

## **NEW ISSUE - BOOK-ENTRY-ONLY**

*In the opinion of Bond Counsel, under existing law, and assuming continued compliance with various requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax imposed on certain 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. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION" herein.*

## **THE COMMONWEALTH OF MASSACHUSETTS**



### **\$486,170,000 General Obligation Bonds Consolidated Loan of 2006 Series D**

*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 February 1, 2007 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to optional 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 Underwriters, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 29, 2006.

### **UBS Investment Bank**

**Bear, Stearns & Co. Inc.  
Lehman Brothers**

**Citigroup**

**JPMorgan  
Merrill Lynch & Co.**

**A.G. Edwards & Sons, Inc.  
Corby Capital Markets, Inc.  
Finacorp Securities  
Loop Capital Markets, LLC  
Morgan Keegan & Company, Inc.  
Raymond James & Associates, Inc**

**Banc of America Securities LLC  
Eastern Bank Capital Markets  
First Albany Capital Inc.  
M.R. Beal & Company  
RBC Capital Markets  
Southwest Securities Inc.  
Wachovia Bank, N.A.**

**Cabrera Capital Markets, Inc.  
Fidelity Capital Markets Services  
Goldman, Sachs & Co.  
Melvin & Company  
Ramirez & Co., Inc.  
Sovereign Securities Corporation, LLC**

August 17, 2006

**THE COMMONWEALTH OF MASSACHUSETTS**  
**\$486,170,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2006, Series D**

**Dated: Date of Delivery**

**Due: August 1, as shown below**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP*</u>
2007	\$15,455,000	4.500%	3.490%	57582N6K6
2008	16,385,000	4.000	3.600	57582N6L4
2009	17,055,000	4.000	3.630	57582N6M2
2010	17,490,000	4.000	3.680	57582N6N0
2011	12,860,000	4.000	3.730	57582N6P5
2011	5,350,000	4.250	3.730	57582N6Q3
2012	10,455,000	4.000	3.800	57582N6R1
2012	8,550,000	5.000	3.800	57582N6S9
2013	9,060,000	4.250	3.870	57582N6T7
2013	10,795,000	4.375	3.870	57582N6U4
2014	6,320,000	4.250	3.920	57582N6V2
2014	14,460,000	5.000	3.920	57582N6W0
2015	18,790,000	4.000	4.000	57582N6X8
2015	3,000,000	4.250	4.000	57582N6Y6
2016	10,000,000	4.000	4.040	57582N6Z3
2016	12,710,000	5.000	4.040	57582N7A7
2017	8,950,000	4.000	4.090	57582N7B5
2017	14,790,000	5.000	4.070C	57582N7C3
2018	9,025,000	4.200	4.200	57582N7D1
2018	15,850,000	5.000	4.120C	57582N7E9
2019	10,085,000	4.250	4.250	57582N7F6
2019	15,990,000	5.000	4.160C	57582N7G4
2020	6,620,000	4.250	4.300	57582N7H2
2020	20,725,000	5.000	4.200C	57582N7J8
2021	2,910,000	4.300	4.350	57582N7K5
2021	25,795,000	5.000	4.240C	57582N7L3
2022	30,165,000	5.000	4.270C	57582N7M1
2023	31,710,000	5.000	4.300C	57582N7N9
2024	33,295,000	4.750	4.430C	57582N7P4
2025	34,915,000	4.750	4.450C	57582N7Q2
2026	19,900,000	4.500	4.520	57582N7R0
2026	16,710,000	5.000	4.350C	57582N7S8

C Priced at the stated yield to the August 1, 2016 optional redemption date at a redemption price of 100%. See "THE BONDS – Redemption" herein.

\* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondowners only at the time of issuance of the Bonds and the Commonwealth does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriters of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein or included by reference herein has been furnished by the Commonwealth and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters of the Bonds or, as to information from other sources, the Commonwealth. The information and expressions of opinion herein or included by reference herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth, or its agencies, authorities or political subdivisions, since the date hereof, except as expressly set forth herein.

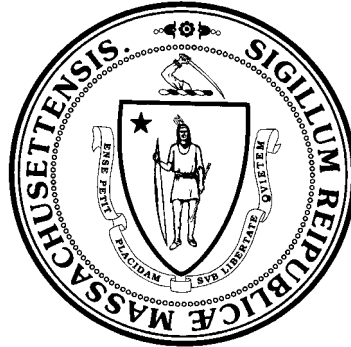
THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO 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.

## TABLE OF CONTENTS

INTRODUCTION .....	1
PURPOSE AND CONTENT OF OFFICIAL STATEMENT .....	1
THE BONDS .....	2
GENERAL .....	2
REDEMPTION .....	2
APPLICATION OF PROCEEDS OF THE BONDS .....	3
SECURITY FOR THE BONDS.....	3
LITIGATION.....	4
BOOK-ENTRY-ONLY SYSTEM.....	4
RATINGS .....	6
UNDERWRITING.....	6
TAX EXEMPTION .....	6
OPINION OF COUNSEL .....	7
CONTINUING DISCLOSURE .....	7
MISCELLANEOUS .....	8
AVAILABILITY OF OTHER INFORMATION.....	9
APPENDIX A - Commonwealth Information Statement Supplement dated August 17, 2006.....	A-1
APPENDIX B - Proposed Form of Opinion of Bond Counsel.....	B-1
APPENDIX C - Continuing Disclosure Undertaking.....	C-1

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

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

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$486,170,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2006, Series D**

#### 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 \$486,170,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2006, Series D (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 April 18, 2006 (the "April Information Statement"), as it appears as Appendix A in the Official Statement dated April 18, 2006 of the Commonwealth with respect to the Commonwealth's \$180,875,000 General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery), a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The April Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the April Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the April Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2005, 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 each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. 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 information contained in the April Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated August 17, 2006 (the "August Supplement"), which is attached hereto as Appendix A. The April Information Statement and the August Supplement are referred to herein collectively as the "Commonwealth Information Statement."

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 of the Bonds with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

## THE BONDS

### General

The Bonds will be dated their date of delivery and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 2007 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on August 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 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 maturing prior to August 1, 2017 will not be subject to redemption prior to their stated maturity dates.

*Optional Redemption.* The Bonds maturing on and after August 1, 2017 will be subject to redemption on any date prior to their stated maturity dates on and after August 1, 2016 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

*Notice of Redemption.* The Commonwealth shall give notice of redemption to the owners of the Bonds not less than 30 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for the Bonds, notices of redemption will be mailed by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

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

*Selection for Redemption.* In the event that less than all of any maturity of the Bonds is to be redeemed, and so long as the book-entry only system remains in effect for such Bonds, the particular Bonds or portion of any such Bonds of a particular maturity to be redeemed will be selected by DTC by lot. If the

book-entry-only system no longer remains in effect for the bonds, selection for redemption of less than all of any one maturity of the bonds will be made by the Commonwealth by lot in such manner as in its discretion it shall deem appropriate and fair. For purposes of selection by lot within a maturity, each \$5,000 principal amount of a Bonds will be considered a separate Bond.

### **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 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 the payment of bond anticipation notes previously issued for such purposes, 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 and other financing costs related thereto or, without appropriation, to the payment of the principal of or sinking fund installments with respect to the Bonds.

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 through fiscal 2009 and establishes annual capital spending limits. See the Commonwealth Information Statement under the heading "COMMONWEALTH CAPITAL ASSET 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 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 his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see the Commonwealth Information Statement under the heading "LEGAL MATTERS."

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each 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 securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of the DTC Participants and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, respectively, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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



credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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

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

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

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

### **RATINGS**

The Bonds have been assigned ratings of "AA," "Aa2" and "AA" by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, 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 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 \$2,477,711.78. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

### **TAX EXEMPTION**

Bond Counsel is of the opinion that, under existing law, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the date of issuance of the Bonds in order to assure that interest on the Bonds is and continues to be excludable from the gross income of holders of the Bonds. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. In particular, and without limitation, these requirements include restrictions on the use, expenditure and investment of Bond proceeds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, since the Bonds are not "private activity bonds" under the Code, interest on the Bonds will not constitute a preference item under Section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the Bonds will be included in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to any other matters of federal tax law relating to the Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Bonds: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for losses incurred by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter

C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Bonds, and (vi) receipt of investment income, including interest on the Bonds, may, pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit provided by Section 32(a) of the Code.

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.

For federal and Massachusetts income tax purposes, interest includes original issue discount, which with respect to a Bond is equal to the excess, if any, of the stated redemption price at maturity of such Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all such Bonds with the same maturity was sold. Original issue discount accrues actuarially over the term of a Bond. Holders should consult their own tax advisers with respect to the computations of original issue during the period in which any such Bond is held.

An amount equal to the excess, if any, of the purchase price of a Bond over the principal amount payable at maturity constitutes amortizable bond premium for federal and Massachusetts tax purposes. The required amortization of such premium during the term of a Bond will result in reduction of the holder's tax basis on such Bond. Such amortization also will result in reduction of the amount of the stated interest on the Bond taken into account as interest for tax purposes. Holders of Bonds purchased at a premium should consult their own tax advisers with respect to the determination and treatment of such premium for federal income tax purposes and with respect to the state or local tax consequences of owning such Bonds.

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

#### **OPINION OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Ropes & Gray LLP of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody 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, 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 expected course of action and the 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 Patrick F. Landers, III, Assistant Treasurer, Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 or Carlo DeSantis, Assistant Secretary for 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 John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/348-1720.

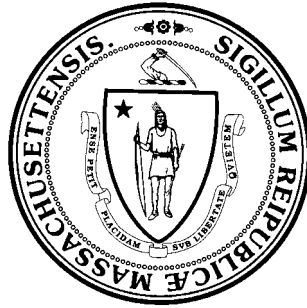
**THE COMMONWEALTH OF MASSACHUSETTS**

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

By /s/ Thomas H. Trimarco  
Thomas H. Trimarco  
*Secretary of Administration and Finance*

August 17, 2006

**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



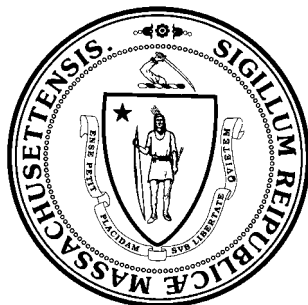
**INFORMATION STATEMENT SUPPLEMENT**

**Dated August 17, 2006**

**TABLE OF CONTENTS**  
**INFORMATION STATEMENT SUPPLEMENT DATED AUGUST 17, 2006**

RECENT DEVELOPMENTS .....	1
Health Insurance Legislation .....	1
Fiscal 2006.....	3
Fiscal 2007.....	5
Fiscal 2006 Tax Revenues .....	6
Fiscal 2007 Tax Revenues .....	6
SELECTED FINANCIAL DATA .....	8
Statutory Basis Distribution of Budgetary Revenues.....	8
Statutory Basis.....	9
Stabilization Fund .....	12
COMMONWEALTH PROGRAMS AND SERVICES.....	12
Commonwealth Post Employment Obligations Other Than Pensions.....	12
COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN .....	13
Capital Spending Plan .....	13
Central Artery/Tunnel Project.....	13
LONG-TERM LIABILITIES .....	18
STATE WORKFORCE .....	22
LEGAL MATTERS.....	22
MISCELLANEOUS .....	23
CONTINUING DISCLOSURE.....	24
AVAILABILITY OF OTHER FINANCIAL INFORMATION .....	25
EXHIBIT A: ECONOMIC INFORMATION	

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

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



**THE COMMONWEALTH OF MASSACHUSETTS**  
**INFORMATION STATEMENT SUPPLEMENT**

**August 17, 2006**

This supplement (Supplement) to the Information Statement of The Commonwealth of Massachusetts (the Commonwealth) dated April 18, 2006 (the April Information Statement) is dated August 17, 2006, and contains information which updates the information contained in the April Information Statement. The April Information Statement appears as Appendix A to the Official Statement dated April 18, 2006 for the Commonwealth's \$180,875,000 General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery), a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the April Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through August 17, 2006. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the April Information Statement.

The April Information Statement, as supplemented hereby, includes three exhibits. Exhibit A, attached to this Supplement, is the Statement of Economic Information as of June 30, 2006, which 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, 2005 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2005. Specific reference is made to said Exhibits B and C, copies of which have been filed with each NRMSIR currently recognized by the Securities and Exchange Commission. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits."

**RECENT DEVELOPMENTS**

**Health Insurance Legislation**

In October 2005, the federal Center for Medicare and Medicaid Services (CMS) notified the Commonwealth under the terms and conditions of its 1115 Demonstration Waiver that a federally approved plan for reducing the number of uninsured individuals in the Commonwealth needed to be in place by July 1, 2006 in order for federal funding associated with the Safety Net Care Pool (SNCP) to be made available to the Commonwealth for fiscal 2007 and beyond. CMS indicated that the purpose of the SNCP funds is to reduce the level of uninsured persons in Massachusetts through mechanisms other than the Medicaid program.

On April 12, 2006, Governor Romney signed into law "An Act Providing Access to Affordable, Quality, Accountable Health Care" (detailed below) to reduce the level of uninsured persons in Massachusetts. Based on this enacted legislation, the Executive Office of Health and Human Services (EOHHS) submitted a description of the plan to CMS for federal approval. On July 27, 2006, CMS formally approved a waiver amendment incorporating the health care reform law into the Commonwealth's 1115 Demonstration Waiver. CMS approval secures \$385 million of formerly at risk federal Medicaid revenue for each of fiscal 2006, 2007 and 2008. The approval contained one condition requiring amendment of legislative language regarding certain hospital payments. The Legislature has not acted on technical corrections legislation that would have effected this change. In the absence of such legislation, disbursement of funds for these payments would not be permitted, but receipt of the \$385 million in annual federal funds would not be impaired.

The health care reform legislation is projected to provide health insurance coverage for 95% of the Commonwealth's uninsured by 2009, reducing reliance on the Commonwealth's Uncompensated Care Pool.

The legislation creates or includes:

- An individual mandate requiring all residents 18 years and older to obtain health care insurance by July 1, 2007. The legislation also requires parents to provide insurance for their children.

- A requirement that all businesses with eleven or more employees offer health insurance to their full-time employees and make a “fair and reasonable contribution” or be assessed an annual fee of up to \$295 per employee. \$26.0 million of revenue is attributed to this provision beginning in fiscal 2008.
- A requirement that businesses with eleven or more employees arrange for the purchase of health insurance by all employees, including part-time employees, on a pre-tax basis through an approved Section 125 plan. No employer contribution is required.
- The Commonwealth Health Insurance Connector to increase accessibility to affordable, private health insurance coverage for individuals and small businesses and permitting payment of premiums on a pre-tax basis.
- The Commonwealth Care health insurance program to provide premium assistance to subsidize the purchase of private health insurance for individuals below specified income levels.

For fiscal 2006, the legislation appropriated or transferred from the General Fund \$60.0 million to fund its provisions, including: \$25.0 million to establish the Commonwealth Health Insurance Connector, \$14.5 million to expand and restore prevention programs at the Department of Public Health, \$10.0 million for a reserve to fund additional administrative costs of various agencies, \$5.0 million for the Massachusetts Technology Park Corporation for a computerized physician order entry initiative and other healthcare related activities, and \$5.5 million for additional program expenditures. These funds are available for expenditure through fiscal 2007.

For fiscal 2007 the legislation is projected to result in a total of \$1.642 billion in spending in categories of activity affected by the legislation. Net cost to the Commonwealth (taking revenue into account) is projected to be approximately \$270.4 million in fiscal 2007, an increase of \$276.4 million from fiscal 2006.

The elements of this projection include the following estimates: \$386.0 million in rate increases for hospitals, physicians and managed care organizations; \$85.2 million to eliminate waitlists for current MassHealth programs; \$51.7 million for the restoration of certain MassHealth optional benefits, notably dental coverage for adults; \$38.9 million to expand MassHealth eligibility for children to 300% of the federal poverty level; and \$38.0 million for the Essential Community Provider Trust Fund. The Commonwealth expects to receive federal financial participation in an amount equal to one-half of these expenditures, excluding those for the Essential Community Provider Trust Fund. In addition, the Commonwealth expects to be able to benefit from \$192.5 million of federal participation in costs that have previously not qualified for federal funds. Commonwealth Care premium assistance payments for the purchase of private insurance by low-income individuals in fiscal 2007 are projected to be \$135.1 million. (Recent proposals being considered by the Commonwealth Health Insurance Connector could, if adopted, result in a higher amount of up to \$160 million.) After fiscal 2007, premium assistance payments will be funded by redeploying existing funds previously used to reimburse hospitals for free care. As more individuals access health insurance through the Connector and take advantage of premium assistance, it is expected that spending on free care through the Uncompensated Care Pool in fiscal 2007, and through the new Health Safety Net Trust Fund in fiscal 2008, will decline.

The legislation also requires the Uncompensated Care Pool to make an additional \$70 million of payments to certain hospitals, which may be offset by additional federal reimbursements for pool spending and which may also require further state appropriations.

The table below shows the incremental cost from fiscal 2006 to fiscal 2007 only in the components of the Massachusetts health care financing system changed by the healthcare reform legislation. Fiscal 2007 costs and revenues include the change directly driven by the legislation and in some cases also include inflation that would have occurred in the absence of the health care reform legislation. Other costs attributable to the existing MassHealth program but not directly affected by the legislation are not included for either fiscal 2006 or fiscal 2007.

**Health Care Reform Spending And Revenue (in millions)**

<b>Spending</b>	<b>2006</b>	<b>2007</b>	<b>Change</b>
MassHealth Expansion	\$ -	\$ 175.8	\$ 175.8
Acute Care Hospitals and CHCs	\$ 822.8	\$ 989.0	\$ 166.3
Managed Care Organizations	\$ 770.0	\$ 270.0	\$ (500.0)
HCR Start Up and Premium Assistance	\$ -	\$ 207.1	\$ 207.1
Total Spending related to HCR Components	\$ 1,592.8	\$ 1,641.9	\$ 49.1
<b>Revenue</b>	<b>2006</b>	<b>2007</b>	<b>Change</b>
MassHealth Expansion Incremental Revenue	\$ -	\$ 122.9	\$ 122.9
Pool Revenue	\$ 536.3	\$ 595.0	\$ 58.7
1115 Waiver Revenue	\$ 1,062.4	\$ 653.5	\$ (408.9)
Total Revenue related to HCR Components	\$ 1,598.7	\$ 1,371.4	\$ (227.3)
<b>Net Cost of HCR Components</b>	<b>\$ (6.0)</b>	<b>\$ 270.4</b>	<b>\$ 276.4</b>

Source: Executive Office for Administration and Finance

For fiscal 2008 and 2009, the legislation provides an incremental \$90.0 million in rate increases for hospitals and physicians in each year.

The health care reform legislation is also expected to result in a reduction in tax revenues starting in fiscal 2007, due to increased pre-tax spending on health insurance premiums by employees and businesses in the Commonwealth. The amount of tax reduction cannot be estimated until the cost of the health plans is set by the Health Insurance Connector and private health insurers.

**Fiscal 2006**

*Tobacco Master Settlement Agreement Revenue.* On April 17 and April 19, 2006, the Commonwealth received two payments totaling \$233.4 million as part of the Master Settlement Agreement with the tobacco manufacturers. This amount is \$26.6 million less than had previously been projected and is due to the manufacturers withholding a portion of their expected payment for fiscal 2003, which was expected to be received by the Commonwealth in fiscal 2006. The Commonwealth is pursuing legal action to compel the payment of the additional funds for fiscal 2003. See "LEGAL MATTERS." As any additional recovery would occur in fiscal 2007 or later, the fiscal 2006 financial tables in this Supplement have been revised to reflect the actual amount of such revenue received. The tobacco manufacturers have given notice of their intention to seek a reduction in their payment for fiscal 2004, which would affect the Commonwealth in fiscal 2007.

On April 24, 2006, the Governor filed supplemental legislation to provide \$5.0 million for a Nanotechnology Research Center at the University of Massachusetts at Amherst.

*May 2006 Supplemental Appropriations.* On May 4, 2006, the Governor filed legislation recommending \$80.3 million in supplemental appropriations for fiscal 2006. This legislation would fund collective bargaining costs, notably at the University of Massachusetts system and for the State Police. This legislation would fund the incremental costs for fiscal 2006 and 2007.

*Fiscal 2006 – June Supplemental Budget and Economic Stimulus Act.* On June 24, 2006, the Governor signed legislation including a supplemental appropriations act for fiscal 2006 and an economic stimulus act. This legislation included approximately \$907.1 million in additional appropriations or transfers from the General Fund, which, after vetoes and overrides, resulted in \$887.3 million in appropriations and General Fund transfers. Details of the two acts are provided below.

The supplemental appropriations act included \$301.7 million in appropriations, of which the Governor vetoed \$56.6 million. The Legislature has subsequently overridden \$47.8 million of the Governor's vetoes, bringing the total appropriations to \$292.9 million. These additional appropriations include \$100.0 million for expansion and improvement projects at the University of Massachusetts and the state and community colleges, \$68.5 million for road and bridge improvements, \$30.4 million for economic development grants to cities and towns, \$20.1 million for substance abuse treatment programs, \$13.0 million in funds to match private grants to Massachusetts' colleges and universities, and \$60.9 million for other programs and services.

The supplemental budget also transferred an amount not to exceed \$346.0 million from the General Fund to the Medical Assistance Trust Fund for supplemental payment to hospitals. Supplemental hospital payments were planned in the restructuring of federal assistance for health care. The Governor reduced the transfer to \$251.0 million, the amount he had included in the Commonwealth's 1115 waiver request to the federal government and previously filed for appropriation. The Legislature has subsequently overridden his veto and restored the full amount of the transfer. Other statutory language makes this transfer conditional on its eligibility for federal reimbursement. The administration believes that federal participation will be available on \$251.0 million of hospital supplemental payments and intends to make supplemental payments in that total amount. Financial tables in this Supplement assume a \$251.0 million transfer from the General Fund for this purpose.

The economic stimulus act included \$160.5 million in additional appropriations and \$99.0 million in transfers from the General Fund. The Governor vetoed \$24.1 million of appropriations, and vetoed or reduced transfers by \$50.0 million. The Legislature has subsequently overridden \$13.0 million of the appropriations vetoes and restored all of the transfers, bringing the total of the act to \$248.4 million, including \$55.5 million for transportation improvements, \$30.0 million to the Brownfields Redevelopment Fund, \$26.0 million to fund the CitySquare development project in the city of Worcester, \$21.0 million to build a nano-manufacturing and bio-manufacturing facility at the University of Massachusetts Lowell campus, \$13.0 million to the Cultural Facilities Fund, \$11.0 million to the Workforce Competitiveness Trust Fund, \$10.0 million to the Emerging Technology Fund, \$10.0 million to the Massachusetts Research Center Matching Fund, \$10.0 million to the Massachusetts Life Sciences Investment Fund, and \$61.9 million in other transfers and programs.

The economic stimulus act also included tax provisions that the Department of Revenue estimates will reduce fiscal 2007 tax revenue collections by approximately \$23.0 million and, when fully implemented, will reduce tax collections by \$40 million to \$45 million annually. These include enactment of a medical device user fee tax credit, an increase from \$15 million to \$50 million in the annual cap for the historic preservation tax credit, and expansion of the job incentive payment program. In addition, the legislation included a provision that will change the timing of certain sales tax payments, which the Department of Revenue estimates will result in a one time reduction of \$15 million to \$25 million in fiscal 2008 sales tax collections. The Governor vetoed the medical device user fee credit, historic preservation, and sales tax provisions, but these vetoes were subsequently overridden by the Legislature.

The act also included \$200.0 million in additional bond authorizations to support transportation and economic development projects. These authorizations include the Massachusetts' Opportunity Relocation and Expansion (MORE) Jobs Capital Program, originally filed by the Governor, which would provide infrastructure improvements tied to private sector investments that would create or retain jobs, and a variety of specified additional infrastructure improvements, including those in the Boston's Kenmore Square and Longwood Medical Center area.

To support the spending authorized in the June supplemental budget and the economic stimulus act, the supplemental budget transferred the \$304.8 million balance in the Transitional Escrow Fund and \$256.0 million from the Commonwealth's Stabilization Fund to the General Fund. The Governor vetoed the transfer from the Stabilization Fund, as the transfer would not have been needed based on his spending vetoes. While many of the spending vetoes were overridden, the Stabilization Fund transfer veto was not. Ultimately, however, fiscal 2006 tax revenues exceeded projections and were sufficient to support the spending authorized. The Governor also returned for amendment language dealing with the Transitional Escrow Fund, as described below.

*July 2006 Supplemental Appropriations.* On July 21, 2006 the Governor signed \$34.0 million in supplemental appropriations to fund the redevelopment of a site at the former Fort Devens military base to support the building of a new Bristol-Myers Squibb manufacturing facility.

On July 28, 2006, the Governor signed into law an additional fiscal 2006 supplemental appropriations bill, after vetoing \$56.2 million of the \$183.9 million of proposed spending; the Legislature has subsequently overridden all of the vetoes. The supplemental act included \$103.1 million to fund new collective bargaining increases, \$31.0 million for the Massachusetts Turnpike Authority to restore the Central Artery surface and develop on it the Rose Kennedy Greenway, \$24.6 million for private counsel compensation, \$10.7 million for subsidies to local housing authorities, and \$14.5 million for other programs and services.

*Transitional Escrow Fund.* When the Governor acted on supplemental appropriations legislation on June 24, 2006, he returned for amendment language dealing with transfers to and from and the termination of the Transitional Escrow Fund. The Legislature subsequently acted on the Governor's proposed amendment. As signed into law on July 28, 2006, this legislation requires that as of the end of fiscal 2006, the \$304.8 million balance in the Transitional Escrow Fund be transferred to the General Fund and that the Transitional Escrow Fund then expire. These transferred funds support the spending approved in the supplemental budgets and the economic stimulus act signed by the Governor in June and July of 2006.

*Tax Revenue Limitations.* Preliminary figures as of June 30, 2006 indicate that actual state tax revenue for fiscal 2006 exceeded the permissible state tax revenue limit set by Chapter 62F by \$57.5 million. Pursuant to law, that amount is diverted from the General Fund to the temporary holding account, and subject to any adjustment upon audit of the revenue amounts, the balance in the temporary holding account ultimately is transferred to the Commonwealth Stabilization Fund.

## **Fiscal 2007**

*General Appropriation Act.* On July 8, 2006, the Governor signed the General Appropriation Act (GAA) for fiscal 2007. The budget as signed included \$25.249 billion in spending, reflecting \$458.6 million in line item reductions and \$118 million in reductions to transfers from the General Fund. The Legislature has subsequently overridden \$427.0 million of the Governor's line item vetoes, bringing the total value of the GAA to \$25.676 billion. The Legislature also overrode all of the vetoes of transfers from the General Fund.

