SUPPLEMENT DATED JUNE 29, 2010 TO THE OFFICIAL STATEMENT DATED JUNE 21, 2010

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds, Consolidated Loan of 2010, Series B

The Official Statement is hereby amended to correct a typographical error on the inside cover page and reflect the correct yield on the following maturity of The Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2010, Series B, as set forth below.

Maturity	Amount	Interest Rate	Yield	CUSIP Number
June 1, 2012	$15,000,000	4.000%	0.770%	57582PVE7

THE COMMONWEALTH OF MASSACHUSETTS

NEW MONEY ISSUE - BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, assuming compliance by the Commonwealth with certain tax covenants described herein, under existing law, interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax imposed on corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. See "TAX MATTERS" herein.

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 2010, Series B

Dated: Date of Delivery **Due: As shown on the inside cover hereof**

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, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their date of delivery and interest will be payable on December 1, 2010 and semiannually thereafter on June 1 and December 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are not subject to redemption prior to maturity.

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 state tax revenue growth and on expenditures for debt service, see "SECURITY FOR THE BONDS" (herein) and the Commonwealth Information Statement (described herein) 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 offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of McCarter & English, LLP, Boston, Massachusetts, Bond Counsel to the Commonwealth. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about June 29, 2010.

BofA Merrill Lynch

Citi
J.P. Morgan

Fidelity Capital Markets
Morgan Stanley

BB&T Capital Markets
Eastern Bank Capital Markets
Jackson Securities
KeyBanc Capital Markets
M.R. Beal & Company
Prager, Sealy & Co., LLC
Raymond James & Associates, Inc.

Barclays Capital
Edward Jones
Janney Montgomery Scott LLC
Loop Capital Markets
Oppenheimer & Co. Inc.
Ramirez & Co., Inc.
Roosevelt & Cross
Stone & Youngberg

Cabrera Capital Markets, Inc.
Goldman, Sachs & Co.
Jefferies & Company
Morgan Keegan & Company, Inc.
Piper Jaffray & Co.
RBC Capital Markets
Siebert Brandford Shank & Co., LLC

June 21, 2010

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 2010, Series B

Dated: Date of Delivery **Due: June 1, as shown below**

Serial Bonds

Maturity	Amount	Interest Rate	Yield	CUSIP Number*	Maturity	Amount	Interest Rate	Yield	CUSIP Number*
2011	$12,740,000	2.000%	0.385%	57582PUU2	2016	$10,050,000	2.500%	2.310%	57582PUZ1
2012	7,585,000	2.000	0.770	57582PUV0	2016	15,000,000	4.000	2.310	57582PVJ6
2012	15,000,000	4.000	.0770	57582PVE7	2017	8,730,000	3.000	2.620	57582PVA5
2013	11,265,000	2.000	1.150	57582PUW8	2017	16,945,000	5.000	2.620	57582PVK3
2013	12,000,000	4.000	1.150	57582PVF4	2018	8,420,000	3.000	2.860	57582PVB3
2014	2,915,000	2.000	1.510	57582PVR8	2018	21,360,000	4.000	2.860	57582PVL1
2014	4,470,000	3.000	1.510	57582PUX6	2018	6,750,000	5.000	2.860	57582PVQ0
2014	16,345,000	4.000	1.510	57582PVG2	2019	11,595,000	3.250	3.070	57582PVC1
2015	7,000,000	2.000	1.860	57582PUY4	2019	15,950,000	5.000	3.070	57582PVM9
2015	9,440,000	3.000	1.860	57582PVH0	2020	14,440,000	3.250	3.220	57582PVD9
2015	8,000,000	4.000	1.860	57582PVP2	2020	14,000,000	5.000	3.220	57582PVN7

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by 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 Underwriters 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 UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS 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

Deval L. Patrick .... **Governor**

Timothy P. Murray .... **Lieutenant Governor**

William F. Galvin .... **Secretary of the Commonwealth**

Martha Coakley .... **Attorney General**

Timothy P. Cahill .... **Treasurer and Receiver-General**

A. Joseph DeNucci .... **Auditor**

LEGISLATIVE OFFICERS

Therese Murray .... **President of the Senate**

Robert A. DeLeo .... **Speaker of the House**

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 2010, Series B

INTRODUCTION

This Official Statement (including the cover page and Appendices A through C attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its General Obligation Bonds, Consolidated Loan of 2010, Series B, in the aggregate principal amount of $250,000,000 (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 Commonwealth 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 finance certain authorized capital projects of the Commonwealth. See "THE BONDS – Application of Proceeds of the Bonds."

Purpose and Content 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 C. 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 June 8, 2010 (the "Information Statement"), which is attached hereto as Appendix A. The Information Statement has been filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. A typographical error in the Information Statement appended to the preliminary version of this Official Statement has been corrected on p. A-42. Subsequent filings by the Commonwealth to the EMMA system, prior to the sale of the Bonds, of continuing disclosure documents identified as "other financial/operating data" are hereby deemed to be included by reference in the Information Statement. The Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2009, prepared on a statutory basis and on a GAAP basis, respectively. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with EMMA. The financial statements are also available at the website of the Comptroller of 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 to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

THE BONDS

General

The Bonds will mature on June 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Bonds will be dated their date of delivery and will bear interest from such date. Interest on the Bonds will be payable semiannually on December 1 and June 1 of each year, commencing December 1, 2010, until the principal amount is paid. 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.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of $5,000 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 in federal funds to DTC or its nominee as registered owner of the Bonds. 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."

Redemption

The Bonds are not subject to redemption prior to maturity.

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and specific bond authorizations enacted by the Legislature. The net proceeds of the sale of the Bonds, including any premium received by the Commonwealth upon original delivery of the Bonds, will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, or to reimburse the Commonwealth's treasury for expenditures previously made pursuant to such laws. Any remaining premium received by the Commonwealth upon original delivery of the Bonds and not applied to the various purposes for which bonds have been authorized will be applied to the costs of issuance thereof.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations. The proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations and establishes annual capital spending limits. See the Commonwealth Information Statement under the heading "COMMONWEALTH CAPITAL INVESTMENT PLAN."

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 a 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

Commonwealth 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 has consented to be sued on contractual obligations, including the Bonds, 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 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 of 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 her 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 Commonwealth Information Statement under the heading "LEGAL MATTERS."

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond

("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership 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 Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. 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 Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

THE COMMONWEALTH WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DIRECT OR INDIRECT PARTICIPANT, THE PAYMENT OF OR THE PROVIDING OF NOTICE TO THE DIRECT 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. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commonwealth, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Commonwealth, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Commonwealth cannot give any assurances that Direct 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.

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 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. Bond certificates are required to be printed and delivered.

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

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

RATINGS

The Bonds have been assigned ratings of "AA+," "Aa1" and "AA" by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"), 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 Underwriters of the Bonds have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to approximately 0.467286% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at yields higher than the offering yields stated on the inside cover page hereof. The principal offering yields set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

The following language has been provided by the underwriters named therein. The Commonwealth takes no responsibility as to the accuracy or completeness thereof.

J.P. Morgan Securities Inc. (“JPMSI”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS& Co. will purchase Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

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

Piper Jaffray & Co., (“Piper”) has entered into an agreement (the “Piper Distribution Agreement”) with Advisors Asset Management, Inc. (“AAM”) for the distribution of certain municipal securities offerings allocated to Piper at the original offering prices. Under the Piper Distribution Agreement, if applicable to the Bonds, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

TAX MATTERS

The Code imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Bonds in order to assure that interest on the Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Such requirements include, among other things, requirements relating to private use limitations and the yield restriction of certain funds. Failure of the Commonwealth to comply with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Bonds. The Commonwealth will make representations in the Tax Certificate with respect to the Bonds, which will be executed on the date of issuance of the Bonds, as to various tax requirements. The Commonwealth has covenanted to comply with the provisions of the Code applicable to the Bonds and has covenanted not to take any action or permit any action that would cause the interest on the Bonds to be included in gross income under Section 103 of the Code. McCarter & English, LLP, Bond Counsel to the Commonwealth, has relied upon the representations made in the Tax Certificate and has assumed continuing compliance by the Commonwealth with its covenant in rendering its federal income tax opinion with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Based upon the foregoing, Bond Counsel is of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax, and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax imposed on corporations.

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty companies, foreign corporations and certain S corporations. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

Each maturity of the Bonds was sold at a price in excess of the amount payable at the maturity date. The excess, if any, of the tax basis of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is amortizable bond premium, which is not deductible from gross income for federal income tax purposes. Amortizable bond premium, as it amortizes, will reduce the owner's tax cost of the Bonds used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of the Bonds. Accordingly, an owner of a Bond may have taxable gain from the disposition of the Bond, even though the Bond is sold, or disposed of, for a price equal to the owner's original cost of acquiring the Bond. Bond premium amortizes over the term of the Bonds under the "constant yield method" described in regulations interpreting Section 1272 of the Code. Owners of the Bonds should consult their own tax advisors with respect to the calculation of the amount of bond premium which will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owner and with respect to other federal, state and local tax consequences of owning and disposing of the Bonds.

Bond Counsel expresses no opinion regarding any federal tax consequences other than its opinion with regard to the exclusion of interest on the Bonds from gross income pursuant to Section 103 of the Code and the treatment of interest for purposes of the alternative minimum tax. Prospective purchasers of the Bonds should consult their tax advisors with respect to all other tax consequences (including, but not limited to, those listed above) of holding the Bonds.

In the opinion of Bond Counsel, 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 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 are included in the measure of 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.

Federal, state or local legislation, administrative pronouncements or court decisions may affect the tax-exempt status of interest on the Bonds, gain from the sale or other disposition of the Bonds, the market value of the Bonds, or the marketability of the Bonds. The effect of any legislation, administrative pronouncements or other court decisions cannot be predicted. Prospective purchasers of the Bonds should consult their own tax and financial advisers regarding such matters.

OPINION OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by McCarter & English, LLP of Boston, Massachusetts, Bond Counsel to the Commonwealth. 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 Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the Commonwealth. Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP of Boston, Massachusetts.

CONTINUING DISCLOSURE

In order to assist the Underwriters 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 Commonwealth 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.

This Official 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, including, in particular, the current unprecedented adverse global financial market and economic conditions, 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 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 Commonwealth has prepared the prospective financial information set forth in this Official Statement in connection with its budgeting and appropriations processes. This prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Commonwealth, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best knowledge and belief of the offices of the Commonwealth identified in this Official Statement as the sources of such information, the currently expected course of action and the currently expected future budgeted revenues and expenditures of the Commonwealth. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

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 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 Colin A. MacNaught, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, x. 226, or Karol D. Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Barbara J. Kroncke-Moore, McCarter & English, LLP, 265 Franklin Street, Boston, Massachusetts 02110, telephone (617) 449-6571 .

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Jay Gonzalez
Jay Gonzalez
Secretary of Administration and Finance

June 21, 2010

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APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated June 8, 2010

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

Deval L. Patrick	**Governor**
Timothy P. Murray	**Lieutenant Governor**
William F. Galvin	**Secretary of the Commonwealth**
Martha Coakley	**Attorney General**
Timothy P. Cahill	**Treasurer and Receiver-General**
A. Joseph DeNucci	**Auditor**

LEGISLATIVE OFFICERS

Therese Murray	**President of the Senate**
Robert A. DeLeo	**Speaker of the House**

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

June 8, 2010

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 financial obligations. This Information Statement contains information only through its date, or as otherwise provided for herein, 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 April 1, 2010. 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, 2009 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2009. The Commonwealth's independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

Specific reference is made to said Exhibits A, B and C, copies of which have been filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) System. 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.

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 (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2007.

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 Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs and the Executive Office of Education. In addition, the Secretary of Transportation, who is the chief executive of the Massachusetts Department of Transportation (MassDOT), is a member of the Governor's Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several former departments of state government, including the Executive Office of Transportation, the Highway Department and the Department of Conservation and Recreation.) Finally, the Governor chairs an informal Development Cabinet to coordinate business development in the Commonwealth; it includes the Secretaries of Administration and Finance, Housing and Economic Development, Transportation, Energy and Environmental Affairs, and Labor and Workforce Development. Cabinet secretaries and executive department chiefs, as well as the Secretary of Transportation, 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. In addition, the Secretary of Administration and Finance chairs the Commonwealth Health Insurance Connector Authority.

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 moneys 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. 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 terms. The Commonwealth's annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and audited financial statements on the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2009, included herein by reference as Exhibit B was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2009, included herein by reference as Exhibit C was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. 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 Legislature (formally called the General Court) 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 Legislature 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 Legislature 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 chamber of the Legislature in which it was originated with a recommendation that certain amendments be made; such a 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 Legislature 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 a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements 14 and 39 articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2009, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 34 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2009 Basic 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, 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). See "COMMONWEALTH REVENUES AND EXPENDITURES – 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. The county governments that remain are responsible principally for the operation of correctional facilities, courthouses 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. Initiative petitions may not make appropriations. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, sometimes including petitions relating to tax and fiscal policy. A number of these have been approved and become law. See particularly "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH EXPENDITURES – 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.

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 generally accepted accounting principles (GAAP), as defined by the Governmental Accounting Standards Board (GASB). The General Fund and other 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 this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds 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" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (the "Transportation Fund") (formerly the Highway Fund), from which approximately 94.8% of the statutory basis budgeted operating fund outflows in fiscal 2009 were made. The remaining approximately 5.2% of statutory operating fund outflows occurred in other operating funds: the Stabilization Fund, the Workforce Training Fund; the Massachusetts Tourism Fund; the Inland Fisheries and Game Fund; and two administrative control funds, the Intragovernmental Service Fund and theTemporary Holding Fund. There were also four inactive funds which were authorized by law but had no activity: the Tax Reduction Fund, the Collective Bargaining Reserve Fund, the Dam Safety Trust Fund and the International Educational and Foreign Language Grant Fund. In fiscal 2009, the Commonwealth Stabilization Fund had both inflows and outflows. At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate consolidated net surplus. Under state finance law, balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, and the Inland Fisheries and Game Fund are excluded from the consolidated net surplus 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 early 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. State finance law requires the Legislature and the Governor to approve a balanced budget for each fiscal year, and the Governor may approve no supplementary appropriation bills that would 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 appropriations act.

In years in which the general appropriations act is not approved by the Legislature and the Governor before 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 AND EXPENDITURES – 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, under current law, 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 moneys 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

Capital expenditures are primarily financed with debt proceeds and federal grants. Authorization for capital investments requires approval by the Legislature, and the issuance of debt must be approved by a two-thirds vote of each house of the Legislature. Upon such approval to issue debt, the Governor submits a bill to the Legislature, as required by the state constitution, to set the terms and conditions of the borrowing for the authorized debt. The State Treasurer issues authorized debt at the request of the Governor, and the Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds pursuant to such authorizations.

Based on outstanding authorizations, the Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, 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 objectives of the plan are to determine and prioritize the Commonwealth's investment needs, to determine the affordable level of debt that may be issued and the other funding sources available to address these investment needs, and to allocate these limited capital investment resources among the highest priority projects. See "COMMONWEALTH CAPITAL 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. All agency capital spending is tracked against the capital investment plan on both a cash and encumbrance accounting basis on the state's accounting system, and federal reimbursements are 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, in conjunction with the Executive Office for Administration and Finance, 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 2010 AND FISCAL 2011– Cash Flow." 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. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper. See "LONG-TERM LIABILITIES – General Obligation Debt."

Under state finance law, the State Treasurer may invest Commonwealth funds in obligations of the United States Treasury, bonds or notes of various states and municipalities, corporate commercial paper meeting specified ratings criteria, bankers acceptances, certificates of deposit, repurchase agreements secured by United States Treasury obligations, money market funds meeting specified ratings criteria, securities eligible for purchase by a money market fund operated in accordance with Rule 2a-7 of the federal Securities and Exchange Commission or investment agreements meeting specified ratings criteria. Cash that is not needed for immediate funding needs is invested in the Massachusetts Municipal Depository Trust. The State Treasurer serves as trustee of the Trust and has sole authority pertaining to rules, regulations and operations of the Trust. The Trust has two investment options: a money market fund and a short-term bond fund. General operating cash is invested in the money market fund, which is administered in accordance with Rule 2a-7 of the Securities and Exchange Commission and additional policies and investment restrictions adopted by the State Treasurer. The three objectives for the money market fund are safety, liquidity and yield. The money market fund maintains a stable net asset value of one dollar and is marked to market daily. Moneys in the Stabilization Fund, which are not used by the Commonwealth for liquidity, are invested in both the money market fund and the short-term bond fund. The short-term bond fund invests in a diversified portfolio of high-quality investment-grade fixed-income assets that seeks to obtain the highest possible level of current income consistent with preservation of capital and liquidity. The portfolio is required to maintain an average credit rating of A-. The duration of the portfolio is managed to within +/- one half year duration of the benchmark. The benchmark for the short-term bond fund is the Barclays Capital 1-to-5-year Government/Credit Index, which includes all medium and larger issues of United States government, investment-grade corporate and investment-grade international dollar-denominated bonds that have maturities between one and five years and are publicly issued.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of 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 but not 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.

Expenditure Controls. The Comptroller requires that the amount of all obligations under purchase orders, contracts and other commitments for the expenditures of moneys 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 moneys 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. All unaccounted-for variances, losses, shortages or thefts of funds or property 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 certain programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

GAAP Basis of Accounting. The Comptroller also prepares Commonwealth financial statements on a GAAP basis. 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.

GAAP employs an economic resources management focus and a current financial resources management focus as two bases for accounting and reporting. Under the economic resources management focus (also called the "entity-wide perspective"), revenues and expenses (different from expenditures) are presented similarly to private-sector entities. 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. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net assets.

Under the current financial resources management focus of GAAP (also called the "fund perspective"), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered 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 include 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 workers' compensation claims incurred but not reported and contract assistance to state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2009; Notes to the Basic Financial Statements.

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 an independent public accounting firm, 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 REVENUES AND EXPENDITURES – Local Aid; *Property Tax Limits*."

Also within the State Auditor's office is the Bureau of Special Investigations, which is charged with the responsibility of investigating fraud within public assistance programs.

COMMONWEALTH REVENUES AND EXPENDITURES

This section contains a description of the major categories of Commonwealth revenues and expenditures, beginning with a table presenting combined revenues and expenditures in the budgeted operating funds, followed by descriptions of categories of revenues and expenditures.

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 Transportation Fund (formerly the Highway Fund) and other operating budgeted 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 2009, on a statutory basis, approximately 57.5% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 28.2% of such revenues, with the remaining 14.3% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the budgeted operating funds on 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 and Expenditures

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 2005 through 2009. Projections for fiscal 2010 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2005 through fiscal 2009 and projected revenues and expenditures for fiscal 2010.

Budgeted Operating Funds – Statutory Basis (in millions)(1)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Projected Fiscal 2010
Beginning Fund Balances						
Reserved or Designated	$ 664.6	$ 355.6	$ 947.2	$ 351.3	$ 171.5	$ 68.8
Bay State Competitiveness Investment Fund	-	-	-	100.0	-	-
Transitional Escrow Fund	-	304.8	-	-	-	-
Stabilization Fund	1,137.3	1,728.4	2,154.7	2,335.0	2,119.2	841.3
Undesignated	90.9	98.4	106.2	114.7	115.1	106.4
Total	**1,892.8**	**2,487.2**	**3,208.1**	**2,901.0**	**2,405.8**	**1,016.5**
Revenues and Other Sources						
Alcoholic Beverages	68.6	68.9	71.0	71.2	71.9	71.4
Banks	198.9	349.9	340.9	547.8	242.6	216.8
Cigarettes	423.6	435.3	438.1	436.9	456.8	457.5
Corporations	1,062.7	1,390.7	1,587.6	1,512.2	1,548.6	1,503.5
Deeds	220.3	210.1	194.1	153.9	105.5	102.9
Income	9,690.3	10,483.4	11,399.6	12,483.8	10,583.7	10,269.7
Inheritance and Estate	255.1	196.3	249.6	254.0	259.7	207.2
Insurance	423.4	448.5	418.6	417.7	356.7	331.2
Motor Fuel	685.5	671.8	676.1	672.2	654.0	657.8
Public Utilities	71.1	118.5	178.3	120.2	-1.7	27.9
Room Occupancy	97.8	105.8	111.1	119.2	109.5	99.3
Sales:						
Regular	2,746.6	2,864.7	2,927.7	2,952.2	2,799.7	3,226.4
Meals	555.6	584.1	608.7	632.9	629.6	742.3
Motor Vehicles	584.2	555.5	531.1	501.6	439.3	532.0
Sub-Total–Sales	3,886.4	4,004.3	4,067.5	4,086.7	3,868.6	4,500.7
Miscellaneous	3.9	4.0	3.8	3.1	3.3	14.2
Total Tax Revenues	**17,087.9**	**18,487.4**	**19,736.3**	**20,879.2**	**18,259.5**	**18,460.0**
MBTA Transfer	(704.8)	(712.6)	(734.0)	(756.0)	(767.1)	(767.1)
MSBA Transfer	(395.7)	(488.7)	(557.4)	(634.7)	(702.3)	(590.9)
Total Budgeted Operating Tax Revenues	**15,987.4**	**17,286.2**	**18,444.9**	**19,488.5**	**16,790.0**	**17,102.0**
Federal Reimbursements	4,697.0	5,210.1	6,167.6	6,429.5	8,250.9	8,587.8
Departmental and Other Revenues	1,948.9	2,094.3	2,218.4	2,355.9	2,326.2	2,889.4
Inter-fund Transfers from Non-budgeted Funds and other sources (2)	1,740.2	1,714.9	1,785.0	2,039.3	1,850.3	1,971.8
Budgeted Revenues and Other Sources	**24,373.4**	**26,305.5**	**28,615.9**	**30,313.2**	**29,217.4**	**30,551.0**
Inter-fund Transfers	2,231.3	1,358.1	552.9	2,226.3	1,963.8	876.7
Total Budgeted Revenues and Other Sources	**$26,604.7**	**$27,663.6**	**$29,168.8**	**$32,539.5**	**$31,181.2**	**$31,427.7**

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Projected Fiscal 2010
Expenditures and Uses						
Direct Local Aid	$4,224.1	$4,430.0	$4,805.2	$5,040.5	$4,723.6	$4,837.4
Medicaid (4)	5,977.2	6,852.5	7,550.4	8,246.3	8,679.2	9,291.0
Other Health and Human Services	4,226.0	4,433.6	4,625.3	4,796.5	4,828.3	4,658.8
Group Insurance	846.4	963.7	1,022.3	852.5	973.1	1,062.9
Department of Elementary and Secondary Education	476.7	408.6	459.0	485.8	495.9	431.0
Higher Education	915.0	987.8	1,115.7	1,084.4	1,035.5	843.0
Department of Early Education and Care	348.8	387.1	507.1	549.9	560.3	515.2
Public Safety	1,206.5	1,288.0	1,399.2	1,544.4	1,514.3	1,493.9
Energy and Environmental Affairs	181.1	202.0	238.5	227.1	215.9	194.5
Debt Service	1,738.8	1,826.7	2,234.4	1,990.1	2,011.7	2,050.9
Budgeted Pension Transfers	1,216.9	1,274.7	1,335.2	1,398.6	1,314.4	1,376.6
Other Program Expenditures	1,927.2	2,138.7	2,364.9	2,414.1	2,350.9	2,035.0
Total - Programs and Services before transfers to Non-budgeted funds	**23,284.7**	**25,193.4**	**27,657.2**	**28,630.2**	**28,703.1**	**28,790.2**
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	-	-	722.1	1,045.9	987.6	631.7
State Retiree Benefit Trust Fund	-	-	-	354.7	352.0	372.0
Medical Assistance Trust Fund	-	70.0	364.0	376.7	374.0	559.5
Massachusetts Transportation Trust Fund	-	-	-	-	-	132.6
Other	494.4	321.2	179.6	400.9	189.9	330.0
Total Inter-Fund Transfers to Non-Budgeted Funds	**494.4**	**391.2**	**1,265.7**	**2,178.2**	**1,903.5**	**2,025.8**
Budgeted Expenditures and Other Uses	**23,779.1**	**25,584.6**	**28,922.9**	**30,808.4**	**30,606.6**	**30,816.0**
Inter-fund Transfers	2,231.2	1,358.1	553.0	2,226.3	1,963.8	876.7
Total Budgeted Expenditures and Other Uses	**26,010.3**	**26,942.7**	**29,475.9**	**33,034.7**	**32,570.4**	**31,692.7**
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	**594.4**	**720.9**	**(307.1)**	**(495.2)**	**(1,389.2)**	**(265.0)**
Ending Fund Balances						
Reserved or Designated (3)	355.6	947.2	351.3	171.5	68.8	14.5
Bay State Competitiveness Investment Fund	-	-	100.0	-	-	-
Transitional Escrow Fund	304.8	-	-	-	-	-
Stabilization Fund	1,728.4	2,154.7	2,335.0	2,119.2	841.3	656.6
Undesignated	98.4	106.2	114.7	115.1	106.4	108.4
Total	**$2,487.2**	**$3,208.1**	**$2,901.0**	**$2,405.8**	**$1,016.6**	**$779.5**

SOURCES: Fiscal 2005-2009, Office of the Comptroller; fiscal 2010, Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.
(2) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.
(3) Consists largely of appropriations from previous years, authorized to be expended in current years.
(4) Excludes off-budget Medicaid spending in fiscal 2005, 2006 and 2007 estimated at $292 million, $292 million and $290 million, respectively. Fiscal 2005 through 2009 include program administration.

