

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

*In the opinion of Bond Counsel, under existing law and assuming continued compliance by the Commonwealth with the Internal Revenue Code of 1986, as amended, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon 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**

**\$496,305,000**

**General Obligation Bonds**

**Consolidated Loan of 2000, Series A**

**Dated: February 1, 2000**

**Due: February 1, as shown on the inside cover hereof**

*The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from February 1, 2000 and interest will be payable on August 1, 2000 and semiannually thereafter on February 1 and August 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.*

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

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Ropes & Gray, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about February 24, 2000.

**Salomon Smith Barney**

**Goldman, Sachs & Co.**

**Merrill Lynch & Co.**

**Morgan Stanley Dean Witter**

**Lehman Brothers**

**PaineWebber Incorporated**

**Fleet Securities, Inc.**

**State Street Capital Markets, LLC**

**Advest, Inc.**

**Chase H & Q**

**First Albany Corporation**

**Pryor, McCleendon, Counts & Co., Inc.**

**Tucker Anthony Incorporated**

**A.G. Edwards & Sons, Inc.**

**Corby North Bridge Securities**

**J.P. Morgan Securities Inc.**

**Raymond James & Associates, Inc.**

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

**Dain Rauscher, Inc.**

**Prudential Securities Incorporated**

**Roosevelt & Cross, Inc.**

**William E. Simon & Sons Municipal Securities Inc.**

February 17, 2000

# THE COMMONWEALTH OF MASSACHUSETTS

**\$496,305,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2000, Series A**

**Dated: February 1, 2000**

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

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2001	\$13,510,000	4.75%	4.18%
2002	15,075,000	4.60	4.63
2003	9,250,000	4.70	4.75
2003	6,515,000	5.50	4.75
2004	7,500,000	4.80	4.90
2004	9,060,000	5.50	4.90
2005	8,250,000	5.00	5.03
2005	9,170,000	5.75	5.03
2006	12,500,000	5.10	5.13
2006	5,860,000	5.75	5.13
2007	12,750,000	5.125	5.20
2007	6,580,000	5.75	5.20
2008	5,000,000	5.20	5.25
2008	15,365,000	5.75	5.25
2009	5,500,000	5.25	5.30
2009	16,005,000	5.75	5.30
2010	7,250,000	5.30	5.35
2010	15,465,000	6.00	5.35
2011	3,500,000	5.30	5.43
2011	20,530,000	6.00	5.43
2012	2,500,000	5.40	5.50
2012	22,945,000	6.00	5.50
2013	3,500,000	5.50	5.59
2013	23,455,000	6.00	5.59
2014	1,500,000	5.60	5.67
2014	27,055,000	6.00	5.67
2015	2,500,000	5.70	5.74
2015	27,765,000	6.00	5.74
2016	32,075,000	6.00	5.79
2017	34,000,000	5.80	5.84
2018	35,970,000	5.875	5.89
2019	38,085,000	5.875	5.93
2020	40,320,000	5.875	5.96

(accrued interest, if any, to be added)

**FOR NEW HAMPSHIRE RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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 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.

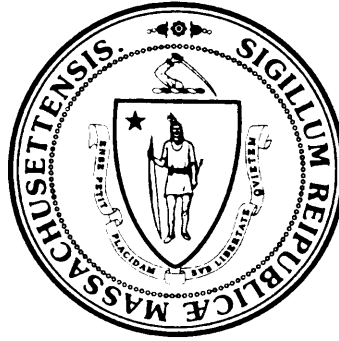
The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to 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 AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Argeo Paul Cellucci.....Governor**  
**Jane M. Swift .....Lieutenant Governor**  
**William F. Galvin..... Secretary of the Commonwealth**  
**Thomas F. Reilly ..... Attorney General**  
**Shannon P. O'Brien.....Treasurer and Receiver-General**  
**A. Joseph DeNucci..... Auditor**

**LEGISLATIVE OFFICERS**

**Thomas F. Birmingham .....President of the Senate**  
**Thomas M. Finneran .....Speaker of the House**

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$496,305,000**

#### **General Obligation Bonds Consolidated Loan of 2000, Series A**

### INTRODUCTION

This Official Statement (including the cover pages and Appendices A through C attached hereto, provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$496,305,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2000, Series A (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 "COMMONWEALTH BOND AND NOTE LIABILITIES – Limit on Debt Service Appropriations."

The Bonds are being issued to finance the payment of certain notes issued by the Massachusetts Bay Transportation Authority and 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.

Attached hereto as Appendix A is the Commonwealth's Information Statement dated February 17, 2000 (the "Information Statement"), which contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibits B and C to the Information Statement are not included in Appendix A. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 1999, prepared on a statutory basis and a GAAP basis, respectively. Specific reference is made to said Exhibits 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 Comptroller's home page located at [www.state.ma.us/osc](http://www.state.ma.us/osc).

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

## THE BONDS

### General

The Bonds will be dated February 1, 2000 and will bear interest from such date payable semiannually on August 1 and February 1 of each year, commencing August 1, 2000 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on February 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 clearing house funds to DTC or its nominee as registered owner of the Bonds. The record date for payments on account of the Bonds will be the business day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

### Redemption

The Bonds maturing on or prior to February 1, 2010 will not be subject to redemption prior to their stated maturity dates.