The GAA includes several of the Governor's initiatives. The budget restores the distribution of the state's lottery revenues to the cities and towns. The fiscal 2007 distribution of \$920.0 million reflects an increase of \$158.6 million over the fiscal 2006 level. The budget also includes the Governor's proposed reform of, and significant increases to, the state's Chapter 70 education aid program. The fiscal 2007 Chapter 70 distribution of \$3.506 billion reflects an increase of \$216.6 million over the fiscal 2006 level.

The GAA, including overrides, budgets \$7.423 billion for Medicaid, \$4.041 billion for education excluding school building assistance, \$2.086 billion for debt service and contract assistance, and \$12.126 billion for all other programs and services.

The conference budget directed the transfer of \$550.0 million from the Commonwealth Stabilization Fund to the General Fund to support the appropriated spending. The Governor vetoed \$576.6 million in appropriations and transfers. He also vetoed the transfer from the Stabilization Fund, as rainy day funds were not necessary at the reduced spending level. The Legislature overrode many of the line item and transfer vetoes as discussed above. To date the Stabilization Fund transfer has not been overridden, leaving \$584.5 million of appropriations and General Fund transfers (including the \$20 million supplemental appropriation discussed immediately below) unsupported by budgeted revenue and other sources.

*Supplemental Appropriation.* On July 13, 2006, the Governor proposed, and on July 14, 2006, the Governor signed into law a bill that provides a \$20 million supplemental appropriation to fund a review of tunnel portions of the Central Artery/Tunnel Project. The appropriation was made in connection with other parts of the act that granted the Governor authority over safety inspections and reopening of Central Artery/Tunnel components that were closed subsequent to the July 2006 ceiling panel collapse in the Ted Williams connector tunnel. See "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN—Central Artery/Tunnel Project."

## Fiscal 2006 Tax Revenues

Tax revenue collections for fiscal 2006, ended June 30, 2006, totaled \$18.487 billion, an increase of \$1.399 billion or 8.2% over fiscal 2005. The following table shows the tax collections for fiscal 2006 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2006 that are dedicated to the Massachusetts Bay Transportation Authority (MBTA) and to the Massachusetts School Building Authority (MSBA).

### Fiscal 2006 Budgeted Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,188.8	\$61.6	5.5%	\$63.7	\$44.6	\$1,080.5
August	1,204.9	12.8	1.1	60.0	42.0	1,102.8
September	1,941.2	243.4	14.3	54.7	38.3	1,848.2
October	1,216.0	117.3	10.7	56.2	39.4	1,120.4
November	1,119.0	0.0	0.0	54.7	38.3	1,026.1
December	1,791.0	204.0	12.9	67.3	44.6	1,679.2
January	1,921.1	235.8	14.0	67.6	47.3	1,806.2
February	853.7	4.5	0.5	50.4	35.3	767.9
March	1,626.7	69.8	4.5	60.1	35.3	1,531.3
April	2,213.0	196.1	9.7	\$57.5	40.3	2,115.3
May	1,375.5	48.5	3.7	55.6	39.0	1,280.9
June (3)	<u>2,036.0</u>	<u>205.3</u>	<u>11.2</u>	<u>64.7</u>	<u>50.8</u>	<u>1,920.6</u>
Total (3)	<u>\$18,486.9</u>	<u>\$1,399.0</u>	<u>8.2%</u>	<u>\$712.6</u>	<u>\$488.7</u>	<u>\$17,285.6</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Sum of details may not equal total because of rounding.
- (2) Includes adjustment of \$12.5 million on account of the second quarter and \$9.7 million on account of the third quarter.
- (3) Figures are preliminary.

The tax revenue increase of \$1.399 billion over fiscal 2005 is attributable in large part to an increase of approximately \$448.4 million or 5.8% in withholding collections, an increase of approximately \$252.6 million or 15.0% in income tax estimated payments, an increase of approximately \$249.1 million or 17.3% in income tax payments with returns and bills, an increase of approximately \$118.0 million or 3.0% in sales and use tax collections, and an increase of approximately \$550.2 million or 32.3% in corporate and business collections, which are partially offset by changes in other revenues (net of refunds). The fiscal 2006 collections exceeded the fiscal 2006 tax revenue estimate of \$18.158 billion issued by the Executive Office for Administration and Finance on January 17, 2006. Approximately \$71 million of the amount by which fiscal 2006 actual revenues exceeded the January 17, 2006 fiscal 2006 estimate was the result of lower-than-projected claims for heating oil income tax deductions, energy efficiency tax credits, and abatement of tax year 2002 capital gains taxes under the legislation that reduced the capital gains tax rate retroactive to January 1, 2002. The Department of Revenue estimates that up to \$39 million of this \$71 million in unclaimed deductions and credits will be shifted to fiscal 2007.

## Fiscal 2007 Tax Revenues

Tax revenue collections for the first month of fiscal 2007, ended July 31, 2006, totaled \$1.248 billion, an increase of \$59.6 million or 5.0% over the same month in fiscal 2006. The following table shows the tax collections for the first month of fiscal 2007 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in such month that are dedicated to the MBTA and to the MSBA.

**Fiscal 2007 Budgeted Tax Collections (in millions)**

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion	MSBA Portion	Collections, Net of MBTA and MSBA
July (1)	\$1,248.4	\$59.6	5.0%	\$61.6	\$48.0	\$1,138.8

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

The tax revenue increase of \$59.6 million in July 2006 over July 2005 is attributable in large part to an increase of approximately \$49.9 million or 8.1% in withholding collections and an increase of approximately \$11 million or 95.7% in estate tax collections, which are partially offset by changes in other revenues (net of refunds) and by a decline of \$8.1 million or 2.2% in sales and use tax collections. The July 2006 collections were \$12.2 million below the July 2006 benchmark, which was based on the fiscal 2007 consensus tax revenue estimate of \$18.975 billion, adjusted downward to reflect tax law changes made subsequent to the consensus estimate.

Tax law changes subsequent to the fiscal 2007 consensus tax estimate of \$18.975 billion, including reductions from the economic stimulus act, are estimated by the Department of Revenue to reduce fiscal 2007 tax revenues by \$45.5 million, resulting in an adjusted fiscal 2007 tax revenue estimate of \$18.9295 billion.

The economic stimulus act included tax provisions that the Department of Revenue estimates will reduce fiscal 2007 tax revenue collections by approximately \$23.0 million and, when fully implemented, will reduce tax collections by \$40 million to \$45 million annually. In addition to the tax law changes included in the economic stimulus act, other tax law changes subsequent to agreement on the fiscal 2007 consensus estimate include a refundable tax credit for biotechnology corporations that meet certain job growth and investment targets, a commuter deduction, and a sales tax holiday on August 12 and August 13, 2006. The Department of Revenue estimates that the biotechnology tax credit will reduce fiscal 2007 tax revenues by approximately \$2.5 million, the commuter deduction will reduce fiscal 2007 revenues by approximately \$4.0 million, and the sales tax holiday will reduce fiscal 2007 revenues by approximately \$16.0 million.

## SELECTED FINANCIAL DATA

### Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its Budgeted Operating Funds for fiscal 2002 through 2005 and as estimated for fiscal 2006 and projected for fiscal 2007.

#### Commonwealth Revenues - Budgeted Operating Funds (in millions)(1)

	Fiscal 2002	Fiscal 2003	Fiscal 2004(6)	Fiscal 2005	Estimated Fiscal 2006	Projected Fiscal 2007
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$65.4	\$66.3	\$67.9	\$68.6	\$68.9	\$70.3
Banks	137.0	344.5	238.7	198.9	349.9	354.2
Cigarettes	275.0	451.0	425.4	423.6	435.3	417.4
Corporations	586.7(4)	799.4(4)	997.6	1,062.7	1,390.7	1,363.9
Deeds	134.3	147.8	187.0	220.3	210.1	188.4
Income	7,912.9	8,026.1	8,830.3	9,690.3	10,482.9	10,874.0
Inheritance and Estate	200.5	181.3	194.7	255.1	196.3	199.2
Insurance	382.9	387.8	420.2	423.4	448.4	461.3
Motor Fuel	666.8	676.4	684.2	685.5	671.8	665.2
Public Utilities	88.5	40.6	64.7	71.1	118.5	108.9
Racing	2.7	-	-	-	-	-
Room Occupancy	123.3	120.0	88.9	97.8	105.8	109.5
Sales:						
Regular	2,601.4	2,583.6	2,591.6	2,746.6	2,864.7	2,968.5
Meals	500.9	512.0	531.7	555.6	584.1	607.6
Motor Vehicles	593.6	612.5	625.8	584.2	555.5	537.2
Sub-Total-Sales	3,695.9	3,708.1	3,749.2	3,886.4	4,004.4	4,113.3
Miscellaneous	<u>15.1</u>	<u>14.3</u>	<u>4.2</u>	<u>3.9</u>	<u>3.9</u>	<u>3.8</u>
<b>Total Tax Revenues</b>	<u>14,287.1</u>	<u>14,963.8(5)</u>	<u>15,953.2</u>	<u>17,087.9</u>	<u>18,486.9</u>	<u>18,929.5</u>
MBTA Transfer	(664.3)	(684.3)	(684.3)	(704.8)	(712.6)	(734.0)
MSBA Transfer (2)	-	-	-	(395.7)	(488.7)	(557.4)
<b>Total Budgeted Operating Tax Revenues</b>	<u>13,622.8</u>	<u>14,279.5</u>	<u>15,268.9</u>	<u>15,987.4</u>	<u>17,285.7</u>	<u>17,638.1</u>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements	4,334.9	4,523.6	5,098.5	4,697.0	5,208.8	5,963.8
Departmental and Other Revenues	1,485.2	1,494.8	1,847.7	1,948.9	2,057.2	2,024.7
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,217.0</u>	<u>875.8</u>
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<u>7,552.2</u>	<u>7,707.6</u>	<u>8,719.3</u>	<u>8,386.1</u>	<u>8,483.0</u>	<u>8,864.3</u>
<b>Budgeted Revenues and Revenues from Other Sources</b>	<u>\$21,174.8</u>	<u>\$21,987.2</u>	<u>\$23,988.3</u>	<u>\$24,373.5</u>	<u>\$25,768.7</u>	<u>\$26,502.4</u>

SOURCE: Fiscal 2001-2005, Office of the Comptroller; fiscal 2006 and 2007, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside of the budgeted process.
- (2) If the law that moved school building assistance to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the Massachusetts School Building Authority (MSBA) had been in effect prior to fiscal 2005, transfers of sales tax revenue to the MSBA would have been \$365.4 million, \$383.2 million and \$551.4 million in fiscal 2002 through 2004, respectively. See the April Information Statement under the heading "SELECTED FINANCIAL DATA - Recent Financial Restructurings; *School Building Assistance Program*".
- (3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, tobacco settlement funds, abandoned property proceeds, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.
- (4) The Department of Revenue estimates that as a result of the timing of federal tax legislation relating to the depreciation deduction for corporations and the Commonwealth's legislation in response, tax revenue collections in fiscal 2002 were reduced by approximately \$30 million and tax revenue collections in fiscal 2003 were increased by the same approximate amount.



- (5) Includes approximately \$174.0 million in fiscal 2003 revenue resulting from a tax amnesty program.
- (6) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.

### **Statutory Basis**

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 2002 through 2005. Estimates for fiscal 2006 and projections for fiscal 2007 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" in the April Information Statement for additional detail.

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

**Budgeted Operating Funds -- Statutory Basis**  
(in millions)(1)

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Estimated Fiscal 2006	Projected Fiscal 2007
<b>Beginning Fund Balances</b>						
Reserved or Designated	\$895.3	\$195.2	\$76.8	\$664.6	\$355.6	\$830.7
Tax Reduction Fund	33.6	-	-	-	-	-
Transitional Escrow Fund					304.8	-
Stabilization Fund	1,715.0	881.8	641.3	1,137.3	1,728.4	1,938.6
Undesignated	<u>369.5</u>	<u>311.0</u>	<u>34.7</u>	<u>90.9</u>	<u>98.4</u>	<u>104.4</u>
Total	<u>3,013.3</u>	<u>1,388.0</u>	<u>752.8(7)</u>	<u>1,892.8</u>	<u>2,487.2</u>	<u>2,873.7</u>
<b>Revenues and Other Sources</b>						
Tax Revenues (2)	13,622.8	14,279.5(5)	15,269.0	15,987.4	17,285.7	17,638.1
Federal Reimbursements	4,334.9	4,523.6	5,098.5	4,697.0	5,208.8	5,963.8
Departmental and Other Revenues	1,485.2	1,494.8	1,847.7	1,948.9	2,057.2	2,024.7
Inter-fund Transfers from Non-budgeted Funds and Other Sources (3)	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,217.0</u>	<u>875.8</u>
Budgeted Revenues and Other Sources	<u>21,174.8</u>	<u>21,987.1</u>	<u>23,988.3</u>	<u>24,373.5</u>	<u>25,768.7</u>	<u>26,502.4</u>
Inter-fund Transfers	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7</u>	<u>2,231.3</u>	<u>679.9</u>	<u>317.4</u>
Total Budgeted Revenues and Other Sources	<u>23,049.2</u>	<u>25,297.7</u>	<u>26,047.0</u>	<u>26,604.7</u>	<u>26,445.6</u>	<u>26,819.8</u>
<b>Expenditures and Uses</b>						
Programs and Services (4)	20,513.2	22,209.5	21,456.1	22,067.7	24,107.4	26,500.8(9)
Inter-fund Transfers to Non-budgeted Funds and Other Uses	<u>287.1</u>	<u>229.6</u>	<u>1,392.2</u>	<u>1,711.3</u>	<u>1,274.7</u>	<u>1,335.2</u>
Budgeted Expenditures and Other Uses	<u>22,800.3</u>	<u>22,439.1</u>	<u>22,848.3</u>	<u>23,779.1</u>	<u>25,382.1</u>	<u>27,836.0</u>
Inter-fund Transfers	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7</u>	<u>2,231.2</u>	<u>676.9</u>	<u>317.4</u>
Total Budgeted Expenditures and Other Uses	<u>24,674.7</u>	<u>25,749.6</u>	<u>24,907.0</u>	<u>26,010.3</u>	<u>26,059.0</u>	<u>28,153.4</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,625.4)</u>	<u>(451.9)</u>	<u>1,140.0</u>	<u>594.4</u>	<u>386.6</u>	<u>(1,333.6)(9)</u>
<b>Ending Fund Balances</b>						
Reserved or Designated	195.2	76.8	664.6(8)	355.6	830.7	26.1
Tax Reduction Fund	--	--	--	--	--	--
Transitional Escrow Fund	--	--	--	304.8	--	--
Stabilization Fund	881.8	641.3	1,137.3	1,728.4	1,938.6	2,063.3
Undesignated	<u>311.0</u>	<u>218.0</u>	<u>90.9</u>	<u>98.4</u>	<u>104.4</u>	<u>(549.1)</u>
Total	<u>\$1,388.0</u>	<u>\$936.1(7)</u>	<u>\$1,892.8</u>	<u>\$2,487.2</u>	<u>\$2,873.7</u>	<u>\$1,540.3</u>

SOURCE: Fiscal 2002-2005, Office of the Comptroller; fiscal 2006 and 2007, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Net of \$664.3 million in fiscal 2002, \$684.3 million in fiscal 2003, \$684.3 million in fiscal 2004, \$704.8 million in fiscal 2005, an estimated \$712.6 million in fiscal 2006 and a projected \$734.0 million in fiscal 2007 of dedicated sales tax transferred to the MBTA and moved off budget. Net of \$395.7 million in fiscal 2005, an estimated \$488.7 million in fiscal 2006 and a projected \$557.4 million in fiscal 2007 of dedicated sales tax transferred to the MSBA and moved off budget.
- (3) 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, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.
- (4) The Executive Office for Administration and Finance estimates that approximately \$201.4 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA. Total off-budget Medicaid expenditures were \$329.2 million in fiscal 2004 and \$422.2 million in fiscal 2005, are estimated to be \$332.5 million in fiscal 2006, and projected to be \$288.5 million in fiscal 2007.
- (5) Includes \$174.0 million in one-time revenue from tax amnesty program and approximately \$200.0 million from closing various so-called tax loopholes.
- (6) Inter-fund transfers increased substantially in fiscal 2003, reflecting the consolidation of a number of Budgeted Operating Funds pursuant to

the fiscal 2004 GAA, effective June 30, 2003.

- (7) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflects the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
- (8) Includes \$270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, \$75.0 million reserved for distribution to cities and towns in fiscal 2005, \$293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and \$26.1 million reserved for debt service.
- (9) "Programs and Services" spending of \$26,500.8 million includes, and "Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses" of (\$1,333.1 million) reflects, \$804.6 million of spending due to prior appropriations continued from fiscal 2006.

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

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

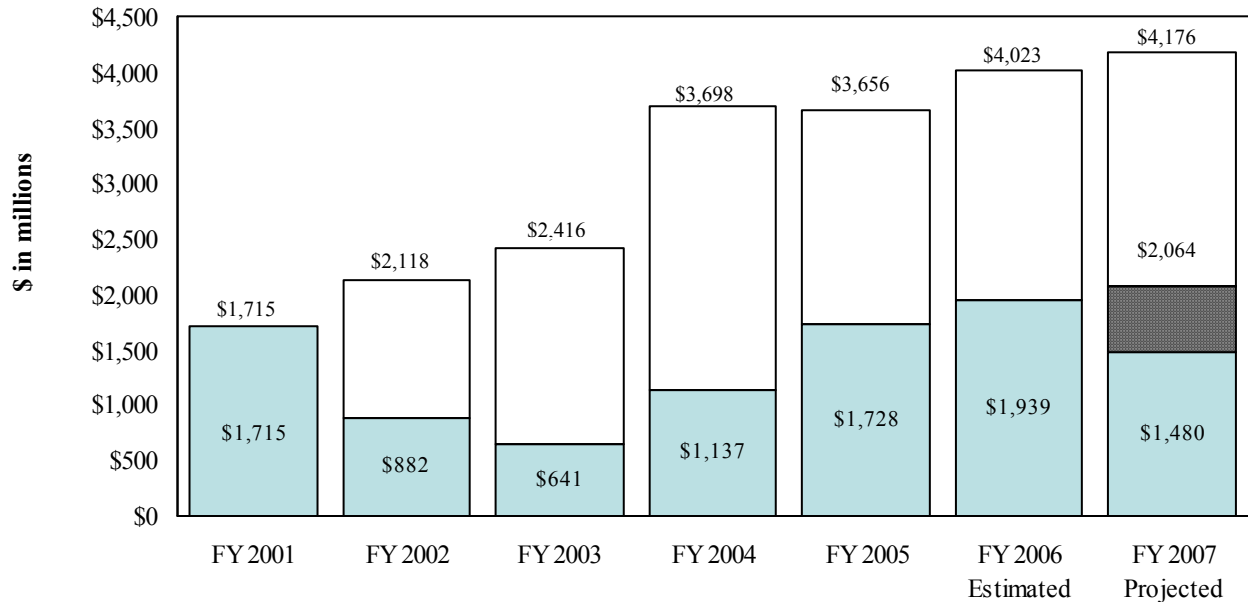
	Fiscal <u>2002</u>	Fiscal <u>2003</u>	Fiscal <u>2004</u>	Fiscal <u>2005</u>	Estimated Fiscal <u>2006</u>	Projected Fiscal <u>2007</u>
<u>Revenues</u>						
Budgeted Revenues and Other Sources	\$21,174.8	\$21,987.1	\$23,988.3	\$24,373.4	\$25,768.7	\$26,502.4
Certain Off-Budget Revenues:						
Dedicated Sales Tax Revenues	664.3	684.3	684.3	1,100.5	1,201.3	1,291.4
Certain Non-Tax Revenues	<u>—</u>	<u>201.4</u>	<u>329.2</u>	<u>422.2</u>	<u>332.5</u>	<u>288.5</u>
Subtotal	<u>664.3</u>	<u>885.7</u>	<u>1,013.5</u>	<u>1,522.7</u>	<u>1,533.8</u>	<u>1,579.9</u>
Total	<u>21,839.1</u>	<u>22,872.8</u>	<u>25,001.8</u>	<u>25,896.1</u>	<u>27,302.5</u>	<u>28,082.3</u>
<u>Expenditures</u>						
Budgeted Expenditures and Other Uses	22,800.3	22,439.1	22,848.3	23,779.1	25,382.1	27,836.0
Certain Off- Budget Expenditures:						
MBTA	664.3	684.3	684.3	704.8	712.6	734.0
MSBA	-	-	-	395.7	488.7	557.4
Medicaid	<u>—</u>	<u>201.4</u>	<u>329.2</u>	<u>422.2</u>	<u>332.5</u>	<u>288.5</u>
Subtotal	<u>664.3</u>	<u>885.7</u>	<u>1,013.5</u>	<u>1,522.7</u>	<u>1,533.8</u>	<u>1,579.9</u>
Total	<u>23,464.6</u>	<u>23,324.8</u>	<u>23,861.8</u>	<u>25,301.8</u>	<u>26,915.9</u>	<u>29,415.9</u>
Excess (Deficiency) of Total Revenues Over Total Expenditures and Other Uses (1)	<u>(\$1,625.4)</u>	<u>(\$451.9)</u>	<u>\$1,140.0</u>	<u>\$594.4</u>	<u>\$386.6</u>	<u>(\$1,333.6)</u>

SOURCE: Executive Office for Administration and Finance.

(1) "Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses" of (\$1,333.6 million) reflects \$804.6 million of spending due to prior appropriations continued from fiscal 2006.

## Stabilization Fund

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2001 through fiscal 2006 and the projection for fiscal 2007. For each year, the whole column area equals the maximum balance permitted under the statutory formula, and the shaded area shows the amount of the actual ending balance.



SOURCES: Fiscal 2001-2005 Office of the Comptroller; fiscal 2006 and 2007, Executive Office for Administration and Finance.

As discussed above, fiscal 2007 appropriations and transfers from the General Fund exceed projected tax revenue and other sources. However, no appropriation from the Stabilization Fund has been enacted, as the Legislature overrode the Governor's vetoes of fiscal 2007 spending but not his accompanying veto of a Stabilization Fund transfer to the General Fund (see discussion above). As a result, the Stabilization Fund projection above includes no draw from the fund. To achieve the projected Stabilization Fund balance of \$2.064 billion, revenue would need to exceed the current official estimate, or spending would need to fall or be reduced below currently budgeted levels, in fiscal 2007. If neither were to happen and the Stabilization Fund were drawn to pay for fiscal 2007 spending, the Stabilization Fund balance at the end of fiscal 2007 would be projected at \$1.480 billion.

## COMMONWEALTH PROGRAMS AND SERVICES

### Commonwealth Post Employment Obligations Other Than Pensions

New accounting standards will require the Commonwealth to begin disclosing its other post employment benefits (commonly referred to as "OPEB") in fiscal 2008. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June 2006. The report presented two separate calculations of the Commonwealth's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the report, assuming no prefunding, the actuarial accrued liability of the Commonwealth for OPEB obligations earned through January 1, 2006 is \$13.287 billion. To fully amortize this liability over a 30-year period utilizing an amortization growth rate of 4.5% per year would require annual required contributions commencing at \$1.062 billion for fiscal 2006 and projected to increase to \$2.758 billion in fiscal 2016. However, if prefunding is assumed, the actuarial accrued liability is reduced to \$7.562 billion and the annual required contribution is calculated to commence at \$702.9 million for fiscal 2006, projected to increase to \$1.205 billion for fiscal 2016.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the Commonwealth and assumed annual claims growth initially at 10.5% and declining to 5% after ten years and continuation of current benefit levels and current retiree contribution requirements. The Commonwealth has not yet made any decision on when or how it will fund the liability. The 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 prefunded and non-prefunded OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of prefunding, the discount rate would increase to a standard return on long-term investments, estimated at 8.25% for the purpose of this study. In order to qualify its OPEB liabilities as prefunded, the Commonwealth would have to enact legislation providing for the escrowing of annual contributions in the manner required by GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions described in the Commonwealth Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Pension and Other Post-Retirement Benefit Obligations").

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 prefunded 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 valuation report discussed above may be viewed at the website of the Comptroller of the Commonwealth at [www.mass.gov/osc](http://www.mass.gov/osc). Click on "Financial Reports/Audits."

## **COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN**

### **Capital Spending Plan**

Capital spending in fiscal 2006 is estimated to be below the budgeted amount detailed in the April Information Statement. The Commonwealth's capital investment plan for fiscal 2007 and beyond remains under development and will reflect any changes from the prior plan including revisions to the Central Artery/Tunnel cash flow projection.

On May 5, 2005, the Governor filed a capital authorization bill totaling \$950.2 million that included new spending authorizations for the following programs: \$450 million for improvements to state facilities, \$250 million for information technology projects, \$125 million for a new state police crime lab, \$72 million for grants to cities and towns for public library projects, \$25 million for improvements to National Guard facilities, \$15 million for improvements to medical examiner facilities, and \$13.2 million for the state match for federal capitalization grants related to the Water Pollution Abatement Trust.

As of August 17, 2006, this bill is still pending in the Legislature. Under legislative rules the Legislature meets in informal session for the remainder of the calendar year, unless they take steps to return to formal session. Passage of a bond authorization bill requires a two-thirds roll-call vote, which can only be done in a formal session. As a result of the delay in passage, the administration is currently preparing to suspend some ongoing and prospective projects in the affected program areas.

### **Central Artery/Tunnel Project**

The largest single component of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel Project (CA/T Project), a major construction project that is part of the completion of the federal interstate highway system. The CA/T Project involves the depression of a portion of Interstate 93 in

downtown Boston (the Central Artery), formerly an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) linking the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. The CA/T Project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

*Project Status.* Substantial completion of the CA/T Project, defined as the opening of all roadway, tunnel, bridge, and ramp elements in their final alignments, occurred on January 13, 2006. The major components of the work remaining for final completion of the CA/T Project as officially defined include reconstruction of the downtown surface street system, completion of the Integrated Project Control System (IPCS) for traffic management and construction of certain parks. The final completion of the surface roadways is expected to occur by the end of calendar year 2006. Such remaining work will be completed in fiscal 2007 or 2008. However, this description of the remaining work and the schedule therefor do not account for repairs of project elements that have been found faulty subsequent to the collapse of certain ceiling panels on July 10, 2006, remediation of facilities to be transferred to the Massachusetts Port Authority that the Port Authority considers deficient, or remediation of problems that may be identified by a comprehensive review of the project's design and construction as directed by Chapter 153 of the Acts of 2006, as more fully described below. The most recent CA/T Project cost/schedule update (CSU 11) was completed and filed by the Turnpike Authority on July 1, 2004. Under CSU 11, the estimate of total project cost remained at \$14.625 billion. An independent consulting firm engaged by the Executive Office for Administration and Finance to review CSU 11 concluded in a report dated September 24, 2004 that the total cost estimate of \$14.625 billion was aggressive but did not recommend that the estimate be increased.