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 55.6% of total tax revenues in fiscal 2010, the sales and use tax, which is projected to account for approximately 24.4%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which are projected to account for approximately 11.3%. Other tax and excise sources are projected to account for the remaining 8.7% of total fiscal 2010 tax revenues.

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 rate 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.

Under current law, the state personal income tax rate is scheduled to 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 2.5% more than the rate of inflation for state and government purchases. In the tax year following that in which the personal income tax rate is reduced to 5.0%, the charitable deduction, which was in effect for tax year 2000 but subsequently suspended, would be restored. In fiscal 2009, tax revenue growth was not sufficient to trigger a tax rate reduction for tax year 2010; fiscal 2010 baseline revenues are projected to be less than fiscal 2009 revenues, so no tax rate reduction is expected to be triggered for tax year 2011.

Sales and Use Tax. Effective August 1, 2009, the sales tax rate imposed on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding use tax rate on the storage, use or other consumption of like tangible properties brought into the Commonwealth was raised from 5% to 6.25%. 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 and, as of August 1, 2009, alcoholic beverages) 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.

In August, 2009, when the sales tax rate increase was enacted, it was projected to produce an additional $759 million in fiscal 2010 and $900 million annually thereafter. Given the weak economy and the decline in the fiscal 2010 baseline sales tax revenue forecast, the Department of Revenue subsequently estimated that the sales tax increase would result in additional fiscal 2010 revenues of approximately $705 million and fiscal 2011 revenues of $850 million to $900 million. Also effective August 1, 2009 was the elimination of the sales tax exemption on alcohol sales, which was expected to generate $78.8 million in fiscal 2010 and approximately $95 million annually thereafter. Based on revenue collections for the first nine months after the alcoholic beverages sales tax exemption was eliminated, the Department of Revenue currently estimates that fiscal 2010 collections from eliminating the alcoholic beverages exemption will be between $90 million and $100 million, and fiscal 2011 collections will be between $100 million and $120 million.

Sales tax receipts from establishments that first opened on or after July 1, 1997 and that are located near the site of the Boston Convention and Exhibition Center, sales tax receipts from retail vendors in hotels in Boston and Cambridge that first opened on or after July 1, 1997 and sales tax receipts from retail vendors located in the Springfield Civic and Convention Center or in hotels near the Springfield Civic and Convention Center that first opened on or after July 1, 2000 are required to be credited to the Convention Center Fund. As of enactment of the fiscal 2004 general appropriations act, 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*."

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through trust funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1% sales tax (not including meals), with an inflation-adjusted floor. A comparable amount, though without the floor, is dedicated to the MSBA beginning in fiscal 2010, with lesser amounts dedicated to the MSBA from fiscal 2005 through fiscal 2009.

Beginning in fiscal 2011, a portion of the Commonwealth's receipts from the sales tax (other than taxes required to be credited to the Convention Center Fund) is dedicated to the Massachusetts Transportation Trust Fund. The amount dedicated is the amount raised by a portion of the sales tax equal to a 0.385% sales tax, with a floor of $275 million per fiscal year. Included in this amount is $100 million of general obligation contract assistance payments from the Commonwealth to the Massachusetts Department of Transportation. See "LONG TERM LIABILITIES – General Obligation Contract Assistance Liabilities" herein. On June 29, 2009, the Governor filed legislation providing that such sales tax receipts be dedicated to the Commonwealth Transportation Fund rather than directly to the Massachusetts Transportation Trust Fund. The fiscal 2010 budget directs the Comptroller to transfer $275 million from the General Fund to the Commonwealth Transportation Fund.

On September 2, 2009, the Attorney General certified an initiative petition to remove the sales tax on alcoholic beverages and alcohol, where the sale of such beverages and alcohol or their importation into the state is already subject to a separate excise tax under state law. The Attorney General also certified a petition to reduce the sales and use tax rates from their current level of 6.25% to 3%. Each petition would take effect as of January 1, 2011. The petition to reduce the sales and use tax rate provides that if the reduced rate would not produce enough revenues to satisfy any lawful pledge of sales and use tax revenues in connection with any bond, note or other contractual obligation, then the rate would instead be reduced to the lowest level allowed by law. Proponents of each certified petition collected the signatures of 66,593 registered voters by December 2, 2009 and such petitions have been filed with the Legislature. Given that the Legislature failed to enact the initiative petitions by May 5, 2010, their proponents must collect another 11,099 signatures from registered voters by early July, 2010, to place the initiatives on the November, 2010 ballot. See "THE GOVERNMENT - Initiative Petitions" above.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, 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 8.75% (as of January 1, 2010), subject to further scheduled reductions. The minimum tax is $456. See discussion below under "Corporate Tax Reform" for a discussion of changes to the corporate tax structure and the business corporations' tax rates.

Corporate Tax Reform. On July 3, 2008, the Governor approved legislation that changed the corporate tax structure in Massachusetts from a "separate company" reporting state to a "combined reporting" state, effective January 1, 2009. Under a combined reporting structure, commonly owned business corporations (together with financial institutions, public utilities and certain other entities) engaged in a "unitary" business, whether or not they have nexus in Massachusetts, determine their income as one combined business in the aggregate. The combined income of the group is then apportioned to Massachusetts in accordance with the existing apportionment rules and taxed to those members of the group that have nexus in Massachusetts. Transactions between member companies are generally disregarded.

The legislation also repealed the differences between federal and Massachusetts business entity classification rules for tax purposes so that companies will be classified as the same type of legal entity for federal and Massachusetts tax purposes. The new law retained the existing structure for different types of corporations – business corporations, manufacturers, financial institutions, utilities and S corporations, with different tax rates and apportionment rules.

Together with these structural changes, the legislation reduced the then current 9.5% business corporations' tax rate to 8.75% as of January 1, 2010, 8.25% as of January 1, 2011 and 8.00% as of January 1, 2012 and thereafter.

Massachusetts tax law imposes an entity level tax on S corporations with more than $6 million in annual receipts. The corporate tax reform legislation also reduced the tax rate for S corporations with more than $9 million in annual receipts so that the regular, non-S corporation rate (for a business corporation or financial institution, as applicable) for the year minus the personal income tax rate for the year equals the rate for such S corporations. The tax rate for S corporations with between $6 million and $9 million in annual receipts will equal two-thirds of the rate applicable to the larger S corporations.

The Department of Revenue estimates that, prior to the so-called FAS 109 deduction (described in the following paragraph), the structural corporate tax law changes combined with the gradual reductions in the business corporations tax rate, the large S corporations tax rates and the financial institutions tax rate (see *"Financial Institutions Tax"* below) increased revenues by approximately $255 million in fiscal 2009 (reflecting less than a full year's impact of the changes) and will increase revenues by $345.2 million in fiscal 2010, $239.9 million in fiscal 2011, $169.1 million in fiscal 2012 and $145 million in fiscal 2013 and thereafter.

FAS 109 Deduction. The corporate tax reform described above included a new tax deduction designed to limit the impact of combined reporting in the Commonwealth on certain publicly traded corporations' financial statements. The deduction is generally referred to as the "FAS 109" deduction, in reference to the Statement of Financial Accounting Standards (FAS) No. 109, Accounting for Income Taxes. The Department of Revenue issued a report on "FAS 109" deductions on September 23, 2009, based on notices filed by the companies intending to claim FAS 109 deductions. The Department of Revenue used the aggregate amount of FAS 109 deductions intending to be claimed to calculate the aggregate potential tax benefit to such companies, and corresponding tax revenue reduction for the Commonwealth.

The Department of Revenue report indicated that the companies filing such notices stated that their FAS 109 deductions would total approximately $178.1 billion, which would result in corporate tax savings of $535 million at the applicable tax rates in the years in which the deductions will be claimed. Corporations are required to claim deductions over a seven-year period starting in tax year 2012. These deductions are expected to result in corporate tax savings (and corresponding Commonwealth corporate tax revenue reductions) of $76 million to $79 million annually for tax years 2012 through 2018, inclusive.

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property and sales within the Commonwealth, with sales being double-weighted. However, beginning January 1, 1996, legislation was phased in over five years establishing a "single sales factor" apportionment formula for the business corporations tax for manufacturing companies. 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. Beginning January 1, 1997, legislation was phased in which sourced income of mutual fund service corporations to the states of domicile of the shareholders of the mutual funds that receive services instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services.

Financial Institutions Tax. Financial institutions (which include commercial and savings banks) are subject to an excise tax. The corporate tax reform legislation discussed above also provides for a reduction in the financial institutions tax rate from 10.5% to 10% as of January 1, 2010, 9.5% as of January 1, 2011 and 9% as of January 1, 2012 and thereafter.

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 2.28% tax on gross premiums. Domestic companies also pay a 1% tax on gross investment income.

Public Utility Corporation Taxes. Public utility corporations are subject to an excise tax of 6.5% on net income.

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, and hotel/motel room occupancy, among other tax sources. The excise tax on motor fuels is 21¢ per gallon. The state tax on hotel/motel room occupancy is 5.7%.

On July 1, 2008, the Governor approved legislation raising the tax on cigarettes from $1.51 per pack to $2.51 per pack. The Department of Revenue estimates that the $1.00 per pack cigarette tax increase resulted in a fiscal 2009 revenue increase of between $140 million and $150 million, and will result in a fiscal 2010 revenue increase of between $120 million and $130 million, compared to revenue generated at the $1.51 per pack rate. The Department of Revenue estimates that revenue increases in subsequent years should also be between $120 million and $130 million annually.

ARRA "De-coupling." The fiscal 2010 budget includes several provisions "decoupling" Commonwealth tax law from certain federal tax law changes made by the American Recovery and Reinvestment Act of 2009 (ARRA) and, in one instance, from the impact of an interpretation by the federal Internal Revenue Service that was effectively repealed (but only prospectively) by ARRA. The purpose of the decoupling provisions is to prevent revenue losses to the Commonwealth. The federal provisions at issue are ones that affect the scope of income or deductions of businesses under the federal Internal Revenue Code (IRC) and, in the absence of decoupling, would also apply for purposes of Commonwealth taxation. The specific federal provisions from which the Commonwealth legislation decouples include: (a) deferral of the recognition of certain cancellation of indebtedness income under the IRC; (b) suspension of IRC rules that would otherwise disallow or defer deductions for original issue discount claimed by issuers of debt obligations; and (c) relief from certain limitations on the use of losses after changes of ownership of a business under (i) IRS Notice 2008-83 (for periods prior to its effective repeal by ARRA) and (ii) new IRC Section 382(n) as added by ARRA.

In addition, the Commonwealth legislation specifically adopts a new federal exclusion from gross income of certain individuals. ARRA provides a subsidy of 65% of the cost of the Consolidated Omnibus Budget Reconciliation Act (or "COBRA," which gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances) continuation premiums for up to nine months for certain involuntarily terminated employees and for their families. This subsidy also applies to health care continuation coverage if required by states for small employers. ARRA provides for an exclusion from federal gross income of the COBRA subsidy. Because Commonwealth personal income tax law generally adopts IRC rules defining the scope of gross income as of January 1, 2005, it was necessary to adopt a specific Commonwealth exclusion to prevent this 2009 federal subsidy from being included in the Commonwealth taxable income of affected employees.

Tax Credits and Other Incentives. Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits. The annual "tax expenditure budget" filed by the Governor provides a list, description and revenue estimate of various tax credits and incentives (for the fiscal 2011 tax expenditure budget, go to http://www.mass.gov/bb/h1/fy11h1/tax_11/hall.htm).

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least $50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. Since the program's inception, approximately $261 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately $12 million, reduced fiscal 2008 tax revenues by approximately $11 million, reduced fiscal 2009 tax revenues by approximately $110 million, and will reduce fiscal 2010 revenues by between $100 million and $130 million, not including any offsetting tax revenue from the film-related economic activity generated by the tax incentives. Virtually all of the reduction in tax payments resulting from credits that have been transferred or sold is reflected in the insurance, financial institutions, public utilities, and corporate tax categories. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit, and is in the process of preparing its 2010 study.

Under legislation approved June 16, 2008 in support of the life sciences industry, up to $25 million per year in tax incentives will be available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of $250 million, although the Governor has proposed in his fiscal 2011 budget to administratively limit the aggregate amount of tax incentives granted to $20 million in fiscal 2011. The Department of Revenue estimates that this program will result in a revenue reduction of between $2 million and $5 million in fiscal 2010 and $20 to $25 million in fiscal 2011.

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. Beginning in fiscal 2005, state finance law has required that the 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 "Employee Benefits; *Pension*" below.

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2005 to 2009 and as projected for 2010. The figures include sales tax receipts dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority and amounts transferred to the state pension system.

Tax Revenue Forecasting (in millions)

	Fiscal 2005	Fiscal 2006(1)	Fiscal 2007	Fiscal 2008	Fiscal 2009	Projected Fiscal 2010
Consensus forecast	$15,801	$17,336	$18,975	$19,879	$20,987	$17,989
Total taxes per enacted budget	$15,968	$17,448	$18,969	$19,879	$21,402	$18,879
October revision	16,231	17,957	19,132	20,225	20,302	18,279
January revision	-	18,158	19,300	20,225	19,450	18,460
April revision	-	-	-	-	19,333	-
May revision	-	-	-	-	18,436	-
Actual budgeted operating tax revenues	$15,987	$17,286	$18,445	$19,489	$18,260	
Actual revenues as a percentage of consensus forecast	101%	100%	97%	98%	87%	
Actual revenues as a percentage of total taxes per enacted budget	100%	99%	97%	98%	85%	

SOURCE: Executive Office for Administration and Finance.

(1) No consensus was reached for a fiscal 2006 tax revenue forecast; this table uses the forecast developed by the Executive Office for Administration and Finance. The Legislature used a tax revenue estimate of $17.1 billion in developing its budget.

On January 13, 2009, a fiscal 2010 consensus tax revenue estimate of $19.530 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means Committees. On May 6, 2009, the same parties agreed upon a downwardly revised fiscal 2010 consensus tax revenue estimate of $17.989 billion. This revised consensus estimate was then adjusted for tax law changes enacted as part of the fiscal 2010 budget that were expected to increase fiscal 2010 tax revenues to $18.879 billion. The most significant adjustment was for the increase in the sales and use tax rates from 5% to 6.25%, effective August 1, 2009, which was estimated to produce an additional $759 million in fiscal 2010, of which $275 million is dedicated to transportation. See "COMMONWEALTH CAPITAL INVESTMENT PLAN" below.

On October 15, 2009, based on an analysis of fiscal 2010 year-to-date revenue trends and taking into account revised economic forecasts and recommendations of the Governor's Council of Economic Advisors and the Department of Revenue, as well as outside economists from the Massachusetts Taxpayers Foundation and Suffolk University's Beacon Hill Institute who testified at a specially convened joint hearing held by the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means on October 8, 2009, the Secretary of Administration and Finance revised the fiscal 2010 revenue estimate downward by $600 million, from $18.879 billion to $18.279 billion. The $600 million downward revision was at the high end of the revenue shortfall estimates provided by the Department of Revenue, the Governor's Council of Economic Advisors, and forecasters who testified at the joint hearing. On January 7, 2010, the $18.279 billion benchmark estimate was revised upward to $18.460 billion based on the slightly improved year-to-date above benchmark performance through December 2009 See "Fiscal 2009, Fiscal 2010 and Fiscal 2011 Tax Revenues; *Fiscal 2010*" below for a discussion of fiscal 2010 revenues to date.

Fiscal 2009, Fiscal 2010 and Fiscal 2011 Tax Revenues

Fiscal 2009. Tax revenue collections for fiscal 2009 totaled $18.260 billion, a decrease of $2.620 billion, or 12.5%, compared to fiscal 2008. The following table shows the monthly tax collections in fiscal 2009 and the change from tax collections in fiscal 2008, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2009 that were dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority.

Fiscal 2009 Tax Collections (in millions) (1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion (2)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$ 1,381.6	$ 85.6	6.6%	$ 60.7	$ 54.6	$ 1,266.3
August	1,309.1	51.0	4.1	56.9	51.2	1,201.0
September	2,099.4	(108.6)	(4.9)	74.2	49.3	1,976.0
October	1,150.2	(57.3)	(4.7)	57.6	51.8	1,040.7
November	1,256.2	(59.6)	(4.5)	52.0	46.8	1,157.4
December	1,862.4	17.9	1.0	82.1	46.1	1,734.2
January	1,790.7	(409.8)	(18.6)	62.5	56.2	1,672.0
February	953.7	(189.6)	(16.6)	46.8	42.1	864.8
March	1,603.3	(312.2)	(16.3)	82.5	41.5	1,479.3
April	1,779.2	(954.6)	(34.9)	51.9	46.7	1,680.7
May	1,282.6	(209.8)	(14.1)	52.2	47.0	1,183.3
June	1,791.1	(472.5)	(20.9)	87.7	169.0	1,534.4
Total (2)	**$18,259.5**	**$(2,619.5)**	**(12.5)%**	**$ 767.1**	**$ 702.3**	**$ 16,790.2**

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Includes adjustments of $19.4 million on account of the first quarter, $31 million on account of the second quarter, $36.4 on account of the third quarter and $32.4 on account of the fourth quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The fiscal 2009 tax revenue decrease of $2.620 billion is attributable in large part to a decrease of approximately $712.5 million, or 28.6%, in personal income tax estimated payments, a decrease of approximately $147.6 million, or 1.6%, in withholding collections, a decrease of approximately $825.2 million, or 36.4%, in income tax payments made with returns and extensions, an increase of approximately $216.4 million, or 16.2%, in income tax refunds, a decrease of approximately $218 million, or 5.3%, in sales tax collections, and a decrease of approximately $449.6 million, or 17.6%, in corporate and business tax collections, which are partially offset by changes in other revenues (net of refunds). The fiscal 2009 collections were $176.5 million below the benchmark estimate for the corresponding period, based on the Secretary of Administration and Finance's revised fiscal 2009 revenue estimate of $18.436 billion announced on May 4, 2009.

Fiscal 2010. Preliminary tax revenue collections for the first eleven months of fiscal 2010, ending May 31, 2010, totaled approximately $16.507 billion, an increase of $39 million, or 0.2%, compared to the same period in fiscal 2009. The following table shows the tax collections for the first eleven months of fiscal 2010 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2010 that are dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority.

Fiscal 2010 Tax Collections (in millions) (1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion (3)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$ 1,250.6	$ (131.1)	(9.5)%	$ 57.6	$ 54.7	$ 1,138.4
August	1,296.5	(12.7)	(1.0)	54.4	51.7	1,190.4
September	1,765.9	(333.6)	(15.9)	79.8	47.2	1,638.9
October	1,224.9	74.8	6.5	53.8	51.1	1,120.0
November	1,288.7	32.4	2.6	50.5	48.0	1,190.2
December	1,885.9	23.4	1.3	87.4	48.2	1,750.3
January	1,845.1	54.5	3.0	61.9	58.8	1,724.4
February	1,002.7	49.0	5.1	46.0	43.7	913.0
March	1,624.9	21.7	1.4	83.9	45.3	1,495.8
April	1,747.6	(31.6)	(1.8)	56.0	53.2	1,638.4
May (2)	1,574.8	292.2	22.8	52.9	50.3	1,471.6
Total (2)	**$ 16,507.5**	**$ 39.0**	**0.2%**	**$684.2**	**$ 552.0**	**$ 15,271.2**

SOURCE: Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.
(2) Figures are preliminary.
(3) Includes adjustment of $30.2 million on the account of the first quarter, $36.7 million on the account of the second quarter, and $36.2 million on account of the third quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The year-to-date tax revenue increase of $39 million through May 31, 2010 is attributable in large part to an increase of approximately $22 million, or 1.3%, in corporate and business tax collections, an increase of approximately $651 million, or 18.4%, in sales tax collections, which are partially offset by a decrease of approximately $325 million, or 21.7%, in income tax cash estimated payments, a decrease of approximately $197 million, or 14.0%, in income tax payments with returns and extensions, a decrease of approximately $90 million, or 1.1%, in withholding collections, and changes in other revenues (net of refunds). The year-to-date fiscal 2010 collections through May were $70 million below the May year-to-date benchmark, based on the January 7, 2010 revised revenue estimate of the Secretary of Administration and Finance of $18.460 billion for fiscal 2010.

Fiscal 2011. Exhibit A to this Information Statement contains certain economic information concerning the Commonwealth which was prepared by the Massachusetts State Data Center at the University of Massachusetts Donahue Institute and which may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth.

The following section outlines the projections underlying the development of the fiscal 2011 consensus tax revenue estimate as presented in the Governor's fiscal 2011 budget recommendations. On December 16, 2009 the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means held a public hearing in Boston and heard testimony from the Department of Revenue, the Federal Reserve Bank of Boston, the Massachusetts Taxpayers Foundation, the Beacon Hill Institute, and economists from Harvard University and Northeastern University. The three branches of government subsequently agreed upon a fiscal 2011 tax revenue estimate of $19.050 billion, consistent with testimony presented at the hearing.

The fiscal 2011 consensus tax revenue estimate of $19.050 billion represents revenue growth of 3.2% actual and 2.5% baseline from the fiscal 2010 estimate of $18.460 billion. The fiscal 2011 estimate assumes that the national and state economies will continue a moderate recovery throughout the fiscal year. In developing the consensus estimate, the Commonwealth relies on economic forecasts from Moody's Economy.com, Global Insight, and the New England Economic Partnership (NEEP). The economic forecasts (from November 2009) upon which the consensus revenue estimate is based are:

- The national economy is beginning to emerge from recession. Following declines in the first quarter and second quarter of calendar year 2009, real gross domestic product (GDP) growth turned positive in the third quarter and grew at an annualized rate of 2.8%, and is expected to remain positive through calendar year

2010. Real GDP growth for the full fiscal 2010 is projected to be 0.4% compared to growth of 2.2% in fiscal 2008 and -2.2% in fiscal 2009. In fiscal 2011, real GDP growth is projected to range from 2.4% to 2.7%;

- Massachusetts employment is expected to decline by 1.8% to 3.2% for fiscal 2010 as a whole. For fiscal 2011, Massachusetts employment is expected to change by -0.6% to 0.5%;

- Massachusetts personal income (excluding capital gains) is expected to decline by 1.9% to 0.1% for fiscal 2010 as a whole. For fiscal 2011, Massachusetts personal income is projected to grow by 2.6% to 3.5%;

- Massachusetts wages and salaries are projected to decline by 1.7% to 5.1% for fiscal 2010 as a whole. For fiscal 2011, the growth in Massachusetts wages and salaries is projected to range from 1.1% to 3.4%;

- Massachusetts retail sales growth is expected to decline by 0.4% to 1.9% for fiscal 2010 as a whole. For fiscal 2011, Massachusetts retail sales are projected to grow by 3.5% to 4.4%;

- Corporate profits at the national level are expected to increase by 3.8% to 22.6% for fiscal 2010 as whole (there are no forecasts for state corporate profits). For fiscal 2011, growth in corporate profits is projected to range from 2.9% to 6.4%.