*Optional Redemption.* The Bonds maturing on or after February 1, 2011 will be subject to redemption prior to their stated maturity dates on or after February 1, 2010 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof) plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
February 1, 2010 through January 31, 2011, inclusive	101%
February 1, 2011 and thereafter	100

*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 moneys 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 of principal amount of a Bond 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 contained in various special laws enacted by the legislature. The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of the Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such premium to the costs of issuance thereof and other financing costs related thereto or 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. A portion of the proceeds are expected to be used, pursuant to "forward funding" legislation enacted as part of the Commonwealth's fiscal 2000 budget to restructure the financial operations of the Massachusetts Bay Transportation Authority (MBTA), to pay the principal of \$165 million MBTA notes maturing on February 25, 2000 or to reimburse the Commonwealth for all or a portion of such payment. See Appendix A – "Commonwealth Information Statement" under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." The balance of the proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance, including the payment when due of \$175 million of outstanding Commonwealth bond anticipation notes issued under the Commonwealth's commercial paper program. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. See Appendix A – "Commonwealth Information Statement" under the headings "COMMONWEALTH CAPITAL SPENDING" and "COMMONWEALTH BOND AND NOTE LIABILITIES."

## **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 appropriation 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 Appendix A - "Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES – 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 Appendix A - "Commonwealth Information Statement" under the heading "LITIGATION."

### **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will initially be issued exclusively in book-entry form, and one fully registered Bond for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, 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 settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies 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.

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, but Beneficial Owners are expected to receive written confirmations of their purchase providing details of the Bonds acquired, 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 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. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. 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.**

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, unless a substitute depository is retained by the Commonwealth, 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 determine that continuation of the system of book-entry transfers through DTC (or a successor depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

The principal of and interest and premium, if any, on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, 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.

**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 IBCA, Moody's Investors Service 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 purchase price of \$499,996,063.65, consisting of a par amount of \$496,305,000, plus a net premium of \$6,185,571.75, minus underwriters' discount of \$2,494,508.10, excluding accrued interest. 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 is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that the interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Bonds.

The Code imposes certain requirements and restrictions on the use, expenditure and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of their issuance. On or before delivery of the Bonds to the Underwriters, the Commonwealth will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel's opinion with respect to the federal income tax treatment of interest on the Bonds is conditioned upon such compliance.

Prospective purchasers of the Bonds should also be aware that 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, for that portion of the owner's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase the taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the Bonds earned by certain corporations could be subject to the foreign branch profits tax imposed by Section 884 of the Code, and may be included in passive investment income subject to federal income taxation under Section 1375 of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and railroad retirement benefits to take into account receipts and accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code. No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

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. 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 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 substantially identical Bonds were sold. Original issue discount accrues over the term of a Bond in accordance with

Section 1272 of the Code. Purchasers of Bonds should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

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

### **OPINIONS OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Palmer & Dodge LLP of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriters by their counsel, Ropes & Gray 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 Appendix A - "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.

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

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

## AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Paul E. Ladd, Assistant Secretary for Capital Resources and Chief Development Officer, 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 Walter J. St. Onge, III, Palmer & Dodge LLP, One Beacon Street, Boston, Massachusetts 02108, telephone 617/573-0389.

## THE COMMONWEALTH OF MASSACHUSETTS

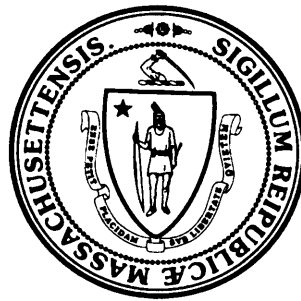
By /s/ Shannon P. O'Brien  
Shannon P. O'Brien  
*Treasurer and Receiver-General*

By /s/ Andrew S. Natsios  
Andrew S. Natsios  
*Secretary of Administration and Finance*

February 17, 2000

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**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



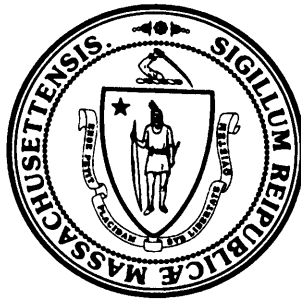
**INFORMATION STATEMENT**

**Dated February 17, 2000**

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Argeo Paul Cellucci.....Governor**  
**Jane M. Swift .....Lieutenant Governor**  
**William F. Galvin .....Secretary to the Commonwealth**  
**Thomas F. Reilly.....Attorney General**  
**Shannon P. O'Brien .....Treasurer and Receiver-General**  
**A. Joseph DeNucci.....Auditor**