On April 1, 2005, the Turnpike Authority released an interim report revising certain elements of the budget in CSU 11. Revised figures in the April 1, 2005 report were based on utilization of contingency reserves, realization of cost savings and other factors. The total CA/T Project cost estimate did not increase as the result of this revision. The Turnpike Authority is continuing to publish periodic management reports, which include construction progress reports and updated completion and cost estimates.

According to the most recent project management report, as of May 31, 2006, approximately \$14.377 billion was under contract or agreement, which constitutes 98.3% of total budgeted costs for the CA/T Project.

*Quality Concerns.* A series of events have raised concerns relating to the quality of the project. Water infiltration in the project's tunnels became a focus of public concern following a slurry wall breach on September 15, 2004. Since that date, the Turnpike Authority and project staff have indicated that the tunnels have been surveyed with respect to causes of breaches and leaks, flaws have been identified, and remedies have been designed and are being implemented, including the repair of flaws in tunnel walls and the sealing of leaks at a large number of tunnel wall and roof interfaces. Amounts spent and anticipated to be spent by the CA/T Project for these purposes are expected to fall within the \$14.625 billion project budget. A continuing program to identify and seal leaks will, however, be necessary indefinitely. This program and any additional maintenance and repairs necessitated by continuing infiltration will require higher maintenance costs in the future. The Turnpike Authority has estimated that it will assume responsibility for ongoing leak repairs from the project and its contractors in 2007 at an initial cost of \$1.3 million for that year declining to \$156,000 in 2010 and thereafter, without taking account of inflation. An independent evaluation has suggested that, based on current productivity compared with that assumed in the Turnpike Authority's estimate, the cost could be double the amount projected and warns that the estimate is based on experience with the ongoing leak repair program for the Callahan Tunnel, which does not share the slurry wall construction used in the CA/T Project. The Turnpike Authority's current operation and maintenance budget does not specifically include amounts for leak repairs and maintenance.

On July 10, 2006 panels in the ceiling of the eastbound I-90 Connector Tunnel that leads to the Ted Williams Tunnel fell, causing the death of an automobile passenger. State and federal law enforcement officials are investigating this incident. The investigations of the ceiling collapse initially focused on the apparent failure of epoxy anchor bolt assemblies attaching the panels to the roof of the tunnel. Similar epoxy anchor bolt assemblies are in locations in the remainder of the Connector Tunnel system as well as in various locations elsewhere in the CA/T Project. In addition, engineering staff subsequently discovered that many of the ceiling hanger brackets not attached by epoxy anchor bolts, while they have not failed, do not meet project criteria for load-bearing factor of safety and will need to be replaced. These hanger brackets are located in the I-90 connector tunnels and certain ramps leading to and from them.

At the request of the Governor, the Legislature passed legislation appropriating funds for a safety and engineering inspection related to the failed ceiling and fastening system, to be conducted under the auspices of the Executive Office of Transportation (EOT), and providing that the I-90 Connector Tunnel not be reopened until approved by the Governor in consultation with EOT. Additional investigations of the accident and related matters are being carried out by the Attorney General, other law enforcement authorities and federal authorities. With the exception of Ramp A and Ramp F, all other elements of the Connector Tunnel are currently closed pending inspections and repair. Ramp A was reopened on August 9, 2006. The reopening of Ramp A allows access to the Ted Williams Tunnel via the South Boston Bypass Road.

Until the events of July 10, 2006, CA/T Project management believed that no new developments or information had arisen since the submission of CSU 11 and its April 2005 update which required an increase of the CA/T Project's \$14.625 billion budget for total project cost. At present, however, it is not known what magnitude of additional safety issues will be identified, when the remainder of the I-90 Connector Tunnel will be reopened, what the total costs associated with these developments will be, how much of these costs may be recoverable from third parties or how these developments may affect the budget for total project cost currently set at \$14.625 billion.

In addition, the Massachusetts Port Authority (Massport), which has agreed to acquire certain portions of the CA/T Project consisting of roadways, viaducts and other structures located at Logan International Airport in East Boston, has advised that it is not satisfied with the condition of certain of these facilities and may withhold up to \$20 million of the \$50 million portion of the purchase price that has not already been paid. The Turnpike Authority reports that, based on its review to date, it believes that not more than a few million dollars of spending is required to address Massport issues that the Turnpike Authority accepts and that some of this is already scheduled to be done. At present, the issues raised by Massport remain unresolved. It should be noted that this particular dispute will not directly affect CA/T Project cash flow, since the Commonwealth advanced the \$50 million to the project several years ago in anticipation of reimbursement by the Port Authority.

It is not known what the cumulative financial effect of the issues described above ultimately will be. Nor is it known whether the emergence of these issues is evidence of additional quality issues that, by themselves or in combination with other contingencies, would require project costs exceeding the \$14.625 billion currently budgeted and/or future operating and maintenance costs greater than previously anticipated.

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

On October 23, 2000, federal legislation was approved that requires the U. S. Secretary of Transportation to withhold obligation of federal funds and all project approvals for the CA/T Project in each federal fiscal year unless the Secretary has approved an annual update of the CA/T Project finance plan for such year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least \$400 million each state fiscal year through fiscal 2005 for construction activities and transportation projects other than the CA/T Project. In addition, the legislation limited total federal funding to \$8.549 billion, consistent with the project partnership agreement. Finally, the legislation tied future federal funding for the project to an annual finding by the Inspector General of the U.S. Department of Transportation that the annual update of the CA/T Project finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the CA/T Project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

*Delay of Federal Funding.* The CA/T Project finance plans submitted pursuant to this legislation through October 2003 have received the requisite approvals. The most recent plan, based on CSU 11, was submitted on July 30, 2004. This plan (the 2004 Finance Plan) has not yet received federal approval. Through the federal fiscal year ended September 30, 2004, according to federal records the CA/T Project had received obligation authority with respect to all but \$81 million of the federal financial assistance available to the project (other than amounts allocable to principal of federal grant anticipation notes). The remaining \$81 million has not yet been made available pending federal approval of the 2004 Finance Plan. In addition, approximately \$51 million of federal reimbursements for amounts obligated prior to September 30, 2004, but subject to reallocation to different project contracts may not be reallocated until a finance plan is approved. Hence, according to federal records, the total amount of federal funds withheld pending federal approval of the 2004 Finance Plan is approximately \$133 million. In addition, in the absence of an approved finance plan, credits have accumulated or are projected to accumulate by the close of state fiscal year 2006 to increase the amount of federal funds remaining by an amount between \$7 million and \$10 million. Until a finance plan is approved, when funds are returned or recaptured and the federal share of funds are credited back to the federal government, freed-up obligation authority cannot be shifted, as it normally would, to fund other expenses.

A question regarding the amount of the remaining federal support for the CA/T Project has come to light recently. State records indicate that the state has received federal reimbursements for the project in an amount that is approximately \$8 million less than the amount indicated by federal records. As a result, there exists a discrepancy between federal and state records about the amount of federal reimbursement that remains available for the project. The Commonwealth is reviewing the discrepancy. If the Commonwealth can demonstrate that federal figures need to be revised, the remaining amount of federal support may be \$141 million rather than the \$133 million noted above. The Commonwealth believes that it is unlikely to receive the higher figure but is reviewing the discrepancy.

Federal review of the 2004 Finance Plan is ongoing. The review is believed to have focused particularly on the costs of dealing with water infiltration and back charges, liquidated damages, cost recovery, self-insurance loss portfolio transfer and project funding. The principal project funding issue was to replace \$94 million that the 2004 Finance Plan projected would be realized from the disposition of the CA/T Project headquarters and contiguous parcels at Kneeland Street in Boston. Based on the response in December 2004 to a request for bids for the Kneeland Street property, the Turnpike Authority is no longer relying on this source of funding. The Turnpike Authority has identified \$27 million in added interest earnings on the sale proceeds of certain land in Allston as a partial source of funding this amount. The Turnpike Authority has been seeking to secure the remaining \$67 million from the state's Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (commonly abbreviated as the "TIF"). Final agreement has not been reached regarding the use of additional elements from the TIF for this purpose. If the remaining amount of federal support is \$133 million rather than \$141 million, as discussed above, the identified funding shortfall of \$67 million would be increased by \$8 million.

While the Turnpike Authority has responded to federal requests for information regarding the 2004 Finance Plan, the funding issue remains unresolved. Furthermore, the effect of any additional costs identified subsequent to the events of July 10, 2006, as discussed above, on federal finance plan approval has not been determined, and it is not known when federal approval can be expected.

When the 2004 Finance Plan was not approved prior to the end of federal fiscal year 2005 on September 30, 2005, the Commonwealth applied the unobligated authority for that year to other eligible transportation projects within the Commonwealth and to payment of principal of the grant anticipation notes. If the 2004 Finance Plan is not approved prior to the end of federal fiscal year 2006 on September 30, 2006, the Commonwealth intends to take similar action.

*CA/T Project Cash Flow.* A revised CA/T Project cash flow projection is being developed to provide for several factors, including the following:

- Project spending during state fiscal year 2006 fell below the budget amounts indicated in the April Information Statement, resulting in remaining spending being above the previously projected levels.
- The Turnpike Authority has transferred the bulk of the remaining financial contribution to the project, as indicated in CSU 11 and the April 2005 update, to the Commonwealth for expenditure through the state



accounting system. The schedule and conditions for commitment of remaining Turnpike Authority to-go amounts require resolution.

- The capacity of the TIF to fund the remaining \$67 million funding shortfall caused by failure to sell the project's Kneeland Street headquarters and the potential \$8 million discrepancy between state and federal records on to-go federal contributions remain under review.
- Since federal funds have not been received on the schedule previously anticipated, the Commonwealth has made funds available to the CA/T Project to bridge the ultimate receipt of federal funds. The Commonwealth expects to continue this practice, to the extent necessary, in state fiscal year 2007.

The Commonwealth anticipates being able to meet the project's cash flow needs through fiscal 2007 on the basis of a \$14.625 billion project using existing funds and spending authority. To the extent that project costs exceed the \$14.625 billion budget and any such excess costs cannot be recovered from responsible project vendors, additional financial resources would need to be identified, and the project's finance plan would need to be modified to allow for the timing of expenditures and of the availability of additional resources.

*Contractor Claims and Risks.* The annual finance plan budgets for the potential cost of change orders and contractor claims on awarded and un-awarded contracts. The Claims and Changes Department of the CA/T Project has made substantial progress in recent years in resolving contractor claims, although significant items remain open. The CA/T Project reports that recent settlements have been within expectations on an overall basis and that contingency reserves are expected to be adequate. Project management currently expects that the costs of such settlements will be within the \$14.625 billion project budget. However, if settlements exceed expectations, the remaining unassigned contingency within the project budget may be insufficient.

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

## LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2002 through fiscal 2006:

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

	<u>Fiscal 2002</u>	<u>Fiscal 2003(2)</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006(5)</u>
<b>Fiscal Year Beginning Balance (as of July 1)</b>	\$13,999,454	\$14,955,135	\$15,962,506	\$17,382,172	\$17,856,799
General and Special Obligation Debt Issued(1)	<u>1,470,272</u>	<u>1,845,458(3)</u>	<u>1,925,990</u>	<u>1,267,281</u>	<u>1,775,340</u>
Subtotal	15,469,726	16,800,593	17,888,496	18,649,453	19,632,139
Debt Retired or Defeased, Exclusive of Refunding	(692,341)	(737,832)	(758,444)	(882,266)	(1,117, 867)
Refunding Debt Issued, Net of Refunded Debt	<u>177,750</u>	<u>(100,255)</u>	<u>252,120(4)</u>	<u>89,612</u>	<u>(48, 015)</u>
<b>Fiscal Year Ending Balance (June 30)</b>	<u>\$14,955,135</u>	<u>15,962,506</u>	<u>\$17,382,172</u>	<u>\$17,856,799</u>	<u>\$18,466,257(5)</u>

SOURCE: Office of the Comptroller.

- (1) Including premium discount and accretion of capital appreciation bonds.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010.
- (3) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee. Also includes a series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in escrow by a third-party trustee.
- (4) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.
- (5) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at maturity value as of June 30, 2006. Amounts are preliminary.

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of July 1, 2006:

**Commonwealth Debt and Debt Related to General Obligation Contract  
Assistance Liabilities  
As of July 1, 2006  
(in thousands)**

	<u>Long-Term (4)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$15,327,592(5)(8)	\$25,100(7)
Special Obligation Debt (1)	1,288,595(8)	-
Federal Grant Anticipation Notes (2)	<u>1,789,445(6)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$18,405,632</u>	<u>\$25,100</u>
<b>DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)</b>		
Massachusetts Convention Center Authority	\$ 16,475	-
Massachusetts Development Finance Agency	9,655	-
Foxborough Industrial Development Financing Authority	<u>60,385</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>\$ 86,515</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$18,492,147(8)</u></b>	<b><u>\$25,100</u></b>

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

- (1) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee.
- (2) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.
- (3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority.
- (4) Long Term Debt includes discount and costs of issuance and includes capital appreciation bonds at their maturity value.
- (5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 2006 through their maturity in the amount of \$96.6 million.
- (6) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 2006 through their maturity in the amount of \$49.8 million.
- (7) Includes \$25.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T project.
- (8) Amounts are preliminary.

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

**Calculation of the Debt Limit (in thousands)**

	2002	2003	2004	2005	2006
Balance as of June 30	\$14,995,135	\$15,962,506	\$17,382,172	\$17,856,799	\$18,466,257
Less amounts excluded:					
(Discount)/Premium and issuance costs	(181,910)	(68,718)	1,120	70,937	112,984
Ch. 5, Acts of 1992 Refunding	(22,043)	(10,600)	-	-	-
Special Obligation Principal	(772,812)	(748,124)(1)	(1,347,822)	(1,485,548)(3)	(1,291,266)
Federal Grant Anticipation Notes Principal	(1,500,000)	(1,500,000)(2)	(1,908,015)(2)	(1,908,015)(2)	(1,789,998)
County Debt Assumed	(1,115)	(855)	(675)	(600)	(525)
MBTA Forward Funding	(625,000)	(680,869)	(601,027)	(511,546)	(416,830)
CA/T Project	(838,193)	(1,386,869)	(1,066,638)	(1,336,741)	(1,335,776)
MSBA SMART Bonds	-	-	-	(500,000)	(1,000,002)
Outstanding Direct Debt	<u>\$11,054,062</u>	<u>\$11,566,472</u>	<u>\$12,459,055</u>	<u>\$12,185,286</u>	<u>\$12,744,843(4)(5)</u>
Statutory Debt Limit	<u>\$11,630,307</u>	<u>\$12,211,823</u>	<u>\$12,822,414</u>	<u>\$13,463,535</u>	<u>\$14,136,712</u>

SOURCE: Office of the Comptroller.

- (1) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010. The refunding notes will effectively lower outstanding debt in comparison to the statutory debt limit on grant anticipation notes.
- (3) Also includes a series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in a third-party trustee.
- (4) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at a maturity value as of June 30, 2006.
- (5) Amounts are preliminary.

*Interest Rate Swap Agreement Dispute.* The litigation between the Commonwealth and a swap counterparty relating to an interest rate swap agreement for the Commonwealth's General Obligation Refunding Bonds, 2001 Series B and 2001 Series C, has been settled on terms that do not require any payment by either party and do not change the method for determining the floating rate payment obligation of the counterparty from that which has been in place since the agreement became effective. See the April Information Statement under the heading "LONG-TERM LIABILITIES – General Obligation Debt; Interest Rate Swap Agreement Dispute."

**Debt Service Requirements on Commonwealth Bonds as of July 1, 2006**  
(in thousands)

Fiscal Year	<i>General Obligation Bonds</i>				<i>Federal Grant Anticipation Notes</i>			<i>Special Obligation Bonds</i>			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2007	\$960,349	\$5,189	\$720,458	\$1,685,996	\$123,825	\$87,887	\$211,712	\$30,325	\$61,911	\$92,236	\$1,989,944
2008	976,542	5,801	704,500	1,686,843	130,240	81,469	211,709	32,545	66,141	98,686	1,997,238
2009	1,002,506	6,900	655,000	1,664,406	137,230	74,478	211,708	33,960	64,631	98,591	1,974,705
2010	927,654	6,905	604,356	1,538,915	158,815	66,835	225,650	35,530	63,067	98,597	1,863,162
2011	939,839	7,763	554,141	1,501,743	214,620	57,206	271,826	37,240	61,359	98,599	1,872,168
2012	818,165	7,802	503,804	1,329,771	226,420	45,694	272,114	39,135	59,470	98,605	1,700,490
2013	887,869	8,611	458,999	1,355,479	208,410	35,110	243,520	41,150	57,438	98,588	1,697,587
2014	789,700	6,686	416,039	1,212,425	302,820	21,697	324,517	38,925	55,200	94,125	1,631,067
2015	775,519	6,201	376,407	1,158,127	287,065	7,185	294,250	87,430	53,210	140,640	1,593,017
2016	821,244	4,873	339,320	1,165,437	-	-	-	90,760	48,593	139,353	1,304,790
2017	786,292	3,302	300,474	1,090,068	-	-	-	108,385	43,803	152,188	1,242,256
2018	588,210	2,419	265,649	856,278	-	-	-	46,350	38,425	84,775	941,053
2019	576,375	20,002	236,133	832,510	-	-	-	48,775	36,121	84,896	917,406
2020	650,047	1,212	205,873	857,132	-	-	-	49,020	33,499	82,519	939,651
2021	848,946	1,044	168,558	1,018,548	-	-	-	51,515	31,064	82,579	1,101,127
2022	638,960	892	130,917	770,769	-	-	-	54,355	28,292	82,647	853,416
2023	520,285	670	101,797	622,752	-	-	-	36,960	25,428	62,388	685,140
2024	392,968	246	78,919	472,133	-	-	-	28,990	23,443	52,433	524,566
2025	320,000	69	61,441	381,510	-	-	-	30,625	21,848	52,473	433,983
2026	176,387	31	46,801	223,219	-	-	-	32,360	20,164	52,524	275,743
2027	175,820	-	38,612	214,432	-	-	-	34,190	18,384	52,574	267,006
2028	101,915	-	31,508	133,423	-	-	-	36,125	16,504	52,629	186,052
2029	178,335	-	24,366	202,701	-	-	-	38,170	14,517	52,687	255,388
2030	184,090	-	14,965	199,055	-	-	-	40,330	12,418	52,748	251,803
2031	192,960	-	5,067	198,027	-	-	-	42,610	10,199	52,809	250,836
2032	-	-	-	-	-	-	-	45,020	7,856	52,876	52,876
2033	-	-	-	-	-	-	-	47,565	5,380	52,945	52,945
2034	-	-	-	-	-	-	-	50,250	2,764	53,014	53,014
<b>TOTAL</b>	<b>\$15,230,977(3)</b>	<b>\$96,618</b>	<b>\$7,044,104</b>	<b>\$22,371,699</b>	<b>\$1,789,445(1)</b>	<b>\$477,561</b>	<b>\$2,267,006</b>	<b>\$1,288,595(2)(3)</b>	<b>\$988,129(2)</b>	<b>\$2,269,724</b>	<b>\$26,908,429</b>

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

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

(2) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee. Also includes a second series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in escrow by a third-party trustee.

(3) Amounts are preliminary.

## STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 2001 through 2006.

### Budget-Funded Workforce (1)

	<u>June 2001</u>	<u>June 2002</u>	<u>June 2003</u>	<u>June 2004</u>	<u>June 2005</u>	<u>June 2006</u>
Executive Office	88	72	86	65	63	58
Office of the Comptroller	109	107	102	102	124	122
Executive Departments						
Administration and Finance	3,180	2,974	2,921	2,791	2,913	2,990
Environmental Affairs	2,555	2,312	2,156	1,997	1,984	2,057
Housing and Community Development	117	109	98	92	94	91
Early Education and Care						164
Health and Human Services	23,157	21,803	21,440	20,682	21,066	21,022
Transportation	1,254	843	445	344	1,139(2)	1,078
Board of Library Commissioners	20	18	13	12	11	12
Economic Development	1,140	1,094	922	879	935	960
Department of Education	272	277	248	223	241	266
Board of Higher Education	15,481	14,038	14,117	11,844	13,198	12,932
Public Safety	9,686	9,567	9,148	8,765	8,109(2)	8,430
Elder Affairs	<u>41</u>	<u>43</u>	<u>38</u>	<u>28</u>	<u>51</u>	<u>34</u>
Subtotal under Governor's authority	<u>57,100</u>	<u>53,257</u>	<u>51,734</u>	<u>47,824</u>	<u>49,926</u>	<u>50,215</u>
Judiciary	7,944	7,379	7,233	7,175	7,435	7,630
Other (3)	<u>7,418</u>	<u>7,119</u>	<u>7,056</u>	<u>7,020</u>	<u>7,152</u>	<u>7,394</u>
Total	<u>72,462</u>	<u>67,755</u>	<u>66,024</u>	<u>62,019</u>	<u>64,513</u>	<u>65,239</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.
- (2) Effective July 2004, the Registry of Motor Vehicles was transferred from the Executive Office of Public Safety to the Executive Office of Transportation. Approximately 814 FTEs were involved in the transfer.
- (3) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.

## LEGAL MATTERS

*Rolland v. Romney* (U.S. District Court C.A. No. 98-32208 KPN). This case was dismissed by stipulation in June, 2006.

*Rosie D. v. Governor*. The parties are currently engaged in negotiations and are due back before the Court in September, 2006 to report on their progress.

*Jane Doe, by John Doe, her father and next friend v. Ronald Preston, Secretary of the Executive Office of Health and Human Services*, United States District Court. Motion for summary judgment was argued in early May, 2006, and remains under advisement.

*Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al.*, Middlesex Superior Court. On April 18, 2006 the Commonwealth filed an emergency motion for entry of an enforcement order and a declaratory order under the MSA that would require that the April 2006 payment due to be made in full. The Superior Court denied that motion and allowed the defendants' motion to compel arbitration. The Commonwealth filed a notice of appeal. The case has not yet been docketed in the Appeals Court.

*Grand River Enterprises Six Nations Ltd. v. William Pryor et al.*, United States District Court, New York. The defendant states, including Massachusetts, sought rehearing in the Second Circuit, which was denied. The affected states, including Massachusetts, thereafter filed a petition for certiorari to the United States Supreme Court, which has not yet been acted on. The plaintiffs have also commenced preliminary-injunction proceedings to enjoin the states' enforcement of their escrow statutes.

*Perini Corp., Kiewit Construction. Corp., Jay Cashman, Inc., d/b/a Perini – Kiewit – Cashman Joint Venture v. Commonwealth.* Plaintiffs have asserted claims in excess of \$105 million.

*Edward J. Sullivan, as Clerk-Magistrate of the Middlesex Superior Court et al. v. Robert J. Mulligan, as Chief Justice of Administration and Management & others* (Middlesex Superior Court, Supreme Judicial Court for Suffolk County). The requested temporary restraining order was denied by both the Middlesex Superior Court and the Supreme Judicial Court for Suffolk County, which reserved and reported the Chief Justice's motion to dismiss to the full court. Oral argument is scheduled for September 7, 2006.

### 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 the April Information Statement and this Supplement 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.