In addition to the economic forecasts described above, the consensus revenue estimate takes into account forecasts for capital gains realizations and taxes. The consensus agreement capital gains forecast is based on the following considerations:

- Preliminary tax year 2008 data indicates that Massachusetts capital gains realizations decreased by approximately 60.4% in tax year 2008, to $14.6 billion. Fiscal 2009 taxes on those capital gains realizations totaled approximately $541 million, a decrease of approximately $1.632 billion, or 75.1%, from fiscal 2008 (taxes on tax year 2008 capital gains realizations were paid mostly in fiscal 2009).

- The stock market, as measured by the average of the S&P 500 over the entire year, declined by 22.5% in calendar year 2009 (which largely determines fiscal 2010 capital gains taxes), and is expected to increase by 15.6%-24.7% in calendar year 2010 (which largely determines fiscal 2011 capital gains taxes). Massachusetts capital gains realizations are projected to decline by 13.5% in calendar year 2009 and increase by 10.3% in calendar year 2010.

A preliminary analysis of tax revenue collections in April and May, 2010 indicates that tax year 2009 capital gains tax realizations may have fallen by significantly more than the 13.5% assumed in the fiscal 2010 and fiscal 2011 consensus revenue estimates; however, higher than projected fiscal 2010 growth in other tax sources have mostly offset the shortfall in capital gains taxes, and are expected to do so in fiscal 2011 as well.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements 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. Federal reimbursements for fiscal 2009 were $ 8.251 billion including $870 million as a result of enhanced federal medical assistance percentage (FMAP) reimbursement under the American Recovery and Reinvestment Act (ARRA). Federal reimbursements for fiscal 2010 are currently projected to be $8.589 billion.

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2009, departmental and other non-tax revenues were $2.326 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2009 included $428.3 million for Registry of Motor Vehicles fees, fines and assessments, $125.6 million from filing, registration and other fees paid to the Secretary of State's office, $123.5 million in fees, fines and assessments charged by the court systems and $68.7 million in tuition remitted to schools of higher education. Fiscal 2010 departmental and other non-tax revenues are projected to be $2.889 billion.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of $1.018 billion, $1.035 billion $1.103, $1.128 billion and $1.003 billion in fiscal 2005 through 2009, respectively. Under state law, the net balance in the State Lottery Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid.

The Lottery Commission's operating revenues for fiscal 2009 were $959 million. This includes a $1 million spending reduction in operating expenses, a $2 million spending reduction in administrative expenses and an additional $760,000 spending reversion by the Lottery. The result was a shortfall of $43.7 million against the assumed $1.003 billion budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and $811 million in appropriations for local aid to cities and towns, with the balance, if any, to be transferred to the General Fund for the general activities of the Commonwealth. Legislation approved by the Governor on October 29, 2009 authorized the Comptroller to make a transfer from the General Fund to the State Lottery Fund to cure the deficiency.

The fiscal 2010 budget assumes total transfers from the Lottery of $937.5 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and $758.8 million in appropriations for local aid to cities and towns, with the balance, if any to be transferred to the General Fund for the general activities of the Commonwealth. For fiscal 2010, the State Lottery Commission is currently projecting net operating revenues of approximately $987.0 million, which would result in an expected surplus of approximately $49.5 million against the assumed $937.5 million at the end of fiscal 2010.

Tobacco Settlement. In November, 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% which equals more than $8.3 billion through 2025, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the master settlement agreement, and certain manufacturers withheld payments to the states due in April, 2006, April, 2007, April 2008 and April, 2009. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See "LEGAL MATTERS - Other Revenues." 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.

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year's budget. The balance accumulated in the Health Care Security Trust amounted to $509.7 million at the end of fiscal 2007. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employee' retirement system for health care and other non-pension benefits for retired members of the system. In fiscal 2008 the Health Care Security Trust's balance was transferred to the State Retiree Benefits Trust Fund. The fiscal 2009 and 2010 budgets transfer all payments received by the Commonwealth in fiscal 2009 and 2010 pursuant to the master settlement agreement from the Health Care Security Trust to the General Fund.

The following table sets forth the tobacco settlement amounts received by the Commonwealth to date. The table does not include approximately $30 million in withheld payments in fiscal 2006, approximately $27 million in withheld payments in fiscal 2007, approximately $21 million in withheld payments in fiscal 2008 and approximately $37 million in withheld payments in fiscal 2009 that the Commonwealth continues to pursue. See "LEGAL MATTERS – Other Revenues."

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	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
Total	**$434.0**	**$2,599.2**	**$3,033.3**

SOURCE: Office of the Comptroller.
(1) Amounts are approximate. Totals may not add due to rounding.
(2) Payments received for both 1999 and 2000.

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 2003 through 2009 were lower than the "allowable state tax revenue" limit set by Chapter 62F and are expected to be lower than the allowable limit in fiscal 2010.

Chapter 62F was amended by the fiscal 2003 and fiscal 2004 general appropriations acts to establish an additional tax revenue limitation. The fiscal 2003 budget 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 Fund 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 is to be held in the Temporary Holding Fund 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 budget require that at the end of each fiscal year, the Comptroller must transfer remaining excess revenue from the Temporary Holding Fund back to the General Fund for inclusion in consolidated net surplus.

As of December 31, 2009 actual state tax revenue has not exceeded the permissible state tax revenue limit set by Chapter 62F.

The following table shows the quarter by quarter trend of the Temporary Holding Fund for fiscal 2006 through the second quarter of fiscal 2010.

Temporary Holding Fund (in thousands)

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
First quarter - period ended September 30					
Cumulative net tax revenues, current fiscal year	$ 4,362,131	$ 4,512,171	$ 4,796,700	$4,870,214	$4,374,038
Cumulative net tax revenues, prior fiscal year	4,046,872	4,367,285	4,542,170	4,796,700	4,870,214
Permissible growth rate(1)	6.32%	8.05%	6.94%	7.89%	4.13%
Permissible state tax revenues(2)	$ 4,302,513	$ 4,718,720	$ 4,857,306	$5,175,160	$5,080,266
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 59,618	$ -	$ -	$ -	$ -
Second quarter - period ended December 31					
Cumulative net tax revenues, current fiscal year	$ 8,526,671	$ 8,831,036	$ 9,194,513	$9,200,005	$8,834,580
Cumulative net tax revenues, prior fiscal year	7,889,352	8,526,671	8,831,036	9,194,513	9,200,005
Permissible growth rate(1)	6.88%	7.62%	6.93%	8.34%	2.10%
Permissible state tax revenues(2)	$ 8,432,376	$ 9,175,977	$ 9,442,585	$9,960,876	$9,392,837
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 94,295	$ -	$ -	$ -	$ -
Third quarter - period ended March 31					
Cumulative net tax revenues, current fiscal year	$ 12,946,485	$ 13,659,295	$ 14,485,334	$13,599,204	
Cumulative net tax revenues, prior fiscal year	11,994,245	12,946,485	13,659,294	14,485,334	
Permissible growth rate(1)	7.44%	6.92%	7.41%	7.60%	
Permissible state tax revenues(2)	$ 12,886,497	$ 13,841,734	$ 14,671,584	$15,586,799	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 59,988	$ -	$ -	$ -	
Fourth Quarter - Period ending June 30					
Cumulative net tax revenues, current fiscal year	$ 18,592,175	$ 19,848,064	$ 21,009,329	$18,513,036	
Cumulative net tax revenues, prior fiscal year	17,190,450	18,592,175	19,848,064	21,009,085	
Permissible growth rate(1)	7.85%	6.52%	7.66%	6.27%	
Permissible state tax revenues(2)	$ 18,540,072	$ 19,804,571	$ 21,368,426	$22,325,305	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 52,103	$ 43,493	$ -	$ -	

SOURCES: Office of the Comptroller and Executive Office for Administration and Finance.
(1) Defined as inflation plus 2%, but not less than 0%.
(2) Defined as cumulative net state tax revenues, prior fiscal year, multiplied by 1 plus the permissible growth rate.

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. See "*Property Tax Limits*" below. 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 2009, approximately $4.724 billion of the Commonwealth's budget was allocated to direct local aid. The fiscal 2010 budget provides $4.837 billion of state-funded local aid to municipalities.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula specified in Chapter 70 of the General Laws 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. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Beginning in fiscal 2007, the Legislature implemented a new model for the Chapter 70 program which was adjusted to resolve aspects of the formulas that were perceived to be creating inequities in the aid distribution. The fiscal 2010 budget includes state funding for Chapter 70 education aid of $3.870 billion and also includes $167 million of federal State Fiscal Stabilization Funds, provided for through ARRA, for Chapter 70 education aid. The $4.037 billion in state and federal funds for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, and is an increase of $89 million over the fiscal 2009 amount of $3.948 billion.

In fiscal 2009, cities and towns were budgeted to receive $810 million in aid from the State Lottery Fund and $378 million from Additional Assistance. In addition, $124 million in aid was budgeted to support any potential lottery shortfalls in fiscal 2009. Due to the economic recession and falling state tax revenues, the Additional Assistance distribution was reduced through Section 9C budget cuts by $36.9 million (9.74%) and the General Fund supplement to hold the Lottery aid harmless was also reduced $91 million (9.74%). The fiscal 2009 budget provided for State Lottery Fund distributions of approximately $843 million. The fiscal 2010 budget eliminated lottery local aid and Additional Assistance and created a new local aid funding source called Unrestricted General Government Aid. This account is now the other major component of direct local aid, providing unrestricted funds for municipal use. The Commonwealth is projected to spend $936 million in Unrestricted General Government Aid in fiscal 2010. This amount is $377 million lower than the total amount originally budgeted for through lottery aid and additional assistance in fiscal 2009.

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 or (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter 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. Between fiscal 1981 and fiscal 2000, the aggregate property tax levy grew from $3.347 billion to $11.553 billion, a compound annual growth rate of 4.48%.

Medicaid and the Commonwealth Care Trust Fund

The Commonwealth's Medicaid program, called MassHealth, provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, generally receives 50% in federal reimbursement on most expenditures. The American Recovery and Reinvestment Act (ARRA) increased the federal medical assistance percentage (FMAP) for expenditures made between October 1, 2008, and December 31, 2010 from 50% to between 56.2% and 61.59%, depending on the Commonwealth's unemployment rate; the Commonwealth's FMAP under ARRA for all expenditures in fiscal 2010 is 61.59%. Beginning in fiscal 1999, payments for some children's benefits became 65% federally reimbursable under the Children's Health Insurance Program (CHIP).

For fiscal 2010 nearly 30% of the Commonwealth's budget is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. Medicaid spending from fiscal 2006 to fiscal 2010 is estimated to have grown by 6.6% on a compound annual basis (including Medicaid administrative expenses and off-budget Medicaid expenses). During the same period, Medicaid enrollment is estimated to have increased 3.2% on a compound annual basis, driven largely by eligibility expansions and the individual mandate prescribed by the 2006 health care reform legislation.

The fiscal 2010 estimated spending is $9.291 billion which includes an assumed fiscal 2010 deficiency figure of $432 million. The Governor has approved supplemental legislation that includes $200 million in additional funding for the program and has filed supplemental legislation that includes an additional $163 million. The remaining amount is expected to be solved by MassHealth's ability to transfer surplus funds from the MassHealth Medicare Clawback account. MassHealth is also working on quantifying potential additional exposures in the Children's Behavioral Health Initiative related to compliance with the remedial plan ordered in R*osie D. et al v. The Governor*. See "LEGAL MATTERS – Programs and Services" herein.

The Governor's fiscal 2011 budget recommendations include $9.838 billion for the MassHealth program. This is 5.9% higher than fiscal 2010 estimated spending of $9.291 billion. The fiscal 2011 budget fully maintains eligibility for MassHealth and funds projected enrollment growth of 3%. The budget keeps MassHealth costs affordable for the Commonwealth and members by maintaining appropriate discipline on rates, instituting new program integrity measures and restructuring dental services. In light of fiscal challenges, the MassHealth adult dental benefit would be restructured to cover preventative and emergency services but not restorative dental services. This change will not impact children or developmentally disabled members (DDS), and other members will be able to have access to restorative dental services at Community Health Centers through the Health Safety Net.

Medicaid Expenditures and Enrollment (in millions)

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009 (1)	Estimated Fiscal 2010
Budgeted Medicaid program expenses	$6,756.4	$7,412.5	$8,102.5	$8,552.0	$9,291.0
Budgeted Medicaid administrative expenses	127.6	133.8	132.4	143.7	91.1
Off-Budget Medicaid expenses	292.0	290.0	-	-	-
Total expenditures	7,176.0	7,836.3	8,234.9	8,695.7	9,382.1
Annual percentage growth in total expenditures	14.1%	9.2%	5.1%	5.6%	7.9%
Enrollment	1,042,344.9	1,094,843.7	1,139,284.0	1,177,922.0	1,220,144.0
Annual percentage growth in enrollment	5.5%	5.0%	4.1%	3.4%	3.6%

SOURCE: Executive Office for Administration and Finance.
(1) The Executive Office of Health and Human Services and Medicaid administrative budget for fiscal 2010 was reduced due to the shifting of information technology resources to a new account.

Federal 1115 MassHealth Demonstration Waiver.

July 1, 2008 – June 30, 2011 Waiver Period

The current Medicaid waiver agreement that was signed on December 22, 2008 currently authorizes federal reimbursement for up to approximately $22.7 billion in state health care spending from fiscal 2009 through fiscal 2011, which allows the Commonwealth to spend up to $5.6 billion more over the three-year period than for fiscal 2006 through fiscal 2008. It enables the Commonwealth to claim federal reimbursement for all programs at current eligibility and benefit levels (including for Commonwealth Care's subsidized coverage of adults up to 300% of the federal poverty level). The Commonwealth is due to file a waiver renewal application at the end of fiscal 2010 for the period starting July 1, 2011 through June 30, 2014.

Commonwealth Care. State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority to, among other things, administer the new Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006. As of May 1, 2010, over 150,000 residents with incomes up to 300% of the federal poverty level were enrolled in Commonwealth Care.

The fiscal 2010 budget currently includes $631.7 million for Commonwealth Care. The fiscal 2010 budgeted amount for Commonwealth Care is lower than fiscal 2009 program spending for two reasons: (i) as proposed by the Legislature and enacted into law, Commonwealth Care coverage previously provided to "aliens with special status" (legal immigrants who do not qualify for federal reimbursement because of their arrival in the United States within the last five years) was terminated as of September 1, 2009; and (ii) budgeted amounts reflect new savings initiatives designed to control Commonwealth Care costs while maintaining the integrity of the program. See "LEGAL MATTERS - *Finch, et al. v. Health Insurance Connector Authority, et al.*" The $631.7 million includes legislation approved by the Governor on August 7, 2009 that provides an additional $40 million to continue state-subsidized health coverage for these aliens with special status through June 30, 2010. On August 31, 2009, the Governor and the Connector Authority announced plans to contract with a health plan to offer this continuing coverage beginning as early as October 1, 2009 – under a new "Commonwealth Care Bridge" program. On October 1, 2009, eligible aliens with special status began to be enrolled in the health plan selected to offer this continuing coverage through Commonwealth Care Bridge.

The Connector Authority continues to monitor cost and enrollment trends for Commonwealth Care for fiscal 2010 and will revise estimates based on updated information. Current spending estimates range from $715 million to $730 million, reflecting different potential enrollment scenarios for the program. The cost estimates discussed above represent projections of gross funding needs for Commonwealth Care (net of enrollee contributions) and do not account for federal reimbursement under the Commonwealth's Medicaid waiver.

The Governor's fiscal 2011 budget recommendations preserve current eligibility for Commonwealth Care and provide $796.9 million to fund additional enrollment in fiscal 2011 (funding over 20,000 additional members in the program from current enrollment levels). The budget does not assume any increases in Commonwealth Care enrollee premiums in light of current federal "maintenance of effort" requirements. The budget assumes that Plan Type 1 co-payments would increase by $1 for generic drugs, consistent with MassHealth changes (with no co-payment increases for Plans Type 2 and 3) and that dental coverage for Plan Type 1 members would be restructured in the same manner as MassHealth dental benefits. The $769.9 million General Fund contribution includes $75 million for the Commonwealth Care Bridge program. This program will continue to be run by the Secretary of Administration and Finance, the Secretary of Health and Human Services and the Executive Director of the Connector.

In addition to the General Fund supported transfer to the Commonwealth Care Trust Fund, the Commonwealth Care program is financed by a number of other revenues sources, including:

Fair Share Assessment:
- o The "Fair Share" test requires employers with over 11 full-time equivalents to either make a "fair and reasonable" contribution to health insurance for their full-time employees or pay a $295 per employee annual assessment to the state. Revenue estimates for the fair share assessment average over $10 million annually.

Cigarette Tax Revenue:
- o Starting in fiscal 2009, the state raised taxes on cigarettes by $1 per pack and dedicated the increased revenues to the Commonwealth Care Trust Fund. These revenues are projected to total over $100 million per year.

Individual Tax Penalties:
- o Adults who can afford health insurance but fail to purchase coverage are required to pay monetary penalties when filing their tax returns. These revenues are projected to generate over $12 million in fiscal 2010 and 2011.

Health Safety Net/Health Safety Net Trust Fund. Overseen by the state's Division of Health Care Finance and Policy, the Health Safety Net (HSN) reimburses hospitals and community health centers for health care services provided to low- and moderate-income uninsured or underinsured residents. It was formerly known as the Uncompensated Care Pool.

Success in expanding enrollment in health insurance through health care reform has resulted in decreased Health Safety Net utilization and payments. As compared to Uncompensated Care Pool fiscal 2007, Health Safety Net payments sustained a record drop through Health Safety Net fiscal 2009 (from $661 million to $414 million).

The fiscal 2010 budget assumes $390 million in dedicated resources for the Health Safety Net, including $320 million from hospital and insurer assessments and $70 million from supplemental payments made by other sources. The fiscal 2010 budget also anticipates retaining an additional $21.1 million in accumulated Health Safety Net fiscal 2008 and fiscal 2009 surpluses within the Health Safety Net Trust Fund to help address fiscal 2010 demand. In light of these resources, while there is significant uncertainty around Health Safety Net program demand for fiscal 2010 given the downturn in the economy and lags in data, demand is currently projected to exceed these revenues by $30 million to $60 million. In the event that demand exceeds available revenues, the shortfall is expected to be allocated among hospitals based on rules already established in regulation.

The Governor's fiscal 2011 budget assumes $420 million in dedicated resources for the Health Safety Net, including $320 million from hospital and insurer assessments, $70 million from supplemental payments made by other sources and a $30 million contribution from the General Fund.

The Division of Health Care Finance and Policy continues to monitor Health Safety Net service volume and costs, to update evolving trends relating to Trust Fund care demand. Projections will likely change as more data emerges regarding demand on the Health Safety Net.

Both Commonwealth Care and Health Safety Net spending occurs in the Commonwealth Care Trust Fund. As noted above, both the Commonwealth Care program and Health Safety Net are financed by a number of different sources. The transfer to the Commonwealth Care Trust Fund detailed in the Statutory Basis Distribution of Budgetary Revenues and Expenditures table above only reflects the General Fund-supported portion of Commonwealth Care and the Health Safety Net.

Federal Health Care Reform. On March 23, 2010 the President signed into law a comprehensive national health reform measure, the Patient Protection and Affordable Health Care Act, PPACA (P.L. 111-148). Many of the provisions that were passed in the PPACA are similar to the Massachusetts health care reform model including the introduction of a health insurance exchange, insurance market reforms, individual mandate requirements to ensure that individuals are accessing health insurance, and rules designed to encourage employers to contribute to health insurance for their employees. Unlike many other states, the Commonwealth will not need to devote new state funding to cover populations under the federal Medicaid expansions, as the Commonwealth is already providing coverage exceeding the new federal coverage levels. Instead, PPACA will provide the Commonwealth with significant additional federal funding for the Commonwealth's health insurance programs for low-income individuals starting in 2014. The Commonwealth will also not need to devote significant resources to implementation. The Commonwealth is aggressively analyzing this legislation to identify immediate funding opportunities and compliance requirements for the Commonwealth and begin planning for further adjustments needed as key provisions of national health care reform are gradually phased in (with many taking effect in 2014).

Other Health and Human Services

Other Health and Human Services—Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Projected Fiscal 2010
Office of Health Services						
Department of Mental Health	$ 569.8	$ 603.4	$ 630.2	$ 651.0	$ 623.5	$633.6
Department of Public Health	431.1	473.6	543.6	546.8	548.5	495.2
Division of Healthcare and Finance Policy	9.2	9.9	10.3	11.7	14.0	17.4
Sub Total	$1,010.1	$1,086.9	$1,184.1	$1,209.6	$1,186.0	$1,146.2
Office of Children, Youth, and Family Services						
Department of Social Services	700.9	729.2	783.4	816.2	810.0	770.2
Department of Transitional Assistance	772.2	781.8	781.9	814.2	859.5	758.1
Department of Youth Services	130.3	141.9	152.8	157.3	154.7	147.1
Office for Refugees and Immigrants	0.3	0.7	1.2	1.6	1.3	0.3
Sub Total	$1,603.7	$1,653.6	$1,719.3	$1,789.3	$1,823.5	$1,675.7
Office of Disabilities and Community Services						
Department of Developmental Services	1,058.1	1,122.2	1,179.6	1,228.9	1,250.6	1,252.4
Other	112.0	118.6	128.3	135.9	133.6	120.4
Sub Total	$1,170.1	$1,240.8	$1,307.9	$1,364.8	$1,384.2	$1,372.8
Department of Elder Affairs	299.5	305.6	278.8	293.9	279.7	253.9
Executive Office of Human Services (1)	90.8	111.7	92.5	92.6	101.0	182.0 (2)
Veterans' Services (3)	51.8	35.0	42.7	46.4	51.9	28.2
Sub Total	$442.1	$452.3	$414.0	$432.9	$432.6	$464.1
Budgeted Expenditures and Other Uses	**$4,226.0**	**$4,433.6**	**$4,625.3**	**$4,796.6**	**$4,828.3**	**$4,658.8**

SOURCES: Fiscal 2004-2009 Office of the State Comptroller; fiscal 2010, Executive Office for Administration and Finance.

(1) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005. Fiscal 2010 includes Medicaid program administration.

(2) Fiscal 2010 spending includes a new IT chargeback account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.

(3) For fiscal 2010, the Veterans' Benefits account, worth approximately $30.0 million, is included in the Direct Local Aid category.

Office of Health Services. The Office of Health Services encompasses programs and services from the Department of Public Health, the Department of Mental Health and the Division of Health Care Finance and Policy. Their goal is to promote healthy people, families, communities and environments through coordinated care. The departments work in unison to determine that individuals and families can live and work in their communities self sufficiently and safely. The following are a few examples of programs and services provided by this office: substance abuse programs, immunization services, early intervention programs, environmental health services, youth violence programs, supportive housing and residential services for the mentally ill of all ages, and emergency and acute hospital services. The Division of Health Care Finance and Policy works to improve the delivery of and financing of health care by providing information, developing policies and promoting efficiency that benefit the people of the Commonwealth.

Office of Children, Youth and Family Services. The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of Social Services, the Department of Youth Services, the Department of Transitional Assistance and the Office of Refugees and Immigrants. The collaborative goal of this office is to work to ensure that individuals, children and families are provided with public assistance needed as well as access to programs that will allow for them to be safe and self-sufficient.

