days' notice to the Commonwealth and the Bank. The Tender Agent may be removed at any time by the Commonwealth upon at least seven days' notice. No such resignation or removal shall take effect until the appointment of, and the acceptance of such appointment by, a successor Tender Agent. Successor Tender Agents may be appointed from time to time by the Commonwealth with the consent of the Bank. Upon the resignation or removal of the Tender Agent, the Tender Agent shall deliver any Bonds and moneys held by it in such capacity to its successor.

The Tender Agent upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Bonds shall examine such instrument to determine whether it conforms to the requirements hereof and shall, in the absence of negligence or willful misconduct on the part of the Tender Agent, be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Tender Agent may consult with counsel and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever the Tender Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the provisions of the Bonds, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the Commonwealth, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof upon the faith thereof; but in its discretion the Tender Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

In the event that the Tender Agent is required to act pursuant to the terms hereof upon the receipt of telephonic notice, such notice shall be promptly confirmed in writing. If such notice shall not be so confirmed, the Tender Agent shall be entitled to rely upon such telephonic notice for all purposes whatsoever.

In receiving Bonds hereunder, the Tender Agent shall be acting as a conduit and shall not be purchasing such Bonds for its own account. The performance of the Tender Agent duties is also subject to certain terms and standards set forth in the Tender Agent Agreement.

Notwithstanding anything in the Bonds to the contrary, so long as the Standby Bond Purchase Agreement remains in effect, the Bonds may not be amended in any manner affecting the rights or obligations of the Bank without the written consent of the Bank.

STANDBY BOND PURCHASE AGREEMENT

The following summarizes certain provisions of the Standby Bond Purchase Agreement, to which document, in its entirety, reference is made for the complete provisions thereof. The provisions of any substitute Standby Bond Purchase Agreement may be different from those summarized below.

The Standby Bond Purchase Agreement will be issued in an amount equal to the original principal amount of the applicable series of Bonds (as adjusted from time to time, the "Available Commitment"). The Tender Agent, upon compliance with the terms of the Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds. The Commonwealth is obligated to pay the portion of such purchase price equal to the accrued interest, if any, due on the Purchase Date.

The Bank's commitment to fund under the Standby Bond Purchase Agreement will terminate on the earliest of the Bank's close of business on earliest of (a) the expiration date (March 15, 2010, or, if such date is not a Business Day, then the next preceding Business Day, unless renewed or extended); (b) the date on which no Eligible Bonds are otherwise Outstanding, provided that the Bank shall have received written notice thereof; (c) the date on which the Available Commitment and the Bank's obligation to purchase Eligible Bonds have been terminated in the entirety.

Upon the occurrence of an Immediate Termination Event, which is defined under the Standby Bond Purchase Agreement to mean any Event of Default described in clauses (a)(i), (a)(ii), (e), (g), (i) or (j) below, (i) the Bank's obligation to purchase Bonds under the Standby Bond Purchase Agreement shall immediately terminate without notice to or other action on the part of the Bank, (ii) the Available Commitment shall immediately terminate and be permanently reduced to zero, and (iii) all accrued fees and other amounts due and outstanding under the Standby Bond Purchase Agreement shall be forthwith due and payable without demand, presentment protest or other notice whatsoever.

Upon the occurrence of any Event of Default as described in clause (h) below, the Bank's obligation to purchase Bonds under the Standby Bond Purchase Agreement shall be immediately and automatically suspended without notice to or other action on the part of the Bank, and the Bank will be under no further obligation to purchase Bonds unless and until the Bank's obligation to purchase Bonds has been reinstated as described in the Standby Bond Purchase Agreement.

If any Event of Default under the Standby Bond Purchase Agreement occurs and is continuing, the Bank may, among other things, (i) give written notice of such event to the Tender Agent, the Commonwealth and the Remarketing Agent and request the Tender Agent to give notice of mandatory tender for purchase of the affected Bonds, thereby causing the Bank's obligations under such Standby Bond Purchase Agreement to terminate 30 days thereafter, and (ii) take any other action or remedy permitted by law to enforce the rights of the Bank under the Standby Bond Purchase Agreement and any Related Document.