The April Information Statement and this Supplement contain 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 the April Information Statement and this Supplement 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 the April Information Statement and this Supplement 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 the April Information Statement and this Supplement 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 the April Information Statement and this Supplement as the sources of such information, the expected course of action and the 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 the April Information Statement and this Supplement 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 the April Information Statement and this Supplement are subject to change without notice. Neither the delivery of this Supplement nor any sale

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

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



## AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement Supplement or requests for additional information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 226), or to Carlo DeSantis, Assistant Secretary for 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 Supplement should be directed to Lawrence D. Bragg, III, Ropes & Gray LLP, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

## THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Thomas H. Trimarco  
Thomas H. Trimarco  
Secretary of Administration and Finance

August 17, 2006

## ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on July 26, 2006. Information in the text, tables, charts, and graphs was current as of June 30, 2006.** Sources of information are indicated in the text or immediately following the charts and tables, and also on the *Sources List* on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

### Statistical Overview

<u>Population</u> (p. A-2)	<u>Massachusetts</u>	<u>United States</u>
Estimated Percent Change in Population, April 1, 2000–July 1, 2005	0.8%	5.3%
<u>Personal Income, Consumer Prices, and Poverty</u> (p. A-7)		
Per Capita Personal Income, 2005	\$44,289	\$34,586
Average Annual Pay, All Industries, 2004	\$48,916	\$39,354
Percent Change in CPI-U, 2004-2005*	3.3%	3.4%
Percent Change in CPI-U, May 2005-May 2006*	3.9%	4.2%
Poverty Rate, 2003-2004 Average	9.7%	12.6%
Average Weekly Earnings, Manufacturing Production Workers: May 2006(p)	\$741.93	\$690.51
Percent Change, May 2005-May 2006(p)	1.2%	3.5%
<u>Employment</u> (p. A-15)		
Percent Change in Nonfarm Payroll Employment, May 2005-May 2006(p)	0.7%	1.4%
Unemployment Rate, 2005	4.8%	5.1%
Unemployment Rate, May, 2006	5.0%	4.6%
<u>Economic Base and Performance</u> (p. A-21)		
Percent Change in Gross State Product, 2004-2005	5.1%	6.4%
Percent Change in International Exports, 2004-2005	0.9%	10.6%
Percent Change in Housing Permits Authorized, 2004-2005	9.7%	7.4%
<u>Human Resources and Infrastructure</u> (p. A-38)		
Expenditure Per Pupil, 2004	\$10,693	\$8,287
Percent of Adults with a Bachelor's Degree or higher, 2004	37.4%	27.0%

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

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

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

## **POPULATION CHARACTERISTICS**

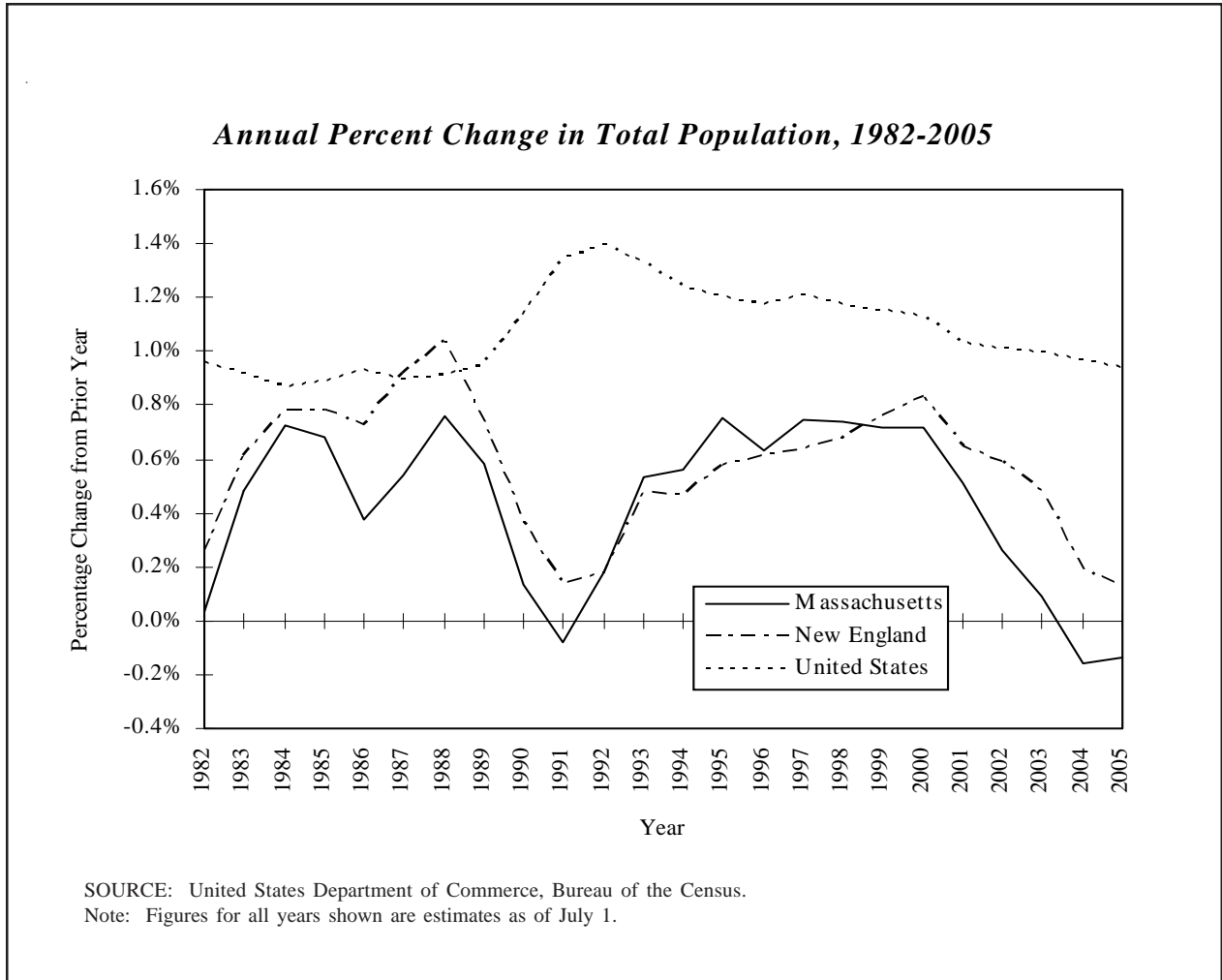
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2005 to be 816.2 persons per square mile, as compared to 83.8 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranked just behind the same two states in percentage of residents living in metropolitan areas according to the metropolitan definitions released in 2003 which are based on whole counties. According to this new definition, the entire state is considered metropolitan except for the two island counties (99.6 percent of state residents in 2004) while Rhode Island, New Jersey and D.C. are wholly metropolitan.

The State's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a 2005 population estimated at 559,034, or 8.7 percent of the state's population. Boston is the hub of the seven-county Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and which had a total population in 2004 estimated at 4,424,649; over 30 percent of the total New England population. The three-county Boston-Quincy, MA Metropolitan Division is the largest component of that MSA, with a total population in 2005 estimated at 1,800,432.

The second largest MSA in the state is the Worcester, MA MSA, with a 2005 population estimated at 783,262. The city of Worcester, situated approximately 40 miles west of Boston with a 2005 population estimated at 175,898, is the third largest city in New England as well as the second largest in the state. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve other colleges and universities.

The third largest MSA in Massachusetts is the three-county Springfield MSA, with a 2005 population estimated at 687,264. Springfield, the third largest city in the Commonwealth with a 2005 population estimated at 151,732, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are Baystate Health System, Big Y Supermarkets, MassMutual Financial Group, and Hasbro Games (Milton Bradley). In addition, Springfield is home to three independent colleges.

As the following chart and table indicate, the population in Massachusetts generally grows more slowly than the population of New England and much more slowly than the nation as a whole. According to the Census Bureau's latest revised estimates, only the District of Columbia, North Dakota, and West Virginia have grown more slowly than Massachusetts since Census 2000, and the state has even had a slight population loss since apparently peaking in 2003.



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

### **Population, 1972-2005**

(in thousands)

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total</i>	<i>Percent Change</i>	<i>Total</i>	<i>Percent Change</i>	<i>Total</i>	<i>Percent Change</i>
<b>1972</b>	5,760	0.4%	12,082	0.7%	209,284	1.2%
<b>1973</b>	5,781	0.4%	12,140	0.5%	211,357	1.0%
<b>1974</b>	5,774	-0.1%	12,146	0.0%	213,342	0.9%
<b>1975</b>	5,758	-0.3%	12,163	0.1%	215,465	1.0%
<b>1976</b>	5,744	-0.2%	12,192	0.2%	217,563	1.0%
<b>1977</b>	5,738	-0.1%	12,239	0.4%	219,760	1.0%
<b>1978</b>	5,736	0.0%	12,283	0.4%	222,095	1.1%
<b>1979</b>	5,738	0.0%	12,322	0.3%	224,567	1.1%
<b>1980</b>	5,737	0.0%	12,348	0.2%	226,546	0.9%
<b>1981</b>	5,769	0.6%	12,436	0.7%	229,466	1.3%
<b>1982</b>	5,771	0.0%	12,468	0.3%	231,664	1.0%
<b>1983</b>	5,799	0.5%	12,544	0.6%	233,792	0.9%
<b>1984</b>	5,841	0.7%	12,642	0.8%	235,825	0.9%
<b>1985</b>	5,881	0.7%	12,741	0.8%	237,924	0.9%
<b>1986</b>	5,903	0.4%	12,833	0.7%	240,133	0.9%
<b>1987</b>	5,935	0.5%	12,951	0.9%	242,289	0.9%
<b>1988</b>	5,980	0.8%	13,085	1.0%	244,499	0.9%
<b>1989</b>	6,015	0.6%	13,182	0.7%	246,819	0.9%
<b>1990</b>	6,023	0.1%	13,230	0.4%	249,623	1.1%
<b>1991</b>	6,018	-0.1%	13,248	0.1%	252,981	1.3%
<b>1992</b>	6,029	0.2%	13,271	0.2%	256,514	1.4%
<b>1993</b>	6,061	0.5%	13,334	0.5%	259,919	1.3%
<b>1994</b>	6,095	0.6%	13,396	0.5%	263,126	1.2%
<b>1995</b>	6,141	0.8%	13,473	0.6%	266,278	1.2%
<b>1996</b>	6,180	0.6%	13,555	0.6%	269,394	1.2%
<b>1997</b>	6,226	0.7%	13,642	0.6%	272,647	1.2%
<b>1998</b>	6,272	0.7%	13,734	0.7%	275,854	1.2%
<b>1999</b>	6,317	0.7%	13,838	0.8%	279,040	1.2%
<b>2000</b>	6,362	0.7%	13,953	0.8%	282,193	1.1%
<b>2001</b>	6,395	0.5%	14,043	0.6%	285,108	1.0%
<b>2002</b>	6,412	0.3%	14,126	0.6%	287,985	1.0%
<b>2003</b>	6,418	0.1%	14,194	0.5%	290,850	1.0%
<b>2004</b>	6,407	-0.2%	14,222	0.2%	293,657	1.0%
<b>2005</b>	6,399	-0.1%	14,240	0.1%	296,410	0.9%

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

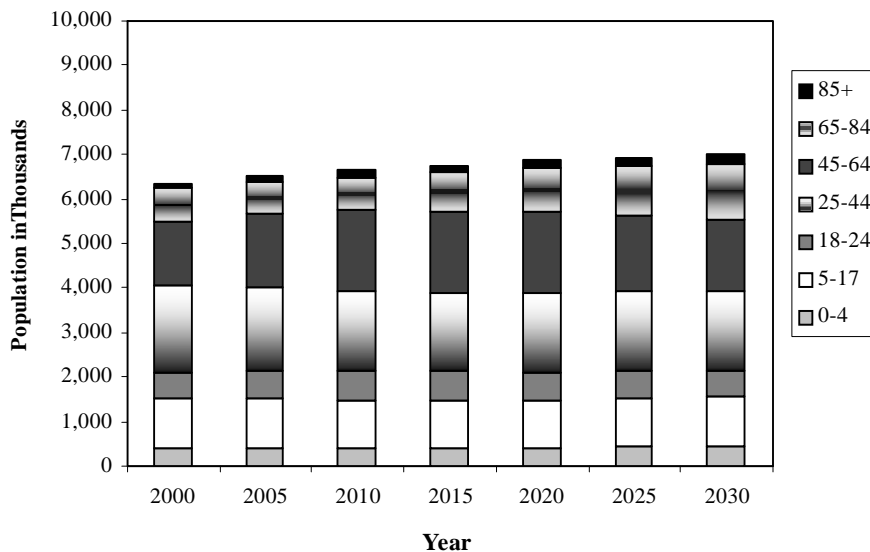
The next twenty-five years are expected to bring about a continued change in the age distribution of the Massachusetts population. As the following table and chart show, the share of the 65 and over age group and especially the 85 and over age group will continue to grow. The chart, table and population pyramids (below, and on the following page) show the projected population by age for Massachusetts for 2000 through 2030.

***Projected Massachusetts Population by Age Group, 2000-2030***  
(in thousands)

<i>Year</i>	<i>0-4</i>	<i>5-17</i>	<i>18-24</i>	<i>25-44</i>	<i>45-64</i>	<i>65-84</i>	<i>85+</i>	<i>All Ages</i>	<i>Median Age</i>
<b>2000</b>	397.3	1,102.8	579.3	1,989.8	1,419.8	743.5	116.7	6,349.1	36.5
<b>2005</b>	406.3	1,119.2	611.8	1,874.6	1,649.0	720.7	137.4	6,518.9	37.8
<b>2010</b>	400.7	1,083.1	670.2	1,769.7	1,817.1	750.6	158.0	6,649.4	38.8
<b>2015</b>	409.7	1,064.2	656.0	1,746.1	1,857.1	856.5	168.9	6,758.6	39.2
<b>2020</b>	422.3	1,070.9	617.5	1,775.8	1,809.3	987.8	172.0	6,855.5	39.5
<b>2025</b>	431.0	1,087.7	616.2	1,782.5	1,703.3	1,137.8	180.1	6,938.6	39.7
<b>2030</b>	430.6	1,115.0	610.7	1,783.9	1,608.7	1,251.2	211.9	7,012.0	40.2

Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year.  
Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.

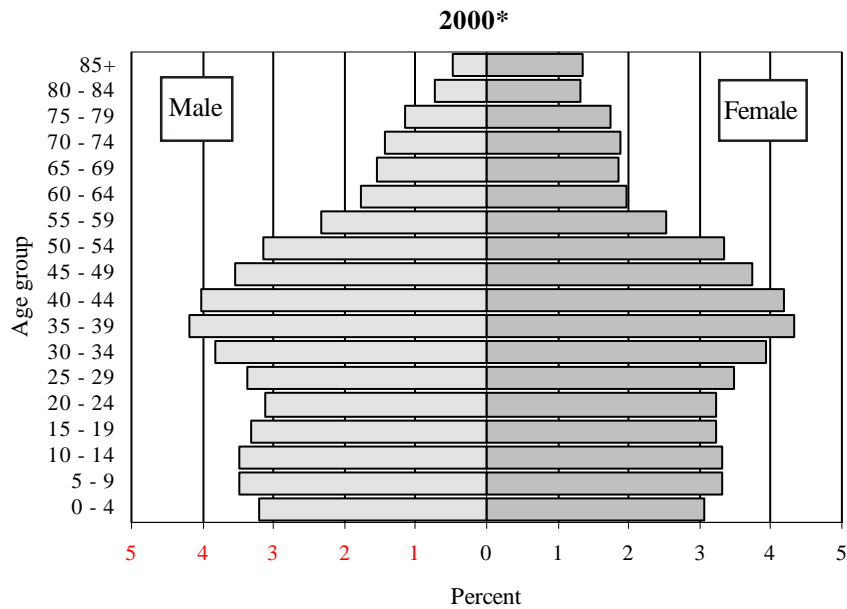
***Projected Massachusetts Population by Age Group***  
***2000-2030***



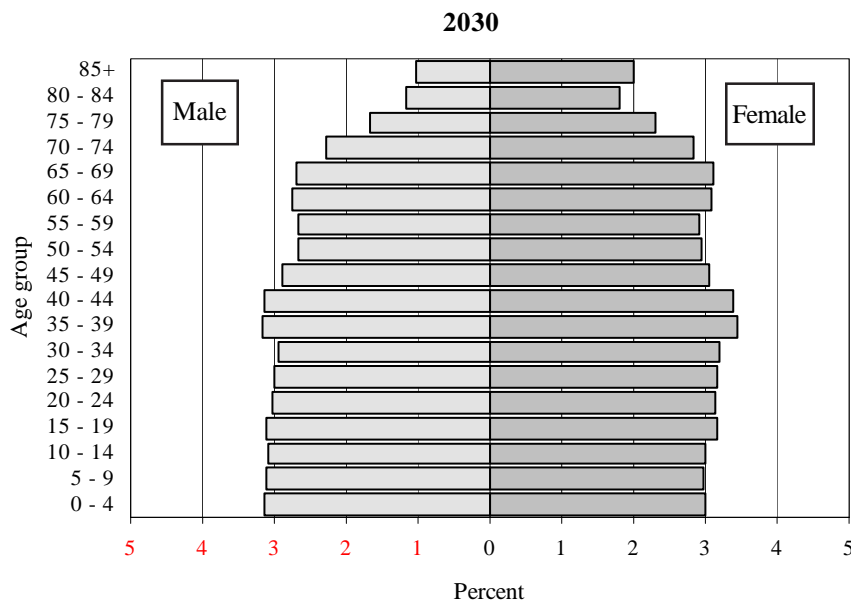
Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year.  
Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.

## Population Pyramids of Massachusetts

(percent of total population)



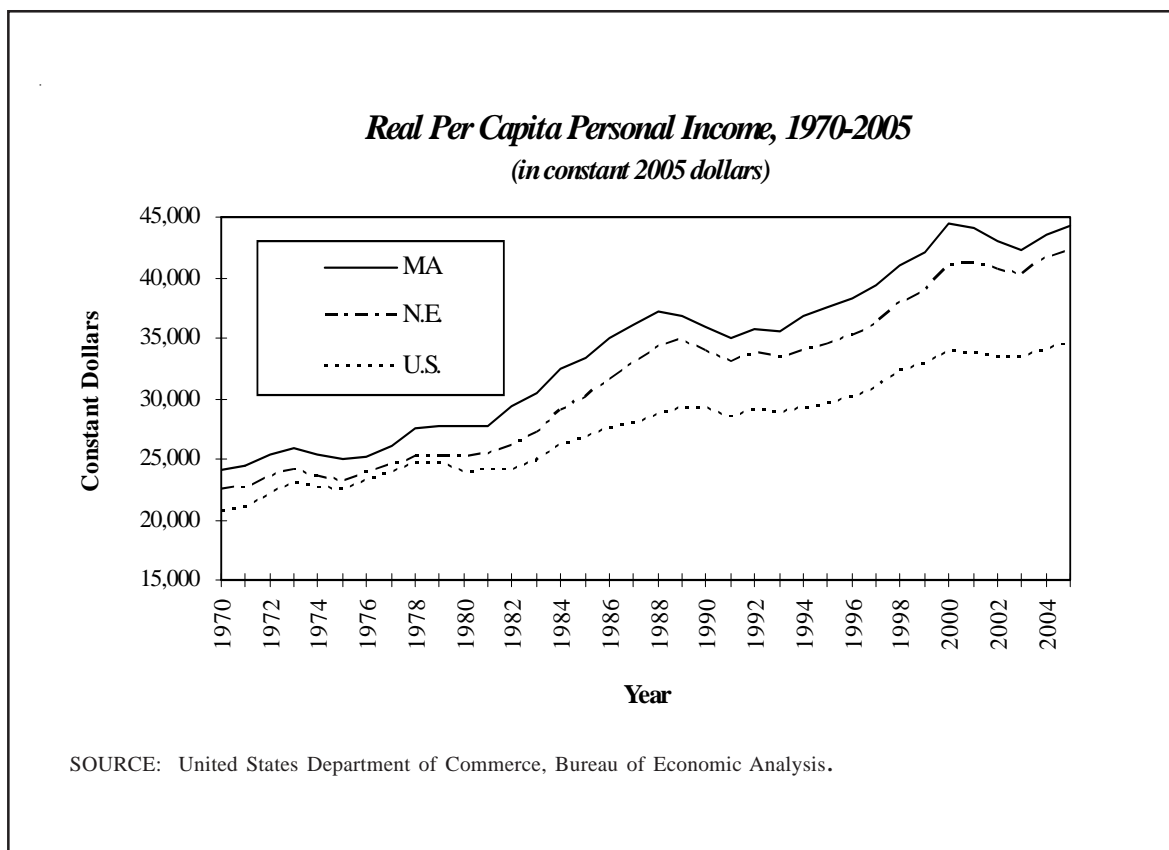
\*Note: Actual Census 2000 counts as of April 1.



SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005  
 Internet Release Date: April 21, 2005

## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

**Personal Income.** Since at least 1929, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1994 and 1997. In 2000 Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.4 percentage points. From 2000 to 2003 real income in both Massachusetts and the United States declined, with a steeper decline in Massachusetts. However, real income levels in Massachusetts remained well above the national average. In both 2004 and 2005, income in the state grew faster than in the nation. For the last three years only the District of Columbia and Connecticut have had higher levels of per capita personal income. The following graph illustrates these changes in real per capita personal income in Massachusetts, New England, and the United States since 1970.





The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2005.

***Per Capita Personal Income, 1970-2005***

Year	Nominal Income (in current dollars)			Real Income (in 2005 dollars)			Percent Change in Real Income		
	MA	NE	U.S.	MA	NE	U.S.	MA	NE	U.S.
1970	4,483	4,445	4,085	24,132	22,374	20,562	0.3%	0.5%	0.7%
1971	4,752	4,680	4,342	24,368	22,568	20,938	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	25,299	23,497	22,039	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	25,926	24,109	23,009	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	25,427	23,602	22,608	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	25,049	23,164	22,405	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	25,239	23,886	23,182	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	26,133	24,471	23,865	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	27,474	25,200	24,697	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	27,745	25,265	24,603	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	27,776	25,192	23,972	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	27,811	25,451	24,162	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	29,324	26,049	24,154	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	30,376	27,117	24,742	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	32,497	28,989	26,111	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	33,449	30,032	26,787	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	35,002	31,579	27,517	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	36,174	32,869	27,920	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	37,184	34,357	28,612	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	36,823	34,781	29,169	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	35,900	33,938	29,104	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	34,970	32,936	28,524	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	35,734	33,648	29,029	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	35,632	33,454	28,850	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	36,746	33,851	29,219	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	37,463	34,385	29,572	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	38,341	35,094	30,092	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	39,308	36,124	30,827	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	40,991	37,954	32,210	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	42,084	38,833	32,752	2.7%	2.3%	1.7%
2000	37,756	36,118	29,845	44,501	40,963	33,849	5.7%	5.5%	3.3%
2001	38,953	37,342	30,574	44,018	41,180	33,716	-1.1%	0.5%	-0.4%
2002	38,985	37,379	30,810	42,933	40,579	33,447	-2.5%	-1.5%	-0.8%
2003	39,798	38,009	31,484	42,238	40,343	33,418	-1.6%	-0.6%	-0.1%
2004	42,176	40,260	33,050	43,565	41,624	34,170	3.1%	3.2%	2.3%
2005	44,289	42,314	34,586	44,289	42,314	34,586	1.7%	1.7%	1.2%

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

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

**Annual pay in nominal dollars** has grown steadily in Massachusetts over the past decade. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. The level of annual pay in Massachusetts in 2004 was 24 percent higher than the national average: \$48,916 compared to \$39,354.

**Wage and Salary Disbursements.** Wage and Salary Disbursements by Place of Work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts shares of the New England and overall US totals steadily increased, but in the subsequent years, its shares have dropped back somewhat from their 2000 peaks.

**Annual Wage and Salary Disbursements, 1990-2004**  
(in millions of dollars)

Year	U.S.	N.E.	MA	MA as a pct. of N.E.
1990	\$ 2,743,016	\$171,448	\$83,129	48.5%
1991	\$ 2,811,076	\$170,333	\$82,311	48.3%
1992	\$ 2,972,287	\$177,810	\$86,014	48.4%
1993	\$ 3,076,276	\$183,236	\$89,047	48.6%
1994	\$ 3,227,483	\$190,661	\$93,164	48.9%
1995	\$ 3,415,368	\$201,946	\$99,194	49.1%
1996	\$ 3,615,699	\$213,667	\$105,573	49.4%
1997	\$ 3,874,011	\$230,032	\$113,579	49.4%
1998	\$ 4,179,922	\$247,851	\$123,054	49.6%
1999	\$ 4,463,650	\$266,554	\$134,045	50.3%
2000	\$ 4,825,906	\$293,889	\$150,842	51.3%
2001	\$ 4,939,944	\$300,698	\$153,131	50.9%
2002	\$ 4,976,522	\$298,534	\$150,107	50.3%
2003	\$ 5,105,408	\$304,739	\$151,997	49.9%
2004	\$ 5,383,900	\$321,398	\$160,217	49.8%

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

**Consumer Prices.** Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2005. The table shows the annual average of the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that average from the previous year. In 2005, the CPI-U for Boston increased by 3.3 percent over the average for the previous calendar year, while the index for the United States as a whole increased by a comparable 3.4 percent. The latest available data for May 2006 show that the CPI-U for the Boston metropolitan area grew at a rate of 3.9 percent from May 2005, compared with 4.2 percent for the U.S.

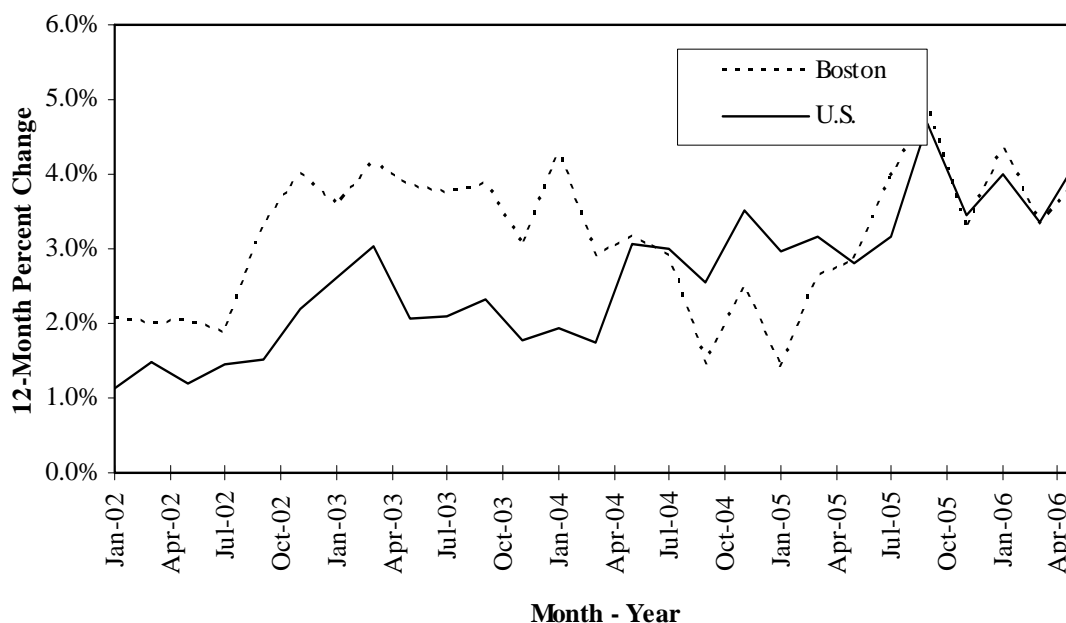
**Consumer Price Index for all Urban Consumers (CPI-U), 1970-2005**

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

Year	Boston Metro Area		United States	
	CPI-U	Pct. Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
2004	209.5	2.7%	188.9	2.7%
2005	216.4	3.3%	195.3	3.4%
May-05	214.6		194.4	
May-06	222.9	3.9%	202.5	4.2%

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

**Consumer Price Index for all Urban Consumers  
January 2002 - May 2006**



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

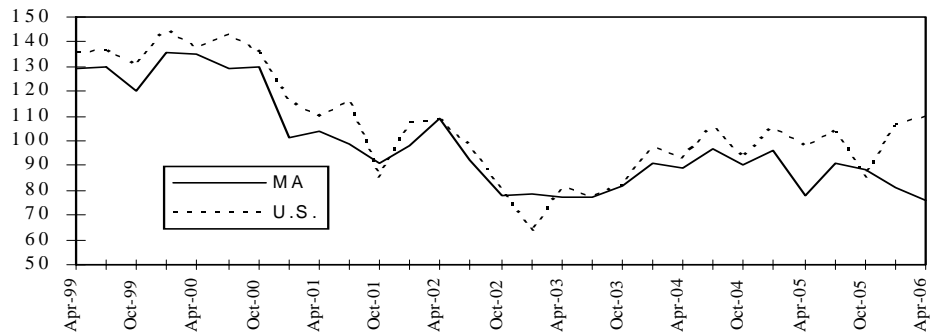
**Consumer Confidence, Present Situation, and Future Expectations.** These three measures offer multiple insights into consumer attitudes. The U.S. measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Massachusetts is conducted in a similar manner and the results are published by the Mass Insight Corporation, based on quarterly polling of 500 adult residents of Massachusetts. The "Present Situation" index measures consumers' appraisal of business and employment conditions at the time of the survey. The "Future Expectations" index focuses on consumers' expectations six months hence regarding business and employment conditions, as well as expected family income. The overall "Consumer Confidence" index is a weighted average of the two sub-indices. Although the U.S. measures are compiled by a different source than the Massachusetts measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. While consumer confidence nationally reached its highest point in four years last month at 109 as reported by the Conference Board, Massachusetts' consumer confidence has fallen to 76, its lowest level since January 2003, according to the Mass Insight quarterly survey. The overall 33-point gap between state and national consumer confidence is the largest in more than a decade. A score of 100 is considered neutral. The following table and chart detail the recent record of these three measures.

**Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S., January 2001 - April 2006 (1985=100)**

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
<b>Jan-01</b>	101.0	115.7	139.0	170.4	76.0	79.3
<b>Apr-01</b>	104.0	109.9	124.0	156.0	91.0	79.1
<b>Jul-01</b>	99.0	116.3	108.0	151.3	93.0	92.9
<b>Oct-01</b>	91.0	85.3	94.0	107.2	90.0	70.7
<b>Jan-02</b>	97.8	107.0	98.1	72.0	97.6	130.0
<b>Apr-02</b>	109.0	108.5	84.0	106.8	125.0	109.6
<b>Jul-02</b>	92.0	97.4	68.0	99.4	108.0	96.1
<b>Oct-02</b>	78.0	79.6	48.0	77.2	97.0	81.1
<b>Jan-03</b>	78.8	63.0	75.3	28.0	81.1	86.0
<b>Apr-03</b>	77.0	81.0	31.0	75.2	108.0	84.8
<b>Jul-03</b>	77.0	77.0	41.0	63.0	101.0	86.3
<b>Oct-03</b>	82.0	81.7	36.0	67.0	112.0	91.5
<b>Jan-04</b>	91.0	97.7	48.0	86.1	119.0	105.3
<b>Apr-04</b>	89.0	93.0	53.0	90.4	113.0	94.8
<b>Jul-04</b>	97.0	105.7	66.0	106.4	119.0	105.3
<b>Oct-04</b>	90.0	92.9	64.0	94.0	108.0	92.2
<b>Jan-05</b>	96.0	105.1	70.0	112.1	114.0	100.4
<b>Apr-05</b>	78.0	97.5	63.0	113.8	88.0	86.7
<b>Jul-05</b>	91.0	103.6	80.0	119.3	99.0	93.2
<b>Oct-05</b>	88.0	85.2	80.0	107.8	95.0	70.1
<b>Jan-06</b>	81.0	106.8	71.0	128.8	87.0	92.1
<b>Apr-06</b>	76.0	109.8	77.0	136.2	76.0	92.3

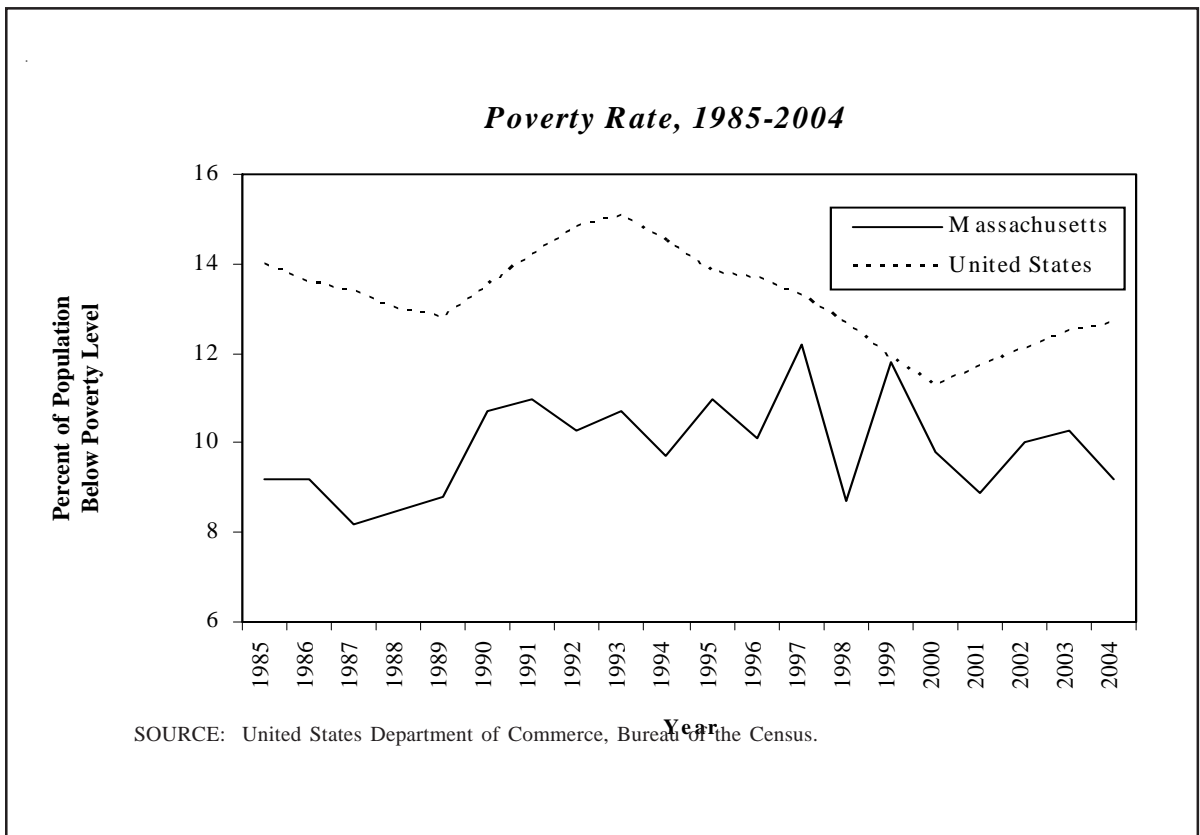
SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted), Mass Insight Corporation (for MA measures, not seasonally adjusted).

**Consumer Confidence: Massachusetts and the U.S., January 1999 - April 2006**  
(Massachusetts index not seasonally adjusted; 1985 = 100)



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

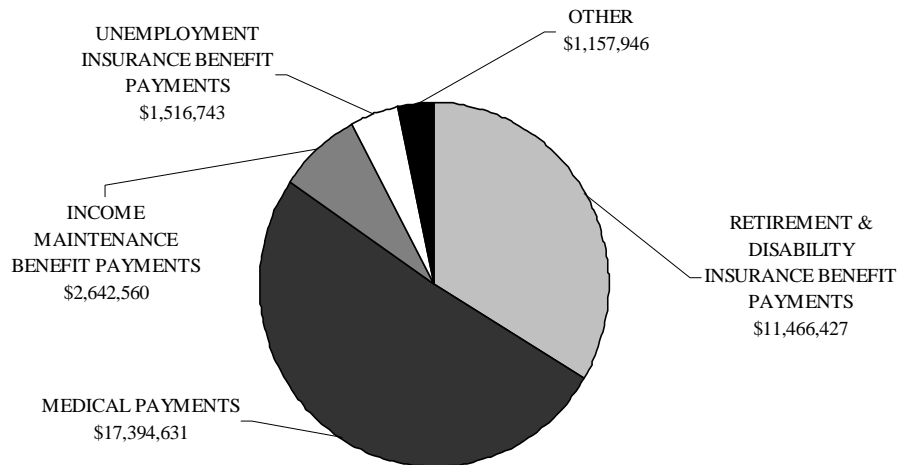
**Poverty.** The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. In 2004, the poverty rate in Massachusetts decreased to 9.2 percent while the poverty rate in the United States rose slightly to 12.7 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.99 in 1999. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985 - 2004) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high.



**Transfer Payments.** Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income in Massachusetts in 2004. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts totaled 35.4 billion dollars for 2004. Approximately 51 percent of total transfer payments were medical payments.

***Transfer Payments from Governments to Individuals in  
Massachusetts in 2004  
(From Annual State Personal Income Estimates)***

*(in thousands of current dollars)*



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

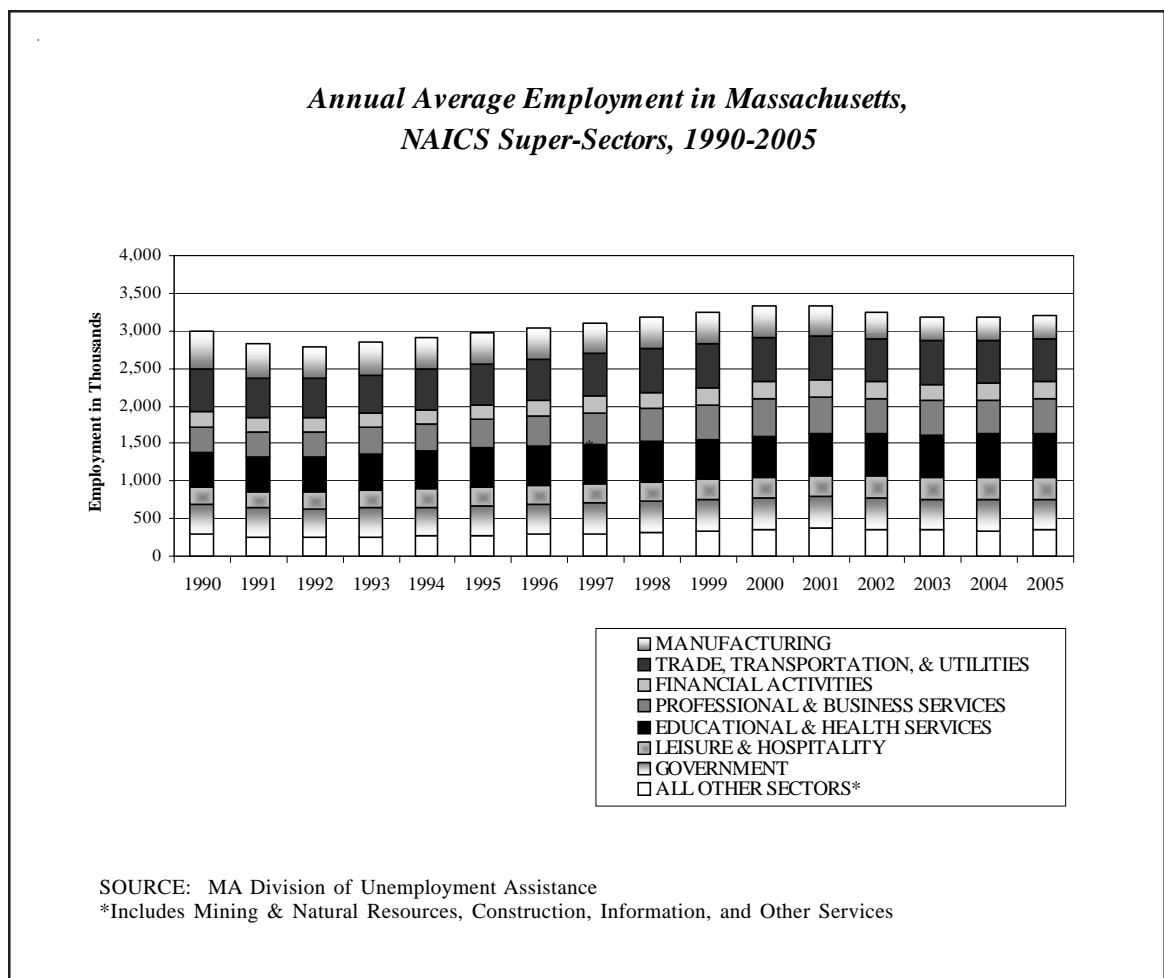
NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

## EMPLOYMENT

**Employment by Industry** The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts on the North American Industry Classification System (NAICS) basis for the seven largest NAICS super-sectors starting with 1990, the earliest year for which NAICS data are available. The chart on the following page compares the super-sector shares for the 2004-2005 period with the corresponding shares for the 1990-1991 period. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, not only as a share of total employment, but in absolute numbers of jobs as well. Several NAICS service sectors and the Financial Activities sector have grown to take the place of manufacturing in driving the Massachusetts economy and now account for more than half of total payroll employment, while Government, Information, Trade, Transportation & Utilities have remained level or declined in share.

After significant declines in 2002 and 2003, total non-agricultural employment in Massachusetts declined only 0.1 percent in 2004. The 2005 increase of 0.5 percent is equal to the average growth rate over the 16 year period for which NAICS data are available, but still leaves the state with 131.7 thousand fewer jobs than in the peak year of 2001. The average level for the first five months of 2006 is a somewhat healthier 0.9 percent above that of the corresponding five-month period in 2005. The comparable growth rate for the nation over the same period is 1.5 percent.

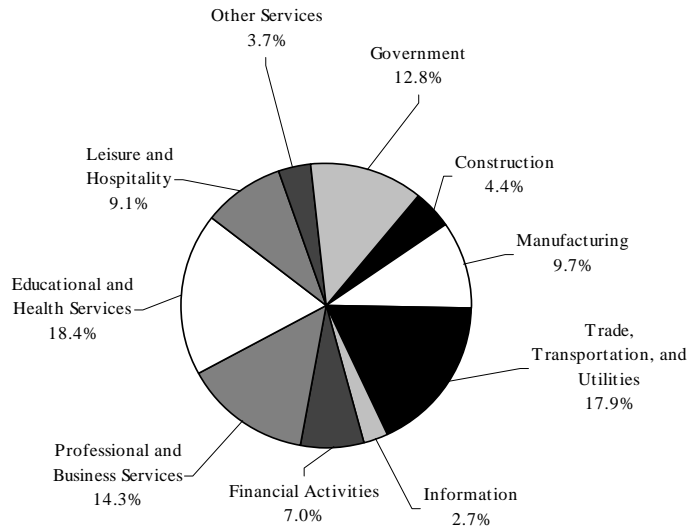
In 2004, manufacturing employment declined 3.2 percent from the year before; a smaller decline than the steep annual declines in the previous three years and very close to the long-term average rate of decline since 1990 (3.0 percent per year). The estimate for manufacturing for 2005 is only 2.3 percent below the 2004 level, and the five-month average for early 2006 is in fact only 0.8 percent below the comparable 2005 level.



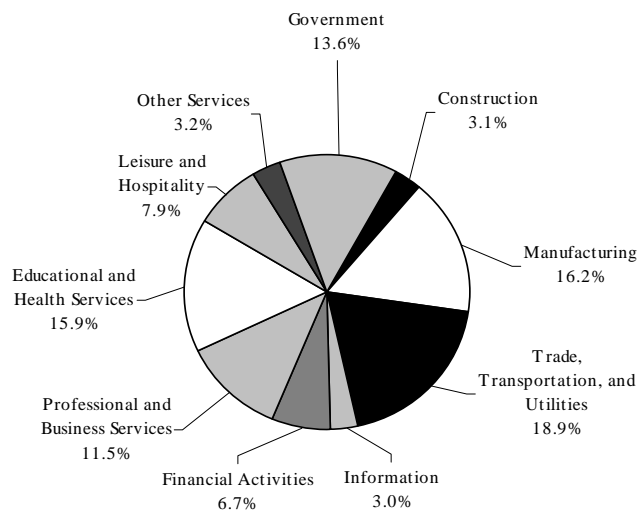


**Massachusetts Non-Farm Payroll Employment  
(NAICS Industry basis)**

**NAICS Super-Sectors: 2004-2005 Average Share**



**NAICS Super-Sectors: 1990-1991 Average Share**



SOURCE: MA Division of Unemployment Assistance.

***Largest Employers in Massachusetts.*** The following table lists the twenty-five largest private employers in Massachusetts based upon UI-covered employment data for June 2005. The list is unchanged from the previous list based on March, 2005 employment.

***Twenty-five Largest Private Employers in Massachusetts in June, 2005***  
*(listed alphabetically)*

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

SOURCE: MA Division of Unemployment Assistance.

**Unemployment.** The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.1 points above in 1991. However, from 1994 until the beginning of 2006 the unemployment rate in Massachusetts has been consistently below the national average. Since January the state rate has been above the national rate. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rates of Massachusetts, the New England states, and the United States from 1970 to 2005 and also includes preliminary data for the first five months of 2006.

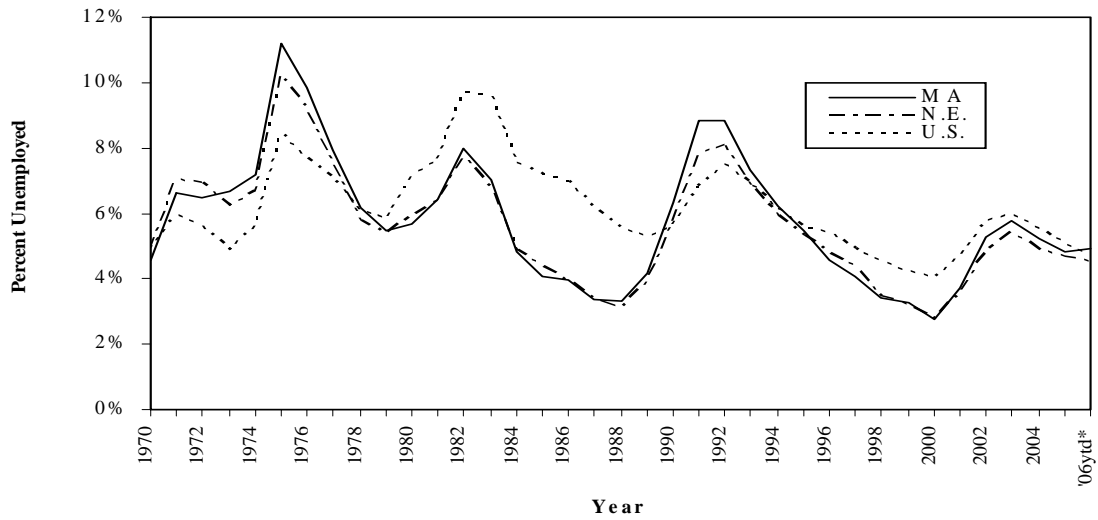
***Annual Average Civilian Labor Force and Unemployment, 1970 - 2005***

*(in thousands)*

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	Pct. of U.S.
1970	2,465	5,128	82,771	113	253	4,093	4.6%	4.9%	4.9%	92.9%
1971	2,459	5,157	84,383	163	364	5,016	6.6%	7.1%	5.9%	111.8%
1972	2,487	5,260	87,035	161	363	4,882	6.5%	6.9%	5.6%	115.4%
1973	2,557	5,387	89,430	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,637	5,514	91,951	190	368	5,156	7.2%	6.7%	5.6%	128.4%
1975	2,725	5,633	93,775	305	578	7,928	11.2%	10.3%	8.5%	132.2%
1976	2,726	5,714	96,158	268	521	7,406	9.8%	9.1%	7.7%	127.5%
1977	2,760	5,820	99,009	218	437	6,991	7.9%	7.5%	7.1%	112.1%
1978	2,809	5,936	102,251	173	343	6,202	6.2%	5.8%	6.1%	101.8%
1979	2,863	6,080	104,962	156	326	6,137	5.5%	5.4%	5.8%	93.4%
1980	2,886	6,154	106,940	164	365	7,637	5.7%	5.9%	7.1%	79.6%
1981	2,938	6,268	108,670	189	400	8,273	6.4%	6.4%	7.6%	84.6%
1982	2,966	6,345	110,204	236	489	10,678	8.0%	7.7%	9.7%	82.3%
1983	2,972	6,386	111,550	209	434	10,717	7.0%	6.8%	9.6%	73.2%
1984	3,032	6,540	113,544	146	318	8,539	4.8%	4.9%	7.5%	63.9%
1985	3,049	6,630	115,461	125	290	8,312	4.1%	4.4%	7.2%	56.8%
1986	3,080	6,724	117,834	123	264	8,237	4.0%	3.9%	7.0%	57.0%
1987	3,114	6,827	119,865	104	228	7,425	3.4%	3.3%	6.2%	54.1%
1988	3,156	6,907	121,669	104	215	6,701	3.3%	3.1%	5.5%	60.0%
1989	3,189	7,004	123,869	132	274	6,528	4.2%	3.9%	5.3%	78.9%
1990	3,226	7,128	125,840	204	409	7,047	6.3%	5.7%	5.6%	112.9%
1991	3,199	7,112	126,346	283	558	8,628	8.8%	7.8%	6.8%	129.4%
1992	3,181	7,105	128,105	281	573	9,613	8.8%	8.1%	7.5%	117.7%
1993	3,173	7,062	129,200	232	486	8,940	7.3%	6.9%	6.9%	105.8%
1994	3,188	7,041	131,056	199	415	7,996	6.2%	5.9%	6.1%	102.1%
1995	3,205	7,053	132,304	176	375	7,404	5.5%	5.3%	5.6%	97.9%
1996	3,231	7,118	133,943	148	340	7,236	4.6%	4.8%	5.4%	84.6%
1997	3,293	7,228	136,297	135	315	6,739	4.1%	4.4%	4.9%	82.6%
1998	3,322	7,257	137,673	113	253	6,210	3.4%	3.5%	4.5%	75.2%
1999	3,355	7,327	139,368	110	234	5,880	3.3%	3.2%	4.2%	77.4%
2000	3,366	7,348	142,583	92	204	5,692	2.7%	2.8%	4.0%	68.7%
2001	3,401	7,424	143,734	126	266	6,801	3.7%	3.6%	4.7%	78.3%
2002	3,424	7,510	144,863	181	364	8,378	5.3%	4.8%	5.8%	91.4%
2003	3,406	7,546	146,510	197	409	8,774	5.8%	5.4%	6.0%	96.7%
2004	3,375	7,517	147,401	176	368	8,149	5.2%	4.9%	5.5%	94.3%
2005	3,365	7,551	149,320	162	353	7,591	4.8%	4.7%	5.1%	94.4%
'06ytd*	3,355	7,577	150,507	164	343	7,076	4.9%	4.5%	4.7%	104.2%

SOURCE: United States Department of Labor, Bureau of Labor Statistics. \*Estimates for the first five months of 2006 calculated from Seasonally Adjusted monthly data.

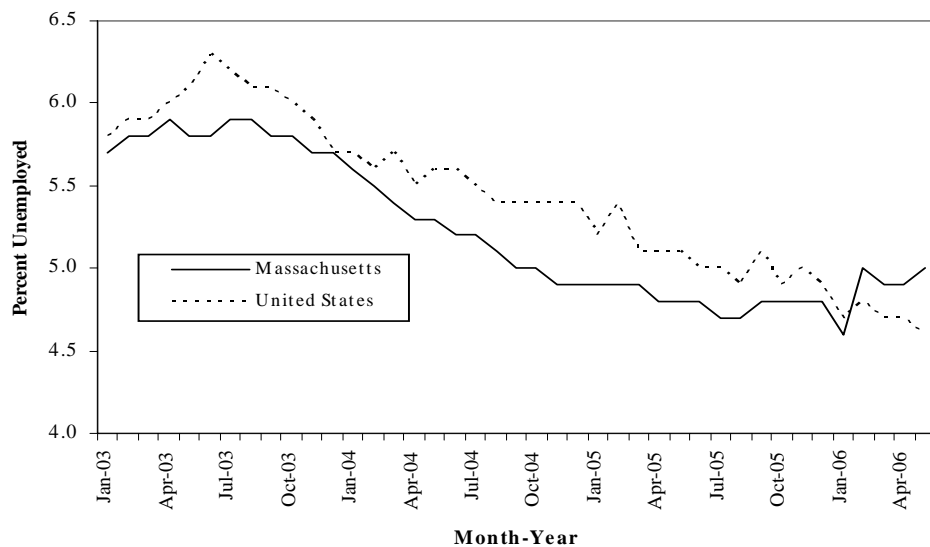
**Annual Average Unemployment Rate, 1970 -2005,  
Massachusetts, New England, and United States**



SOURCE: United States Department of Labor, Bureau of Labor Statistics. \*Estimates for the first five months of 2006 calculated from Seasonally Adjusted monthly data.

The unemployment rate in Massachusetts was consistently below the national average from early in the recovery from the recession of the early 1990's, with the exception of December, 2003, when the two rates were equal. Unemployment levels in the United States as a whole and in Massachusetts have generally shown similar patterns since peaking in mid-2003, falling slowly but fairly steadily through January, 2006. The unemployment rate in Massachusetts dropped from 4.9 to 4.6 percent between January, 2005 and January, 2006, while the national rate dropped from 5.2 to 4.7 percent. Both rates worsened in February, 2006, and the Massachusetts rate has now been higher than the U.S. rate for four consecutive months. The following graph illustrates the movement of the state and national unemployment rates over the past forty-one months.

**Monthly Unemployment Rate, January 2003-May 2006  
Massachusetts and United States  
(seasonally adjusted)**



SOURCE: MA Division of Employment Assistance.

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

**Help Wanted Advertising Index, 1989-2005\***

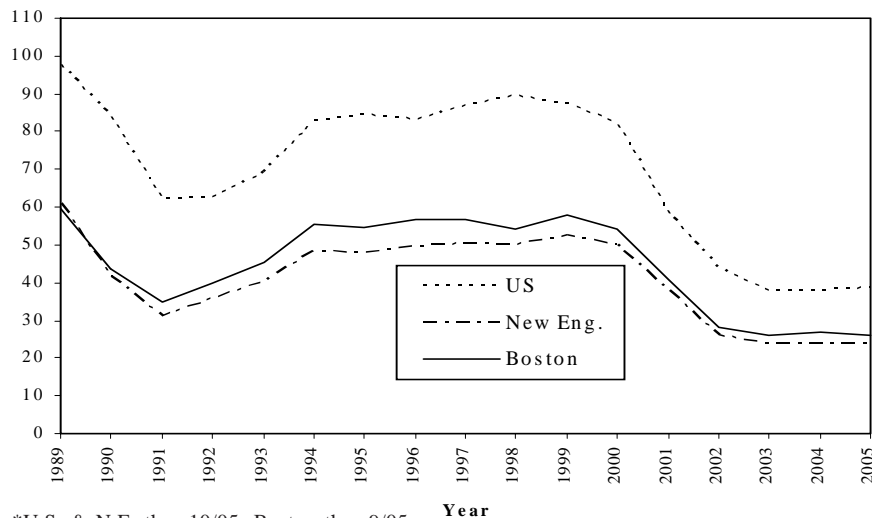
(seasonally adjusted 1987=100)

	US	% Change	New Eng.	% Change	Boston	% Change
1989	98.0		60.8		59.5	
1990	83.8	-14.5%	41.5	-31.8%	43.5	-26.9%
1991	62.0	-26.0%	31.0	-25.3%	34.7	-20.3%
1992	62.5	0.8%	35.8	15.3%	39.9	15.1%
1993	69.4	11.1%	40.3	12.6%	45.4	13.8%
1994	82.9	19.4%	48.1	19.5%	55.4	22.0%
1995	84.3	1.6%	47.8	-0.7%	54.5	-1.7%
1996	83.2	-1.3%	49.8	4.2%	56.8	4.3%
1997	87.0	4.6%	50.6	1.7%	56.7	-0.3%
1998	89.4	2.8%	50.0	-1.2%	54.0	-4.7%
1999	87.3	-2.4%	52.4	4.8%	57.8	7.1%
2000	82.4	-5.5%	50.0	-4.6%	54.1	-6.5%
2001	58.3	-29.3%	37.7	-24.7%	40.9	-24.3%
2002	43.8	-24.9%	25.9	-31.2%	28.0	-31.6%
2003	37.8	-13.5%	23.8	-8.4%	25.8	-7.7%
2004	37.8	0.0%	23.9	0.7%	26.8	3.9%
2005*	38.8	2.6%	23.8	-0.7%	25.8	-3.7%

\*U.S. & N.E. thru 10/05; Boston thru 9/05  
SOURCE: The Conference Board, Inc.