Through the Department of Transitional Assistance, the Commonwealth administers four major programs of public assistance for eligible state residents: transitional aid to families with dependent children (TAFDC); emergency assistance (EA); emergency aid to the elderly, disabled and children (EAEDC); and the state supplemental benefits for residents enrolled in the federal supplemental security income (SSI) program. In addition, the Department is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP, formerly food stamps), which provides food assistance to low-income families and individuals. The Department oversees state homeless shelter programs and spending for families and individuals**.** Lastly, beginning in fiscal 2008, the Department established a new supplemental nutritional program, which provides small supplemental benefits to certain working families currently enrolled in the food stamps program.

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 years 1997 through 2006. The Commonwealth must meet federal maintenance-of-effort requirements in order to be eligible for the full TANF grant award. In February, 2006, federal legislation reauthorized the TANF block grant providing $459.4 million annually to the Commonwealth for the next five years, provided that the Commonwealth meets federal work requirements outlined below.

Under federal TANF program rules, the Commonwealth must meet the federal work participation rate (*i.e.,* the percentage of families receiving assistance that are participating in work or training-related activities allowed under the program) of 50% for all TANF families and 90% for two-parent families. Through federal fiscal 2008, The Commonwealth was eligible under the federal program rules to lower the state's total required work participation rate requirement by applying credits earned through annual caseload reductions while continuing to meet federal requirements for state maintenance of effort spending. Beginning in fiscal 2008, The Commonwealth became subject to a new methodology in determining the total annual caseload reduction credit that could be applied to the state's work participation target. Because the new methodology diminished the state's ability to lower its work participation target, the state established a supplemental nutrition program. Working families enrolled in this new program were counted towards the work participation rate and allowed the state to meet the federal participation rate. This avoided potential losses in federal revenue due to penalties, while providing the working poor with a food assistance benefit. In February 2010, the state was informed that, based on the caseload reduction credit for 2008, the revised target was 0%. Consistent with federal guidance in 2009 (under the stimulus act), the state's target participation rate for 2008 through 2011 would be the lower of the 2008 or 2009 targets. Based on the 0% for 2008, the targets for 2008 through 2011 will be 0%. Since the supplemental nutrition program was no longer needed to enable The Commonwealth to meet its target, the program was suspended.

Office of Disabilities and Community Services. The Office of Disabilities and Community Services assists in the welfare of many disadvantaged residents of the Commonwealth through a variety of agencies. Programs and services are provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind, the Department of Developmental Services (previously the Department of Mental Retardation) and the Soldiers' Homes in Chelsea and Holyoke. These agencies provide assistance to this population and create public awareness to the citizens of the Commonwealth. Other facets of the Office of Disabilities and Community Services include both oversight and inter-agency collaboration which attend to the needs of the community, disabled and multi-disabled population. This holistic approach is designed to ensure that those of all ages with disabilities are able to lead functionally equivalent lives despite limitations that they may face.

Department of Elder Affairs. The Department of Elder Affairs (Elder Affairs) provides a variety of services and programs to eligible seniors and their families. Elder Affairs administers supportive and congregate housing programs, regulates assisted living residences, provides home care and caregiver support services, and nutrition programs. Eligibility for services is based largely on age, income, and disability status. The Department of Elder Affairs also administers the Prescription Advantage Program.

Department of Veterans' Services. The Department of Veterans' Services provides a variety of services, programs and benefits to eligible veterans and their families. The Department of Veterans' Services provides outreach services to help eligible veterans enroll in a variety of programs, administers supportive housing and homeless services, and provides over 65,000 veterans, veterans' spouses and parents with annuity and benefit payments.

Employee Benefits

Group Insurance. The Group Insurance Commission (GIC) provides health insurance benefits to approximately 300,000 active and retired state employees and their dependents. Currently, employee contributions are based on date of hire; all employees hired on or before June 30, 2003 contribute 20% of total premium costs and employees hired after June 30, 2003 pay 25% of premium costs. The fiscal 2010 general appropriations act increased premium contributions by 5% for all employees.

The fiscal 2010 budget is consistent with Government Accounting Standards Board (GASB) Statement No. 45 and the state's intent to consolidate spending for current retirees with deposits towards the Commonwealth's non-pension retiree liability. See "*Other Post-Retirement Benefit Obligations (OPEB)*" below. The original fiscal 2010 budget appropriated $959 million for the GIC to fund health coverage for active employees and their dependents. The fiscal 2010 budget authorizes transfers of up to $372 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents. Budgeted funding at the GIC in fiscal 2010, including health coverage for active and retired employees and other costs, totals $1.435 billion.

The GIC was facing a budget shortfall at the outset of fiscal 2010. To address this gap, the GIC Commission voted to increase co-pays and establish deductibles effective February 1, 2010. Co-pays were increased by about $5 for most services, which brought state employee benefits in line with private sector employee benefits. In addition, a $250 deductible was added for single coverage and up to $750 for families. The benefit cuts are projected to save the Commonwealth $18 million in fiscal 2010 and annualize to over $50 million in savings in fiscal 2011.

Pension. Almost all non-federal public employees in the Commonwealth participate in defined-benefit pension plans administered pursuant to state law by 105 public retirement systems. 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 Massachusetts 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). The members of the retirement system do not participate in the Social Security System. 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 103 separate retirement systems and the Commonwealth is not responsible for making contributions towards the funding of these retirement systems. 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 Massachusetts teachers' retirement systems is managed by the Pension Reserves Investment Management (PRIM) Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. Many such retirement boards invest their assets with the PRIM Board, and legislation approved in 2007 allows the PRIM Board to take over the assets of local retirement systems that are less than 65% funded and have failed to come within 2% of the PRIM Board's performance over a ten-year period. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

The Massachusetts State Employees' Retirement System ("MSERS") and the Massachusetts Teachers' Retirement System ("MTRS") are the two largest plans of the public contributory retirement systems operated in the Commonwealth. As of January 1, 2010, the MSERS had 85,839 active members and 52,486 retirees and beneficiaries. As of January 1, 2009, the MTRS had 89,788 active members and 52,107 retired members and beneficiaries.

The MSERS is a single-employer defined-benefit public employee retirements system. The MTRS is a defined-benefit public employee retirement system managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefits of the MTRS. Members become vested after ten years of creditable service. Superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the MSERS and the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. The policies provide for uniform benefit and contribution requirements for all contributory public employee retirement systems. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service and group creditable service, and group classification.

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 MSERS and MTRS. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees. 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%.

Employee Contributions. The MSRES and MTRS 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 MTRS 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.

Unfunded Actuarial Accrued Liability. The retirement 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 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Under current law such unfunded liability is required to be amortized to zero by June 30, 2025.

The Secretary of Administration and Finance is required by law 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, 2025, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. Funding schedules are to be filed with the Legislature triennially by

January 15 and are subject to legislative approval. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

The schedule of pension funding progress for the MSERS and MTRS for the years 2004 to 2009 was included in the last Comprehensive Annual Financial Report for fiscal 2009 issued by the Office of the State Comptroller.

The most recent funding schedule was adopted in March, 2009.

Approved Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2009	$1,314,396	2018	$1,994,216
2010	1,376,619	2019	2,088,934
2011	1,441,811	2020	2,188,189
2012	1,510,115	2021	2,292,199
2013	1,581,681	2022	2,401,195
2014	1,656,666	2023	2,515,416
2015	1,735,235	2024	2,635,117
2016	1,817,561	2025	2,760,563
2017	1,903,824		

SOURCE: Executive Office for Administration and Finance.

On September 21, 2009, pursuant to Chapter 32 of the Massachusetts General Laws, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the total pension obligation as of January 1, 2009. This valuation was based on the plan provisions in effect at the time and is based on member data and asset information as of December 31, 2008.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately $22.080 billion, including approximately $6.730 billion for the State Employees' Retirement System, $13.620 billion for the Massachusetts Teachers' Retirement System, $1.410 billion for Boston Teachers and $325 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2009 to be approximately $59.140 billion (comprised of $23.720 billion for state employees, $32.540 billion for state teachers, $2.550 billion for Boston Teachers and $325 million for cost-of-living increases reimbursable to local systems). Total assets were valued at approximately $37.060 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2009 total asset market value. The valuation method was the same as the method used in the 2008 valuation.

The principal assumptions used in the valuation were an investment return assumption of 8.25% and a salary increase assumption based on Group and years of service. The ultimate salary increase rate is 4.5% for Groups 1 and 2, 5.0% for Groups 3 and 4, and 4.75% for teachers. The assumption is higher in early years of employment and grades down to the ultimate rate. All assumptions other than the investment return assumption are based on PERAC's most recent Experience Study Analysis for the State Retirement System, published in 2007 and the Massachusetts Teachers' Retirement System, published in 2008. The unfunded liability is amortized on a 4.5% annual increasing basis until fiscal 2025.

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the Entry Age Normal Cost Method. Under this method, the Normal Cost for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a retirement system member, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The Actuarial Liability for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the Actuarial Liability for inactives, retirees, and survivors is simply equal to the present value of all projected benefits. The Unfunded Actuarial Liability is the Actuarial Liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership, except for changes in provisions of the plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also be changed by the addition of new members or the retirement, death, disability, or termination of members. The Actuarial Liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the plan provisions or actuarial assumptions change.

Differences each year between the actual experience of the plan and the experience projected by the actuarial assumptions are reflected by adjustments to the Unfunded Actuarial Liability. An experience difference which increases the Unfunded Actuarial Liability is an Actuarial Loss and one which decreases the Unfunded Actuarial Liability is an Actuarial Gain.

The Actuarial Value of Assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2009 is 110% of the market value.

The following table shows the valuation of accrued liabilities and assets from 2005 through 2009:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

			Unfunded Accrued Liabilities	
Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(1)	Unfunded Actuarial Liability(2)	Market Value of Unfunded Liability
January 1, 2005	$48,358	$34,939	$13,419	$12,861
January 1, 2006	50,865	36,377	14,488	11,844
January 1, 2007	53,761	40,412	13,349	8,859
January 1, 2008	56,637	44,532	12,105	7,402
January 1, 2009	59,142	37,058	22,084	25,453

SOURCE: Public Employee Retirement Administration Commission.
(1) Based on five-year average smoothing methodology.
(2) Based on actuarial valuation.

The Governor's fiscal 2011 budget proposal maintains the January 1, 2009 pension schedule by recommending a transfer of $1.442 billion, an increase of $65 million over fiscal 2010. The Commonwealth revises its funding schedule every three years. Recognizing the impact that the loss of assets will have on the pension fund and future funding schedules, the Governor has instructed the Secretary of Administration and Finance to form a task force to begin developing strategies and recommendations for a new triennial schedule to be adopted for fiscal 2012.

On January 27, 2010, the Governor filed legislation proposing pension reforms in addition to those adopted by the passage of pension reform legislation in June, 2009. The additional reforms include eliminating abuses, improving fairness and updating the system to reflect changes in work patterns. Such reforms are expected by the Governor to generate an estimated savings of over $2 billion over 30 years.

Other Post-Retirement Benefit Obligations (OPEB). In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The

GIC has representation on the Trustees of the State Retiree Benefits Trust Fund (SRBTF). The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits and can only be dissolved when all such health care and other non-pension benefits, current and future have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions.

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2009, Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As of July 1, 2009, all active employees were required to pay an additional 5% of premium costs. There were approximately 142,635 participants eligible to receive benefits as of June 30, 2009.

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its liability for other post-employment benefits (commonly referred to as "OPEB") in its fiscal 2008 financial reports.

According to the June, 2009 report, the Commonwealth assumed no pre-funding. The report detailed an actuarial accrued liability for the Commonwealth for OPEB obligations earned through January 1, 2009 at $15.305 billion. This is a slight drop from the January 1, 2008 number assuming no prefunding of $15.637 billion. The decline is largely through census changes and per-capita adjustments.

As the Commonwealth is not fully funding the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution is reflected on the Commonwealth's statement of net assets, as presented on a GAAP basis. The liability will increase or decrease each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability will be reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors. As of June 30, 2009, this net OPEB obligation as reflected on the Commonwealth's statement of net assets is $1.149 billion.

The independent actuarial report covered only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, will perform their own valuations, as the Commonwealth acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs.

The difference between the value of pre-funded and non-pre-funded OPEB liabilities is due to the discount rate used in the calculation. In the absence of pre-funding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, currently estimated at 4.5% for the purpose of this study. The 4.5% reflects the long-term rate of return (since inception) of the Massachusetts Municipal Depository Trust. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the Commonwealth enacts legislation that qualifies its OPEB obligations to be calculated on a pre-funded basis, by changes in the Commonwealth's employee profile and possibly by changes in OPEB coverage levels and retiree contribution requirements. Accordingly, it should be anticipated that the actuarial accrued liability of the Commonwealth for OPEB liabilities may fluctuate.

A copy of the June 2009 valuation report discussed above may be viewed at the website of the Comptroller of the Commonwealth at http://www.mass.gov/osc. Click on "Financial Reports/Audits." and then "Commonwealth Actuarial Valuations."

The executive and legislative branches have been working to develop a short- and long- term strategy for addressing the Commonwealth's OPEB liability. The State Retiree Benefits Trust Fund was created, and in fiscal 2008 spending for current retirees' healthcare occurred from the fund, helping to consolidate the state's retiree funding efforts and better project future liabilities. In fiscal 2008, the fund benefited from a one-time transfer of approximately $329 million from the Health Care Security Trust. The actuarial value of plan assets as of January 1, 2009 was approximately $277 million, reflecting fair market value losses in investments.

A special commission on the Commonwealth's OPEB liability released a report in July, 2008. In its report, the special commission recommends that the Commonwealth develop a strategy to pre-fund the Commonwealth's OPEB liability. The commission identifies three funding sources -- tobacco settlement funds, unanticipated budgetary surpluses and annual legislative appropriations -- and recommends funneling funds from all three sources to the State Retiree Benefits Trust Fund in order to address the unfunded OPEB liability. With regard to tobacco settlement funds, the commission advises a phased-in approach, whereby a specified percentage of the settlement funds (increasing from 25% of such funds in year one to 90% of such funds in year four and thereafter) would be transferred to the State Retiree Benefits Trust Fund. In addition to using the tobacco settlement funds, the commission further recommends that the Commonwealth allocate 50% of any unanticipated surplus funds in a budget surplus year to the fund. Finally, the commission recommends that annual appropriations to the fund be included in each annual budget so as to eliminate the unfunded liability by 2038.

The fiscal 2009 and 2010 budgets did not include any of the special commission's recommendations for addressing the Commonwealth's OPEB liability. The Governor, House and Senate did include a provision in their respective fiscal 2011 budget recommendations that would deposit, on an annual basis, 5% of any capital gains tax revenues in excess of $1 billion to the State Retiree Benefits Trust fund.

Education

Executive Office of Education. In fiscal 2008, enacted reorganization legislation created an Executive Office of Education encompassing the Department of Early Education and Care, the Department of Elementary and Secondary Education (previously the Department of Education), the Department of Higher Education (previously the Board of Higher Education) and the University of Massachusetts system. The office is, committed to advancing actions and initiatives that will improve achievement for all students, close persistent achievement gaps, and to create a 21st century public education system that prepares students for higher education, work and life in a world economy and global society.

Department of Elementary and Secondary Education. The Department of Elementary and Secondary Education serves the student population from kindergarten through twelfth grade by providing support for students, educators, schools and districts and by providing state leadership. The Department of Elementary and Secondary Education is governed by the Executive Office of Education and by the Board of Education, which will now include 13 members. There are 328 school districts in the Commonwealth, serving over 950,000 students.

Department of Higher Education. The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The higher education system is coordinated by the Department of Higher Education which has a governing board, the Board of Higher Education, and each institution of higher education is governed by a separate board of trustees. The Board of Higher Education nominates, and the Secretary of Education appoints, a Commissioner of Higher Education, who is responsible for carrying out the policies established by the board at the Department of Higher Education.

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. State-supported tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and Design and the Massachusetts Maritime Academy have the authority to retain tuition indefinitely. The board of trustees of each institution submits annually audited financial statements to the Comptroller and the Board of Higher Education. The Department of Higher Education prepares annual operating budget requests on behalf of all institutions, which are submitted to the Executive Office of Education and subsequently to 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.

Department of Early Education and Care. The Department of Early Education and Care provides support to children and families seeking a foundational education. Additionally, the Department strives to educate current and prospective early education and care providers in a variety of instructive aspects. Included within the Department's programs and services are supportive child care, TANF-related child care, low-income child care, Head Start grants, universal pre-kindergarten, quality enhancement programs, professional development programs, mental health programs, healthy families programs and family support and engagement programs. Two of these programs, the supportive and TANF-related child care, help children receiving or referred services by the Department of Social Services or the Department of Transitional Assistance.

Public Safety

Twelve state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth. Other public safety agencies include the State Police, Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner and six other public safety related agencies.

In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the departments of the 14 independently elected Sheriffs that operate 23 jails and correctional facilities. In fiscal 2010, through enactment of chapter 61 of the Acts of 2009, as later amended by Chapter 102 of the Acts of 2009, all 14 Massachusetts state and county sheriffs were aligned under the state budgeting and finance laws. Prior to the transfer, the Commonwealth had seven sheriffs operating as state agencies under the state accounting and budgeting system and seven sheriffs operating as county entities. The sheriff departments have successfully transitioned onto the state budgeting and accounting system, and all sheriff employees have been placed on the state payroll. Appropriations have been established to support sheriff department operations for the balance of this fiscal year. Thus, all 14 sheriff departments are now functioning as independent state agencies within the Executive Branch.

Energy and Environmental Affairs

In fiscal 2008, the Executive Office of Environmental Affairs was reorganized into the Executive Office of Energy and Environmental Affairs. This reorganization included the transfer of the Department of Energy Resources and Department of Public Utilities from the Executive Office of Economic Development to the new secretariat. The Executive Office of Energy and Environmental Affairs is responsible for policy development, environmental law enforcements services and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates over 600,000 acres of public parkland, recreational facilities, watersheds and forests across the Commonwealth. Other environmental agencies include the Department of Agricultural Resources, responsible for the state's agricultural and food safety programs, the Department of Environmental Protection, responsible for clean air, water, recycling and environmental remediation programs, and the Department of Fish and Game, responsible for the management and protection of endangered species, fisheries and habitat. Additional agencies include the Department of Public Utilities, responsible for oversight of electric, gas, water and transportation utilities and the Department of Energy Resources, responsible for energy planning, management and oversight.

Debt Service

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

Other Program Expenditures

The remaining expenditures on other programs and services for state government include the judiciary district attorneys, the Attorney General, the Executive Office for Administration and Finance, the Executive Office for Housing and Economic Development, the Executive Office of Labor and Workforce Development and various other programs.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last four fiscal years and as of December 31, 2009.

State Workforce

	June 2006	June 2007	June 2008	June 2009	December 2009
Executive Office	58	79	81	72	68
Office of the Comptroller	122	124	124	115	113
Executive Departments					
Administration and Finance (2)	2,990	2,791	2,904	2,861	2,821
Energy and Environmental Affairs (1)	2,057	2,168	2,236	2,208	2,086
Housing and Community Development (1)	91	-	-	-	-
Early Education and Care (3)	164	189	-	-	-
Health and Human Services	21,022	21,072	21,449	20,895	20,223
Transportation and Public Works (4)	1,078	1,087	1,245	1,200	-
Board of Library Commissioners	12	13	13	13	11
Economic Development (1)	960	-	-	-	-
Housing and Economic Development (1)	-	610	650	616	704
Labor and Workforce Development (1)	-	320	307	316	300
Executive Office of Education (3)	-	-	562	570	340
Department of Education (3)	266	269	-	-	-
Board of Higher Education (3)	60	55	-	-	-
Public Safety and Security	8,430	8,457	8,627	8,483	8,408
Elder Affairs	34	44	47	50	41
Subtotal under Governor's Authority	37,343	37,278	38,244	37,398	35,115
Judiciary	7,630	7,993	8,021	7,821	7,516
Higher Education	12,872	13,265	13,219	13,409	11,999
Other (5)	7,394	7,947	8,245	8,044	7,771
Subtotal funded by the Operating Budget	65,239	66,483	67,729	66,672	62,401
Federal Grant, Trust and Capital Funded	15,598	15,727	15,934	16,381	20,896
Total	**80,837**	**82,210**	**83,663**	**83,053**	**83,297**

SOURCE: Executive Office for Administration and Finance.

(1) Effective April 11, 2007, the Executive Office of Economic Development was divided into the Executive Office of Housing and Economic Development, incorporating the former Department of Housing and Community Development, and the Executive Office of Labor and Workforce Development. The Department of Public Utilities and the Department of Energy Resources were transferred to the renamed Executive Office of Energy and Environmental Affairs from the Executive Office of Economic Development, a net shift of 100 FTEs.

(2) Effective April 10, 2007, the Massachusetts Commission Against Discrimination became an independent agency, separating from the Executive Office for Administration and Finance, a new shift of 61 FTEs.

(3) Effective March 10, 2008, the Department of Early Education and Care, Department of Education and Board of Higher Education were consolidated under the Executive Office of Education.

(4) Effective November 1, 2009, the Executive Office of Transportation and Public Works, which included the Massachusetts Highway Department, Registry of Motor Vehicles and Massachusetts Aeronautics Commission, was abolished and in its place was established the Massachusetts Department of Transportation. A net shift of 1,269 occurred as these employees were transferred to the Massachusetts Department of Transportation's non-appropriated fund, the Massachusetts Transportation Trust Fund.

(5) Other includes members of the Legislature and their staff, the offices 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.

Unions and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the Legislature, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all employees of the Commonwealth (except those noted below). 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 often funded by supplemental appropriations.

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth, public higher education management and the PCA Council negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in such agreements 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 39,370 executive branch full-time-equivalent state employees are organized in 12 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 28 bargaining units, and the employees of the judicial branch, the Lottery Commission, the Registries of Deeds, state sheriffs and the PCAs are organized in 30 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Negotiations are actively underway with the New England Police Benevolent Association to replace their contract which expired June 30, 2008; the Massachusetts Nurses Association and the State Police Association of Massachusetts to replace their contracts which expired December 31, 2008; the Massachusetts Correction Officer Federated Union (MCOFU), whose contract expired on June 30, 2009; and the Coalition of Public Safety (COPS), whose contract also expired on June 30, 2009.

The following is a description of certain terms of the most recent agreements with the collective bargaining units within the responsibility of the Human Resources Division. Negotiations are underway with the units that have expired contracts.

(1) The National Association of Government Employees, representing Units 1, 3 and 6, has a three-year contract from July, 2009 to June, 2012 that provides increases of 1%, 3% and 3% in June 2010, 2011 and 2012, respectively. The contract has received legislative approval. The total estimated cost of the contract is $21.5 million.

(2) The contract with the Service Employees International Union, representing employees in units 8 and 10 runs from January 1, 2009 through December 31, 2011 and provides salary increases of 1, 3 and 3% in December 2009, 2010 and 2011, respectively. The total estimated cost of the contract is $33.2 million.

(3) The contract with the Alliance Unit 2 (American Federation of State, Country and Municipal Employees) runs from July 2009 through June 2012 and provides increases of 1, 3 and 3% in June 2010, 2011 and 2012, respectively. The total estimated cost of the contract is $15.2 million.

(4) The contract with the Massachusetts Organization of State Engineers and Scientists runs from July 2009 through June 2012 and provides increase of 1, 3 and 3% in June 2010, 2011 and 2012, respectively. The total estimated cost of the contract is $3.9 million.

(5) The contract with the New England Police Benevolent Association, representing Unit 4A, expired June 30, 2008.

(6) The contract with the Massachusetts Nurses Association expired December 31, 2008.

(7) The contract with the State Police Association of Massachusetts expired December 31, 2008.

(8) The contract with the Massachusetts Correction Officers Federated Union expired on June 30, 2009.

(9) The contract with the Coalition of Public Safety expired June 30, 2009.