"*Events of Default*" under the Standby Bond Purchase Agreement include the following:

(a) the Commonwealth shall fail to pay or cause to be paid when due (i) any amounts with respect to the principal of or interest or premium, if any, on the Bonds (including Bank Bonds), (ii) any amounts payable for Liquidity Advances under the Standby Bond Purchase Agreement, or (iii) any other amount payable pursuant to the Standby Bond Purchase Agreement or the Bonds (including Bank Bonds); or

(b) the Commonwealth shall fail to observe or perform any covenant or agreement set forth in the Standby Bond Purchase Agreement with respect to amending any Related Document in a manner that adversely affects the Bank without the prior written consent of the Bank or appointing a successor Tender Agent or Remarketing Agent or permitting there to be a vacancy in the position of Tender Agent or Remarketing Agent, without the prior written consent of the Bank; or

(c) the Commonwealth shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in the Standby Bond Purchase Agreement (other than those covered by clauses (a) and (b) above), or in any Related Document to which it is a party or in the Bonds for thirty (30) days after written notice thereof requesting that such default be remedied has been given to it by the Bank; or

(d) any representation, warranty, certification or statement made by the Commonwealth (or incorporated by reference) in the Standby Bond Purchase Agreement or in any Related Document to which it is a party or in any certificate, financial statement or other document delivered pursuant to the Standby Bond Purchase Agreement or any Related Document shall prove to have been incorrect in any material respect when made; or

(e) the Commonwealth shall fail to make payment when due in respect of any general obligation debt of the Commonwealth; or

(f) an event of default or default shall have occurred and shall be continuing under any of the Related Documents; or

(g) any material provision of the Standby Bond Purchase Agreement or any Related Document relating to the payment of any Obligations hereunder or under the Bank Bonds or the security therefor shall at any time for any reason cease to be valid and binding on the Commonwealth or shall be declared to be null and void as the result of a final judgment or action by any court or governmental authority or agency having jurisdiction over the Commonwealth, or the Commonwealth repudiates or otherwise denies that it has any further liability or obligation hereunder or with respect to the Bonds; or

(h) the Commonwealth shall have (i) taken or permitted to be taken any action or has duly enacted any statute which would materially adversely affect the enforceability of the Standby Bond Purchase Agreement, or (ii) contested the validity or enforceability of any material provision of the Standby Bond Purchase Agreement or any Related Document relating to the payment of any Obligations hereunder or under the Bank Bonds or the security therefor; or

(i) a debt moratorium or comparable restriction on repayment of debt shall have been declared or announced (whether or not in writing) with respect to any general obligation debt of the Commonwealth, or the Commonwealth shall have become insolvent or admit in writing its inability to pay its debts as they mature, or the Commonwealth shall seek any form of debtor relief affecting its general obligation debt, or a trustee, custodian, liquidator or receiver shall be appointed with respect to any assets of the Commonwealth or the Commonwealth, shall be declared by a court of competent jurisdiction or shall declare itself to be insolvent or there shall be commenced against the Commonwealth in a court of competent jurisdiction any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been discharged within thirty (30) days from the entry thereof.; or

(j) the Commonwealth's general obligation debt shall be rated below "Baa3" by Moody's and "BBB-" by S&P and "BBB-" by Fitch or such rating shall be withdrawn or suspended by any such Rating Agency for credit related reasons; or

(k) any final, nonappealable judgment or order for the payment of money in excess of $50,000,000 shall have been rendered against the Commonwealth and such judgment or order shall not have been satisfied within a period of one year from the date on which it became final and nonappealable.

Bonds purchased with money advanced under the Standby Bond Purchase Agreement become Bank Bonds and may not be remarketed unless or until the Bank has confirmed in writing to the Commonwealth that the available commitment has been reinstated and that the Bonds are no longer considered Bank Bonds. Bank Bonds will bear interest at the applicable Bank Interest Rate or, upon the occurrence of an event of default under the

Standby Bond Purchase Agreement, at the Default Rate. Bank Bonds are subject to mandatory redemption on the ninetieth (90th) day after the purchase thereof by the Bank (the "Remarketing Period End Date"); provided, however, that if no default or event of default under the Standby Bond Purchase Agreement has occurred, the Commonwealth may elect to cause the Bank Bonds to be redeemed in equal semiannual principal installments, the first such installment being payable on the first Business Day of the month next succeeding the Remarketing Period End Date, so that each Bank Bond is paid in full no later than the earlier of (i) the second anniversary of such Remarketing Period End Date with respect to such Bank Bond, or (ii) the second anniversary of the last day of the Commitment Period.

As consideration for the Bank's agreement to enter into the Standby Bond Purchase Agreement, the Commonwealth will pay fees to such Bank on a periodic basis and will reimburse the Bank for certain fees and expenses.

Information Concerning Citibank, N.A.