**Help Wanted Advertising Index, 1989-2005\***

(seasonally adjusted 1987=100)



\*U.S. & N.E. thru 10/05; Boston thru 9/05  
SOURCE: The Conference Board, Inc.

**Unemployment Insurance Trust Fund.** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth. As of May 31, 2006, the Massachusetts Unemployment Trust Fund had a balance of \$981million, of which the private contributory account portion was \$876 million. The Division of Unemployment Assistance's June 2006 Unemployment Insurance Trust Fund report indicates that under the current economic outlook the refinancing measures included in Chapter 142 of the Massachusetts Acts of 2003 (effective January 1, 2004), provide for employer contributions that should result in private contributory account reserves of \$2.034 billion at the end of 2010.

## ECONOMIC BASE AND PERFORMANCE

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

Real GSP is an inflation-adjusted measure of each state's gross product that is based on national prices for the goods and services produced within that state. The estimates of real GSP and of quantity indexes with a base year of 2000 are derived by applying national implicit price deflators to the current-dollar GSP estimates for the 63 SIC industries for years 1977-1997, and for the 81 NAICS industries for years 1997 forward. Then, the chain-type index formula that is used in the national accounts is used to calculate the estimates of total real GSP and of real GSP at more aggregated industry levels.

Between 1997 and 2005, gross state product in Massachusetts, New England and the sum of all states GSP grew approximately 48.1, 46.8 and 50.6 percent respectively in current dollars. Between 1997 and 2005, gross state product in Massachusetts, New England and the sum of all states GSP grew approximately 28.6, 25.1 and 25.1 percent respectively in chained 2000 dollars. The Massachusetts economy is the largest in New England, contributing 47.6 percent to New England's total GSP, and thirteenth largest in the U.S., contributing 2.6 percent to the nation's total GSP.

### **Gross State Product - Cumulative Change, 1997-2005**

(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Change from 1997	GSP	Change from 1997	GSP	Change from 1997
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$240,617	6.0%	\$511,374	4.9%	\$9,004,670	4.5%
1999	\$255,189	12.0%	\$531,902	8.9%	\$9,404,251	8.9%
2000	\$274,949	19.8%	\$565,835	15.3%	\$9,749,103	12.6%
2001	\$276,634	20.4%	\$570,313	16.0%	\$9,836,576	13.5%
2002	\$274,997	19.8%	\$568,750	15.8%	\$9,981,850	14.9%
2003	\$282,375	22.5%	\$581,648	18.0%	\$10,237,201	17.5%
2004	\$292,423	26.0%	\$605,270	22.1%	\$10,662,196	21.6%
2005	\$299,992	28.6%	\$623,129	25.1%	\$11,035,627	25.1%

Source: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2006.

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

**Gross State Product - Annual Change, 1997-2005**

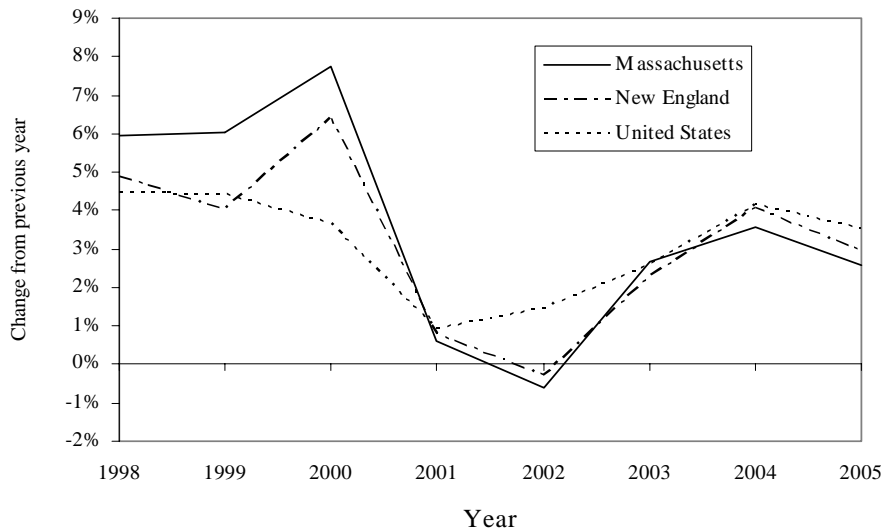
(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Annual change	GSP	Annual change	GSP	Annual change
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$240,617	6.0%	\$511,374	4.9%	\$9,004,670	4.5%
1999	\$255,189	6.1%	\$531,902	4.0%	\$9,404,251	4.4%
2000	\$274,949	7.7%	\$565,835	6.4%	\$9,749,103	3.7%
2001	\$276,634	0.6%	\$570,313	0.8%	\$9,836,576	0.9%
2002	\$274,997	-0.6%	\$568,750	-0.3%	\$9,981,850	1.5%
2003	\$282,375	2.7%	\$581,648	2.3%	\$10,237,201	2.6%
2004	\$292,423	3.6%	\$605,270	4.1%	\$10,662,196	4.2%
2005	\$299,992	2.6%	\$623,129	3.0%	\$11,035,627	3.5%

U.S. Department of Commerce, Bureau of Economic Analysis. Revised June 2006

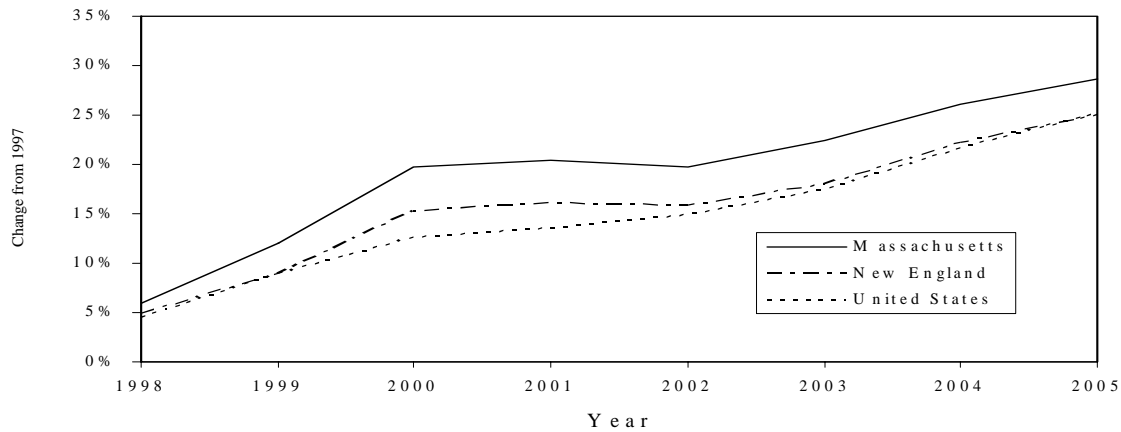
**Annual Percent Change in Gross State Product, 1997-2005**

(chained 2000 dollars)



U.S. Department of Commerce, Bureau of Economic Analysis. Revised June 2006

**Cumulative Percent Change in Gross State Product, 1997-2005**  
(chained 2000 dollars)



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Revised June 2006

The commercial base of Massachusetts is anchored by the twenty-four 2005 Fortune 1000 companies (eleven of which are Fortune 500) headquartered in Massachusetts. Exiting the Massachusetts 2004 Fortune 500 list after being purchased by companies headquartered outside Massachusetts were FleetBoston (140<sup>th</sup>) and John Hancock Financial Services (192<sup>nd</sup>). The 2006 Fortune 500 list for Massachusetts will not include Gillette as it was purchased by Ohio based Procter and Gamble (26<sup>th</sup>) in January 2005. Allmerica Financial lost its Fortune 500 ranking, joining the Fortune 1000 (550<sup>th</sup>). When comparing the 2005 Fortune 500 to 2004's, five Massachusetts companies gained and seven lost rank. Perini, the Framingham based construction services firm and Fortune 1000 member, climbed 111 places on the list (from 910<sup>th</sup> to 799<sup>th</sup>); the largest leap for a Massachusetts company.

**Massachusetts Companies in the 2006 Fortune 500 and 1000 Lists**

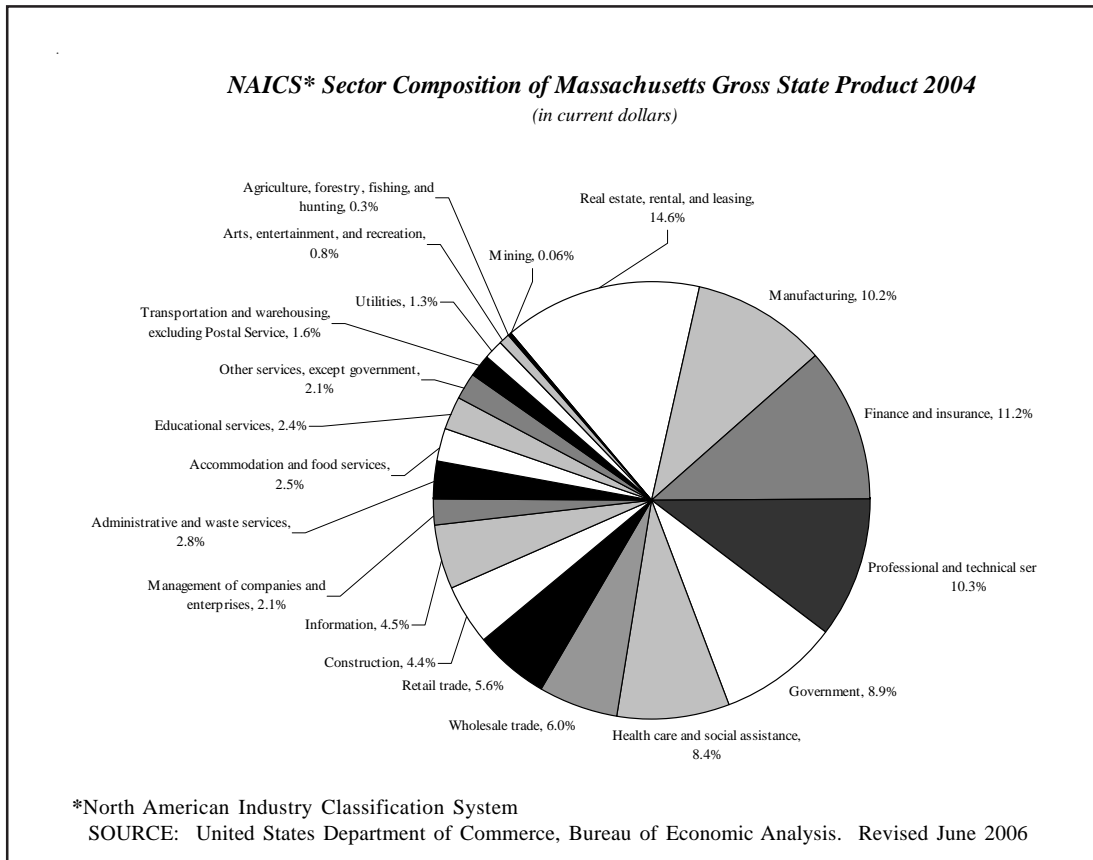
Rank		Company	Industry	2005 revenues (millions)
2006	2005			
92	83	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	\$22,799
97	103	Raytheon (Waltham)	Aerospace and Defense	\$21,894
102	111	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	\$21,161
137	146	Staples (Framingham)	Specialty Retailers	\$16,079
138	141	TJX (Framingham)	Specialty Retailers	\$16,058
249	266	EMC (Hopkinton)	Computer Peripherals	\$9,664
288	284	BJ's Wholesale Club (Natick)	Specialty Retailers	\$7,950
307	341	State St. Corp. (Boston)	Commercial Banks	\$7,496
346	352	Boston Scientific (Natick)	Medical Products & Equipment	\$6,283
574	575	NSTAR (Boston)	Utilities: Gas & Electric	\$3,243
622	N/A	Hanover Insurance Group (Worcester)	Insurance: P & C (stock)	\$2,968
643	713	Genzyme (Cambridge)	Pharmaceuticals	\$2,735
658	680	Thermo Electron (Waltham)	Scientific, Photo, Control Equipment	\$2,633
706	708	Biogen Idec (Cambridge)	Pharmaceuticals	\$2,423
712	623	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	\$2,389
772	775	Cabot (Boston)	Chemicals	\$2,125
783	811	Iron Mountain (Boston)	Diversified Outsourcing	\$2,078
837	817	Commerce Group (Webster)	Insurance: P & C (stock)	\$1,884
884	799	Perini (Framingham)	Engineering, Construction	\$1,734
897	855	PerkinElmer (Wellesley)	Scientific, Photo, Control Equipment	\$1,698
990	962	Boston Properties (Boston)	Real Estate	\$1,447

SOURCE: *Fortune*, April 2006



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

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy (manufacturing, real estate and rental and leasing, finance and insurance, and professional and technical services, on the 2002 NAICS basis) contributed 48.8 percent of the GSP in 2004. The data below show the contributions to the Massachusetts Real Gross State Product of all industrial and non-industrial sectors.



When measured in chained 2000 dollars, the cumulative change in Massachusetts total GSP was 28.0 percent between 1997 and 2004. Between 1997 and 2003 (the latest data available for subsector data), several industries grew much faster than the state average; computer and electronic product manufacturing, securities/commodity contracts/investments, and forestry/fishing/related activities. Substantial cumulative losses were in the paper manufacturing, machinery manufacturing, and funds/trusts/other financial vehicles sectors. Industry subsectors that experienced substantial cumulative growth or reduction and accounted for one percent or more of Massachusetts GSP are listed in the following chart:

**Industry Subsectors with a Substantial Growth or Reduction**  
(chained 2000 dollars)

NAICS* Industry Subsector	Cumulative percent change 1997-2004
Computer and electronic product manufacturing	352.9%
Securities, commodity contracts, investments	220.8%
Forestry, fishing, and related activities	175.0%
Motor vehicle, body, trailer, and parts manufacturing	123.8%
Mining, except oil and gas	111.9%
Textile and textile product mills	-30.6%
Paper manufacturing	-36.8%
Apparel manufacturing	-48.5%

\*North American Industry Classification System.  
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2006

**Gross State Product by Industry in Massachusetts, 1997-2004**  
(millions of chained 2000 dollars)

<b>NAICS* Industry Sector</b>	<b>1997</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Gross State Product	\$227,074	\$255,189	\$274,949	\$276,634	\$274,997	\$282,375	\$292,423
Private industries	204,714	231,945	251,645	253,140	251,272	258,809	268,860
Agriculture, forestry, fishing, and hunting	442	469	540	587	668	709	747
Mining	67	109	124	141	139	152	148
Utilities	3,319	3,218	3,453	3,162	3,137	3,539	3,576
Construction	10,193	10,995	11,159	11,850	11,412	10,717	10,750
Manufacturing	24,737	30,126	37,204	35,011	35,376	38,282	37,405
Wholesale trade	14,359	17,749	16,173	17,819	17,214	17,783	18,320
Retail trade	12,130	13,650	14,519	15,713	15,997	16,545	17,578
Transportation and warehousing, excluding Postal Service	4,352	4,766	5,172	5,063	4,915	4,928	4,967
Information	9,764	12,083	13,017	13,710	13,676	13,455	14,921
Finance and insurance	21,589	26,693	29,915	29,890	29,781	31,898	32,842
Real estate, rental, and leasing	32,268	34,129	35,587	37,683	37,379	38,170	40,772
Professional and technical services	20,551	24,648	28,560	28,572	27,397	27,663	30,388
Management of companies and enterprises	6,985	6,870	7,506	6,152	5,673	5,724	5,933
Administrative and waste services	7,646	8,252	8,382	7,400	7,042	7,307	7,618
Educational services	5,575	5,591	5,915	5,851	5,978	5,927	5,930
Health care and social assistance	19,716	19,496	20,363	20,484	21,179	21,905	22,429
Arts, entertainment, and recreation	1,796	1,906	1,911	2,023	2,152	2,222	2,264
Accommodation and food services	5,555	6,251	6,594	6,510	6,556	6,713	6,881
Other services, except government	4,943	5,307	5,549	5,477	5,570	5,538	5,544
Government	22,491	23,272	23,304	23,493	23,710	23,602	23,676

\* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2006

**Cumulative Percent Change in GSP by Industry in Massachusetts, 1997-2004**  
(millions of chained 2000 dollars)

<b>NAICS* Industry Sector</b>	<b>1997-98</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
Total Gross State Product	6.0%	19.8%	20.4%	19.8%	22.5%	26.0%
Private industries	6.5%	21.4%	22.0%	21.2%	24.2%	28.1%
Agriculture, forestry, fishing, and hunting	-12.9%	24.1%	32.8%	46.6%	52.7%	58.1%
Mining	31.3%	69.0%	82.7%	81.3%	90.6%	88.0%
Utilities	0.8%	4.3%	-4.1%	-4.9%	7.9%	8.9%
Construction	4.4%	9.2%	15.4%	11.7%	5.6%	5.9%
Manufacturing	12.8%	44.3%	38.4%	39.4%	47.6%	45.3%
Wholesale trade	12.7%	13.5%	23.7%	20.3%	23.6%	26.6%
Retail trade	5.3%	18.5%	26.8%	28.6%	32.0%	38.2%
Transportation and warehousing, excluding Postal Service	4.7%	17.8%	15.7%	12.8%	13.0%	13.8%
Information	6.2%	30.5%	35.8%	35.5%	33.9%	44.8%
Finance and insurance	11.1%	34.5%	34.4%	34.0%	41.1%	44.1%
Real estate, rental, and leasing	1.7%	10.0%	15.9%	15.1%	17.2%	24.0%
Professional and technical services	9.6%	34.9%	34.9%	30.8%	31.8%	41.7%
Management of companies and enterprises	-2.8%	7.6%	-10.4%	-18.2%	-17.3%	-13.6%
Administrative and waste services	5.5%	9.4%	-2.3%	-7.2%	-3.4%	0.8%
Educational services	0.3%	6.1%	5.0%	7.2%	6.3%	6.4%
Health care and social assistance	-0.7%	3.3%	3.9%	7.3%	10.7%	13.1%
Arts, entertainment, and recreation	2.4%	6.3%	12.2%	18.5%	21.8%	23.7%
Accommodation and food services	8.4%	17.7%	16.4%	17.1%	19.5%	22.0%
Other services, except government	4.9%	11.8%	10.5%	12.2%	11.6%	11.7%
Government	0.8%	3.6%	4.4%	5.3%	4.9%	5.2%

\* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2006

**Gross State Product by Industry in Massachusetts, 1997-2004**  
(as a percent of total GSP chained 2000 dollars)

<b>NAICS* Industry Sector</b>	<b>1997</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Gross State Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private industries	90.2%	90.9%	91.5%	91.5%	91.4%	91.7%	91.9%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%
Mining	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%
Utilities	1.5%	1.3%	1.3%	1.1%	1.1%	1.3%	1.2%
Construction	4.5%	4.3%	4.1%	4.3%	4.1%	3.8%	3.7%
Manufacturing	10.9%	11.8%	13.5%	12.7%	12.9%	13.6%	12.8%
Wholesale trade	6.3%	7.0%	5.9%	6.4%	6.3%	6.3%	6.3%
Retail trade	5.3%	5.3%	5.3%	5.7%	5.8%	5.9%	6.0%
Transportation and warehousing, excluding Postal Service	1.9%	1.9%	1.9%	1.8%	1.8%	1.7%	1.7%
Information	4.3%	4.7%	4.7%	5.0%	5.0%	4.8%	5.1%
Finance and insurance	9.5%	10.5%	10.9%	10.8%	10.8%	11.3%	11.2%
Real estate, rental, and leasing	14.2%	13.4%	12.9%	13.6%	13.6%	13.5%	13.9%
Professional and technical services	9.1%	9.7%	10.4%	10.3%	10.0%	9.8%	10.4%
Management of companies and enterprises	3.1%	2.7%	2.7%	2.2%	2.1%	2.0%	2.0%
Administrative and waste services	3.4%	3.2%	3.0%	2.7%	2.6%	2.6%	2.6%
Educational services	2.5%	2.2%	2.2%	2.1%	2.2%	2.1%	2.0%
Health care and social assistance	8.7%	7.6%	7.4%	7.4%	7.7%	7.8%	7.7%
Arts, entertainment, and recreation	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%
Accommodation and food services	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Other services, except government	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	1.9%
Government	9.9%	9.1%	8.5%	8.5%	8.6%	8.4%	8.1%

\* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2006

1998 data omitted due to space constraints

**Rank of Industry Contribution to GSP in Massachusetts, 1997-2004**  
(millions of chained 2000 dollars)

<b>NAICS* Industry Sector</b>	<b>1997</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Gross State Product							
Private industries							
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17
Construction	9	10	10	10	10	10	10
Manufacturing	2	2	1	2	2	1	2
Wholesale trade	7	7	7	7	7	7	7
Retail trade	8	8	8	8	8	8	8
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16	16
Information	10	9	9	9	9	9	9
Finance and insurance	4	3	3	3	3	3	3
Real estate, rental, and leasing	1	1	2	1	1	2	1
Professional and technical services	5	4	4	4	4	4	4
Management of companies and enterprises	12	12	12	13	14	14	13
Administrative and waste services	11	11	11	11	11	11	11
Educational services	13	14	14	14	13	13	14
Health care and social assistance	6	6	6	6	6	6	6
Arts, entertainment, and recreation	18	18	18	18	18	18	18
Accommodation and food services	14	13	13	12	12	12	12
Other services, except government	15	15	15	15	15	15	15
Government	3	5	5	5	5	5	5

\* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2006

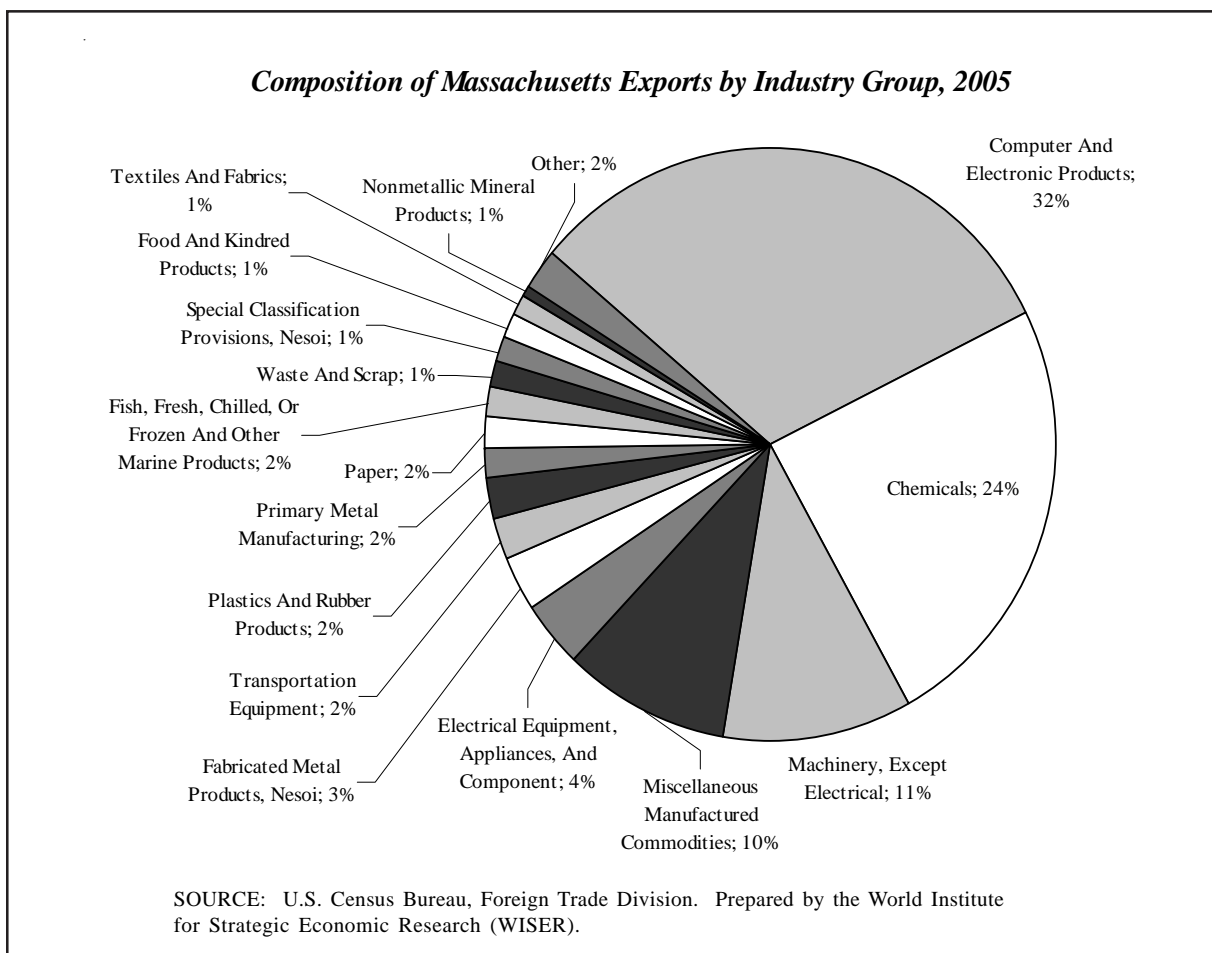
1998 data omitted due to space constraints

Between 1997 and 2004, the portion of the total GSP in chained 2000 dollars, from the private industry sector increased 2.0 percent while it decreased 2.0 percent in the government sector. Contributions by each industry to total GSP have remained steady for most sectors. The exceptions were finance and insurance (+3.1 percent, and manufacturing +2.4 percent). When the 1997 to 2004 industry contributions to total annual GSP are ranked according to their dollar value, the top five have remained constant; real estate, rental and leasing, manufacturing, finance and insurance, professional and technical services, and government.