The following table sets forth information regarding the 12 bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units(1)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Contract Expiration Dates
1	National Association of Government Employees	Clerical	2,929	6/30/12
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,018	6/30/12
3	National Association of Government Employees	Skilled trades	616	6/30/12[3]
4	Massachusetts Correction Officers Federated Union	Corrections	3,913	6/30/09
4A	Corrections Captains	Corrections	80	6/30/08
5	Coalition of Public Safety	Law enforcement	184	6/30/09
5A	State Police Association of Massachusetts	State Police	1,810	12/31/08
6	National Association of Government Employees	Administrative professionals	8,511	6/30/12
7	Massachusetts Nurses Association	Health professionals	1,594	12/31/08
8	Alliance/Service Employees International Union	Social workers	7,088	12/31/11
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	3,043	6/30/12
10	Alliance/Service Employees International Union	Secondary education	582	12/31/11
		Total	**39,370**	

SOURCE: Executive Office for Administration and Finance.

(1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of June 1, 2010 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).

SELECTED FINANCIAL DATA

Stabilization Fund

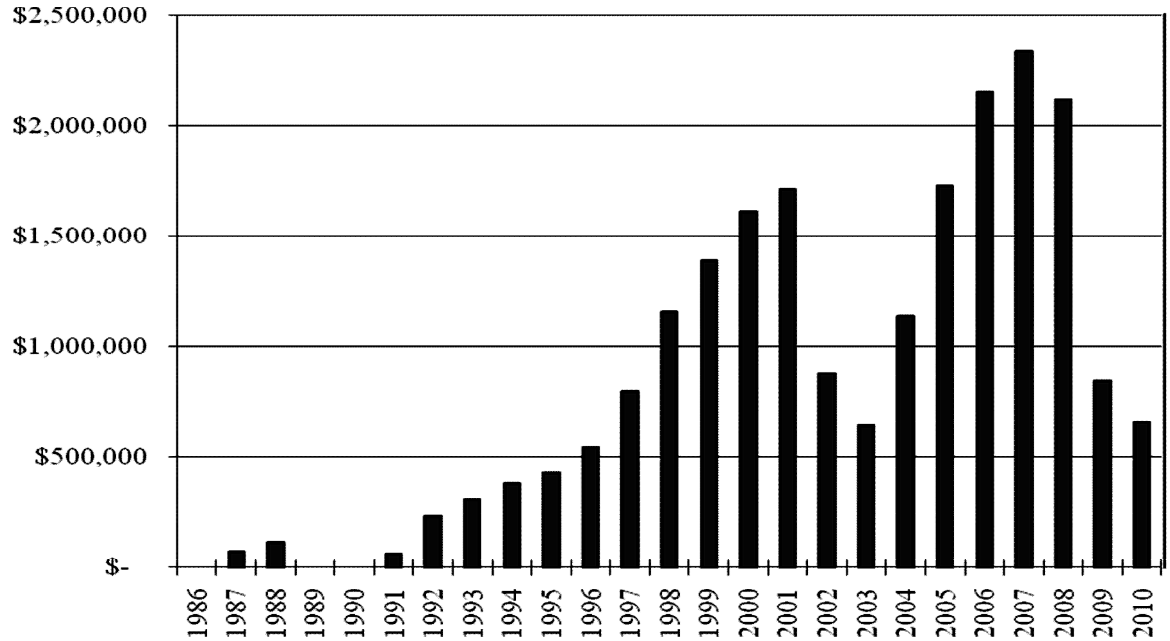
The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. The fund is sometimes referred to as the state's "rainy day fund," serving as a source of financial support for the state budget in times of slow or declining revenue growth and as the primary source of protection against having to make drastic cuts in state services in periods of economic downturns.

Required Deposits and Allowable Stabilization Fund Balance. Beginning July 1, 2004, state finance law has provided that (i) 0.5% of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must be transferred to the Stabilization Fund. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund.

The fiscal 2010 budget authorizes the transfer of $199 million from the Stabilization Fund to the General Fund and the transfer of all fiscal 2010 interest earnings. The Executive Office for Administration and Finance currently anticipates utilizing $149 million of the $199 million authorization. The budget also suspends the statutorily required deposit for fiscal 2010. Supplemental budget legislation signed into law on November 24, 2009 authorized an additional transfer of $35.8 million from the Stabilization Fund to the General Fund. The Governor's budget recommendations for fiscal 2011 propose to suspend the statutorily required deposit and transfer $146 million from the Stabilization Fund to the General Fund. Neither the House nor the Senate rely on a withdrawal from the Stabilization Fund as part of their respective versions of the fiscal 2011 budget.

The following chart shows the Stabilization Fund balance from fiscal 1986 through fiscal 2009 and current balance for fiscal 2010.

Stabilization Fund Balance (in thousands)



SOURCE: Office of the Comptroller.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2004 through fiscal 2009:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Beginning fund balances	$1,137,320	$1,728,355	$2,154,664	$2,335,021	$2,119,194
Revenues and Other Sources					
Consolidated net surplus	776,959	353,990	90,883	-	64,747
Lottery transfer taxes	3,996	4,204	2,680	2,243	2,436
CA/T project cost recoveries	90	-	-	-	-
Investment income	17,270	68,115	86,794	96,930	43,967
Transfers due to fund consolidation	-	-	-	-	-
Excess permissible tax revenue	135,991	20,000	-	-	-
Transfer from Transitional Escrow Fund	-	-	-	-	-
Total Revenues and Other Sources	934,306	446,309	180,357	99,173	111,150
Total Expenditures and Other Uses	343,271	20,000	-	315,000	1,389,000
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	591,035	426,309	180,357	(215,827)	(1,227,850)
Ending fund balances	$1,728,355	$2,154,664	$2,335,021	$2,119,194	$841,344
Allowable Stabilization Fund Balance	**$3,656,015**	**$3,945,820**	**$4,292,382**	**$4,546,976**	**$4,382,687**

SOURCE: Office of the Comptroller.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2009, 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 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 are presented as 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, and then 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 (as well as the somewhat related liability for uncompensated care), taxes, projected amounts due to the Commonwealth in the next fiscal year under the master tobacco settlement agreement, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect the GAAP basis measurement when viewed using a fund perspective under GAAP 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. To convert to a full accrual basis, major adjustments are made for the net book value of the Commonwealth's assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt and other liabilities.

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

Governmental Funds – Statutory Basis, June 30, 2009:	
Budgeted Fund Balance	$1,016.6
Non-Budgeted Special Revenue Fund Balance	1,418
Capital Project Fund Balance	34
Governmental Fund Balance – Statutory Basis, June 30, 2008	**$2,469.0**
Plus:	
Expendable Trust and Similar Statutory Balances that are considered Governmental Funds for GAAP Reporting Purposes	353
Owner Controlled Insurance Program Net Assets	52
Trust fund reclassified as Permanent trust fund	5.0
Adjusted Statutory Governmental Fund Balance – June 30, 2008	**$2,879.8**
Accruals, net of allowances and deferrals for increases / (decreases):	
Taxes, net of refunds and abatements	$ 1,475.8
Tobacco Settlement Agreement Receivable	146.3
Medicaid	(308.8)
Assessments and other receivables	178.2
Amounts due to authorities and municipalities, net	(352.0)
Claims, judgments and other risks	(20.0)
Amounts due to health care providers and insurers	(120.8)
Workers' compensation and group insurance	(107.5)
Other accruals, net	(105.2)
Net Increase to governmental fund balances	**786.0**
Massachusetts School Building Authority fund balance	1,395.5
Total changes to governmental funds	**2,181.5**
Governmental Fund Balance (fund perspective)	**$5,061.3**
Plus: Capital assets including infrastructure, net of accumulated depreciation	18,993.7
Plus: Deferred inflows of resources	746.4
Less: Pension cumulative over/(under) funding	(565.0)
Less: Post employment benefits other than pensions over/(under) funding	(1,149.0)
Less: Environmental Remediation Liability	(177.8)
Less: School construction grants payable	(7,337.3)
Less: CA/T Project assets to be transferred to Turnpike Authority	(7,052.5)
Less: Long Term debt, unamortized premiums and deferred losses on refundings	(19,437.0)
Less: Compensated Absences	(481.2)
Less: Capital Leases	(109.8)
Less: Accrued Interest on Bonds	(299.1)
Less: Other Long term Liabilities	(350.5)
Total Governmental Net Assets (entity-wide perspective)	**$(12,153.7)**

SOURCE: Office of the Comptroller

The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2008 by over $8.2 billion, a reduction of over $3.5 billion during the fiscal year. Of the $8.2 billion deficit amount, "unrestricted net assets" is reported as a negative $12.3 billion, offset by over $2.2 billion in "restricted net assets." There are two primary reasons for negative unrestricted net assets. The Central Artery/Ted Williams Tunnel is owned by the Massachusetts Department of Transportation and the Massachusetts Port Authority, however the Commonwealth paid for the construction of these assets and retains a large amount of related debt. Similarly, the Commonwealth has a liability of $4.0 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority. During the fiscal year, net asset balances of over $1.0 billion were set aside for unemployment benefits and $573 million for debt retirement.

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 2009:

Comparison of Fiscal 2009 Governmental Revenues (in millions)

	Governmental Funds	GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$18,513	$18,354	$18,499
Federal Revenue	11,785	12,902	12,912
Departmental and Miscellaneous Revenue	17,454	18,352	8,950
Total	**$47,752**	**$49,788**	**$40,361**

SOURCE: Office of the Comptroller

The following table provides financial results on a GAAP basis for all governmental operating funds of the Commonwealth for fiscal 2005 through fiscal 2009.

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

	Fiscal 2005	**Fiscal 2006**	**Fiscal 2007**	**Fiscal 2008**	**Fiscal 2009**
Beginning fund balances	$4,424.4	$5,048.6	$7,263.2	$7,735.9	$7,062.7
Restatement due to fund reclassification	-	-	5.0	-	-
Revenues and Financing Sources	43,532.6	47,189.9	49,402.2	50,136.8	49,787.9
Expenditures and Financing Uses	42,908.4	44,975.3	48,934.5	50,810.0	51,789.3
Excess (deficit)	624.2	2,214.6	472.7	(673.2)	(2,001.4)
Ending fund balances—GAAP fund perspective	**$5,048.6**	**$7,263.2**	**$7,735.9**	**$7,062.7**	**$5,061.3**

SOURCE: Office of the Comptroller

Financial Reports. The Commonwealth issues audited annual reports, including audited financial statements on both the statutory basis of accounting and the GAAP basis. These financial statements are 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, 2009 and the CAFR for the year ended June 30, 2009 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2009 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 2009 and the CAFR for fiscal 1994 through fiscal 2009 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."

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 2009 marked the eighteenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2008 has been submitted to the GFOA for the award.

Discussion of Financial Condition

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, 2009 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2009 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2009, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditor's Report on Fiscal 2009 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2009 were audited by KPMG LLP (KPMG). The KPMG audit report dated December 23, 2009 on the general purpose financial statements included in the CAFR for the year ended June 30, 2009 contained an unqualified opinion. A copy of the audit report of KPMG dated December 23, 2009 has been filed with EMMA 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, 2009. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

FISCAL 2010 AND FISCAL 2011

Fiscal 2009 Ending Balance

As of June 30, 2009, the Commonwealth ended fiscal 2009 with an undesignated budgetary fund balance of $74.7 million, net of a 0.5% tax revenue carry-forward into fiscal 2010 of $92.6 million. The $74.7 million is commonly known as "consolidated net surplus." Of the $74.7 million surplus, $10 million was transferred to the Massachusetts Life Sciences Investment Fund, with the remaining $64.7 million transferred to the Stabilization Fund.

For fiscal 2009, the Commonwealth's audited financial statements report a year-end balance in the Stabilization Fund of $841.3 million. The year closed with additional reserve fund balances of $68.8 million, $10 million of which represents the amount dedicated to the Massachusetts Life Sciences Investment Fund mentioned above. The total ending fund balance in the budgeted operating funds was $1.017 billion.

Fiscal 2010

The fiscal 2010 general appropriations act, including vetoes, totaled $27.046 billion. The budget as enacted by the Legislature was based on a fiscal 2010 tax revenue estimate of $18.879 billion. The $18.879 billion estimate reflects the fiscal 2010 consensus tax estimate of $17.989 billion adjusted for the impact of tax law changes enacted as part of the fiscal 2010 budget. See "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes" This estimate was initially revised downward by $600 million to $18.279 on October 15, 2009 and was subsequently revised to $18.460 billion on January 7, 2010. See "COMMONWEALTH REVENUES AND EXPENDITURES - Tax Revenue Forecasting"

To cover the projected $600 million tax revenue shortfall reflected in the original revised tax estimate as well as additional supplemental appropriations (see below for a discussion on fiscal 2010 supplemental legislation) the Governor announced approximately $277 million in spending reductions in October, 2009, pursuant to Section 9C, across executive branch agencies. These cuts were reduced, in part, as a result of the second revision to the tax revenue estimate, and assume $228 million in 9C reductions. Other solutions to the reduction in the consensus revenue estimate included the use of $80 million in Stabilization Fund reserves, $126 million in anticipated departmental and other revenues, as well as $62 million in available federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA). Based on the updated guidance provided by the federal government that indicated that the state would be eligible for nearly $80 million in additional federal Medicaid reimbursements in fiscal 2010 related to the state's Medicare "clawback" payments, the Secretary of Administration of Finance instructed the Comptroller to transfer $80 million from the General Fund back to the Stabilization Fund.

In March, 2010, the Executive Office for Administration and Finance announced that it had identified $195 million (gross) of additional non-tax revenue and cost exposures in fiscal 2010 that were not previously anticipated. A portion of the deficiency is being reimbursed by the federal government leaving a $118 million deficiency that needed to be closed using state resources. To address these deficiencies the Governor proposed $38 million of line item spending reductions and a transfer of $50 million in surplus funds from the Commonwealth Transportation Fund to support certain transportation spending. These measures were signed into law as part of the supplemental budget legislation approved by the Governor on April 28, 2010. In addition the Secretary of Administration and Finance directed the Comptroller to transfer $30 million of the $80 million of clawback payments described in the paragraph above from the Stabilization Fund to the General Fund.

To date the Governor has signed fiscal 2010 supplemental legislation totaling $507.6 million. The majority of additional funding is necessary to support state safety net programs and services affected by increased caseloads and utilization as a result of the economic downturn, such as the MassHealth program (see "COMMONWEALTH REVENUES AND EXPENDITURES – Medicaid and the Commonwealth Care Trust Fund"), the state program that provides legal representation to indigent persons in criminal and civil court cases and the emergency family shelters program at the Department of Housing and Community Development. There have also been other unanticipated costs, such as special elections and increased funding for snow and ice removal, that have required supplemental funding. The Governor has approved or filed supplemental appropriations to address the bulk of these funding needs. An additional supplemental appropriations bill will be filed later this fiscal year for any remaining funding needs, to the extent necessary.

Fiscal 2011 Budget Proposals

On January 27, 2010, the Governor filed his budget recommendations for fiscal 2011 with the Legislature. The Governor's recommendations are based on the consensus tax revenue estimate for fiscal 2011 of $19.050 billion (see "Tax Revenue Forecasting"). The Governor's recommendations call for total spending in fiscal 2011 of $28.212 billion. The projected fiscal 2011 budget shortfall is $2.75 billion which the Governor recommends solving for through budget reductions, use of federal stimulus, use of state Stabilization Funds and other revenue proposals.

The Governor's fiscal 2011 budget recommendation includes a total of $1.297 billion in enhanced Federal Medical Assistance Percentage (FMAP), generated throughout fiscal 2011. Under ARRA, the level of enhanced FMAP for each state is dependent on the state's unemployment rates. Massachusetts currently qualifies for tier 3, which is the highest tier for FMAP percentages. The enhanced FMAP through the ARRA legislation extends through December 2010. This approximately $1.297 billion total includes the amount currently projected for the first half of fiscal 2011 which provides the Commonwealth with a tier 3 level of FMAP reimbursement of 61.59% or approximately $690 million. In addition, it reflects the anticipated success in securing the expected enactment of a six-month extension of enhanced federal matching relief as part of pending federal legislation. This approach is consistent with projections included in fiscal 2010 budget recommendations while ARRA was pending. The Governor's budget recommendations assume a tier 2 level of reimbursement of 60.2% or approximately $607 million for the six-month extension portion of enhanced FMAP.

Though both the U.S. House of Representatives and Senate have passed a six-month extension of enhanced FMAP in separate legislative vehicles, and the President has indicated his support of it, Congress has not yet enacted the measure. The Governor, upon filing his fiscal 2011 budget recommendations, indicated that in the event Congress did not enact the six-month extension of enhanced FMAP by June he would revise his original fiscal 2011 budget recommendation to reflect a balanced budget proposal. On June 8, 2010 the Governor submitted such a revision for consideration by the legislative conference committee charged with developing a joint fiscal 2011 budget recommendation. In order to solve for the approximately $607 million in lost revenue the revision makes proportional reductions across the Governor's original fiscal 2011 budget recommendations with the exception of debt service, the Chapter 70 education aid program and the Unrestricted General Government Aid account.

On April 30, 2010, the House of Representatives approved a budget for fiscal 2011 that was based on the consensus tax revenue estimate for fiscal 2011 of $19.050 billion. The approved fiscal 2011 budget provides for $27.823 billion in spending. It does not rely on a withdrawal from the Stabilization Fund but does rely on the $1.297 billion FMAP.

On May 28, 2010, the Senate released its fiscal 2011 budget, which is based upon the consensus tax revenue estimate for fiscal 2011 of $19.050 billion. According to the Committee, its budget provides for $27.926 billion in spending, does not rely on a withdrawal from the Stabilization Fund but does rely on $1.374 billion FMAP. The Committee's budget assumes a tier 3 level of enhanced FMAP reimbursement for all of fiscal 2011.

The Governor's fiscal 2011 budget recommendations and the House and Senate versions of the budget all include a new mechanism for budgeting for capital gains revenues. As one element of the yearly consensus revenue process, the Governor and the Legislature would agree on a maximum amount of capital gains tax revenues that would be included in the overall consensus revenue estimate. This amount would be based on projections for the fiscal year, as well as principles of prudent budgeting necessary to modulate the impact of this fluctuating revenue source, and subject to a $1 billion annual maximum. Any capital gains tax revenues in excess of $1 billion would be transferred to the Stabilization Fund, except for 5% of such excess which would be transferred to the State Retiree Benefits Trust fund to pay for unfunded retiree health insurance liability.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer" Cash flow management incorporates the periodic use of short-term 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 the need for short-term cash flow borrowings. All short-term cash flow borrowings, including both commercial paper and revenue anticipation notes, must be repaid by the end of the fiscal year. The state currently has liquidity support for an $800 million tax-exempt commercial paper program for general obligation notes, through four $200 million credit lines. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

On June 3, 2010, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2010 and fiscal 2011. The fiscal 2010 projection shows an overall increase in the non-segregated cash balance from $805.3 million to $860.2 million. As is customary, the fiscal 2011 projections are based on the budget recommendations filed by the Governor in January.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for approximately $2.025 billion of bonds to be issued in fiscal 2011. This amount includes $1.625 billion in general obligation bonds issued under the bond cap and $760 million of borrowing for the Accelerated Bridge Program (which includes $360.0 million of borrowing for the program carried over from fiscal 2010, as well as $400 million in borrowing for fiscal 2011).

The next cash flow statement is expected to be released on or about August 31, 2010.

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Overview of Fiscal 2010 Non-Segregated Operating Cash Flow (in millions) (1)
(as of June 3, 2010)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May (2)	June (2)	Total FY 2010 (2)
Opening Non-Segregated Operating Cash Balance	$ 805.3	$ 581.8	$ 837.7	$ 1,033.1	$ 703.4	$ 529.2	$ 890.1	$ 1,271.7	$ 988.4	$ 891.4	$ 1,325.2	$ 1,474.2	$ 805.3
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	0.0	199.0	0.0	0.0	0.0	41.2	0.0	0.9	0.4	(49.0)	0.0	0.0	192.5
Total Budgetary Revenue/Inflows	1,929.2	2,426.6	2,838.5	2,274.7	2,123.1	3,070.8	2,927.6	2,225.5	3,216.8	2,937.3	2,631.4	2,523.0	31,124.4
Total Budgetary Expenditures/Outflows	2,300.5	2,252.4	3,042.8	2,300.9	2,115.7	2,931.6	1,954.4	2,237.2	3,295.5	2,206.3	1,840.0	2,729.9	29,207.3
Net Budgetary Funds	(371.4)	174.2	(204.3)	(26.3)	7.4	139.1	973.2	(11.6)	(78.8)	731.0	791.4	(206.8)	1,917.1
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	730.3	605.6	704.6	631.2	765.4	512.7	411.4	663.5	701.2	901.5	685.5	614.5	7,927.4
Total Non Budgetary Expenditures/Outflows	813.8	779.0	1,142.4	719.8	874.6	966.2	857.7	945.0	951.4	797.7	714.5	825.2	10,387.4
Net Non Budgetary Funds	(83.6)	(173.4)	(437.8)	(88.6)	(109.2)	(453.4)	(446.3)	(281.5)	(250.2)	103.7	(29.0)	(210.7)	(2,460.0)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	0.5	3.2	0.7	2.2	1.6	1.5	9.7	1.6	1.6	1.5	1.0	1.0	26.0
Net Operating Activities	**$ (454.4)**	**$ 4.0**	**$ (641.4)**	**$ (112.7)**	**$ (100.2)**	**$ (312.7)**	**$ 536.5**	**$ (291.5)**	**$ (327.4)**	**$ 836.3**	**$ 763.4**	**$ (416.6)**	**$ (516.8)**
Federal Grants:													
Total Federal Grants Revenue/Inflows	611.2	174.1	161.3	159.8	209.7	270.4	233.5	87.9	345.9	392.9	243.2	313.3	3,203.3
Total Federal Grants Expenditures/Outflows	195.2	214.6	160.0	169.1	213.3	281.0	206.7	242.0	305.8	282.7	235.9	271.8	2,778.2
Net Federal Grants	**$ 416.0**	**$ (40.5)**	**$ 1.3**	**$ (9.3)**	**$ (3.6)**	**$ (10.6)**	**$ 26.8**	**$ (154.1)**	**$ 40.1**	**$ 110.3**	**$ 7.3**	**$ 41.5**	**$ 425.1**
Capital Funds:													
Total Capital Revenue/Inflows	70.0	238.3	172.9	40.1	105.6	798.6	3.5	302.6	206.7	2.1	314.6	328.4	2,583.4
Total Capital Expenditures/Outflows:	255.0	245.9	255.1	247.9	175.9	244.4	185.2	140.2	166.4	158.9	221.2	381.3	2,677.4
Net Capital Funds	**$ (185.0)**	**$ (7.6)**	**$ (82.2)**	**$ (207.7)**	**$ (70.3)**	**$ 554.2**	**$ (181.7)**	**$ 162.4**	**$ 40.3**	**$ (156.8)**	**$ 93.3**	**$ (52.9)**	**$ (94.0)**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	300.0	0.0	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	250.0	1,130.0
Revenue Anticipation Notes (RANS)	0.0	0.0	1,217.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,217.9
Total Cash Flow Financing Activities Inflows	0.0	300.0	1,217.9	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	250.0	2,347.9
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	300.2	0.0	0.0	300.0	0.0	0.0	0.0	0.7	280.0	0.0	881.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	355.3	435.0	436.0	1,226.3
Total Cash Flow Financing Activities Outflows	0.0	0.0	300.2	0.0	0.0	300.0	0.0	0.0	0.0	356.0	715.0	436.0	2,107.3
Net Financing Activities	**$ 0.0**	**$ 300.0**	**$ 917.7**	**$ 0.0**	**$ (0.0)**	**$ 130.0**	**$ (0.0)**	**$ (0.0)**	**$ 150.0**	**$ (356.0)**	**$ (715.0)**	**$ (186.0)**	**$ 240.6**
Ending Non-Segregated Operating Cash Balance	**$ 581.8**	**$ 837.7**	**$ 1,033.1**	**$ 703.4**	**$ 529.2**	**$ 890.1**	**$ 1,271.7**	**$ 988.4**	**$ 891.4**	**$ 1,325.2**	**$ 1,474.2**	**$ 860.2**	**$ 860.2**

SOURCE: Office of the Treasurer and Receiver-General.
(1) Totals may not add due to rounding.
(2) Figures are estimated.