**LEGISLATIVE OFFICERS**

**Thomas F. Birmingham.....President of the Senate**  
**Thomas M. Finneran .....Speaker of the House**

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

**February 17, 2000**

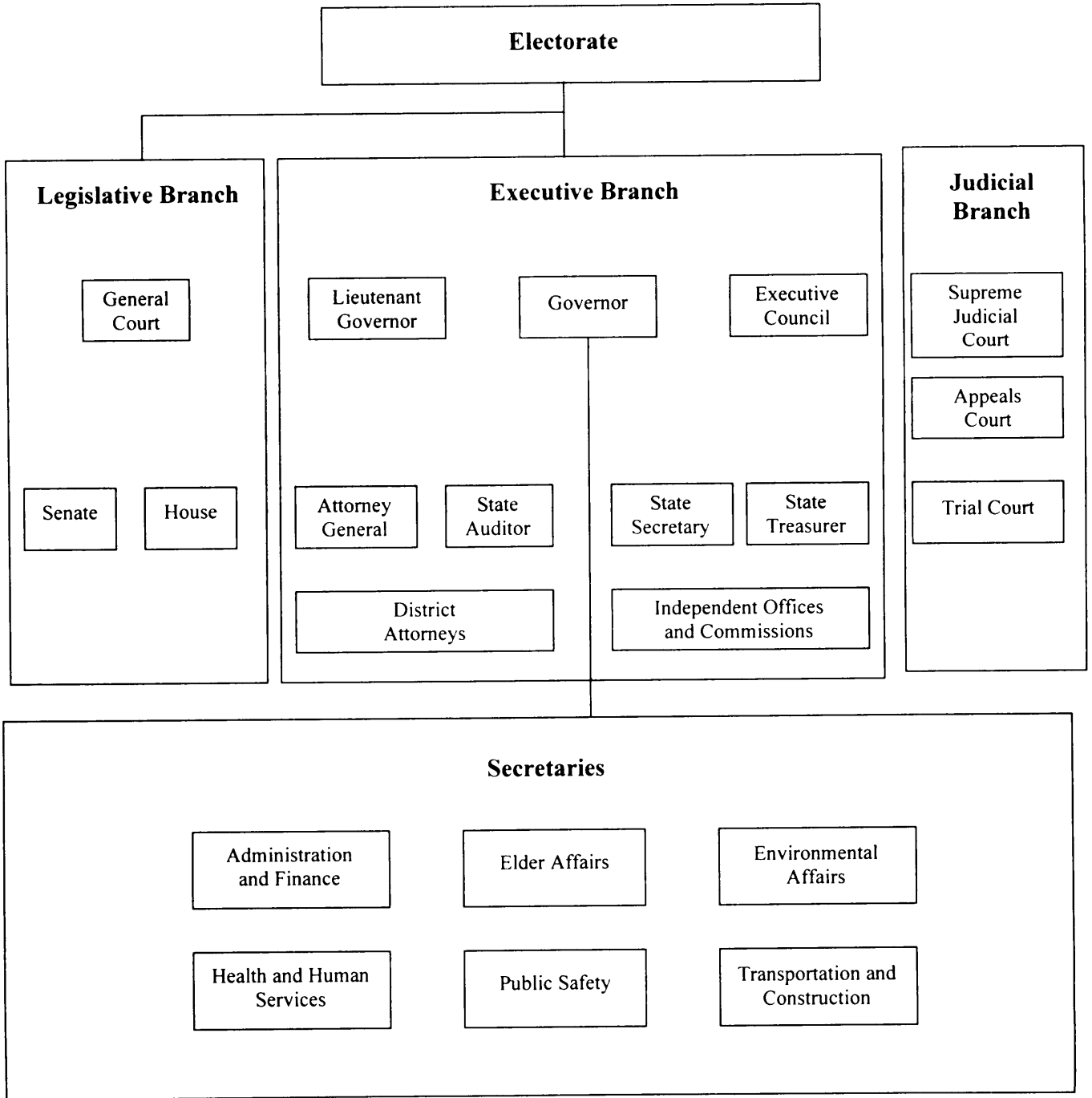
This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations.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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth; Exhibits B and C are the fiscal 1999 Statutory Basis Financial Report and the fiscal 1999 Comprehensive Annual Financial Report (GAAP basis), respectively. Specific reference is made to said Exhibits 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 Comptroller's home page located at [www.state.ma.us/osc](http://www.state.ma.us/osc).

# THE GOVERNMENT

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



## **Executive Branch**

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 1999.

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

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

*Governor's Cabinet.* The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the six Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Elder Affairs, the Executive Office of Environmental Affairs, the Executive Office of Health and Human Services, the Executive Office of Public Safety and the Executive Office of Transportation and Construction. Cabinet secretaries serve at the pleasure of the Governor. Most agencies are grouped under one of the six Executive Offices for administrative purposes. Other important agencies and departments report directly to the Governor, including the Department of Housing and Community Development, the Department of Consumer Affairs and Business Regulation, the Department of Economic Development and the Department of Labor and Workforce Development. These departments, as well as the Board of Higher Education, had held secretariat status prior to the Legislature's action on the reorganization proposals filed with Governor Weld's fiscal 1997 budget proposal.

Approximately 38.3% of the Commonwealth's fiscal 2000 expenditures in the budgeted operating funds are for programs within the Executive Office of Health and Human Services. The Executive Office for Administration and Finance accounts for approximately 6.3% of such expenditures, the Executive Office of Public Safety for approximately 4.5% and the Executive Office of Transportation and Construction for approximately 3.5%. The remaining secretariats account for approximately 1.9% of such expenditures. Spending for education, which is generally overseen by the state Board of Education or the State Board of Higher Education, accounts for 21.5% of the projected fiscal 2000 expenditures, and spending for the Department of Housing and Community Development, the Department of Economic Development, the Department of Consumer Affairs and Business Regulation, and the Department of Labor and Workforce Development totals 1.3% in fiscal 2000.

Approximately 5.1% of the Commonwealth's fiscal 2000 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 16.6% of fiscal 2000 expenditures, including 5.4% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 5.6% for debt service, 4.6% for pension costs, and 0.9% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid"

The remaining 1% of fiscal 2000 expenditures is reserved for contingencies.

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

management and leasing of all state facilities; and (v) administration of general services, including information technology services.