**Trade and International Trade.** Massachusetts ranked 10th in the United States, and first in New England, with \$22.04 billion in international exports in 2005. This represents a 0.9 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 10.6 percent in the same period. Through May 2006, Massachusetts's exports totaled \$9.54 billion, an increase of 4.1 percent compared with exports in the first five months of 2005. National exports were up 13.4 percent and New England, 9.7 percent during the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' five most important trading partners for 2005 were: the Netherlands, with \$3.00 billion in purchases of Massachusetts exports; Canada, with \$2.93; Germany, with \$2.15 billion; Japan, with \$1.90 billion; and the United Kingdom, with \$1.63 billion in purchases. Between 2004 and 2005, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to South Korea (23.0 percent) and the Netherlands (19.3 percent).

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



### **Value of International Shipments from Massachusetts, 1998-2005**

*(top ten industry groups ranked by value of 2005 exports, in millions)*

<b>Major Industry Group</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Computer And Electronic Products	\$7,458	\$8,056	\$10,215	\$8,122	\$7,024	\$7,688	\$7,475	\$7,004
Chemicals	\$1,223	\$1,357	\$1,600	\$1,534	\$2,267	\$3,216	\$4,907	\$5,284
Machinery, Except Electrical	\$1,694	\$1,705	\$2,545	\$2,044	\$1,786	\$1,668	\$2,456	\$2,315
Miscellaneous Manufactured Commodities	\$835	\$925	\$1,053	\$1,213	\$1,210	\$1,571	\$1,927	\$2,111
Electrical Equipment, Appliances, And Component	\$596	\$720	\$834	\$691	\$649	\$592	\$752	\$815
Fabricated Metal Products, Nesoi	\$597	\$601	\$649	\$569	\$692	\$539	\$621	\$664
Transportation Equipment	\$637	\$698	\$659	\$449	\$346	\$383	\$453	\$481
Plastics And Rubber Products	\$357	\$389	\$374	\$400	\$406	\$375	\$404	\$469
Primary Metal Manufacturing	\$335	\$283	\$358	\$272	\$248	\$425	\$423	\$405
Paper	\$334	\$364	\$435	\$386	\$373	\$355	\$366	\$362
<b>Total Exports, Top Massachusetts Industries</b>	<b>\$14,065</b>	<b>\$15,098</b>	<b>\$18,722</b>	<b>\$15,679</b>	<b>\$15,002</b>	<b>\$16,812</b>	<b>\$19,784</b>	<b>\$19,911</b>
<b>Total Massachusetts Exports</b>	<b>\$15,878</b>	<b>\$16,805</b>	<b>\$20,514</b>	<b>\$17,490</b>	<b>\$16,708</b>	<b>\$18,663</b>	<b>\$21,837</b>	<b>\$22,043</b>
<b>Percent Change from Prior Year</b>	<b>-3.9%</b>	<b>5.8%</b>	<b>22.1%</b>	<b>-14.7%</b>	<b>-4.5%</b>	<b>11.7%</b>	<b>17.0%</b>	<b>0.9%</b>

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

**Transportation and Warehousing, and Utilities.** Between 1997 and 2004, the combined real gross state product of the transportation and warehousing and utilities sector increased 9.4 percent when measured with year 2000 chained dollars. These combined sectors contributed 2.8 percent to the total Massachusetts Real Gross State Product in 2004, a 0.6 percent less than it did in 1997.

Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2005 operating income of \$39.9 million (up 18.5 percent from fiscal 2004), with operating revenues up 11.0 percent (\$460.6 million in 2005 versus \$415.0 million in 2004) and operating costs up 10 percent (\$420.6 million in 2005 versus \$381.3 million in 2004).

According to Massport, as of June 30, 2005, airline service at Logan, both scheduled and unscheduled, was provided by 78 airlines, including 6 U.S. major air carrier airlines, 33 other domestic carriers, 19 non-U.S. flag carriers, and 20 regional and commuter airlines. As of April, year-to-date 2006, Logan flights and passenger counts were down 1.9 and up 4.2 percent respectively while cargo and mail volume was down 3.6 percent from April, year-to-date 2006. Based on total passenger volume in calendar year 2005 data, Logan Airport was the most active airport in New England but dropped from 18th to 20th most active in the U.S. according to Airports Council International (ACI).

According to ACI, in calendar year 2004, Logan Airport ranked 18th in the nation in total air cargo volume. In 2005, the airport handled 741.5 million pounds of cargo, a 2.3 percent decrease from 2004. As of June 30, 2004, Logan was served by 8 all-cargo and small package/express carriers.

At Massport's Port of Boston properties, 2005 cargo throughput was 16.4 million metric tons (an 18 percent increase from 2004), automobile processing remained nearly unchanged at 10,956 units, and cruise passenger trips increased seventeen percent to 233,702. From July 2005 to June 2006, total containerized cargo increased 6.4 percent, there were 27.7 percent more cruise passengers and 9.7 percent more automobiles processed, when compared to July 2004 to June 2005. Massachusetts total waterborne cargo shipped or received in 2003 (from the Army Corps of Engineers data), increased 17.4 percent (30,655,000 short tons), as did New England and the U.S. (11.6 and 2.3 percent, respectively).

**Construction and Housing.** In 2004, construction activity contributed 4.3 percent to the total Massachusetts Gross State Product when measured in 2000 chained dollars. The construction sector contributed 4.5 percent to state GSP in 1997. Overall growth between 1997 and 2004 was 24.6 percent.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States.

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>
<b>1969</b>	33,572		70,539		1,330,161	
<b>1970</b>	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
<b>1975</b>	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
<b>1980</b>	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
<b>1981</b>	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
<b>1982</b>	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
<b>1983</b>	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
<b>1984</b>	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
<b>1985</b>	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
<b>1986</b>	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
<b>1987</b>	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
<b>1988</b>	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
<b>1989</b>	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
<b>1990</b>	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
<b>1991</b>	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
<b>1992</b>	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
<b>1993</b>	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
<b>1994</b>	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
<b>1995</b>	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
<b>1996</b>	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
<b>1997</b>	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
<b>1998</b>	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
<b>1999</b>	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
<b>2000</b>	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
<b>2001</b>	16,654	-4.0%	42,786	-2.2%	1,636,700	2.4%
<b>2002</b>	17,122	2.8%	47,173	10.3%	1,747,600	6.8%
<b>2003</b>	18,574	8.5%	48,845	3.5%	1,889,400	8.1%
<b>2004</b>	21,206	14.2%	56,268	15.2%	2,006,600	6.2%
<b>2005</b>	23,254	9.7%	57,076	1.4%	2,155,200	7.4%

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

Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the New England and national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.3 percent while growth in existing home sales nationally was 6.0 percent. In 2000, existing home sales in Massachusetts declined by 10 percent and did not start growing again until 2002 when they surged 32.5 percent. On a seasonally adjusted annual basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

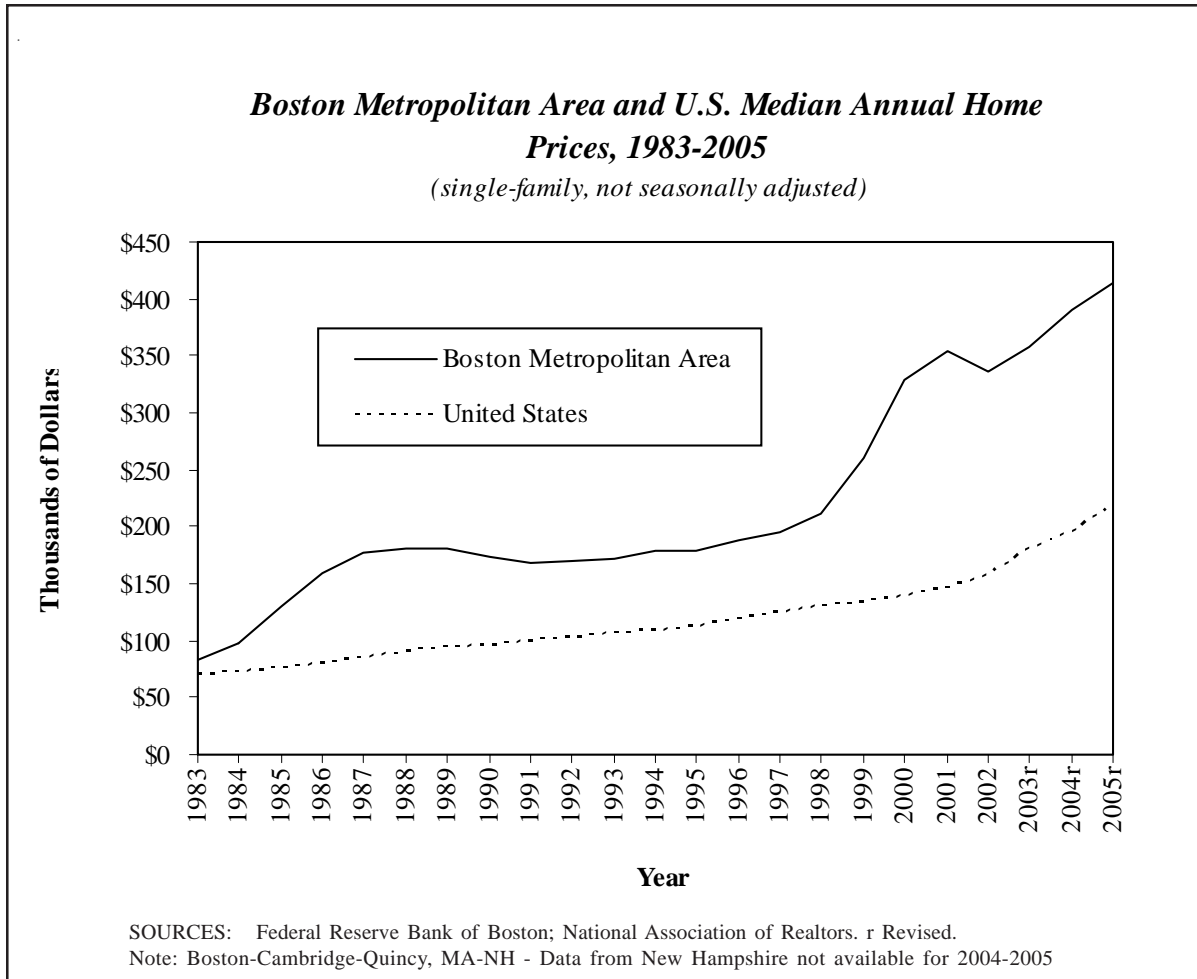
### ***Existing Home Sales, 1981-2005***

*(seasonally adjusted annual rates, in thousands)*

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Sales</i>	<i>% Change</i>	<i>Sales</i>	<i>% Change</i>	<i>Sales</i>	<i>% Change</i>
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	88.7	-10.0%	242.0	-4.4%	5,831.8	-1.5%
2001	87.5	-1.4%	239.6	-1.0%	6,026.3	3.3%
2002	115.9	32.5%	262.8	9.7%	5,631.0	-6.6%
2003r	118.3	2.1%	271.1	3.2%	6,175.0	9.7%
2004r	141.7	19.8%	N/A		6,779.0	9.8%
2005r	148.6	4.9%	N/A		7,075.0	4.4%

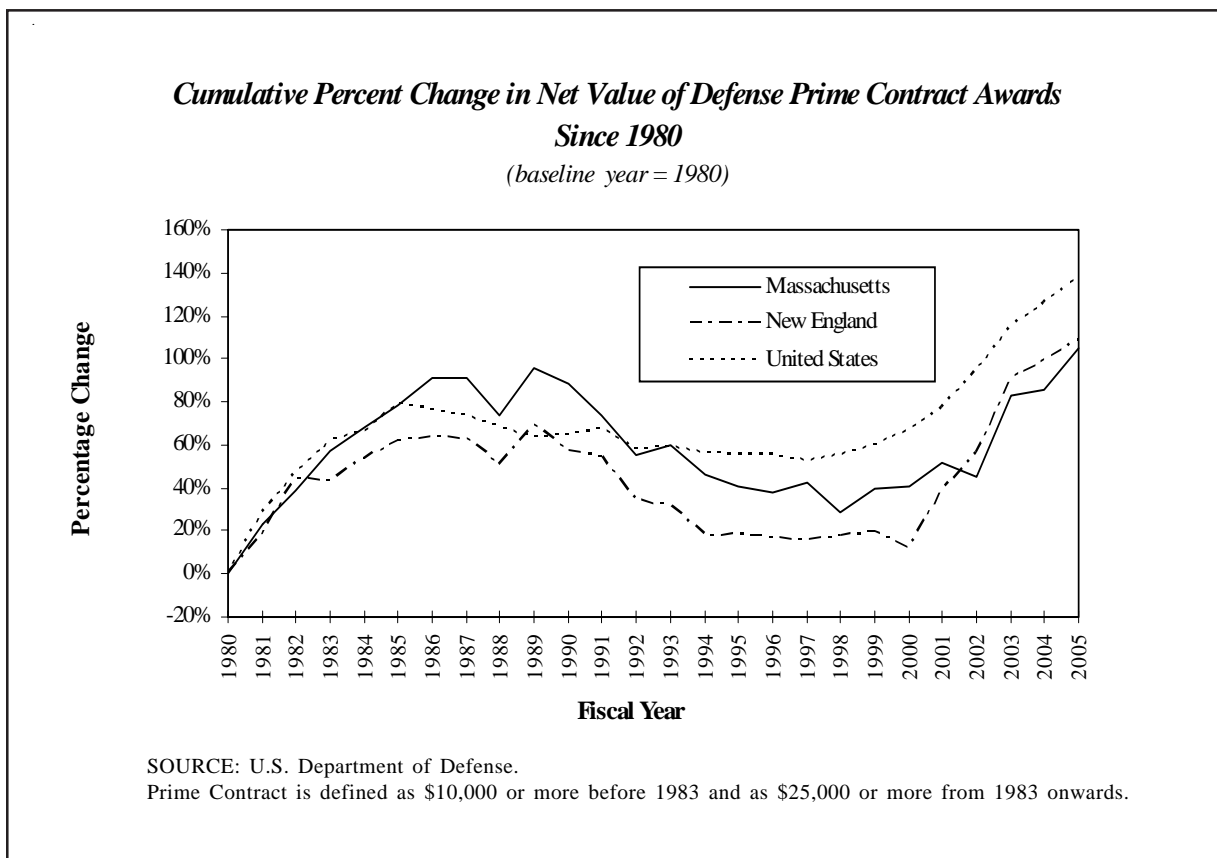
SOURCES: National Association of Realtors; Federal Reserve Bank of Boston. r Revised June 2006.

Median single-family home prices for the Boston Metropolitan area and the U.S. from 1983 to 2004 are compared in the following graph. While Boston housing prices were 118.1 percent of the U.S. median in 1983, by 1987 Boston housing prices as a percent of the national median had reached 205.7 percent. After dipping to 160.9 percent of the median in 1993 and remaining as low as 162.9 percent in 1998, Boston home prices soared to 211.7 percent of the national median in 2004. The Boston metropolitan area median home price rose to \$389,700 in 2004, compared to the national home price of \$184,100. The third quarter 2005 preliminary median prices were \$215,900 for the U.S. and \$430,900 for the Boston metro. This was a 14.7 percent increase for the U.S. and a 5.5 percent increase for the Boston metro, when compared to their third quarter 2004 prices. The September 2005 revisions reflect new metropolitan statistical area definitions from the U.S. Census Bureau.





**Defense.** Following a peak at \$8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to \$7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to \$4.8 billion. The net value of prime contract awards in Massachusetts oscillated between \$4.2 and \$5.2 billion from 1995 to 2002, but jumped 29.2 percent from 2002 to 2004 to \$7.0 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1980 to 2004.



The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1980 and 2004. From the early 1980s to 2001, the Commonwealth's share of New England's prime contract awards had remained around 50 percent. While Massachusetts' contract total has increased significantly in the past two years, its share in the New England region has slipped to 36.5 percent in 2004. In 2002, the Commonwealth's share of the national total reached its lowest point in over two decades, 3.1 percent, and has increased only slightly to 3.3 percent in 2004. Despite this trend, Massachusetts remains the eighth largest recipient in defense spending.

**Net Value of Department of Defense Prime Contract Awards, 1980-2005**

*(in millions)*

Fiscal Year	MA	N.E.	U.S.	Massachusetts' Share (as a Percent)	
				of New England	of U.S.
1980*	\$3,743	\$8,775	\$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%
2002	4,929	13,029	158,737	37.8%	3.1%
2003	6,800	17,544	191,221	38.8%	3.6%
2004	6,961	19,062	212,740	36.5%	3.3%
2005	8,333	20,699	236,986	40.3%	3.5%

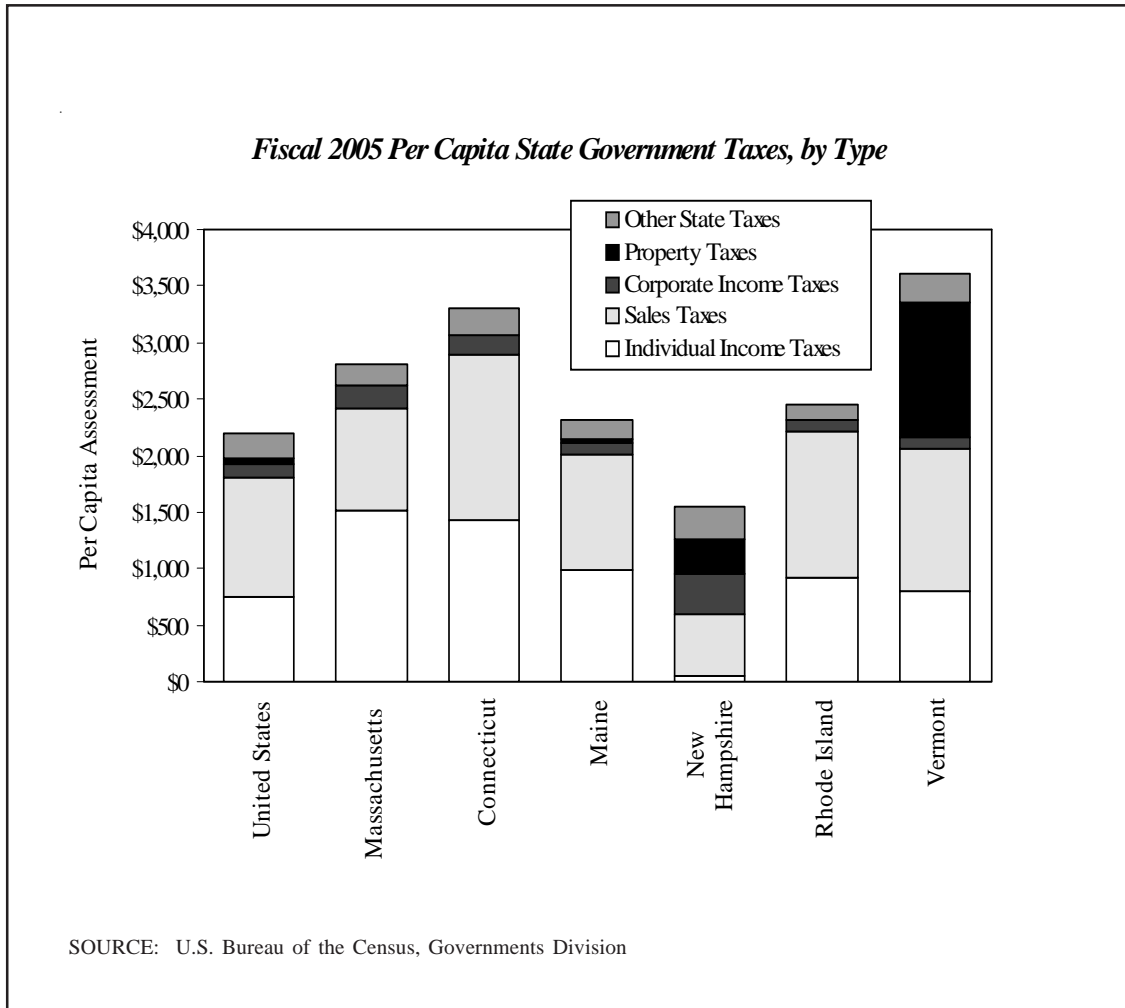
SOURCE: United States Department of Defense. \*Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

**Travel and Tourism.** The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and international visitors. The greater Boston area is New England's most popular destination, as the site of many popular and historic attractions including the New England Aquarium, Boston's Museum of Fine Arts, Boston's Museum of Science, the U.S.S. Constitution, the Kennedy Library and Museum, and Faneuil Hall Marketplace. While the Massachusetts Office of Travel and Tourism reported a slight drop, 0.4 percent, in museum and attraction attendance in 2005, year-to-date thru March 2006 is up over 17% compared to the same period in 2005.

The Massachusetts Office of Travel and Tourism estimates that 22.7 million domestic travelers traveled to or within the Commonwealth in 2005, an increase of 4.1 percent from 2004. Additionally, 4.23 million international travelers visited Massachusetts in 2005, an increase of 0.8 percent from 2004. According to MassPort, there were 7 percent more cruise vessel calls in 2005 than in 2004, 102 versus 95 and 17 percent more cruise passengers, 233,702 versus 199,453.

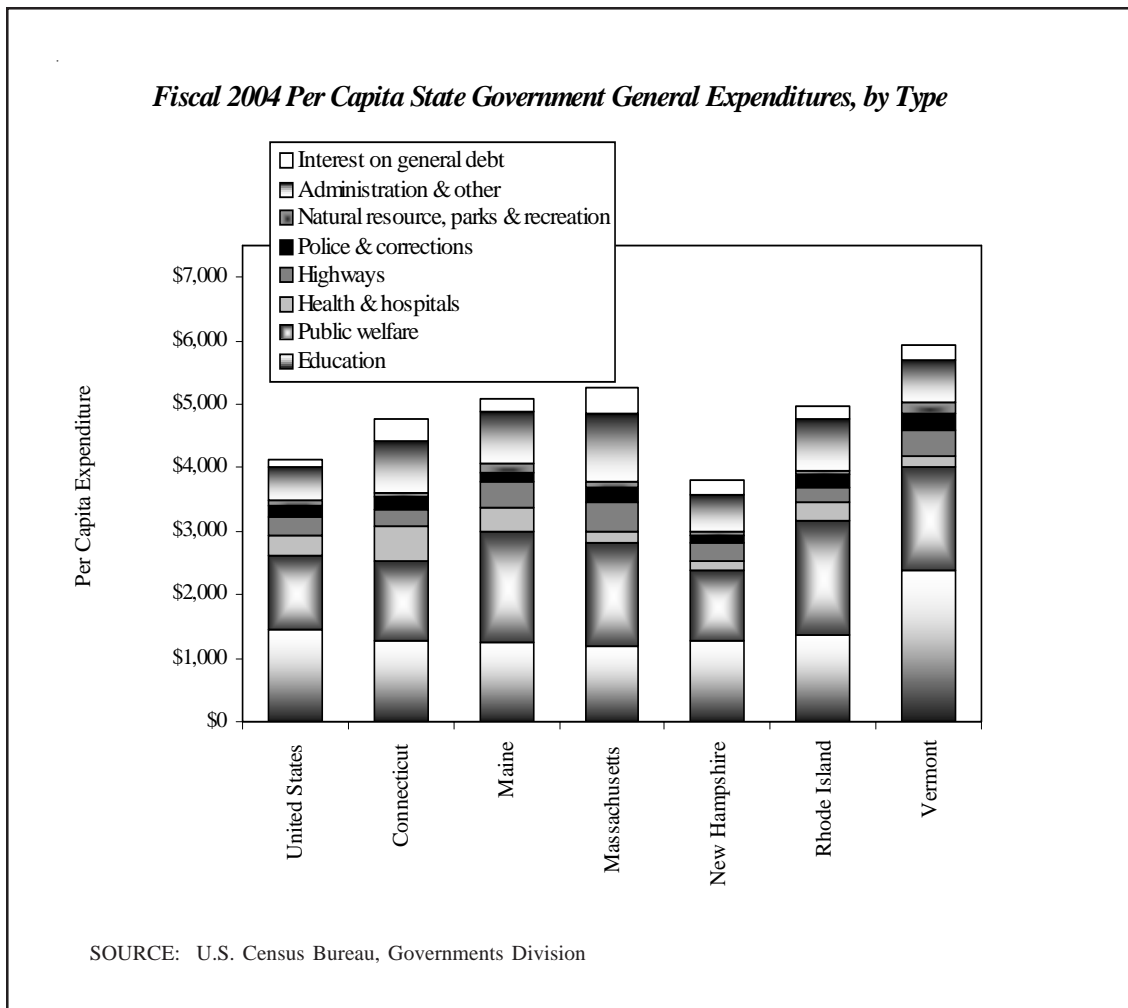
**State Taxes.** Per capita state taxes in Massachusetts are significantly higher, 28.5 percent, than the national average. In 2004, the total per capita state tax bill in the United States was \$2,025. Citizens of the Commonwealth however, paid \$2,602 on average, the seventh highest in the nation and an increase of 7.2 percent from the previous year's \$2,427. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire (47th), ranked in the top 16 for per capita state tax collections.