Overview of Fiscal 2011 Non-Segregated Operating Cash Flow (in millions) (1)

(as of June 3, 2010)

	Jul (2)	Aug (2)	Sep (2)	Oct (2)	Nov (2)	Dec (2)	Jan (2)	Feb (2)	Mar (2)	Apr (2)	May (2)	June (2)	Total FY 2011 (2)
Opening Non-Segregated Operating Cash Balance	$ 860.2	$ 942.3	$ 978.9	$ 1,847.5	$ 1,646.8	$ 1,256.9	$ 782.2	$ 1,246.9	$ 932.8	$ 222.9	$ 989.6	$ 837.2	$ 860.2
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	0.0	0.0	146.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	146.0
Total Budgetary Revenue/Inflows	2,049.7	2,238.9	2,892.8	2,155.9	2,184.1	2,868.9	2,708.5	2,229.4	3,089.3	3,711.8	2,655.2	2,997.5	31,782.0
Total Budgetary Expenditures/Outflows	1,970.2	2,195.6	3,194.4	2,298.8	2,386.6	3,168.2	2,114.1	2,350.0	3,499.0	2,309.0	2,084.2	2,689.4	30,259.6
Net Budgetary Funds	79.6	43.3	(301.6)	(142.9)	(202.5)	(299.2)	594.4	(120.6)	(409.7)	1,402.8	571.0	308.1	1,522.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	824.1	760.6	907.6	645.3	665.6	759.2	706.9	594.8	659.6	587.8	557.0	610.5	8,279.1
Total Non Budgetary Expenditures/Outflows	813.8	779.0	1,131.1	706.1	857.4	935.2	838.6	788.8	958.2	832.9	787.8	896.0	10,325.2
Net Non Budgetary Funds	10.3	(18.4)	(223.5)	(60.8)	(191.8)	(175.9)	(131.7)	(194.0)	(298.6)	(245.1)	(230.8)	(285.6)	(2,046.1)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	1.0	1.5	0.5	15.0	1.0	1.0	0.5	1.0	1.0	1.0	1.0	1.0	25.5
Net Operating Activities	**$ 90.8**	**$ 26.4**	**$ (524.7)**	**$ (188.7)**	**$ (393.3)**	**$ (474.1)**	**$ 463.1**	**$ (313.6)**	**$ (707.4)**	**$ 1,158.6**	**$ 341.1**	**$ 23.5**	**$ (498.1)**
Federal Grants:													
Total Federal Grants Revenue/Inflows	210.0	215.0	200.0	200.0	229.0	278.0	255.0	221.0	221.0	235.0	225.0	275.0	2,764.0
Total Federal Grants Expenditures/Outflows	218.8	204.8	206.8	212.0	225.5	278.5	253.5	221.5	223.5	227.0	218.5	276.5	2,766.9
Net Federal Grants	**$ (8.8)**	**$ 10.2**	**$ (6.8)**	**$ (12.0)**	**$ 3.5**	**$ (0.5)**	**$ 1.5**	**$ (0.5)**	**$ (2.5)**	**$ 8.0**	**$ 6.5**	**$ (1.5)**	**$ (2.9)**
Capital Funds:													
Total Capital Revenue/Inflows	278.4	234.2	265.1	489.0	241.0	291.3	253.8	181.8	191.7	194.8	179.4	374.8	3,175.3
Total Capital Expenditures/Outflows:	278.3	234.2	265.1	239.0	241.0	291.3	253.8	181.8	191.7	194.8	179.4	374.8	2,925.3
Net Capital Funds	**$ 0.0**	**$ 0.0**	**$ (0.0)**	**$ 250.0**	**$ (0.0)**	**$ (0.0)**	**$ 0.0**	**$ (0.0)**	**$ 0.0**	**$ 0.0**	**$ (0.0)**	**$ 0.0**	**$ 250.0**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Anticipation Notes (RANS)	0.0	0.0	1,400.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,400.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1,400.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,400.0
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	0.0	250.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	250.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	400.0	500.0	500.0	1,400.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	250.0	0.0	0.0	0.0	0.0	0.0	400.0	500.0	500.0	1,650.0
Net Financing Activities	**$ 0.0**	**$ 0.0**	**$ 1,400.0**	**$ (250.0)**	**$ 0.0**	**$ 0.0**	**$ 0.0**	**$ 0.0**	**$ 0.0**	**$ (400.0)**	**$ (500.0)**	**$ (500.0)**	**$ (250.0)**
Ending Non-Segregated Operating Cash Balance	**$ 942.3**	**$ 978.9**	**$ 1,847.5**	**$ 1,646.8**	**$ 1,256.9**	**$ 782.2**	**$ 1,246.9**	**$ 932.8**	**$ 222.9**	**$ 989.6**	**$ 837.2**	**$ 359.2**	**$ 359.2**

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

LONG-TERM LIABILITIES

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 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.

Commonwealth Debt. The State Treasurer is statutorily responsible for the borrowing needs of the Commonwealth, including short-term cash flow needs and long-term borrowing needs for the capital budget. Borrowing is accomplished through the sale of short-term notes and long-term bonds. The Commonwealth is authorized to issue three types of direct debt – 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. See "General Obligation Debt" below. Special obligation debt may be secured either with a pledge of receipts credited to the Commonwealth Transportation Fund (formerly the Highway Fund) or with a pledge of receipts credited to the Convention Center Fund. See "Special Obligation Debt" below. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See "Federal Grant Anticipation Notes" below.

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 (a) general obligation contract assistance liabilities, (b) budgetary contract assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required. See "General Obligation Contract Assistance Liabilities" below.

Budgetary contract assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases and other contractual agreements. Such liabilities do not constitute a pledge of the Commonwealth's credit. See "Budgetary Contract Assistance Liabilities" below.

Contingent liabilities relate to debt obligations of certain 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 or may be pledged, as in the case of certain debt obligations of the MBTA, regional transit authorities, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, and the higher education building authorities. The Commonwealth has certain statutorily contemplated payment obligations 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 moneys 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. See "Contingent Liabilities" below.

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 of the General Laws, 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 underwriters' discount, costs of issuance and other financing costs. 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 special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the Massachusetts School Building Authority and bonds issued to finance the Commonwealth's accelerated structurally-deficient bridge program. The statutory limit on "direct" bonds during fiscal 2010 is approximately $17.183 billion.

The outstanding Commonwealth debt, the amounts of such outstanding debt excluded from the statutory debt limit, the net amounts of such outstanding Commonwealth debt subject to the statutory debt limit and the statutory debt limit as of the end of each of the last five fiscal years are shown in the following table on a statutory basis:

Calculation of the Debt Limit (in thousands)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Balance as of June 30	$17,856,799	$18,461,406	$18,736,961	$18,734,440	$19,264,569
Plus/ (Less) amounts excluded:					
Unamortized (discount)/premium and issuance costs	70,937	112,673	102,043	123,390	216,890
1991 refunding/restructuring	-	-	-	-	-
Special obligation debt (1)	(1,485,548)	(1,291,266)	(1,260,941)	(1,126,668)	(1,100,698)
Federal grant anticipation notes (1)	(1,908.015)	(1,789,876)	(1,666,690)	(1,536,206)	(1,134,797)
Assumed county debt	(600)	(525)	(450)	(375)	(300)
MBTA forward funding	(511,546)	(416,830)	(368,873)	(309,203)	(231,000)
Transportation Infrastructure Fund	(1,336,741)	(1,476,287)	(1,462,870)	(1,434,654)	(1,401,581)
MSBA	(500,000)	(1,000,002)	(946,285)	(946,285)	(921,751)
Outstanding Direct Debt(2)	$12,185,286	$12,599,293	$13,132,895	$13,504,384	$14,691,322
Statutory Debt Limit	**$13,463,535**	**$14,136,712**	**$14,843,547**	**$15,585,725**	**$16,365,011**

SOURCE: Office of the Comptroller.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(2) Includes capital appreciation bonds reported at original net proceeds.

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*" above. 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 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)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
2005	1,398.7	23,779.1	5.9
2006	1,422.8	25,584.6	5.6
2007	1,611.6	28,922.9	5.6
2008	1,598.0	30,808.4	5.2
2009	1,580.4	30,606.6	5.2

SOURCE: Office of the Comptroller.

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.

As of December 31, 2009, the Commonwealth had approximately $17.2 billion in general obligation bonds outstanding, of which $13.6 billion, or approximately 79% was fixed rate debt and $3.6 billion, or 21%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. Most of the outstanding variable rate bonds are in the form of variable rate demand bonds, which account for $2.2 billion of outstanding general obligation debt as of December 31, 2009. Other outstanding variable rate structures include LIBOR index bonds, auction rate securities, and consumer price index bonds. Of the variable rate debt outstanding, the interest rates on $3.2 billion, or approximately 19% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of $323 million, or approximately 2% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a weekly basis.

As of December 31, 2009, the Commonwealth had outstanding approximately $145.1 million ($76.4 million principal and $68.8 million discount) 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%.

The Commonwealth has issued general obligation bonds in the form of Build America Bonds (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Commonwealth is entitled to receive a cash subsidy from the federal government equal to 35% of the investment payable on the BABs provided the Commonwealth makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. The Commonwealth is obligated to make payments of principal and interest on the BABs whether or not it receives interest subsidy payments. As of June 1, 2010, the Commonwealth had approximately $1.4 billion of BABs outstanding.

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 revenue 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, in some circumstances special obligation bonds. See "Special Obligation Debt" below. In addition, the Commonwealth currently has liquidity support for an $800 million commercial paper program which it utilizes regularly for cash flow purposes. In addition to borrowing via its commercial paper program, the Commonwealth issues fixed-rate revenue anticipation notes (or "RANs").

Special Obligation Debt

The Commonwealth Transportation Fund. Section 2*O* of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues, which are currently accounted to the Commonwealth Transportation 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 and registry of motor vehicles fees. 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 December 31, 2009, the Commonwealth had outstanding $449.5 million of such special obligation bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax.

On August 4, 2008, the Governor approved legislation that authorizes the issuance of an additional $1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a portion of the Commonwealth's accelerated structurally-deficient bridge program. The legislation was amended in 2009 to allow the state treasurer to issue special obligation bonds payable solely from moneys credited to the Commonwealth Transportation Fund for the accelerated structurally-deficient bridge program. To date, no such bonds have been issued. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, 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 moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. 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, $638.7 million of which remained outstanding as of December 31, 2009.

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 (CA/T) 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. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from state appropriations. As of December 31, 2009, $910 million of such notes remained outstanding.

On August 4, 2008, the Governor approved legislation authorizing the issuance of an additional $1.1 billion of grant anticipation notes secured by future federal funds to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. To date, no such notes have yet been issued.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2005 through fiscal 2009, exclusive of unamortized bond premiums:

General and Special Obligation Long-Term Debt Issuance and Repayment Analysis (in thousands) (1)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Beginning Balance as of July 1	$17,382,172	$17,856,799	$18,461,406	$18,736,961	$18,734,440
Debt Issued	1,267,281	1,770,346	1,556,485	1,280,824	1,887,108
Subtotal	18,649,453	19,627,145	20,017,891	20,017,785	20,621,548
Debt retired or defeased, exclusive of refunded debt	(882,266)	(1,024,542)	(1,399,715)	1,179,730	(1,227,029)
Refunding debt issued, net of refunded debt (3)	89,612	(141,197)	118,785	103,615	(129,950)
Ending Balance June 30 (2)	**$17,856,799**	**$18,461,406**	**$18,736,961**	**$18,734,440**	**$19,264,569**

SOURCE: Office of the Comptroller.
(1) Including premium, discount and accretion of capital appreciation bonds.
(2) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
(3) Amounts may be negative due to defeasances of debt of authorities from the issuance of Commonwealth debt as afforded under General Laws.

The following table sets forth the amounts of Commonwealth long-term general obligation debt, special obligation debt and federal grant anticipation notes outstanding, exclusive of unamortized bond premiums, as of the end of the last five fiscal years.

Outstanding Long Term Commonwealth Debt (in thousands)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	December 31, 2009
General Obligation Debt	$14,463,236	$15,383,366	$15,822,591	$16,086,470	$16,073,654	$17,332,105
Special Obligation Debt	1,485,548	1,288,595	1,248,750	1,112,590	1,112,110	1,088,150
Federal Grant Anticipation Notes (1)	1,908,015	1,789,445	1,665,620	1,535,380	1,203,725	1,064,515
TOTAL	**$17,856,799**	**$18,461,406**	**$18,736,961**	**$18,734,440**	**$18,389,489**	**$19,484,770**

SOURCE: Office of the Comptroller.
(1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

Interest Rate Swaps

The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of December 31, 2009.

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
General Obligation Bonds:								
	Series 1997B	$162,768	VRDB	4.659%	Cost of Funds/VRDBs	8/12/1997	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 1997B	108,512	VRDB	4.659%	Cost of Funds/VRDBs	8/12/1997	8/1/2015	Ambac Financial Services
	Series 1998A (refunding) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	277,683	LIBOR	4.174%	LIBOR	11/17/2008	9/1/2016	Deutsche Bank AG
	Series 1998A	185,122	VRDB	4.174%	Cost of Funds/VRDBs	9/17/1998	9/1/2016	Citi Swapco, Inc.
	Series 2001B & C	496,225	VRDB	4.150%	Cost of Funds/VRDBs	2/20/2001	1/1/2021	Morgan Stanley Derivative Products Inc.
	Series 2003B	87,455	CPI	4.500%	Cost of Funds/CPI	3/12/2003	12/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 2003B	10,000	CPI	4.500%	Cost of Funds/CPI	10/8/2008	12/1/2013	Deutsche Bank AG
	Series 2005A	540,725	SIFMA	3.15 - 4.004%	Cost of Funds/SIFMA	3/15/2005	2/1/2028	Citi
	Series 2006C	100,000	CPI	3.730 - 3.850%	Cost of Funds/CPI	1/1/2007	11/1/2020	Citi
	Consolidated Loan of 2007, Series A	400,000	LIBOR	4.420%	Cost of Funds/LIBOR	10/8/2008	5/1/2037	Barclays Bank, PLC
	Series 2007A (refunding)	31,665	LIBOR	3.936%	Cost of Funds/LIBOR	10/8/2008	11/1/2020	Deutsche Bank AG
	Series 2007A (refunding)	414,130	LIBOR	3.936 - 4.083%	Cost of Funds/LIBOR	10/8/2008	11/1/2025	Bank of New York Mellon
	Central Artery Loan of 2000, Series A	108,808	SIFMA	3.942%	SIFMA	8/16/2007	8/1/2018	Merrill Lynch Capital Services, Inc.
	Central Artery of 2000, Series A	54,492	SIFMA	3.942%	SIFMA	8/16/2007	8/1/2018	Bear Stearns Financial Products
	Consolidated Loan of 2006, Series B Consolidated Loan of 2000, Series D	294,000	LIBOR	4.515%	LIBOR	4/2/2009	6/15/2033	Barclays Bank, PLC
Subtotal		**$ 3,271,585**						

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
Special Obligation Dedicated Tax Revenue Bonds:								
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	Goldman Sachs Capital Markets, LP
	Series 2004	28,864	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J.P. Morgan Chase Bank
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J. P. Morgan Chase Bank
	Series 2005A	96,490	CPI	4.771 - 5.059%	Cost of Funds/CPI	1/12/2005	6/1/2022	Merrill Lynch Capital Services, Inc.
Subtotal		**$183,080**						
Total		**$3,454,665**						

SOURCE: Office of the Treasurer and Receiver-General.

Liquidity Facilities

The following table describes the liquidity facilities that the Commonwealth has in connection its commercial paper program certain of its outstanding bond issues as of December 31, 2009.

Associated Program	Facility Amount (in thousands)	Bank	Facility Type	Termination Date
Commercial Paper				
Series E	200,000	Dexia Credit Local	Line/Letter	9/27/2011
Series F	200,000	JPMorgan Chase Bank	Letter	6/30/2010
Series G	200,000	BNP Paribas	Line	12/27/2010
Series H	200,000	The Bank of Nova Scotia	Line	12/29/2010
Variable Rate Bonds				
1997 Series B (Refunding)	271,280	Helaba	Line	8/1/2015
1998 Series A (Refunding)	231,400	JP Morgan Chase Bank	Line	3/12/2010
2000 Series A	200,000	Landesbank Baden-Wurttemberg	Line	12/29/2015
2000 Series B	75,590	State Street Bank	Line	1/29/2012
2001 Series B (Refunding)	248,110	Landesbank Hessen-Thuringen (Helaba)	Line	12/31/2015
2001 Series C (Refunding)	248,115	State Street Bank	Line	2/20/2011
2005 Series A (Refunding)	540,725	Citibank	Line	3/15/2010
2006 Series A	150,000	Dexia Credit Local	Line	3/03/2013
2006 Series B	200,000	Bank of America	Line	3/03/2011

SOURCE: Office of the Treasurer and Receiver-General.

Debt Service Requirements

The following table sets forth, as of December 31, 2009, 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 swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

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Debt Service Requirements on Commonwealth Bonds as of December 31, 2009 through Maturity (in thousands) (1)

	General Obligation Bonds						Federal Highway Grant Anticipation Notes (2)			Special Obligation Revenue Bonds		
Period Ending	Principal	Compounded Interest	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service	Principal	Interest	Debt Service	Principal	Interest	Debt Service
6/30/2010	$ 351,023	-	$ 402,818	-	$ 402,818	$ 753,841	$ 73,145	$ 25,841	$ 98,986	$ 35,530	$ 28,943	$ 64,473
6/30/2011	1,063,932	$ 7,768	813,009	$ (19,320)	793,689	1,865,389	151,290	44,957	196,247	37,240	56,178	93,418
6/30/2012	968,628	8,266	754,859	(18,159)	736,699	1,713,593	159,365	36,880	196,245	39,135	54,290	93,425
6/30/2013	1,041,529	9,413	704,861	(18,159)	686,702	1,737,644	194,580	28,933	223,513	41,150	52,258	93,408
6/30/2014	932,292	7,735	656,445	(18,159)	638,286	1,578,313	239,065	16,727	255,792	37,170	50,020	87,190
6/30/2015	928,103	7,686	611,585	(18,159)	593,426	1,529,215	247,070	5,641	252,711	59,065	48,117	107,182
6/30/2016	979,764	6,083	568,321	(18,159)	550,161	1,536,009				60,975	44,918	105,893
6/30/2017	871,080	4,533	524,806	(18,159)	506,646	1,382,259				64,675	41,617	106,292
6/30/2018	735,930	3,588	485,361	(18,159)	467,201	1,206,719				46,350	38,425	84,775
6/30/2019	732,162	21,077	448,090	(18,159)	429,931	1,183,169				48,775	36,121	84,896
6/30/2020	813,864	2,236	411,111	(18,159)	392,951	1,209,052				49,020	33,499	82,519
6/30/2021	1,002,329	1,806	366,731	(18,159)	348,572	1,352,706				51,515	31,064	82,579
6/30/2022	798,077	1,625	322,199	(18,159)	304,039	1,103,741				54,355	28,292	82,647
6/30/2023	740,289	1,422	283,763	(18,159)	265,603	1,007,314				36,960	25,428	62,388
6/30/2024	665,332	1,115	249,181	(18,159)	231,022	897,469				28,990	23,443	52,433
6/30/2025	608,680	873	218,721	(18,159)	200,562	810,115				30,625	21,848	52,473
6/30/2026	471,168	708	191,904	(18,159)	173,745	645,621				32,360	20,164	52,524
6/30/2027	465,191	522	169,250	(18,159)	151,091	616,804				34,190	18,384	52,574
6/30/2028	275,969	345	150,691	(18,159)	132,531	408,846				36,125	16,504	52,629
6/30/2029	360,171	139	135,192	(18,159)	117,033	477,343				38,170	14,517	52,687
6/30/2030	519,376	79	117,588	(18,159)	99,429	618,885				40,330	12,418	52,748
6/30/2031	301,135		91,233	(14,445)	76,787	377,922				42,610	10,199	52,809
6/30/2032	216,715		81,076	(14,445)	66,631	283,346				45,020	7,856	52,876
6/30/2033	187,300		69,908	(12,440)	57,468	244,768				47,565	5,380	52,945
6/30/2034	188,585		60,460	(11,068)	49,392	237,977				50,250	2,764	53,014
6/30/2035	196,755		50,745	(9,647)	41,098	237,853						
6/30/2036	205,130		40,643	(8,177)	32,466	237,596						
6/30/2037	214,730		30,106	(6,654)	23,452	238,182						
6/30/2038	194,135		19,102	(5,077)	14,025	208,160						
6/30/2039	123,805		10,940	(3,445)	7,495	131,300						
6/30/2040	91,905		4,596	(1,609)	2,988	94,893						
TOTAL	**$17,245,085**	**$ 87,020**	**$ 9,045,297**	**$ (451,356)**	**$ 8,593,942**	**$ 25,926,047**	**$ 1,064,515**	**$ 158,979**	**$ 1,223,494**	**$1,088,150**	**$722,646**	**$1,810,796**

SOURCE: Office of the Comptroller.
(1) Totals may not add due to rounding.
(2) Includes a series of crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

General Obligation Contract Assistance Liabilities

Massachusetts Department of Transportation, as successor to the Massachusetts Turnpike Authority. On February 19, 1999, the Commonwealth and the Massachusetts Turnpike Authority entered into a contract which provides for the Commonwealth to make annual operating assistance payments to the Massachusetts Department of Transportation (MassDOT), as successor to the Authority, which are capped at $25 million annually and extend until the end of the 40th fiscal year following the transfer of certain facilities associated with the Commonwealth's Central Artery/Ted Williams Tunnel Project (CA/T) to MassDOT. On June 30, 2009, the Commonwealth and the Turnpike Authority entered into a contract for financial assistance which provides for the payment by the Commonwealth to MassDOT, as successor to the Authority, of $100 million per fiscal year, commencing July 1, 2009 until June 30, 2039. Payments under both contracts constitute a general obligation pledge of the Commonwealth for which the full faith and credit of the Commonwealth are pledged.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust (the "Trust") manages the Commonwealth's state revolving fund program under 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 funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and water treatment projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust have, in the past, and may in the future, bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's Clean Water Act program may not exceed $71 million, and the aggregate annual contract assistance payment for the Trust's Safe Drinking Water Act program may not exceed $17 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of December 31, 2009 the Trust had approximately $3.3 billion of bonds outstanding. Approximately 14.2% of the Trust's aggregate debt service is covered by Commonwealth contract assistance. The Trust intends to issue additional fixed-rate bonds in the aggregate principal amount of approximately $520 million in July, 2010.

Massachusetts Development Finance Agency. On June 12, 2008, the Governor approved legislation amending a 2006 law authorizing an "infrastructure investment incentive" program, known as "I-Cubed." The amendment, among other things, clarifies the manner in which the program is to be financed and the security for the related bonds. Under the program, up to $250 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the Massachusetts Development Finance Agency (MassDevelopment) that will be secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Until a related new private development is completed and occupied, the developer's property will be assessed by the municipality in which the development is located in amounts equal to the debt service cost on the bonds to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality will be required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality's reimbursement obligation will be secured by a general obligation pledge of the municipality, a local aid intercept and a reserve fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date plus all remaining principal payments due. Pursuant to this legislation, in April, 2010, MassDevelopment issued $10 million of two-year bond anticipation notes in anticipation of the issuance of up to $20 million of bonds to finance certain public infrastructure costs at a development in Somerville, Massachusetts.

Legislation approved by the Governor on August 8, 2008 includes an authorization to finance up to $43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds to be issued by MassDevelopment to finance the parkway will be secured and payable from a general obligation pledge of contract assistance from the

Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, it is expected that the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, would be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation. Pursuant to this legislation, MassDevelopment expects to issue approximately $30 million in bonds in June, 2010.

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency. These figures are as of June 30, 2009.