*State Comptroller.* All accounting policies and practices publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth is currently involved in a procurement for outside auditors for the period from fiscal 2000 through fiscal 2007, including option years. The fiscal 1999 Comprehensive Annual Financial Report, included herein by reference as Exhibit C, contained an unqualified opinion from the independent public accounting firm of Deloitte & Touche, LLP. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

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

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

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

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

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

## **Legislative Branch**

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

The House of Representatives must originate any bill that imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it. All bills are presented to the Governor for approval or veto; the General Court may override the Governor's veto of any bill by a two-thirds vote of each house. The Governor also has the power to return a bill to the branch of the Legislature in which it was

originated with a recommendation that certain amendments be made therein; such bill is then before the Legislature and is subject to amendment or re-enactment, at which point the Governor has no further right to return the bill a second time with a recommendation to amend.

### **Judicial Branch**

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

### **Independent Authorities and Agencies**

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. The Commonwealth has significant operational or financial relationships, or both, as defined by this statement, with 34 of its 56 authorities. For example, the Commonwealth appropriates budgetary funds for subsidies, operating assistance and debt service payments (and/or is liable for all or a portion of the outstanding debt) of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority, the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, certain regional transit authorities, the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank), the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust. See "COMMONWEALTH BOND AND NOTE LIABILITIES." Because of recent legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth will, beginning in fiscal 2001, no longer make direct debt service payments on the MBTA's bonds, but the Commonwealth will remain obligated to pay such debt service if the MBTA cannot. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." The Commonwealth guarantees certain debt issued by the University of Massachusetts Building Authority and the Massachusetts State College Building Authority and may be called upon to replenish the capital reserve funds of the Massachusetts Housing Finance Agency and the Massachusetts Home Mortgage Finance Agency. See "COMMONWEALTH BOND AND NOTE LIABILITIES." Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Industrial Finance Agency), the Massachusetts Port Authority and the Massachusetts Water Resources Authority. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1999 general purpose financial statements in the Comprehensive Annual Financial Report included herein by reference as Exhibit C.

### **Local Government**

As of July 1, 1999, below the level of state government there were eight county governments responsible for various functions, principally the operation of correctional facilities and registries of deeds. There were 14 counties in Massachusetts, but county government has been abolished in six of them and is scheduled to terminate in Berkshire County, as of July 1, 2000. In his fiscal 2001 budget, Governor Cellucci recommended the elimination of four additional county governments during the next two years. Under legislation enacted in 1996, Franklin County government terminated on July 1, 1997, at which date a regional council of governments was established. Legislation approved by Governor Weld on July 11, 1997 abolished Middlesex County government on that date and provided for the abolition of county government in Hampden and Worcester Counties on July 1, 1998. On August 13, 1998, Acting Governor Cellucci approved legislation abolishing county government in Hampshire, Essex and Berkshire Counties on January 1, 1999, July 1, 1999 and July 1, 2000, respectively, generally as provided in the 1997 legislation. A regional council of governments was established in Hampshire County upon its abolition, which council is similar to that established in Franklin County. In the state budget for fiscal 2000, a new Chapter 34B was

added to the general laws to codify the provisions relative to abolition of county government in earlier acts. The law provides that as of the date of abolition of a county, virtually all functions, duties and responsibilities of the affected county are transferred to the Commonwealth. As of the date of abolition, all valid liabilities and debts of such a county become obligations of the Commonwealth; an appropriation has been provided for liquidation of these liabilities when required. All assets and revenues of such a county become assets and revenues of the Commonwealth. The Secretary of Administration and Finance is directed to establish an amortization schedule to recover the net liabilities to the Commonwealth from the cities and towns within each such county over a period not to exceed 25 years. Chapter 34B provides that such assets include the value of the pension benefits payable to employees transferred from a county to the Commonwealth attributable to the period of employment with the county prior to its abolition. The Secretary is directed to file such schedules by April 1, 2000 or 60 days following the abolition of such county.

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

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). Since 1998, all towns on Cape Cod and certain others have by referendum accepted legislation providing for a surcharge beginning in fiscal 2000 on the real property tax for the purpose of acquiring open space. Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, most local governments have been forced to rely on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid."

### **Initiative Petitions**

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

## **COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS**

### **Operating Fund Structure**

*Budgeted Operating Funds.* The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects*

*Fund Structure.*” The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 93% of total expenditures of the budgeted operating funds.

*Year-end Surpluses.* State finance law provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth’s three principal budgeted operating funds (the General Fund, the Local Aid Fund and the Highway Fund). A limitation equal to 0.5% of total tax revenues is imposed on the amount of any such aggregate surplus which may be carried forward as a beginning balance for the next fiscal year. For any fiscal year for which the Comptroller determines on or before October 31 of the succeeding fiscal year that there is a negative balance in the state’s capital projects funds, the Comptroller may transfer up to 40% of the remaining year-end surplus to a separate Capital Projects Fund to be used in lieu of bonds to finance capital expenditures. The remainder of any such aggregate year-end surplus is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 7.5% of budgeted revenues and other financial resources pertaining to the budgeted funds, as confirmed by the Comptroller in the audited statutory basis financial report for the immediately preceding fiscal year, may be accumulated in the Stabilization Fund. Amounts in excess of that limit are to be transferred to a Tax Reduction Fund, from which they are to be applied to the reduction of personal income taxes. For fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of budgeted revenues and other financial resources pertaining to the budgeted funds, and prior to fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of total tax revenues less the amount of annual debt service costs. For each of the 1995 and 1996 fiscal years, the Legislature overrode the general provisions governing deposits to or the use of excess balances in the Stabilization Fund by the enactment of one-time modifications. See “FINANCIAL RESULTS – Statutory Basis.”