In 2004, over half (52.9 percent) of the state taxes in Massachusetts came from the state income tax. Per capita individual income taxes in Massachusetts were \$1,376, up 10.3 percent from \$1,248 in 2003. Also increasing in 2004 were sales receipts, 1.2 percent, corporate net income, 10.1 percent, and other taxes (licenses, death and gift, and documentary and stock transfer) 12.3 percent. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

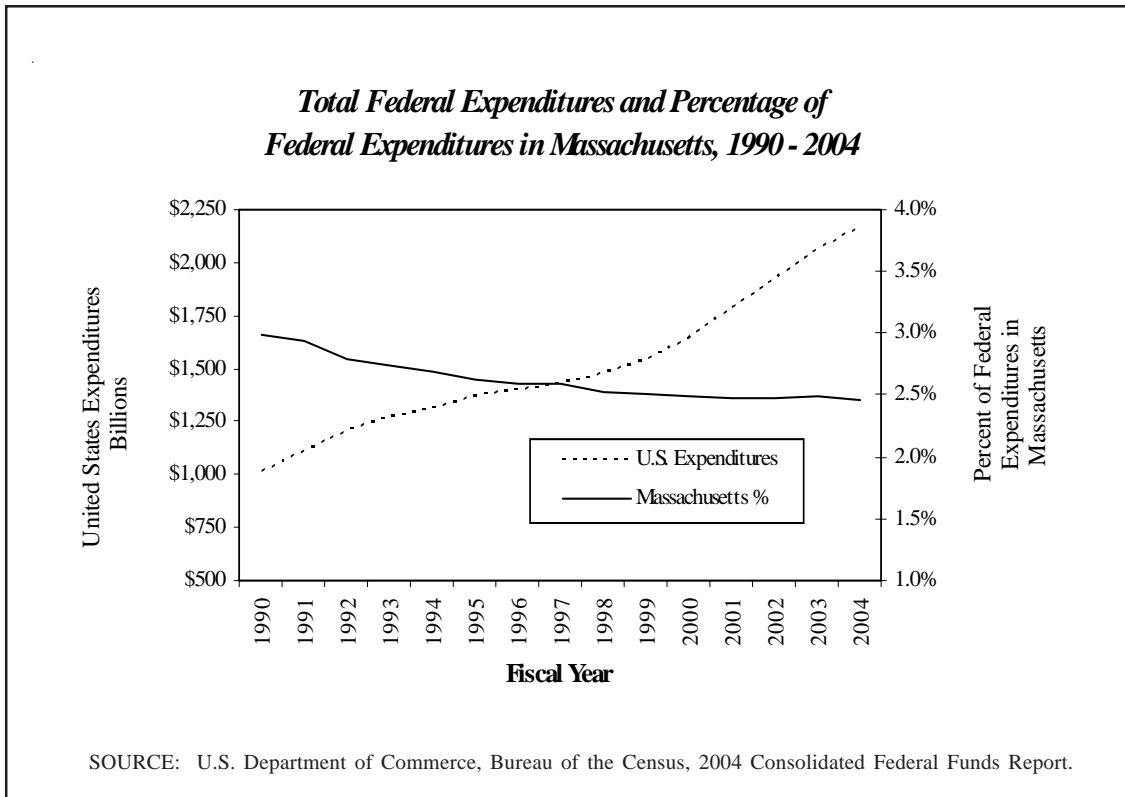


**State Government Spending in Massachusetts.** The following chart depicts fiscal 2003 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 16th in the nation in per capita expenditures (\$5,095) in 2003 while it ranked 13th and spent more (\$5,122) in 2002. This represents a 0.5 percent decrease in per capita expenditures from 2002 to 2003.

Massachusetts spent more state funds per capita on debt service (\$386) and less on education (\$1,055) in 2003 than any of its New England neighbors. Massachusetts spent 7.7 percent less on debt service and 3.4% more on education in 2003 than 2002. While all New England states used less than the national average of 28.1 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 13.9 percent of Rhode Island expenditures, 19.7 percent of Massachusetts expenditures, and 24.3 percent of Vermont expenditures in 2003.

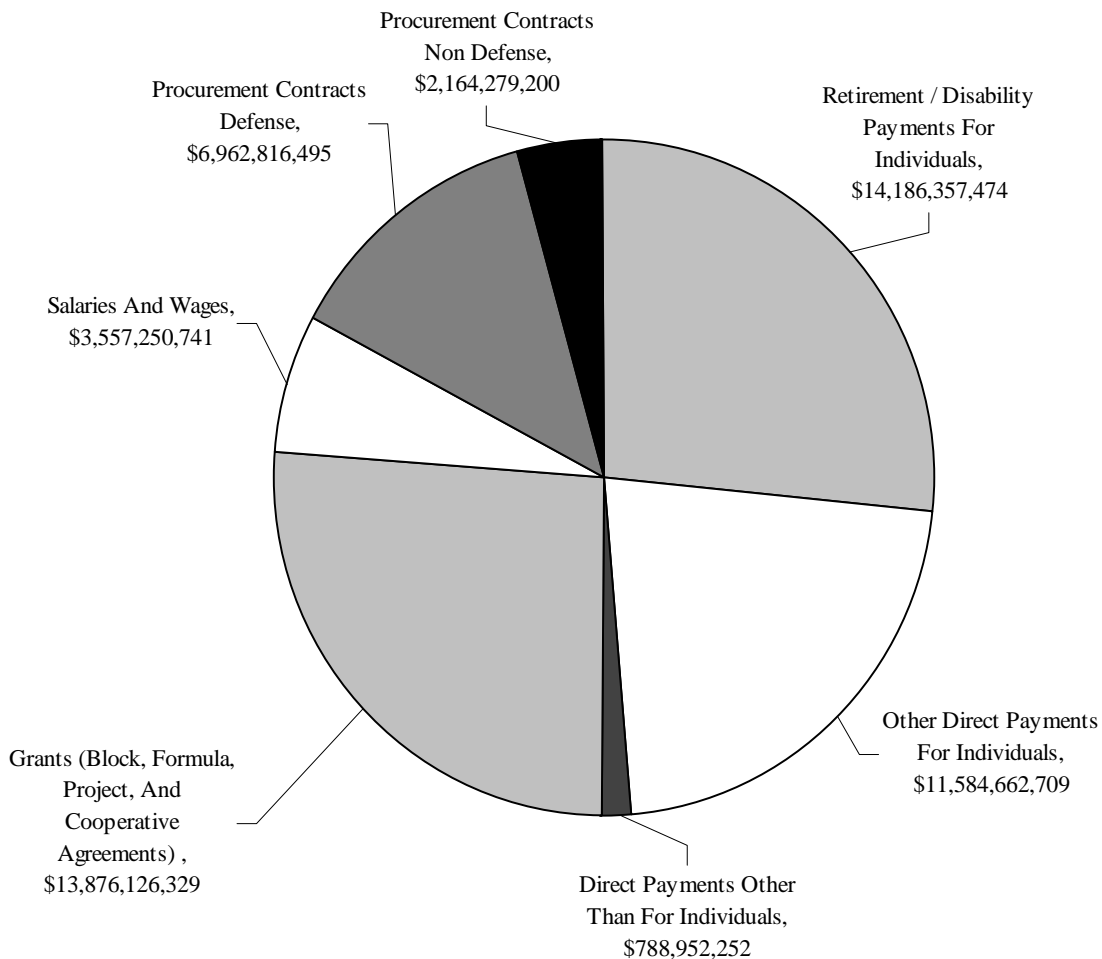


**Federal Government Spending in Massachusetts.** Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2004, Massachusetts ranked twelfth among states in per capita distribution of federal funds, with total spending of \$8,279 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.46 percent to 2.52 percent between 1998 and 2004. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts, and includes only those expenditures that can be associated with individual states and territories.



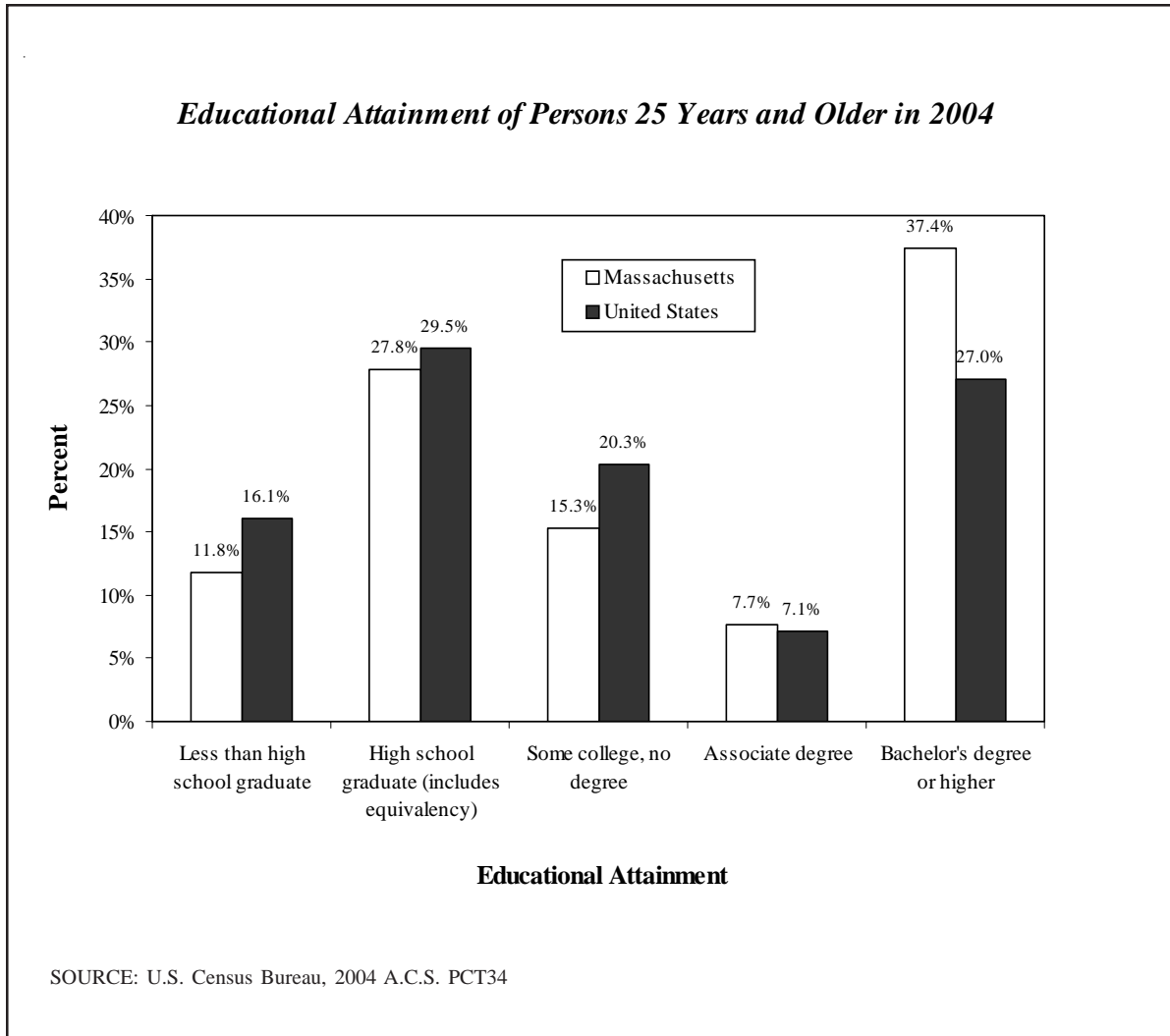
Over half of FY 2004 federal spending in Massachusetts was composed of health care and social programs like Medicare, Medicaid, Social Security, unemployment benefits and Section 8 Housing Vouchers. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$2,163 per capita compared to a national average of \$1,545. Per capita federal spending on salaries and wages in 2004 was lower in Massachusetts than in the rest of the nation, \$554 compared to a national average of \$750, but Massachusetts was above the national average in per capita direct federal payments to individuals (\$4,139 compared to a national average of \$3,839). Massachusetts ranked 9th among states in per capita procurement contract awards, \$1,422 compared to a national average of \$1,089 in 2004. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2004, excluding loans and insurance.

**Composition of Direct Federal Spending in Massachusetts by Program  
Fiscal 2004**

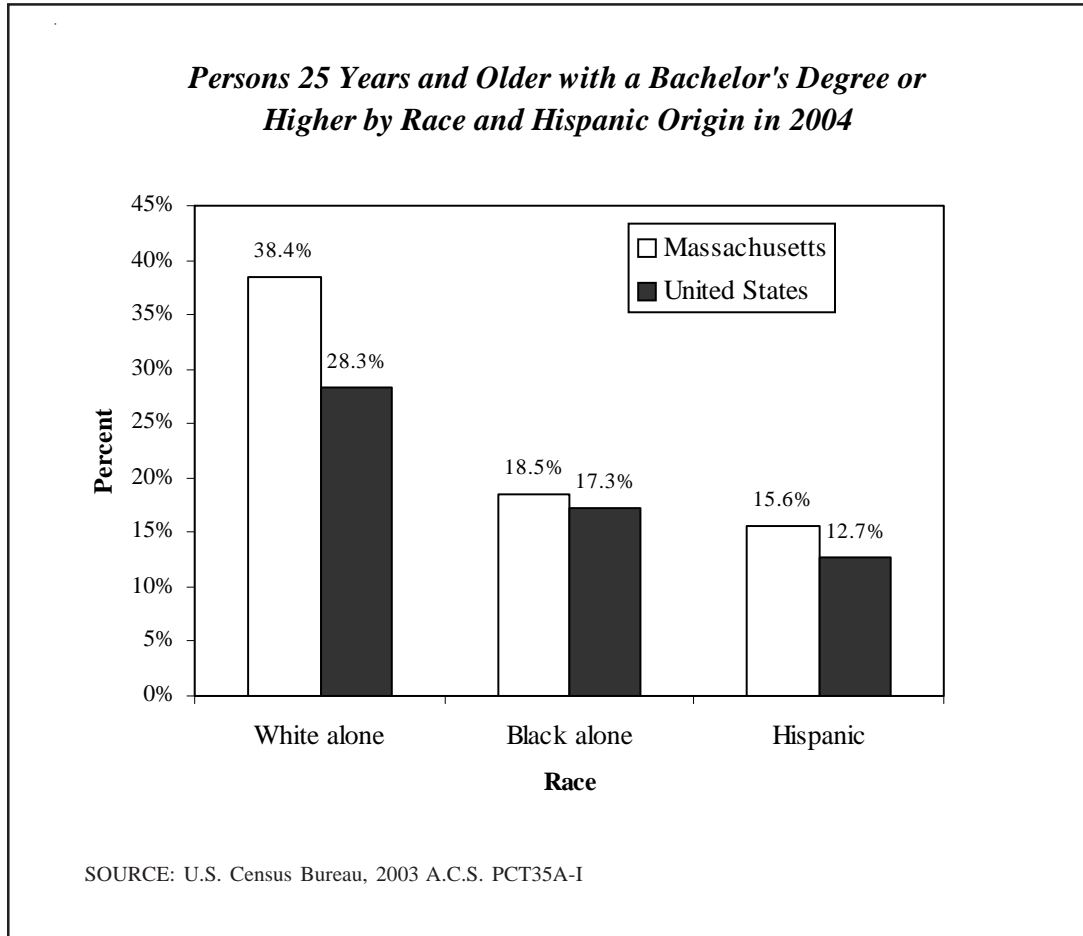


SOURCE: U.S. Department of Commerce, Bureau of the Census, 2004 Consolidated Federal Funds Report.

**Human Resources.** The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2004, the Census's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (11.8 percent) than the national average (16.1 percent) and a much higher proportion of persons with a bachelor's degree or more (37.4 percent) than the nation (27.0 percent).



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



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

**Higher Education Enrollment by Race and Hispanic Origin in 2004**

	Black	Asian	Native American	White	Hispanic	Race Unknown
Massachusetts	6.5	6.1	0.4	61.4	5.1	14.5
New England	6.0	4.6	0.5	67.2	4.8	12.4
United States (2002)	11.6	5.8	1.0	62.4	9.5	NA

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



Massachusetts is an internationally recognized center for higher education, with 437,595 students in undergraduate, professional and graduate programs in 2003, according to data supplied by the New England Board of Higher Education. According to the Institute of International Education, 28,634 foreign students were enrolled in Massachusetts colleges and universities in the 2003/2004 school year. This was a 4.7 percent decrease from the previous year but Massachusetts was ranked 4th among states for foreign student enrollment. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 189,463 students in 2003, 44 percent of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.7 percent of total enrollment in Massachusetts in 2003. Almost a quarter of the students attending private institutions did so on a part-time basis. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 1,461 science and engineering doctorates awarded in 2002, 4th in the nation. Massachusetts conferred a total of 2,320 doctorates in 2003. Massachusetts was also ranked 2nd in the U.S. in science and engineering postdoctorates in doctorate-granting institutions in 2002, with 5,873.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts received 4.7 percent (\$1.71 billion) of total national academic expenditures on R&D in fiscal 2002, with almost half spent in the life sciences. Massachusetts ranked sixth in the nation behind California, New York, Texas, Pennsylvania and Maryland.

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the \$1.17 billion in total fiscal 2002 federal outlays for science and engineering research to universities and colleges in Massachusetts (and their affiliated federally funded research and development centers), 57.5 percent was from the Department of Health and Human Services, 16.9 percent was from the National Science Foundation, 13.6 percent from the Department of Defense, 6.6 percent was from the Department of Energy, and 3.9 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4th in the nation in 2002 in total federal outlays for research and development, with total federal spending of \$4.66 billion in the state.

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with computer and internet access. According to Census's October 2003 Current Population Survey, 64.2 percent of Massachusetts households had access to a computer, compared to 61.8 percent nationally and 58.1 percent of its households were connected to the internet while the national average was 54.7 percent.

***Primary and Secondary Education Data.*** Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 36 percent more per pupil on primary and secondary education than the national average since at least 1981. During the 2001-2002 school year, Massachusetts increased per student expenditures to \$10,232; 32 percent higher than the national average. The table on the following page shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

***Expenditure Per Pupil in Public Elementary and Secondary Schools,  
1981-2004***

*(in current, unadjusted dollars)*

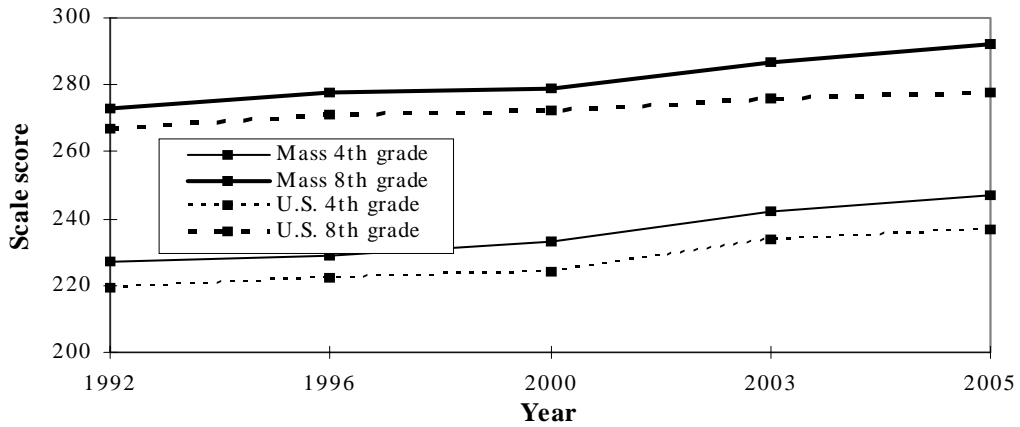
<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
<b>1981</b>	\$2,735	\$2,307	1.19
<b>1982</b>	2,823	2,525	1.12
<b>1983</b>	3,072	2,736	1.12
<b>1984</b>	3,298	2,940	1.12
<b>1985</b>	3,653	3,222	1.13
<b>1986</b>	4,031	3,479	1.16
<b>1987</b>	4,491	3,682	1.22
<b>1988</b>	4,965	3,927	1.26
<b>1989</b>	5,485	4,307	1.27
<b>1990</b>	5,766	4,643	1.24
<b>1991</b>	5,881	4,902	1.20
<b>1992</b>	5,952	5,023	1.18
<b>1993</b>	6,141	5,160	1.19
<b>1994</b>	6,423	5,327	1.21
<b>1995</b>	6,783	5,529	1.23
<b>1996</b>	7,033	5,689	1.24
<b>1997</b>	7,331	5,923	1.24
<b>1998</b>	7,778	6,189	1.26
<b>1999</b>	8,260	6,508	1.27
<b>2000</b>	8,816	6,912	1.28
<b>2001</b>	9,509	7,380	1.29
<b>2002</b>	9,856	7,701	1.28
<b>2003</b>	10,223	8,019	1.27
<b>2004</b>	10,693	8,287	1.29

SOURCE: U.S. Census Bureau, <http://www.census.gov/govs/www/school.html>

The National Assessment of Educational Progress (NAEP), also known as "the Nation's Report Card," is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. Since 1969, assessments have been conducted periodically in reading, mathematics, science, writing, U.S. history, civics, geography, and the arts. Under the current structure, the Commissioner of Education Statistics, who heads the National Center for Education Statistics in the U.S. Department of Education, is responsible by law for carrying out the NAEP project.

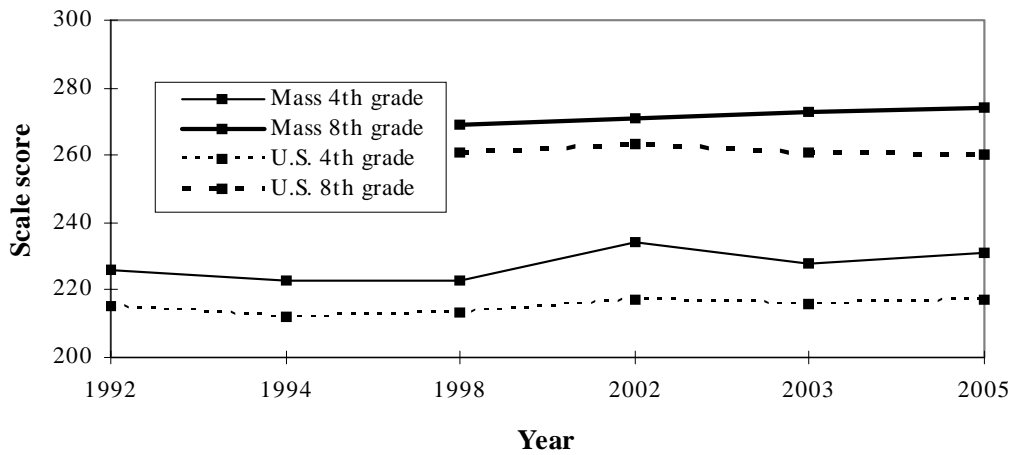
Since 1990, NAEP assessments have also been conducted to give results for participating states. Those that choose to participate receive assessment results that report on the performance of students in that state. In its content, the state assessment is identical to the assessment conducted nationally. However, because the national NAEP samples were not, and are not currently designed to support the reporting of accurate and representative state-level results, separate representative samples of students are selected for each participating jurisdiction/state. The graphs on the following page compare the data available for Massachusetts to the nation.

### NAEP Mathematics Scores



SOURCE: National Center for Education Statistics

### NAEP Reading Scores



SOURCE: National Center for Education Statistics

# Sources List

Listed below are the the web sites of the original data sources used to compile this section (Exhibit A) of the Economic Due Diligence report. The sites are listed in section title order.

## **Population Characteristics**

**United States Department of Commerce, Bureau of the Census**

<http://www.census.gov>

## **Personal Income, Consumer Prices, and Poverty**

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.doc.gov/bea/regional>

**United States Department of Labor, Bureau of Labor Statistics**

<http://www.bls.gov>

**Federal Reserve Bank of Boston**

<http://www.bos.frb.org/economic/nee/neeidata.htm>

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

<http://www.conference-board.org>

<http://www.massinsight.com/index.asp>

**U.S. Department of Commerce, Bureau of the Census**

<http://www.census.gov>

## **Employment**

**MA Division of Unemployment Assistance**

<http://www.detma.org>

**United States Department of Labor, Bureau of Labor Statistics**

<http://www.bls.gov>

**The Conference Board, Inc.**

<http://www.conference-board.org>

## **Economic Base and Performance**

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.doc.gov/bea/regional/gsp/>

**Fortune Magazine**

<http://www.fortune.com/fortune/>

## **Economic Base and Performance - Sector Detail (NAICS Basis)**

**U.S. Department of Commerce, Bureau of Economic Analysis**

<http://www.bea.doc.gov/bea/regional/gsp/>

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

<http://www.wisertrade.org>

**Massport**

<http://www.massport.com>

**Airports Council International**

<http://www.aci.aero>

**Army Corps of Engineers**

<http://www.iwr.usace.army.mil/ndc/wcsc/statenm03.htm>

**Federal Reserve Bank of Boston; United States Department of Commerce**

<http://www.bos.frb.org>

<http://www.census.gov>

**National Association of Realtors; Federal Reserve Bank of Boston**

<http://www.bos.frb.org/economic/nee/neeidata.htm>

**U.S. Department of Defense**

<http://web1.whs.osd.mil/peidhome/geostats/geostat.htm>

**Massachusetts Office of Travel and Tourism**

<http://www.massvacation.com>

**U.S. Census Bureau, Governments Division**

<http://www.census.gov/govs/www/statetax.html>

<http://www.census.gov/govs/www/state.html>

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

<http://www.census.gov/govs/www/cffr.html>

## **Human Resources and Infrastructure**

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

<http://www.census.gov/acs/www/>

**New England Board of Higher Education**

<http://www.nebhe.org.connection.html>

**National Science Foundation**

<http://www.nsf.gov/statistics>

**United States Department of Education, National Center for Education Statistics**

<http://nces.ed.gov/pubsearch/Subindx.asp>

<http://nces.ed.gov/nationsreportcard/states>

**National Center for Education Statistics**

<http://nces.ed.gov>

PROPOSED FORM OF OPINION OF BOND COUNSEL

MINTZ LEVIN

One Financial Center  
Boston, MA 02111  
617-542-6000  
617-542-2241 fax  
www.mintz.com

[Date of Closing]

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 \$486,170,000 General Obligation Bonds, Consolidated Loan of 2006, Series D, 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.

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 will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(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,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

The Commonwealth of Massachusetts

\$486,170,000  
 General Obligation Bonds  
 Consolidated Loan of 2006, Series D

Continuing Disclosure Undertaking  
 [to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated April 18, 2006 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated April 18, 2006 of the Commonwealth with respect to its \$180,875,000 General Obligation Refunding Bonds, 2006 Series A, (Delayed Delivery), which Official Statement has been filed with each NRMSIR and with the Municipal Securities Rulemaking Board (the “MSRB”), and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

<b>Financial Information and Operating Data Category</b>	<b>Reference to Information Statement for Level of Detail</b>
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	“COMMONWEALTH PROGRAMS AND SERVICES”
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“COMMONWEALTH PROGRAMS AND SERVICES - Pension and Other Post-Retirement Benefit Obligations”
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	“STATE WORKFORCE”
8. Five-year summary presentation of actual capital project expenditures	“COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Spending Plan”
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
10. 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”

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



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

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties 1/;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the security;
- modifications to the rights of security holders;
- bond calls;
- defeasances;
- release, substitution or sale of property securing repayment of the securities 2/ and
- rating changes.

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

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

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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.

without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.