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

Fiscal Year	Massachusetts Water Pollution Abatement Trust	Massachusetts Department of Transportation	Massachusetts Development Finance Agency	Total
2010	$ 67,262	$ 125,000	-	$ 192,262
2011	66,066	125,000	$ 2,069	193,135
2012	64,834	125,000	2,069	191,903
2013	62,383	125,000	2,075	189,458
2014	59,343	125,000	3,129	187,472
2015	57,911	125,000	3,130	186,041
2016	53,081	125,000	3,126	181,207
2017	45,970	125,000	3,126	174,096
2018	40,276	125,000	3,129	168,405
2019	40,063	125,000	3,127	168,190
2020	34,747	125,000	3,128	162,875
2021	27,934	125,000	3,130	156,064
2022	18,772	125,000	3,126	146,898
2023	19,184	125,000	3,126	147,310
2024	11,186	125,000	3,129	139,315
2025	7,231	125,000	3,125	135,356
2026 through 2045	12,963(1)	1,900,000(2)	46,913	1,959,876
Total	**$689,206**	**$3,900,000**	**$90,657**	**$4,679,863**

SOURCES: Massachusetts Water Pollution Abatement Trust column – Office of the State Treasurer; Massachusetts Department of Transportation and MassDevelopment columns - Executive Office for Administration and Finance.
(1) Contract assistance requirements end fiscal 2029.
(2) Represents $25 million per year for fiscal years 2026 to 2045, inclusive and $100 million per year for fiscal years 2026 to 2039, inclusive.
(3) Represents estimated debt service payments on $20 million in bonds expected to be issued in 2012 to retire outstanding bond anticipation notes and $30 million in bonds expected to be issued in June 2010.

Budgetary Contract 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 certificates bear interest at a fixed rate with a final maturity of April 1, 2022. The Commonwealth, acting through the Executive Office of Public Safety and Security and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay an amount at least equal to 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 and Security. 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 December 31, 2009, such certificates were outstanding in the aggregate principal amount of $94,205,000. The

Commonwealth is considering refunding opportunities, including issuing refunding bonds as Commonwealth general obligation bonds, which is permitted pursuant to authorization granted in legislation approved by the Governor on August 11, 2008.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August, 2000, the Route 3 North Transportation Improvements Association (the "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 additional lease revenue bonds, $305.6 million of which were issued as refunding 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. In May, 2007 and November, 2008, the Commonwealth sold general obligation bonds to refund most of the lease revenue bonds and replace them with fixed-rate general obligation bonds. As of December 31, 2009, the Route 3 North Transportation Improvements Association had $26.8 million of such lease revenue bonds outstanding, all of which are fixed-rate.

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/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation has paid the Commonwealth $1,699,517 in ground rent and $14,719 in accrued interest for the first six months of fiscal 2010. For January through June, 2010, the additional projected ground rent payments will be $3,218,053, and the accrued interest payments will be $4,766. The accrued rent balance is projected to be approximately $2.2 million, and the accrued interest is projected to be approximately $600.00.

MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased 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 makes sublease payments to MassDevelopment/Saltonstall Building Redevelopment Corporation. 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 full-year costs include $7,076,954 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 shares 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 December 31, 2009, MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately $169.5 million of such lease revenue bonds outstanding.

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, 2009 are set forth in the table below.

The following table sets forth the Commonwealth's budgetary contract assistance requirements. These figures are as of June 30, 2009.

Budgetary Contract Assistance Liabilities (in thousands)

Fiscal Year	Plymouth County Certificates of Participation	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(1)	Other Leases(2)	Total
2010	$ 10,244	$ 9,618	$ 9,437	$178,246	$207,545
2011	10,245	9,618	9,509	138,562	167,934
2012	10,240	5,409	9,578	111,256	136,483
2013	10,245	1,129	9,649	85,203	106,226
2014	10,244	1,130	9,723	59,869	80,966
2015	10,250	1,128	9,840	36,073	57,291
2016	10,245	1,129	9,917	36,073	57,364
2017	10,238	1,116	9,998	36,073	57,425
2018	10,244	--	10,080	36,073	56,397
2019	10,244	--	10,165	36,073	56,482
2020	10,246	--	10,296	14,050	34,592
2021	10,243	--	10,386	14,050	34,679
2022	10,252	--	10,479	14,050	34,781
2023	--	--	10,575	14,050	24,625
2024	--	--	10,674	14,050	24,724
2025 through 2035	--	--	126,360	88,460	214,820
Total	**$133,180**	**$30,277**	**$276,666**	**$912,211**	**$1,352,334**

SOURCES: Other Leases column - Office of the Comptroller; GAAP Basis, all other columns - Executive Office for Administration and Finance.

(1) Cash flows from the Commonwealth represent gross payments to MassDevelopment, including projections provided by MassDevelopment of the Commonwealth's share of operating costs and other items that are subject to change.

(2) Leases with the institutions of higher education that are supported by tuition and fees are not included.

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, notes and other obligations 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 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into 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 December 31, 2009, the Massachusetts Bay Transportation Authority had approximately $855.6 million 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 $166 million to $156 million through fiscal 2013 and declining thereafter.

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 the 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 the Authority 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, 2009 the Steamship Authority had approximately $66.5 million of bonds outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds some of 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. As of December 31, 2009, the Massachusetts State College Building Authority had approximately $44.8 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to $200 million in Commonwealth-guaranteed debt and had approximately $145.4 million of Commonwealth-guaranteed debt outstanding as of December 31, 2009.

Massachusetts Housing Finance Agency (MassHousing). 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 the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of December 31, 2009, MassHousing had outstanding approximately $311.6 million of multi-family housing bonds secured by capital reserve funds. 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 fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the 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.

Regional Transit Authorities. There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are overseen by the Massachusetts Department of Transportation and are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year, the authorities issue revenue anticipation notes to fund their net costs of service. Legislation approved by the Governor on July 13, 2008, provided for the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. The legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of December 31, 2009, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately $145.3 million.

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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 which the Commonwealth determines it can afford to finance 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
2005	$ 9,506,821
2006	7,668,331
2007	8,349,391
2008	7,043,446
2009	16,987,024

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 underwriters' discount, costs of issuance and other financing costs) 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 principal amount of debt outstanding as measured and reported in conformity with GAAP.

COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan, including its debt affordability analysis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt, third-party payments and federal reimbursements. Beginning in fiscal 2009 and expected through fiscal 2012, capital funds are also provided pursuant to the American Recovery and Reinvestment Act of 2009.

The Executive Office for Administration and Finance sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the "bond cap," is to keep Commonwealth debt within affordable levels.

On October 7, 2009, the Governor released a five-year capital investment plan for fiscal 2010 through fiscal 2014, totaling nearly $17 billion. With the release of the five-year capital investment plan, the Governor announced that the bond cap will be $1.5 billion for fiscal 2010, plus $150 million in unused bond cap from fiscal 2009 which has been carried forward to support spending in fiscal 2010. The bond cap for fiscal 2011 is projected to be $1.625 billion, and is projected to increase by $125 million in each subsequent fiscal year through fiscal 2014. The five-year capital investment plan for fiscal 2011 through fiscal 2015 is expected to be released by August, 2010.

The bond cap determination is based on the debt affordability policy described in the updated debt affordability analysis. Under this policy, the Executive Office for Administration and Finance will set the annual borrowing limit at a level designed to keep debt service within 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistant payment obligations on certain capital lease financings. In addition, while the Accelerated Bridge Program will be funded outside of the bond cap, the related debt service costs of the program have been fully accounted for under the debt affordability policy in setting the bond cap at the designated levels. However, when a project financed with debt payable by the Commonwealth directly or indirectly generates new state revenue that is applied to the payment of such debt, the Executive Office for Administration and Finance will exclude the debt, the related debt service payment obligations and the new revenue used to pay such obligations from the debt affordability analysis. For example, bonds issued by MassDevelopment and payable by the Commonwealth pursuant to the I-Cubed program or for the parkway at the former South Weymouth naval base are expected to be excluded from the bond cap, as the Commonwealth's payment liability with respect to such bonds is expected to be covered by the new state tax revenues generated from the private development supported by the infrastructure improvements financed by the bonds. Another example is general obligation bonds to be issued by the Commonwealth pursuant to a new program, the Clean Energy Investment Program, to fund energy efficiency projects at state facilities. Such bonds will be excluded from the bond cap, as the debt service with respect to such bonds will be covered by energy cost and related savings achieved by the state agency hosting the energy efficiency projects.

For purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority. The fiscal 2010 estimate was based on the fiscal 2010 budget as originally approved and does not take into account the subsequent downward revision of the fiscal 2010 revenue estimate by the Secretary of Administration and Finance on October 15, 2009. For purposes of projecting budgeted revenue in future fiscal years, the compound annual growth rate in budgeted revenues from fiscal years 2000 through 2010 of 2.66% was applied to fiscal 2011 revenues and to each year thereafter. This is consistent with the debt affordability policy, which states that projected increases to budgeted revenues will be the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than $125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by $125 million from fiscal 2010 through fiscal 2014.

The Executive Office for Administration and Finance will revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth's debt capacity. In addition, the Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap. The conclusions from this analysis will be included in the fiscal 2011 through fiscal 2015 capital investment plan which is expected to be released by August, 2010.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis published on October 7, 2009.

Bond Cap (in thousands)

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014
Bond Cap (1)	$ 1,650,000	$ 1,625,000	$ 1,750,000	$ 1,875,000	$ 2,000,000
Total Debt Service Obligations	2,215,272	2,215,317	2,390,578	2,391,257	2,494,262
Estimated Budgeted Revenue	29,370,942	30,298,677	31,104,291	31,931,577	32,781,022
Debt Service as % of Budgeted Revenues	7.54%	7.31%	7.69%	7.49%	7.61%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.

(1) Includes $150 million of fiscal 2009 unused bond cap that has been carried forward to fiscal 2010.

Reflecting changed economic conditions, the total bond cap projected in the fiscal 2010 through fiscal 2014 five-year plan is $1.1 billion less than the total bond cap projected in the first five-year plan published by the Executive Office for Administration and Finance in July, 2007.

In the past, the Commonwealth aggregated its capital expenditures into seven major categories based primarily on the agencies responsible for spending and carrying out capital projects: economic development, environment, housing, information technology, infrastructure and facilities, public safety, and transportation. The following table sets forth historical capital spending in fiscal 2005 through fiscal 2009 according to these categories:

Commonwealth Historical Capital Spending (in millions)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Information technology	$ 61	$ 88	$ 53	$ 65	$ 97
Infrastructure	262	283	271	186	333
Environment	122	142	153	188	246
Housing	122	129	140	172	252
Public safety	18	19	18	19	21
Transportation	1,300	1,189	1,120	1,109	1388
Convention centers	54	12	2	-	-
Other	39	30	29	43	96
School building assistance	565	435	-	-	-
Total Uses (1)	**$ 2,543**	**$ 2,327**	**$ 1,786**	**$1,782**	**$2,432**

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.
(1) Totals may not add due to rounding

For fiscal 2008 through fiscal 2014, the Executive Office for Administration and Finance re-characterized capital spending into 13 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, maintenance, public safety, state office buildings and facilities, and transportation. This presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets. Similarly, expenditures for Department of Conservation and Recreation roads and bridges appear in the transportation category, rather than the energy and environment category.

The capital investment plan for fiscal 2010 through fiscal 2014 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2010 through fiscal 2014.

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Capital Investment Plan - Total Bond Cap (in millions)

Investment Category:	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	5-Year Total	% of 5-Year Total
Community Investment	$ 235	$ 223	$ 241	$ 259	$ 244	$1,203	14%
Corrections	21	21	32	60	95	229	3
Courts	112	69	30	53	109	373	5
Economic Development	87	82	94	107	117	487	5
Energy/Environment	107	103	98	106	109	523	6
Health/Human Services	92	84	80	45	67	368	4
Higher Education	84	124	152	232	235	827	9
Housing	168	168	168	171	173	848	10
Information Technology	75	73	82	86	86	402	5
Public Safety	13	8	15	28	39	103	1
State Buildings	73	92	105	70	61	400	4
Transportation	583	578	653	659	665	3138	35
Total	**$1,650**	**$1,625**	**$1,750**	**$1,875**	**$2,000**	**$8,900**	**100%**

Capital Investment Plan - All Sources of Funding (in millions)

Investment Category:	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	5-Year Total	% of 5-Year Total
Community Investment	$ 294	$ 280	$ 283	$ 295	$ 281	$1,433	8%
Corrections	26	22	32	60	95	236	1
Courts	112	76	39	62	118	406	2
Economic Development	107	122	168	177	192	767	4
Energy/Environment	121	116	99	106	109	551	3
Health/Human Services	93	89	84	45	67	378	2
Higher Education	99	169	200	234	235	937	5
Housing	297	268	212	173	173	1,124	7
Information Technology	78	76	82	86	86	494	3
Public Safety	39	20	19	28	39	145	1
State Buildings	85	104	105	70	61	425	2
Transportation	1,687	2,133	2,231	2,240	1,855	10,146	60
Total (1)	**$3,039**	**$3,475**	**$3,554**	**$3,577**	**$3,311**	**$17,042**	**100%**

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.
(1) Totals may not add due to rounding

The different sources of funding for the capital program, as reflected in the table above, include:

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth and Commonwealth contributions to the Central Artery/Ted Williams Tunnel project from annual operating revenues;
- Project-Financed Bonds – self-supporting bonds payable by the Commonwealth from a project-related stream of revenue;
- Accelerated Bridge – Commonwealth gas tax bonds or federal grant anticipation notes issued to fund the Accelerated Bridge Program; and
- American Recovery and Reinvestment Act of 2009 (ARRA) – funds provided by the federal stimulus bill directly to the Commonwealth for targeted capital investments.

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The following table shows the sources of capital funds for fiscal 2009 and the estimated sources of funds for the next five fiscal years:

Capital Investment Plan: Sources of Funds (in millions)

Fiscal Year	Bond Cap	Federal Reimbursements	Third Party	Project Financed	Accelerated Bridge Program	ARRA	Total (1)
2009	$1,577.0	633.1	119.6	16.2	81.6	4.9	$2,432.3
2010	1,650.0	717.3	57.5	37.5	357.3	219.1	3,038.7
2011	1,625.0	821.9	88.8	141.1	525.5	272.7	3,475.1
2012	1,750.0	703.0	80.9	179.0	688.7	152.2	3,553.8
2013	1,875.0	698.1	26.2	212.8	668.4	96.0	3,576.6
2014	2,000.0	715.5	24.2	214.0	357.1	0	3,310.8

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis published October 7, 2009.
(1) Totals may not add due to rounding.

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 her 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.

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.

Health Care for All v. Romney, et al., United States District Court. A group of individual plaintiffs brought this action for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs asserted that the Commonwealth's administration of the dental program fails to comply with federal Medicaid law. In February 2006, the District Court entered judgment against the state defendants on three counts of the plaintiffs' third amended complaint with respect to MassHealth-eligible members under age 21. Pursuant to that judgment, the Commonwealth must develop and implement a remedial plan to improve access to Medicaid-covered dental services for MassHealth-eligible members under age 21. Crucial aspects of the plan, including certain regulatory changes and the retention of a third-party administrator for the MassHealth dental plan, have already been implemented, but it is anticipated that additional program costs necessary to comply with the judgment will be incurred over the next several fiscal years. It is not possible, at this time, to accurately estimate the amount of likely future program costs that will be required to comply with the judgment.

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. In January 2009, the Court allowed plaintiffs' motion for $7 million in legal fees. The cost of implementation is likely to exceed $20 million annually beginning in fiscal 2009. Although in fiscal 2009 the Commonwealth paid the plaintiffs' attorneys approximately $7.1 million in court-approved fees, plaintiffs are entitled to submit additional petitions for recovery of attorneys' fees incurred post-judgment (*e.g.*, for monitoring activity), through the end of the remedial plan implementation period (July, 2012). In late May 2010, plaintiffs moved the court for payment of approximately $1.48 million in attorneys' fees for monitoring the implementation of the judgment during the period from January 1, 2007, through June 30, 2009. Defendants' counsel is presently fashioning a response.

Disability Law Center, Inc. v. Massachusetts Department of Correction et al, United States District Court. The Disability Law Center (DLC) filed suit against the Department of Correction (DOC) and various senior DOC officials, alleging that confining prisoners with mental illness in segregation beyond a short period violates the Eighth Amendment, the Americans with Disabilities Act and the Rehabilitation Act of 1973. DLC asks the court to enjoin DOC from confining mentally ill prisoners in segregation for more than one week and to require DOC to establish a maximum security residential treatment unit or units as an alternative to segregation. DLC has proposed a broad definition of mental illness which, if adopted, would cover a large percentage of DOC's segregation population. DLC's counsel and consultants (a psychiatrist, a psychologist and a corrections specialist) have toured several DOC facilities and have interviewed numerous segregation inmates. DLC has received the medical and mental health records of numerous inmates. On July 31, 2009, the state defendant filed, under seal, a superseding draft settlement agreement that contemplates appropriate services to inmates with serious mental illness while taking account of the Commonwealth's current budgetary constraints. The Disability Law Center (DLC) rejected the state defendant's settlement offer, as proposed. Thereafter, in early November, 2009, the parties filed separate status reports with the Court reporting a cessation of their settlement discussions and, consequently, the need for a trial date. A scheduling order dated February 10, 2010 provides that any amended pleadings must be filed by early May, 2010, and all discovery is to be completed by mid-March, 2011. The Court has set a trial date of June 6, 2011. While the DLC requests only injunctive relief, the Department of Correction has conducted a preliminary funding analysis, which estimates that approximately $135 million of additional funding would be required over the next five fiscal years relating to program costs and staffing associated with the implementation of provisions of the original draft settlement agreement. This estimate does not include approximately $8 million in bond funding for information technology infrastructure and related upgrades.

Harper et al. v. Massachusetts Department of Transitional Assistance, United States District Court. This lawsuit was filed by four individuals seeking to represent a class of indigent disabled individuals who apply for or receive subsistence-level cash and/or food stamp benefits from the Massachusetts Department of Transitional Assistance (DTA). Plaintiffs allege that the way DTA administers its programs has the effect of preventing persons with disabilities from having equal access to DTA's benefits and services, and therefore violates the Americans with Disabilities Act and the Rehabilitation Act of 1973. Plaintiffs seek systemic changes to the DTA's policies and procedures as well as to information and telephone systems. DTA has answered the complaint, and the parties are conducting discovery. After the assigned magistrate judge recommended class certification, DTA filed objections with the District Court judge, who has had the matter under advisement since mid-March, 2010. Although the existence and scope of liability are contested by DTA, the cost of implementing the changes demanded by the plaintiffs could cost millions of dollars.

Kristy Didonato, et al. v. Department of Transitional Assistance, et al. (*Didonato I* and *Didonato II*), Massachusetts Housing Court Western Division. These are consolidated class actions challenging DTA's practices and procedures relating to emergency shelter placements and, more specifically, its practices and procedures relating to the placement of families in shelters that are located more than 20 miles from their home communities. In October, 2006, the Housing Court allowed the plaintiffs' motion for partial summary judgment on the systemic notice and hearing claims in *Didonato I* and *II*. Following the court's decision, DTA worked with plaintiffs' counsel to implement the court's partial summary judgment decision and also initiated settlement discussions to resolve the remaining claims in the consolidated complaints. Plaintiffs' counsel moved to expand plaintiffs' requested relief to include a demand that DTA adopt a policy requiring that motel placements be used to avoid placing families with school-age children in shelters that are more than 20 miles from their home communities. On July 1, 2009, the emergency shelter program was transferred from DTA to another state agency, the Department of Housing and Community Development. The defendants served a formal opposition to the motion to expand the case in early May 2010. A court hearing has been scheduled for June 17, 2010. If the court agrees to expand the *Didonato* cases to include this claim relating to the use of motels, and ultimately finds that the Commonwealth must facilitate a motel placement before placing a family with school-age children in a shelter more than 20 miles from their home community, the program costs related to implementing such a requirement potentially could exceed $20 million.

Mass. Community College Council, Inc., et al. v. Board of Higher Ed., et al., Suffolk County Superior Court. A group of individual plaintiffs and the employee organizations to which they belong brought this action for declaratory and mandamus relief, challenging the Commonwealth's criteria for eligibility to enroll in Group Insurance Commission health insurance coverage under G.L. c. 32A and for the payment of a pro-rata contribution for non-eligible employees who obtain health insurance coverage through the Health Insurance Connector Authority. The case is still in the early stages of litigation; the complaint was filed in late November, 2009, and the state defendants' answered on February 12, 2010, denying that the plaintiffs are entitled to any of the relief they demand. While the case is not a class action, if the plaintiffs prevail, it is expected that the Commonwealth would likely make similarly situated persons eligible for coverage or contribution. It is not possible, at this time, to accurately estimate the costs that would be incurred if the plaintiffs prevail.

Finch, et al. v. Health Insurance Connector Authority, et al. Supreme Judicial Court for Suffolk County. This lawsuit, filed directly in the Supreme Judicial Court single justice session, challenges, under the state Equal Protection Clause, a statute enacted in August 2009 that excludes from the Commonwealth Care program, run by the Connector Authority, those individuals who are alien residents with special status (AWSS). Many members of the AWSS population are otherwise eligible for subsidized insurance through the Commonwealth Care program. Because the Commonwealth does not receive federal Medicaid funds for these individuals (unlike other members of Commonwealth Care), the Legislature effectively reduced the Connector Authority's budget by excluding this group of members. The Commonwealth then established a less expensive program to cover much of the AWSS population with health insurance. The lawsuit does not ask for retroactive relief, but seeks to have the individuals reinstated to the Commonwealth Care program. If plaintiffs succeed on their claims, the Commonwealth could incur as much as $80 to $100 million in additional costs for covering special status immigrants through Commonwealth Care in fiscal 2011. This is a conservative estimate based on projected average program costs and will be refined as updated cost and enrollment information for special status immigrants becomes available.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court, Western Division. This is a proposed class action in which plaintiffs allege that the Commonwealth's foster care system violates foster children's constitutional and statutory rights to be protected from harm while in state custody; to not be deprived unnecessarily of child-parent and sibling relationships; to safe, stable foster care placements and timely adoption planning and recruitment; to payments to foster care providers that cover the actual costs of providing food, clothing, shelter, and other essential items; and to adequate educational, mental health, medical, and dental services. Plaintiffs further allege that children are abused and neglected while in the Commonwealth's foster care system at a rate higher than the national average; that children in foster care are moved from one placement to another with unusual frequency; that many children never achieve permanency in their placements; and that hundreds of children "age out" of foster care inadequately prepared to live independently as adults. Plaintiffs claim that the system's alleged failures are attributable to an insufficient number of social workers, all carrying excessive caseloads; a dearth of appropriate foster care placements and ancillary services; and insufficient supports (including financial reimbursement) to foster care providers. Defendants have yet to respond to the suit, filed on April 15, 2010, but if plaintiffs succeed in achieving all of the declaratory and injunctive relief they seek, the Commonwealth could be required to expend millions of dollars in increased foster care reimbursement payments, personnel costs, and services.

Medicaid Audits and Regulatory Reviews

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. New federal regulations on health care-related taxes were, in large part, subject to a moratorium on implementation through June 30, 2009, which CMS has extended until June 30, 2010. By the end of pool fiscal year 2010, the Commonwealth will have collected an estimated $4.836 billion in acute hospital assessments since 1990 and an estimated $1.717 billion in surcharge payments since 1998. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states.

In re: Deferral of 2005 MassHealth acute hospital supplemental payments. In March, 2006, CMS deferred payment of claims for FFP totaling almost $52.5 million. This amount represents the federal share of the portion of MassHealth supplemental payments to Boston Medical Center ("BMC"), Cambridge Health Alliance ("CHA") and UMass Memorial Health Care, Inc. ("UMMHC") hospitals attributable to dates of service on or before fiscal 2003. CMS released $16.4 million in FFP for payments to BMC and CHA and is holding $27 million in FFP for payments to UMMHC pending resolution of OIG audit discussed below. EOHHS returned $9 million in FFP based on its own update of projected payment limits.