### **Overview of Budgetary Process**

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

The House Ways and Means Committee considers the Governor’s budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. After Senate action, a legislative conference committee generally develops a compromise budget for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items. The Legislature may override the Governor’s veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act.

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

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular account has been depleted. Whenever the Governor believes that existing

appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items.

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

### **Cash and Budgetary Controls**

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

In addition, the Commonwealth's Finance Advisory Board is obligated by law to survey periodically the debt instruments of the Commonwealth and report on the Commonwealth's financial structure, including debt and financial marketing plans. The Board consists of the State Treasurer and four members appointed by the Governor.

### **Cash Management Practices of State Treasurer**

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

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

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each August 25, November 25, February 25 and May 25. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.



## **Fiscal Control, Accounting and Reporting Practices of Comptroller**

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System (“MMARS”), the centralized state accounting system that is used by all state agencies and departments except independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth’s statewide accounting system also includes a billing and accounts receivable subsystem to control the billing, collection and management of its non-tax revenues.

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

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

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

*Internal Controls.* The Comptroller maintains internal control policies and procedures in accordance with state finance law that state agencies are required to follow. Violations of state finance law or regulation, or other internal control weaknesses, must be reported to the State Auditor, who is authorized, among other things, to investigate and recommend corrective action.

*Statutory Basis of Accounting.* The Commonwealth adopts its budget and maintains its financial information on the basis of state finance law (the “statutory basis of accounting” or “statutory basis”). The emphasis is on accountability and budgetary control over appropriations.

Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including federal reimbursements receivable with respect to expenditures already made. Expenditures are measured on a modified cash basis with actual cash disbursements as confirmed by the State Treasurer, except that encumbrances for goods or services received at or before the end of a fiscal year are recognized as accounts payable and included in expenditures.

For most Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally mandated entitlement programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting to the extent of disbursements on appropriations made through June 30 of each fiscal year. The approximate net effect of this statutory practice is to charge in each fiscal year the Medicaid bills of the last two or three months of the preceding fiscal year and the first nine or ten months of the current fiscal year.

*GAAP Basis of Accounting.* Since fiscal 1986, the Comptroller has prepared Commonwealth financial statements on a GAAP basis. The emphasis is on demonstrating inter-period equity through the use of modified accrual accounting for the recognition of revenues and expenditures/expenses. In addition to the primary

government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the Massachusetts Bay Transportation Authority (MBTA) and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS SELECTED FINANCIAL DATA – GAAP Basis" and Exhibit C (Fiscal 1999 Comprehensive Annual Financial Report).

*Financial Reports.* The Commonwealth's fiscal year ends on June 30. For fiscal years 1986 through 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the Statutory Basis Financial Report) and one utilizing the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report is published by the Comptroller by October 31, and the CAFR is published by the Comptroller by the second Wednesday in January. The Statutory Basis Financial Report for fiscal 1999 and the CAFR for fiscal 1999 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 1999 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." These financial statements are also available on the Comptroller's home page located at [www.state.ma.us/osc](http://www.state.ma.us/osc). Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

The Comptroller retains an independent certified public accounting firm to render opinions on the Commonwealth's financial statements and on certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. A separate report is issued on all programs not involving federal funding.

The Commonwealth CAFRs for fiscal 1995 through fiscal 1998, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 1998 is the ninth consecutive year that the Commonwealth has received this award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Any such CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

### **Overview of Capital Spending Process and Controls**

*Capital Projects Fund Structure.* Capital projects funds are used to account for financial activity related to the acquisition of major capital assets. Line item capital appropriations are authorized from capital projects funds. Such capital spending is financed principally from proceeds of Commonwealth bonds and bond anticipation notes, federal reimbursements, contributions from other entities (such as the Massachusetts Turnpike Authority and the Massachusetts Port Authority) and transfers from other governmental funds. The issuance of bonds and bond anticipation notes requires that both houses of the Legislature approve, by a two-thirds vote, bond authorizations to incur debt for specific purposes. See "COMMONWEALTH BOND AND NOTE LIABILITIES." Pursuant to state finance

law, the Governor, through the Secretary of Administration and Finance, has discretion over the allotment and, therefore, the actual expenditure of funds authorized by capital appropriations.

*Five-Year Capital Spending Plan.* The Fiscal Affairs Division in the Executive Office for Administration and Finance maintains a rolling five-year capital spending plan. The plan, which is an administrative guideline and subject to amendment at any time, sets forth capital spending allocations for a period of five fiscal years and establishes capital spending limits. The policy objective of the five-year plan is to limit the Commonwealth's debt burden by controlling the relationship between current capital spending and the issuance of Commonwealth bonds. Capital appropriations enacted by the Legislature are typically supported by bond authorizations. As noted above, the Governor, through the Secretary of Administration and Finance, may control the rate at which capital expenditures occur by utilizing his discretion over the allotment of capital appropriations, and therefore control the amount of bonds issued to finance such expenditures. See "COMMONWEALTH CAPITAL SPENDING" AND "COMMONWEALTH BOND AND NOTE LIABILITIES."

*Capital Spending and Controls.* In conjunction with the development of the five-year capital spending plan, a number of accounting procedures and fiscal controls have been instituted to limit agency capital spending to the levels established by the plan. Since July 1, 1991, all agency capital spending has been tracked against the five-year plan on both cash and an encumbrance accounting basis on MMARS, and federal reimbursements have been budgeted and monitored against anticipated receipts.