The following information has been provided by the Bank (at times referred to hereinafter as "Citibank") for use in this Supplement to the Official Statement. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer or the Remarketing Agent. This information has not been independently verified by the Issuer or the Remarketing Agent. No representation is made by the Issuer or the Remarketing Agent as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Citibank, N.A. (“Citibank”) was originally organized on June 16, 1812, and now is a national banking association organized under the National Bank Act of 1864. Citibank is a wholly-owned subsidiary of Citicorp, a Delaware corporation, and is Citicorp’s principal subsidiary. Citicorp is an indirect wholly-owned subsidiary of Citigroup Inc. (“Citigroup”), a Delaware holding company. The obligations of Citibank under the Standby Bond Purchase Agreement will not be guaranteed by Citicorp or Citigroup. As of September 30, 2004, the total assets of Citibank and its consolidated subsidiaries represented approximately 72% of the total assets of Citicorp and its consolidated subsidiaries.

Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

As a national bank, Citibank is a regulated entity permitted to engage only in banking and activities incidental to banking. Citibank’s earnings may be affected by certain monetary policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). Citibank is primarily regulated by the Office of the Comptroller of the Currency (the “Comptroller”), which also examines its loan portfolios and reviews the sufficiency of its allowance for credit losses.

Citibank’s deposits at its U.S. branches are insured by the Federal Deposit Insurance Corporation (the “FDIC”) and are subject to FDIC insurance assessments. The Standby Bond Purchase Agreement is not insured by the FDIC or any other regulatory agency of the United States or any other jurisdiction. Citibank may, under certain circumstances, be obligated for the liabilities of its affiliates that are FDIC-insured depository institutions. Citibank’s FDIC-insured depository affiliates include: Citibank Delaware; Citibank, Federal Savings Bank; Citibank (Nevada), National Association; Citibank (South Dakota), National Association; Citibank (West), fsb; Citicorp Trust Bank, fsb; Universal Financial Corp.; Associates Capital Bank, Inc.; California Commerce Bank; and Citibank USA, National Association.

Legislation enacted as part of the Omnibus Budget Reconciliation Act of 1993 provides that deposits in U.S. offices and certain claims for administrative expenses and employee compensation against a U.S. insured depository institution which has failed will be afforded a priority over other general unsecured claims, including deposits in non-U.S. offices and claims under non-depository contracts in all offices, against such an institution in the “liquidation or other resolution" of such an institution by any receiver. Such priority creditors (including the FDIC, as the subrogee of insured depositors) of such FDIC-insured depository institution will be entitled to priority over unsecured creditors in the event of a "liquidation or other resolution" of such institution.

As conservator or receiver for an insured depository institution, the FDIC also may disaffirm or repudiate any burdensome contract to which such institution is a party. The FDIC has not taken the position that such repudiation would impair the right of a holder of an unsecured obligation, such as the Standby Bond Purchase Agreement, to claim amounts due thereunder through the date of appointment of a conservator or receiver. (The amount paid on such a claim would depend on the amount of assets in the receivership and the relative priority of the claim.) Disaffirmance or repudiation could, at a minimum, expose beneficiaries of the Standby Bond Purchase Agreement to reinvestment risk.

As conservator or receiver, the FDIC is also empowered to enforce most types of contracts, including the Standby Bond Purchase Agreement, pursuant to their terms notwithstanding any acceleration provisions therein, and may transfer to a new obligor any of Citibank's assets or liabilities, including the Standby Bond Purchase Agreement, without the approval or consent of Citibank's creditors.

The FDIC is authorized to settle all uninsured and unsecured claims in the insolvency of an insured bank by making a final settlement payment at a percentage rate reflecting an average of the FDIC's receivership recovery experience and constituting full payment and disposition of the FDIC's obligation to uninsured and unsecured creditors.

The Basel Committee on Banking Supervision (the Basel Committee), consisting of central banks and bank supervisors from 13 countries, has developed a new set of risk-based capital standards (the New Accord), on which it has received significant input from Citibank and other major banking organizations. The Basel Committee published the text of the New Accord on June 26, 2004. The Basel Committee has added an additional year of impact analysis and parallel testing for banks adopting the advanced approaches, with implementation extended until year-end 2007. The U.S. banking regulators issued an advance notice of proposed rulemaking in August 2003 to address issues in advance of publishing their proposed rules incorporating the new Basel standards. The final version of these rules will apply to Citibank and other large U.S. banks and bank holding companies. Citibank is assessing the impact of the proposed new capital standards, while continuing to participate in efforts to refine the U.S. standards and monitor the progress of related Basel initiatives.

On July 20, 2004, the federal banking and thrift regulatory agencies issued the final rule on capital requirements for asset-backed commercial paper (ABCP) programs. The final rule, which generally became effective September 30, 2004, increased the capital requirement on most short-term liquidity facilities that provide support to ABCP programs by imposing a 10% credit conversion factor on such facilities. Additionally, the final rule permanently excludes ABCP program assets consolidated under FIN 46-R and any minority interests from the calculation of risk-weighted assets and Tier 1 Capital, respectively. The denominator of the Tier 1 leverage ratio calculation remains unaffected by the final rule, as the risk-based capital treatment does not alter the reporting of the on-balance sheet assets under GAAP guidelines.