In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services(Targeted Case Management). On March 20, 2008, the Centers for Medicare and Medicaid Services (CMS) issued a notice of disallowance of $86,645,347 in Federal Financial Participation (FFP). As the basis for the disallowance, CMS cited the final findings of an audit conducted by the Office of the Inspector General of the U. S. Department of Health and Human Services regarding Medicaid targeted case management claims for children in the target group of abused or neglected children involved with the Department of Social Services. The Commonwealth appealed the CMS disallowance to the Departmental Appeal Board of the U. S. Department of Health and Human Services. On December 31, 2008, the Departmental Appeals Board affirmed the disallowance. The Commonwealth filed an appeal of the disallowance in federal district court on February 25, 2009. (See *Commonwealth v. Johnson* below.)

Commonwealth v. Johnson, et al., United States District Court. The Attorney General filed this action seeking judicial review of the decision by the federal Centers for Medicare and Medicaid Services (CMS) to deny approximately $86 million FFP for targeted case management (TCM) services provided by the Department of Children and Families (formerly the Department of Social Services). On March 24, 2010, the District Court entered judgment for the United States. On May 20, 2010, the Commonwealth filed its appeal with the United States Court of Appeals for the First Circuit.

Boston Medical Center Corp. and Boston Medical Center Health Plan, Inc. v. Secretary of the Executive Office of Health and Human Services, Suffolk Superior Court*.* Plaintiffs filed suit in July 2009 claiming that they are owed at least $120.9 million in additional payments by the Commonwealth's Medicaid program for fiscal 2009. Plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the Boston Medical Center hospital and managed care organization entities. Defendant filed an Answer denying all claims. Defendant served a motion to dismiss all claims on May 25, 2010. Plaintiffs must serve their response by July 12, 2010. A hearing on the motion is scheduled for September 29, 2010.

Holyoke Medical Center, Inc., et al. v. Secretary of the Executive Office of Health & Human Services, Suffolk Superior Court. Six community hospitals that mainly serve patients covered by state and federal public insurance plans filed suit in December 2009 claiming that they are owed at least $115.9 million by the Commonwealth's Medicaid program. Plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the six plaintiff hospitals. Defendant served a motion to dismiss all claims on March 11, 2010. Plaintiffs must serve their response by June 14, 2010. The hearing on the motion has not yet been scheduled.

Taxes

There are several tax cases pending that 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 4, 2010, it is estimated that approximately $145.8 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 comprise a sizeable share of these liabilities.

TJX Companies v. Commissioner of Revenue ("TJX I"), Appeals Court. In *TJX I*, the taxpayer challenged certain assessed corporate excise taxes and the Commissioner's application of the sham transaction doctrine to various deductions claimed by TJX on account of purported royalty and interest payments to related, out-of-state corporations. According to the statement of agreed facts submitted to the Appellate Tax Board in *TJX I*, the direct amount in dispute, exclusive of interest, was approximately $9.8 million. The Board decided *TJX I* in favor of the Commissioner, and the taxpayer appealed. The Appeals Court largely affirmed the decision of the Appellate Tax Board in an unpublished decision dated April 3, 2009. Subsequently, the Supreme Judicial Court denied TJX Companies' application for further appellate review.

TJX Companies v. Commissioner of Revenue ("TJX II"), Appeals Court. In *TJX II*, the taxpayer is challenging a tax liability of approximately $18 million (including interest), upheld by the Appellate Tax Board and arising from the Commissioner's disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. Whether the Appeals Court's decision in *TJX I* should control the ultimate decision here is the principal issue in *TJX II*. The *TJX II* appeal is now fully briefed and oral argument is scheduled for June 8, 2010.

Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue, Middlesex Superior Court. The plaintiffs, a putative class of Massachusetts consumers who purchased Dell computers between 1995 and 2006, brought suit against Dell seeking a declaration that Dell wrongfully collected (and remitted to the Commissioner) sales tax upon service contracts that were purchased at the same time consumers purchased personal computers from Dell. (The computers themselves were not subject to sales tax because Dell, at that time, had no physical presence in Massachusetts.) The Supreme Judicial Court ruled that Dell could not be liable under Chapter 93A (and therefore be forced to pay treble damages) for collecting taxes that it believed, in good faith, were due; the Court, however, let the declaratory action go forward. Dell has now filed a third-party complaint against the Commissioner, seeking a declaration that the taxes were wrongfully collected and should be paid back. The Superior Court now has under advisement the Commissioner's motion to dismiss the third-party action, premised on the ground that Dell must first exhaust its administrative remedies. (Dell's request for an abatement was denied by the Commissioner; Dell then filed abatement petitions with the Appellate Tax Board, seeking abatement of all sales taxes paid and remitted on Dell service contracts during the period at issue.) If successful on all of its claims, Dell argues that it is entitled to an abatement of approximately $27.8 million in previously paid tax (including interest that has accrued since dates of payment). The Feeney plaintiffs have estimated that approximately $40 million in sales tax was collected and should be returned to purchasers. At this time, neither the Commissioner nor the Attorney General ventures any opinion as to Dell's likelihood of recovery.

DIRECTV, Inc. v. Commonwealth of Massachusetts Department of Revenue, Suffolk Superior Court. In a lawsuit filed in early 2010, DIRECTV claims that the excise on the sale of direct broadcast satellite services to subscribers or customers in the Commonwealth (enacted by Mass. St. 2009, c. 27, sec. 61 and 150) violates the Commerce Clause of the United States Constitution and the equal protection clauses of the United States and Massachusetts Constitution. Although the suit is only in its incipient stage, the potential refund of taxes collected under the statute may exceed $10 million for each tax year. In mid-March, 2010, the Commonwealth served a motion to dismiss the complaint for failure to exhaust administrative remedies.

Vodaphone Americas, Inc. v. Commissioner of Revenue, Appellate Tax Board. These five docket numbers cover the years 2000 to 2008 for two entities that owned an interest in a partnership doing business in the Commonwealth as Verizon Wireless. For the first three years, the partnership was owned through a tiered ownership structure of pass-through entities. The Commissioner claims that nexus is appropriate in these years. For the next six years, one of the entities in the ownership chain was a Bermuda corporation. The partner (Vodafone) is claiming that the corporation should pay tax on its income, while the corporation, as a disregarded entity, is filing a return (PS-1, for utilities) that indicates that its shareholder, a partnership, is flowing all income up to the partners. The issue is which entity is properly subject to tax on the income in this case. An additional issue concerns the sourcing of receipts for services in the numerator of the sales factor based upon where the company incurred the costs of performing the income-producing activity that gave rise to those receipts. The case has been set for a status conference on June 16, 2010, with a discovery completion date scheduled for September, 2010, and a trial date scheduled for October, 2010. Should Vodaphone prevail on all issues the potential loss to the Commonwealth is estimated at approximately $44 million.

Other Revenues

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et. al. (2003 NPM Adjustment) This matter arises under the Tobacco Master Settlement Agreement ("MSA") entered into in 1998, that settled litigation and claims by the Commonwealth and 45 other states, DC, Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas (collectively the "States"), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers ("OPMs") and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the OPMs suffer a specified market share loss as compared to the OPMs' market share during the base year 1997. Because the OPMs did suffer the requisite market share loss in 2003, the OPMs are seeking to reduce, by $1.1 billion (or 18.6%), the $6.2 billion payment they made to the States for 2003. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs (hereafter the "Firm") must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for 2003. Even if such a determination is made, the States can still avoid the $1.1 billion adjustment if it is determined that the States "diligently enforced" their individual NPM Escrow Statutes. The Significant Factor Determination (SFD) proceeding got underway in June, 2005. The Firm issued its final determination on March 27, 2006 and found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' market share loss in 2003. Immediately following the Firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2006 annual MSA payment in the amount of $1.1 billion which would have reduced the initial 2006 payout to the Commonwealth by approximately $45 million to $50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2003. Philip Morris paid its entire April, 2006 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment which reduced the initial 2006 payout to the Commonwealth by approximately $30 million.

On April 18, 2006, upon the PMs' withholding of the payment due April 17, 2006, the Commonwealth filed an emergency motion in Middlesex County Superior Court seeking immediate payment of the disputed amount and a judicial declaration that the Commonwealth diligently enforced its escrow statute during 2003. The PMs filed a motion to compel arbitration. On June 22, 2006, the Superior Court allowed the PMs' motion to compel arbitration of the diligent-enforcement dispute and dismissed the Commonwealth's complaint. The Commonwealth appealed the Superior Court's order, and the Supreme Judicial Court allowed its application for direct appellate review. On April 23, 2007, the Supreme Judicial Court affirmed the Superior Court's order dismissing the Commonwealth's complaint and compelling arbitration of the diligent-enforcement dispute. The Supreme Judicial Court did not resolve the merits of the diligent-enforcement dispute, leaving that determination to a panel of arbitrators selected in accordance with the terms of the MSA.

If the Commonwealth prevails in establishing that it diligently enforced its NPM escrow statute during 2003, then it will be immune from any potential NPM adjustment that the Independent Auditor may be required to make, and the approximately $30 million in withheld payments will have to be released to the Commonwealth. If, on the other hand, the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2003 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2004 NPM Adjustment) The SFD proceeding for a 2004 NPM Adjustment commenced in May 2006. Because the OPMs did suffer the requisite market share loss in 2004, they are seeking to reduce, by approximately $1.1 billion, the MSA payments they made to the States for 2004 sales. In February 2007, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2004 market-share loss. Immediately following the Firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2007 annual MSA payment in the amount of $1.1 billion, which would have reduced the initial 2007 pay-out to the Commonwealth by approximately $45 million to $50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2004. Philip Morris paid its entire April 2007 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2007 payout to the Commonwealth by approximately $30 million. Consistent with the procedures outlined above, the States can avoid the 2004 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2004 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2005 NPM Adjustment) The SFD proceeding for a 2005 NPM Adjustment commenced in May 2007. Because the OPMs did suffer the requisite market share loss in 2005, they are seeking to reduce, by approximately $709 million, the MSA payments they made to the states for 2005 sales. In February 2008, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2005 market-share loss. Immediately following the Firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April 2008 annual MSA payment in the amount of $709 million, which would have reduced the initial 2008 pay-out to the Commonwealth by approximately $28 million to $30 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the states had diligently enforced their escrow statutes during 2005. Philip Morris paid its entire April 2008 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2008 payout to the Commonwealth by approximately $21 million. Consistent with the procedures outlined above, the States can avoid the 2005 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2005 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2006 NPM Adjustment) The SFD proceeding for a 2006 NPM Adjustment commenced in May 2008. Because the OPMs did suffer the requisite market share loss in 2006, they are seeking to reduce, by approximately $611 million, the MSA payments they made to the States for 2006 sales. In March, 2009, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2006 market-share loss. As in past years, it is anticipated that one or more of the OPMs will withhold a portion of their payments due on April 15, 2009, to account for the 2006 NPM Adjustment. This withholding could reduce the Commonwealth's anticipated payment by approximately $24 million or less, depending on how many OPMs withhold payments. Consistent with the procedures outlined above, the States can avoid the 2006 NPM Adjustment if it is determined that the States diligently enforced their individual NPM escrow statutes. If the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2006 MSA payment, depending upon the outcome of similar NPM proceedings against other States.

In January, 2009 the Commonwealth and other settling states entered into an agreement on arbitration with the OPMs. Broadly stated, the agreement on arbitration provides for a national arbitration proceeding to resolve the ongoing NPM adjustment disputes. As consideration for the states' assent to this agreement, the OPMs agreed, among other things, to release the funds withheld from their April, 2008 MSA payments in connection with the 2005 NPM adjustment dispute. Notwithstanding this release of funds, the OPMs continue to contest the states' diligent enforcement of their escrow statutes. Nevertheless, as a result of this agreement, on February 26, 2009, the Independent Auditor released approximately $21.8 million in withheld 2005 MSA payments to the Commonwealth. Philip Morris paid its entire April 2009 annual Tobacco Master Settlement Agreement ("MSA") payment, but (as anticipated) R.J. Reynolds Tobacco Co. and Lorillard Tobacco Co. withheld their portion of the NPM Adjustment, which reduced the initial 2009 payout to the Commonwealth by approximately $22 million. The parties are still selecting arbitrators to hear the diligent enforcement claims. Each party has appointed one arbitrator. The two-party appointed arbitrators are in the process of selecting the third neutral arbitrator under the terms of the parties' Agreement Regarding Arbitration and panel formation agreement. The full panel is expected to be in place by the end of August, 2010.

Grand River Enterprises Six Nations, Ltd. v. William Pryor, et al., United States District Court, New York. This case arises out of a challenge to the Tobacco Master Settlement Agreement ("MSA") that was initiated in 2002 by a group of companies that manufacture, import or distribute cigarettes manufactured by tobacco companies not parties to the MSA, otherwise called Non-Participating Manufacturers ("NPMs"). These NPMs sued 31 Attorneys General, including the Attorney General of the Commonwealth, alleging that the MSA, the States' escrow statutes, and NPM enforcement actions violate the federal constitution and federal law. More specifically, the plaintiffs alleged that the States' escrow and certification statutes violate Section 1 of the Sherman Antitrust Act, are preempted by the Federal Cigarette Labeling and Advertising Act, and violate the dormant commerce clause of the United States Constitution. In April, 2006, the States filed a petition for *certiorari* asking the United States Supreme Court to review whether the District Court has jurisdiction over the defendants. This petition was denied in October, 2006. Grand River also sought to preliminarily enjoin enforcement of state escrow statutes against it, but this motion was denied and the denial affirmed by the U. S. Court of Appeals for the Second Circuit. Plaintiffs are seeking a final judgment that the MSA is illegal, and such a decision could negatively affect the billions of dollars in future payments to the States anticipated under the MSA. Discovery is complete. On April 27, 2010, the Court heard oral argument on the parties' cross motion for Summary Judgment and has taken the matter under advisement.

Sandra Murphy, et al. v. Massachusetts Turnpike Authority, Middlesex Superior Court. Plaintiffs filed suit against the Turnpike Authority on behalf of a purported "class" consisting of all toll payers within the Metropolitan Highway System ("MHS"). The plaintiffs claim that the use of toll money collected on some parts of the MHS to fund operations, maintenance, and tax debt service for other parts of the MHS (specifically, the Central Artery) is an unconstitutional tax and they seek an injunction and damages. The plaintiffs filed a motion seeking a preliminary injunction prohibiting the Turnpike Authority from spending any MHS tolls on the "non-tolled segments" of the MHS for the duration of the case. The Superior Court denied that motion. The Turnpike Authority filed a Motion to Dismiss, seeking to dismiss all counts of the Third Amended Complaint. A hearing on the Turnpike Authority's motion was held on October 15, 2009. The Court took the motion under advisement and has not yet rendered its decision. In the event the motion were denied and the plaintiffs ultimately prevailed, the extent of the impact on the treasury of the Commonwealth cannot now be accurately estimated.

Carol Surprenant v. Massachusetts Turnpike Authority, Massachusetts Port Authority, and Massachusetts Department of Transportation. United States District Court. Plaintiff originally sued the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort) on behalf of a purported "class" consisting of all toll-payers at the Tobin Memorial Bridge and the Sumner and Ted Williams Tunnels who use E-Z Pass or Fast Lane transponders but do not qualify for the so-called "Resident Discount Programs." The plaintiff claims that the "Resident Discount Programs" are unconstitutional. The MTA and MassPort filed a motion to dismiss the complaint. On March 4, 2010, the court allowed, in part, their motion to dismiss under the federal Privileges and Immunities Clause and denied it, in part, as to the claim under the federal Commerce Clause. The Court authorized a 90 day period for discovery, followed by supplemental briefing. On April 5, 2010, plaintiff filed her first amended complaint, adding the Massachusetts Department of Transportation ("MassDOT") as a defendant. MassDOT answered the amended complaint by denying all claims, and by asserting that the claims against it are barred by the Commonwealth's sovereign immunity, and by the fact that neither the Commonwealth nor MassDOT is subject to suit under 42 U.S.C. § 1983.

Environment

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has threatened to seek 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. In September, 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 that is expected to cost approximately $40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately $1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection (DEP) determined that a portion of the Lake Waban shoreline clean-up was properly performed. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost $2 million or more depending on future decisions by DEP on appropriate clean-up; and (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years. (If a full clean-up of the lake is required in the future, it could cost up to $100 million.)

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, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration, and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. 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.

The Arborway Committee v. Executive Office of Transportation, et al., Appeals Court. The plaintiff, a volunteer group of residents and merchants in Jamaica Plain, filed a complaint in February, 2007, seeking to compel the Commonwealth to restore electric light-rail service between Heath Street and the Forest Hills station in Boston. Green Line service along this route - known as the Arborway Line - was discontinued in 1984. The plaintiff claims that the Commonwealth's failure to restore the Arborway Line is a breach of a Memorandum of Understanding entered into between the Commonwealth and the Conservation Law Foundation in 1990. The Superior Court granted the Commonwealth summary judgment on statute of limitations grounds, and the plaintiffs have appealed. The matter is in the process of being briefed before the Appeals Court; an argument date has not yet been set.

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, *e.g., United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, 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 total cost of construction of the wastewater facilities required under the Court's order, not including combined sewer overflow (CSO) costs, was approximately $3.8 billion. The MWRA anticipates spending $964 million for CSO projects going forward. 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 that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The cost of initial construction of water treatment facilities required under the federal district court's order has now amounted to approximately $4.5 billion through December, 2009. Going forward, the Massachusetts Water Resources Authority anticipates spending an additional $230 million on remaining construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system upgrades, retrofits, and replacements.

United States v. South Essex Sewerage District, United States District Court. This is another federal Clean Water Act case in which the Commonwealth faces the same type of potential liability as above.

Other

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of $130 million. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board ("DRB") panel. The DRB has recently issued decisions on some of the claims, awarding plaintiffs $55 million on claims of $73.8 million. Those decisions are now the subject of further court proceedings. Plaintiffs also still have in excess of $60 million in claims pending.

In re: Historic Renovation of Suffolk County Courthouse. This matter is now in suit, captioned *Suffolk Construction Co. and NER Construction Management, Inc. d/b/a Suffolk/NER v. Commonwealth of Massachusetts Division of Capital Asset Management*, Suffolk Superior Court. The general contractor for this historic renovation project sued the Division of Capital Asset Management claiming that it is owed additional amounts for extra costs and delays associated with the project. Total exposure is approximately $60 million ($16 million in claims of the general contractor and $44 million in pass-through claims from subcontractors).

Local 589, Amalgamated Transit Union, et al. v. Commonwealth of Massachusetts, et al., Suffolk Superior Court. In a class action complaint filed in September, 2009, ten separate union organizations and numerous MBTA employees and retirees challenge various provisions in the recently enacted transportation reform legislation that alter the requirements for employee pension eligibility, transfer the MBTA employees' and retirees' health insurance coverage to Group Insurance Commission plans, increase the percentage of health insurance premiums to be paid by MBTA employees and retirees, and foreclose collective bargaining of group insurance coverage. These changes are in each instance prospective, do not apply to the pension and health insurance provisions in currently existing collective bargaining agreements, and when ultimately implemented are anticipated to result in projected annual savings of $30 million to $40 million associated with the transition of the MBTA employee/retiree benefits to state-controlled insurance plans. Plaintiffs claim that the changes effected by the statute violate federal labor protective agreements, unconstitutionally impair union and other contracts, and effect an unconstitutional taking of property. On December 24, 2009, the Superior Court denied the plaintiffs' request for a preliminary injunction regarding the first round of health insurance transfers, which then took place on January 1, 2010. Both the Commonwealth and the MBTA have filed answers, and the case is now in the discovery phase. The parties served cross-motions for summary judgment in May 2010 and are currently completing matters associated with those motions. It is anticipated that the cross-motions will be filed in mid-June and that the Superior Court will then hear the cross-motions for summary judgment before the next round of health insurance transfers, which will occur on July 1, 2010.

OPEIU, Local 6 and the Massachusetts Trial Court, American Arbitration Association. On May 7, 2010, the Trial Court received an arbitrator's award on two grievances involving the nonpayment of negotiated salary increases for bargaining units of court clerical and professional employees. Despite the lack of appropriations by the Legislature, the arbitrator concluded that the Trial Court was obligated to pay increases in the second and third years of a collective bargaining agreement covering the period July 1, 2007, through June 30, 2010, because the Legislature had funded a wage increase for the first year of the agreement. The estimated cost of implementing the retroactive portion of the agreement is approximately $30.8 million. The estimated costs going forward for fiscal 2011 are approximately $18 million.

Howe v. Town of North Andover, et al., United States District Court. A lawsuit was filed in late January, 2010, naming twenty Massachusetts State Police officers or employees and three Essex Sheriff officers or employees as defendants. The lawsuit arises out of a death at a sobriety checkpoint allegedly organized and/or staffed by the Massachusetts State Police, Essex Sheriff's Department and the North Andover Police Department. The lawsuit alleges wrongful death, civil rights violations, negligence and other claims. At this time no determination has been made as to the merits of the claims against the defendants.

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of 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 any official statement of which this Information Statement is a part 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.mass.gov/osc by clicking on "Financial Reports/Audits."

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), 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 and has not failed in the last six years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. 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 Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Karol Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ *Jay Gonzalez*
Jay Gonzalez
Secretary of Administration and Finance

June 8, 2010

APPENDIX B

PROPOSED FORM OF BOND COUNSEL OPINION

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

[DATE OF DELIVERY]

Honorable Timothy P. Cahill
Treasurer and Receiver-General
State House, Room 227
Boston, MA 02133

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of $______________ General Obligation Bonds, Consolidated Loan of 2010, Series B dated the date of delivery (the "Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

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

The Internal Revenue Code of 1986, as amended (the "Code") imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Bonds in order to assure that interest on the Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Such requirements include, among other things, requirements relating to private use limitations and the yield restriction of certain funds. Failure of the Commonwealth to comply with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Bonds. The Commonwealth has made representations in the Tax Certificate with respect to the Bonds, which was executed on the date of issuance of the Bonds, as to various tax requirements. The Commonwealth has covenanted to comply with the provisions of the Code applicable to the Bonds and has covenanted not to take any action or permit any action that would cause the interest on the Bonds to be included in gross income under Section 103 of the Code. We have relied upon the representations made in the Tax Certificate and have assumed continuing compliance by the Commonwealth with its covenant in rendering the opinion described in paragraph (b), below.

Based upon the foregoing, we are of the opinion that, under existing law:

(a) The Bonds are valid and binding general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the Massachusetts General Laws 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. It should further be noted that Chapter 29, Section 60B, 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.

(b) Interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax, and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax imposed on corporations.

(c) 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 as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

The Commonwealth of Massachusetts

$250,000,000
General Obligation Bonds
Consolidated Loan of 2010, Series B

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 the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), no later than 270 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 2010, (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 EMMA 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 June 8, 2010 (the "Information Statement"), as it appears as Appendix A in the Official Statement dated June 21, 2010 of the Commonwealth with respect to its $250,000,000 General Obligation Bonds, Consolidated Loan of 2010, Series B, which Official Statement has been filed with EMMA, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

	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, revenues and expenditures, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Statutory Basis Distribution of Budgetary Revenues and Expenditures"
2.	Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	"SELECTED FINANCIAL DATA - GAAP Basis"
3.	So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	"COMMONWEALTH REVENUES AND EXPENDITURES - Limitations on Tax Revenues"
4.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH REVENUES AND EXPENDITURES – Employee Benefits; *Pension*"
5.	If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"STATE WORKFORCE"

Financial Information and Operating Data Category		Reference to Information Statement for Level of Detail
6.	Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL INVESTMENT PLAN"
7.	Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES – Outstanding Long Term Commonwealth Debt"
8.	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"
11.	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"
12.	Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Budgetary Contract Assistance Liabilities"
13.	Five-year summary presentation of authorized but unissued general obligation debt	"LONG-TERM LIABILITIES - Authorized But Unissued Debt"
14.	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"
15.	Summary presentation of the then-current, Commonwealth interest rate swap agreements	"LONG-TERM LIABILITIES - Interest Rate Swaps"

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 EMMA. 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 and 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 EMMA notice of any of the following events with respect to the Bonds (numbered in accordance with the provisions of the Rule), if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;[1/]

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to the rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities;[2/] and

(xi) 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 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 a state information

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.

depository 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.

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