### **Audit Practices of State Auditor**

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

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

## **FINANCIAL RESULTS**

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports.*" The Statutory Basis Financial Report for fiscal 1999 is included herein by reference as Exhibit B. The Comprehensive Annual Financial Report for fiscal 1999 is included herein by reference as Exhibit C.

### **Selected Financial Data—Statutory Basis**

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1995 through 1999, and estimates for fiscal 2000 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2000 budget.

In fiscal 1999, the Commonwealth reported 63 budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund 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. The table also isolates the assessments on municipalities collected by the Commonwealth and paid to the Massachusetts Bay Transportation Authority and regional transit authorities. This activity is recorded in the Commonwealth's financial statements as part of the General Fund, but it is not appropriated or included in the budget process.

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

	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Estimated Fiscal 2000</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 79.3	\$ 128.1	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2
Tax Reduction Fund	--	--	231.7	91.8	367.7	6.8
Stabilization Fund	382.9	425.4	543.3	799.3	1,159.6	1,388.5
Undesignated	127.1	172.5	134.0	277.8	378.5	386.9
Fund Balance Restatement	--	--	0.6(2)	--	--	--
<b>Total</b>	<u>589.3</u>	<u>726.0</u>	<u>1,173.0</u>	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>
<u>Revenues and Other Sources</u>						
Taxes	11,163.4	12,049.2	12,864.5	14,026.3	14,291.5	15,288.0
Federal Reimbursements	2,969.7	3,039.1	3,019.6	3,361.2	3,442.9	3,606.0
Departmental and Other Revenues	1,273.1	1,208.1	1,267.9	1,286.4	1,297.8	1,298.3
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>981.0</u>	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,167.9</u>
<b>Budgeted Revenues and Other Sources</b>	<u>16,387.2</u>	<u>17,327.5</u>	<u>18,170.0</u>	<u>19,799.8</u>	<u>20,165.0</u>	<u>21,360.2</u>
Mass Transit Assessments from Municipalities	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Sources	<u>399.7</u>	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>394.2</u>
<b>Total Revenues and Other Sources</b>	<u>16,930.8</u>	<u>18,371.3</u>	<u>19,223.3</u>	<u>21,404.6</u>	<u>21,566.9</u>	<u>21,918.3</u>
<u>Expenditures and Uses</u>						
Programs and Services	14,010.3	14,650.7	15,218.8	16,238.6	17,341.1	19,017.6
Debt Service	1,230.9	1,183.6	1,275.5	1,213.4	1,173.8	1,196.7
Pensions	968.8	1,004.6	1,069.2	1,069.8	990.2	987.4
Interfund Transfers to Non-budgeted Funds And Other Uses	<u>40.4</u>	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>180.7 (3)</u>
<b>Budgeted Expenditures and Other Uses</b>	<u>16,250.5</u>	<u>16,881.1</u>	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>21,382.4</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Uses	<u>399.7</u>	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>394.2</u>
<b>Total Expenditures and Other Uses</b>	<u>16,794.1</u>	<u>17,924.9</u>	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>21,940.5</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>136.7</u>	<u>446.4</u>	<u>221.0</u>	<u>798.1</u>	<u>(79.7)</u>	<u>(22.2)</u>
Transfer of Excess to Capital Projects Fund Net Balance	---	---	---	---	---	(80.5)(4) (102.7)
<u>Ending Fund Balances</u>						
Reserved or Designated	128.1	263.4	225.1	286.3	330.2	51.1
Tax Reduction Fund	--	231.7	91.8	367.7	6.8	6.9
Stabilization Fund	425.4	543.3	799.3	1,159.6	1,388.5	1,596.9
Undesignated	<u>172.5</u>	<u>134.0</u>	<u>277.8</u>	<u>378.5</u>	<u>386.9</u>	<u>354.8</u>
<b>Total</b>	<u>\$ 726.0</u>	<u>\$ 1,172.4</u>	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,009.7</u>

SOURCE: Fiscal 1995-1999, Office of the Comptroller, fiscal 2000, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
- (3) Does not reflect the Governor's proposal to use surplus revenues to retire debt. See "2000 FISCAL YEAR."
- (4) The amount of any Capital Projects Fund transfer will be determined by the Comptroller when the books are closed for fiscal 2000 on October 31, 2000. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.

At the end of the last three fiscal years, the Legislature has mandated extraordinary fund transfers that have had the effect of using revenues collected in those years that would otherwise have been surplus. Such transfers are included in the table above under "Interfund Transfers among Budgeted Funds and Other Sources" and "Interfund Transfers to Non-budgeted Funds and Other Uses." In addition, at the end of fiscal 1997 and fiscal 1998 the Legislature increased the statutory ceiling on Stabilization Fund deposits. The effect of those changes was to increase the ceiling for fiscal 1997 to approximately \$908.5 million and for fiscal 1998 to approximately \$1.485 billion. By the end of fiscal 1999, the Stabilization Fund had a balance of approximately \$1.389 billion, measured against a ceiling of approximately \$1.512 billion. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*."

On account of fiscal 1997, such extraordinary transfers included transfer of (i) \$229.8 million to a Capital Investment Trust Fund to finance certain specified capital expenditures, (ii) \$100 million to the Stabilization Fund (in addition to the \$134.3 million transfer required by state finance law), (iii) \$128 million to a Caseload Increase Mitigation Fund to finance Department of Transitional Assistance programs in the event caseloads increase beyond budgetarily contemplated levels and (iv) \$20.2 million to the Massachusetts Water Pollution Abatement Trust for state capitalization grants for the state revolving fund programs (see "OTHER COMMONWEALTH LIABILITIES – Massachusetts Water Pollution Abatement Trust"). In addition, the Comptroller transferred approximately \$89.5 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses.