The Annual Report on Form 10-K of Citicorp and its subsidiaries for the year ended December 31, 2003 (the “2003 10-K”) and the Quarterly Report on Form 10-Q of Citicorp and its subsidiaries for the quarter ended September 30, 2004 (the “September 2004 10-Q”), sets forth certain data relative to the consolidated financial position of Citibank and its subsidiaries as of September 30, 2004 and December 31, 2003.

The Consolidated Balance Sheets of Citibank as of December 31, 2003 and as of December 31, 2002 are set forth on page 53 of the 2003 10-K and as of September 30, 2004 and December 31, 2003 are set forth on page 55 of the September 2004 10-Q. Consolidated Balance Sheets of Citibank subsequent to September 30, 2004 will be included in the Form 10-Q’s (quarterly) and Form 10-K’s (annually) subsequently filed by Citicorp with the Securities and Exchange Commission (the “SEC”), which will be filed not later than 45 days after the end of the calendar quarter or 90 days after the end of the calendar year to which the report relates, or on Form 8-K with respect to certain interim events. For further information regarding Citibank, reference is made to the September 2004 10-Q and to any subsequent reports on Forms 10-K, 10-Q or 8-K filed by Citicorp with the SEC, which are incorporated herein by reference. Copies of such material may be obtained, upon payment of a duplicating fee, by writing to the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the operation of the public reference rooms. In addition, such reports are available at the SEC’s web site (http://www.sec.gov).

In addition, Citibank submits quarterly to the Comptroller certain reports called “Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices” (“Call Reports”). The Call Reports are on file with and publicly available at the Comptroller’s offices at 250 E Street, S.W., Washington, D.C. 20219 and are also available on the web site of the FDIC (http://www.fdic.gov). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules at the end of and for the period to which the report relates. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about Citibank, the reports nevertheless provide important information concerning the financial condition and results of operations of Citibank. Citibank’s Call Report as of the close of business on September 30, 2004 is incorporated herein by reference. Any subsequent Call Reports filed by Citibank with the Comptroller are incorporated herein by reference.

Any of the above reports incorporated herein by reference are available upon request, without charge, by writing or calling Citigroup Document Services, 140 58th Street, Brooklyn, New York 11220, (718) 765-6514.

TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded with the proceeds of the Refunding Bonds are described below.

	Maturity Date	Amount	Coupon
$200,000,000 General Obligation Bonds, Consolidated Loan of 1996, Series D:			
	November 1, 2015*	$29,640,000	4.50%

* To be redeemed on November 1, 2006 at par.

	Maturity Date	Amount	Coupon
$250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series A:			
	January 1, 2009*	$4,195,000	4.50%

* To be redeemed on January 1, 2008 at a call price of 101%.

	Maturity Date	Amount	Coupon
$500,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series C:			
	August 1, 2016*	$32,445,000	5.00%

* To be redeemed on August 1, 2008 at a call price of 101%.

	Maturity Date	Amount	Coupon
$670,745,000 General Obligation Bonds, Consolidated Loan of 2002, Series D:			
	August 1, 2026*	$30,205,000	5.00%
	August 1, 2027*	26,110,000	5.00
		$56,315,000	

* To be redeemed on August 1, 2012 at par.

	Maturity Date	Amount	Coupon
$288,745,000 General Obligation Bonds, Consolidated Loan of 2003, Series A:			
	January 1, 2014*	$ 5,445,000	3.90%
	January 1, 2023*	12,915,000	4.625
		$18,360,000	

* To be redeemed on January 1, 2013 at par.

	Maturity Date	Amount	Coupon
$271,310,000 General Obligation Bonds, Consolidated Loan of 2003, Series D:			
	October 1, 2026*	$71,800,000	5.00%
	October 1, 2027*	7,860,000	5.00
		$79,660,000	

* To be redeemed on October 1, 2013 at par.

Maturity Date	Amount	Coupon
$300,000,000 General Obligation Bonds, Consolidated Loan of 2004, Series D:		
December 1, 2019*	$42,380,000	5.00%
December 1, 2020*	45,835,000	5.00
December 1, 2021*	48,430,000	4.75
December 1, 2022*	51,170,000	5.00
December 1, 2023*	54,060,000	5.00
November 1, 2024*	58,125,000	5.00
	$300,000,000	

* To be redeemed on December 1, 2014 at par.