On account of fiscal 1998, such transfers included transfer of (i) \$162.5 million to a newly established Tax Exemption Escrow Trust Fund, where such amounts were held until the end of fiscal 1999, when they were transferred with interest back to the General Fund (the effect of this provision being to charge to fiscal 1998 the allocable cost of certain retroactive income tax reductions – see "COMMONWEALTH REVENUES – State Taxes"), (ii) \$45 million to a new Brownfields Revitalization Fund for expenditure on Brownsfields-related costs through fiscal 2001, (iii) \$60 million to a new Teacher Quality Endowment Fund, the earnings on which are to be used to pay signing bonuses to incoming teachers and salary bonuses to existing teachers under a new master teacher corps program, with the corpus of the fund to be left intact, (iv) \$200 million to the Tax Reduction Fund, which moneys were applied to a temporary increase in the personal exemptions applicable to 1998 income taxes, (v) \$150 million to the Stabilization Fund (in addition to the \$167.4 million transfer required by state finance law) and (vi) approximately \$189.2 million to a Capital Improvement and Investment Trust Fund to finance various specified capital expenditures. The Legislature also authorized approximately \$62.9 million in additional revenues from the state lottery to be distributed to cities and towns on account of fiscal 1998 and made approximately \$70.9 million of fiscal 1998 appropriations available for expenditure in fiscal 1999 to fund various collective bargaining agreements. In addition, the Comptroller transferred approximately \$111.6 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses.

On account of fiscal 1999, such transfers included the transfer of (i) approximately \$408.9 million to a Debt Defeasance Trust Fund to establish a sinking fund for certain outstanding Commonwealth debt, (ii) \$118.6 million to the Capital Improvement and Investment Trust Fund for specified capital expenditures, (iii) \$86 million to a Collective Bargaining Reserve Fund and (iv) \$92 million to a Transitional Escrow Fund to be expended subject to appropriation by December 31, 1999. Any unappropriated balances in the Transitional Escrow Fund as of December 31, 1999 are to be transferred 40% to the Capital Projects Fund and 60% to the Stabilization Fund. In addition, pursuant to state finance law, approximately \$110.4 million was transferred to the Capital Projects Fund and approximately \$165.6 million was transferred to the Stabilization Fund.

#### **Selected Financial Data—GAAP Basis**

The following table provides financial results on a GAAP basis for fiscal years 1995 through 1999 for all budgeted operating funds of the Commonwealth.

**Budgeted Operating Funds Operations—GAAP Basis  
(in millions)**

	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>
Beginning fund balances (deficits)	\$ (72.0)	\$ 287.4	\$ 709.2	\$ 1,096.3	\$ 1,841.4
Equity transfer	91.0	0.0	0.0	0.0	0.0
Restated beginning balances (deficits)	19.0	287.4	709.2	1,096.3	1,841.4
<u>Revenues and Financing Sources</u>					
Taxes	11,253.4	11,916.9	13,020.8	14,021.8	14,308.1
Federal Grants and Reimbursements	2,850.0	2,945.2	3,073.4	3,337.6	3,425.8
Department and Other Revenues	1,336.3	1,306.1	1,346.4	1,404.0	927.4
Interfund Transfers and Other Sources	<u>1,077.8</u>	<u>1,356.4</u>	<u>1,405.3</u>	<u>1,576.5</u>	<u>1,994.4</u>
Total	<u>16,517.5</u>	<u>17,524.6</u>	<u>18,845.9</u>	<u>20,339.9</u>	<u>20,655.7</u>
<u>Expenditures and Financing Uses</u>					
Programs and Services	13,017.8	13,729.6	14,581.4	15,477.6	16,471.3
Debt Service	1,163.4	1,392.9	1,275.5	1,213.3	1,173.8
Pensions	642.2	382.5	413.1	414.3	324.2
Interfund Transfers and Other Uses	<u>1,425.7</u>	<u>1,597.8</u>	<u>2,188.8</u>	<u>2,489.6</u>	<u>2,822.9</u>
Total	<u>16,249.1</u>	<u>17,102.8</u>	<u>18,458.8</u>	<u>19,594.8</u>	<u>20,792.2</u>
Excess	268.4	421.8	387.1	745.1	(136.5)
Ending fund balances (deficits)	<u>\$ 287.4</u>	<u>\$ 709.2</u>	<u>\$ 1,096.3</u>	<u>\$ 1,841.4</u>	<u>\$ 1,704.9</u>

SOURCE: Office of the Comptroller

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See "Selected Financial Data – Statutory Basis." As evidenced in the trend line of fund balance (deficit) over time, however, there is a correlation between the GAAP basis measurement and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both balances trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; GAAP Basis Accounting."

**2000 FISCAL YEAR**

On May 8, 1999 the House of Representatives approved its version of the fiscal 2000 budget, and on June 10, 1999 the Senate approved its version. On October 13, 1999, after extended negotiations, the President of the Senate and the Speaker of the House announced an agreement in principle concerning the budget. On November 10, 1999 the legislative conference committee considering the House and Senate versions of the budget released its report, and the budget was enacted by both houses of the Legislature later that day. Prior to enactment of the final budget, the Commonwealth operated under a series of five monthly interim budgets providing cumulatively for spending through November 30, 1999.

On November 16, 1999 the Governor approved the budget, but vetoed approximately \$250 million of appropriations. On November 17, 1999 the Legislature overrode approximately \$190 million of the Governor's vetoes. On January 26, 2000 Governor Cellucci filed a supplemental budget valued at \$290.9 million, including \$50 million for the state's pension funding schedule, \$22 million for one-time relief grants and revolving loans to health care providers and \$15.5 million for snow and ice removal on state highways. The supplemental budget also includes a transfer of \$29.4 million transfer to the Capital Improvement and Investment Trust Fund for improvements at the Registry of Motor Vehicles and firefighter safety equipment grants. On February 15, 2000 the House of Representatives approved approximately \$217.6 million of additional fiscal 2000 appropriations, including the \$50 million for the state's pension funding schedule. The Executive Office for Administration and Finance projects fiscal 2000 spending of approximately \$21.382 billion, a 5.6% increase over fiscal 1999 spending.

The fiscal 2000 budget appropriates \$910 million for the pension funding schedule, as recommended by the Governor. As noted above, Governor Cellucci has also recommended, and the House has approved, an additional \$50 million in fiscal 2000 appropriations for the schedule. See "2001 FISCAL YEAR" and "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations.*" The budget also includes "forward funding" legislation that will substantially modify the state's funding mechanisms for the Massachusetts Bay Transportation Authority. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

The fiscal 2000 budget established a Health Care Security Trust Fund, to which will be credited all payments received by the Commonwealth pursuant to the national litigation settlement with the tobacco industry, and a Tobacco Settlement Fund. Thirty percent of the settlement payments received by the Commonwealth and 30% of the investment earnings generated by the Health Care Security Trust Fund are to be transferred annually to the Tobacco Settlement Fund, where they may be used, subject to appropriation, for health-related purposes, including tobacco control, but are not to be used to supplant or replace other state expenditures or obligations.

The fiscal 2000 budget as enacted was based on the consensus tax revenue estimate of \$14.850 billion that had been agreed to by both houses of the Legislature in late April, 1999. Tax law changes in the budget reduced the estimate by \$145 million to \$14.705 billion. Through December, 1999 year-to-date tax collections were approximately \$333 million, or 5.0%, higher than during the comparable period in fiscal 1999 and \$291 million higher than the midpoint of the monthly benchmark range incorporated in the \$14.705 billion estimate. Accordingly, the Executive Office for Administration and Finance increased the fiscal 2000 tax estimate at the time the Governor filed his fiscal 2001 budget recommendations by \$583 million, to \$15.288 billion. The revised estimate assumes that fiscal 2000 tax collections will exceed fiscal 1999 collections by 6.9%. The Department of Revenue estimates that baseline growth in tax revenues, factoring out changes in tax law, was approximately 9.5% during the first half of fiscal 2000; baseline growth of approximately 5.6% will be required during the second half of the fiscal year to realize the revised estimates. Tax collections in January, 2000 totaled \$1.684 billion, an increase of \$115 million, or 7.4%, over January, 1999. Through January 2000, baseline growth in tax revenues was approximately 9.2%. Fiscal year-to-date tax collections through January, 2000 totaled \$8.723 billion, an increase of \$449 million, or 5.4%, over the comparable period in fiscal 1999. The fiscal year-to-date benchmark range through January, 2000, based on the revised estimate of \$15.288 billion, was \$8.536 billion to \$8.736 billion.

On February 9, 2000 the Governor announced a debt reduction proposal to be funded with approximately \$150 million in accumulated surplus revenues from fiscal 1997, 1998 and 1999 (now on deposit in the Capital Projects Fund) and surplus revenues expected on account of fiscal 2000, currently estimated at \$200 million. Under the Governor's proposal, such moneys would be applied to the retirement of outstanding Commonwealth debt bearing the highest interest rates.

### **Cash Flow**

A cash flow projection for the balance of fiscal 2000 is expected to be released by the State Treasurer and the Secretary of Administration and Finance on February 25, 2000. Because of the delayed enactment of the fiscal 2000 budget, no statement was released on November 25, 1999. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Cash Management Practices of State Treasurer."

### **2001 FISCAL YEAR**

On January 26, 2000, Governor Cellucci filed his fiscal 2001 budget recommendations with the House of Representatives. The proposal calls for budgeted expenditures of approximately \$21.346 billion. The proposed fiscal 2001 spending level represents the transfer off budget of \$645 million of sales tax revenues (and approximately \$632 million of spending) as a result of the forward funding of the Massachusetts Bay Transportation Authority. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." After accounting for this shift, the Governor's budget represents a \$596 million, or 2.8%, increase over projected total fiscal 2000 expenditures of \$21.382 billion. Budgeted revenues for fiscal 2001 are projected to be \$21.315 billion. After accounting for the revenue shift off budget, the Governor's budget submission represents a \$599 million, or 2.8%, increase over the \$21.360 billion forecast for fiscal 2000. The Governor's proposal projects a fiscal 2001 ending balance in the budgeted funds of \$1.979 billion, including a Stabilization Fund balance of \$1.599 billion.



The Governor's budget recommendation is based on a tax revenue estimate of \$14.903 billion. After accounting for the revenue shift off budget, this represents a \$260 million, or 1.7%, increase over fiscal 2000 projected tax revenues of \$15.288 billion. The projection reflects \$135 million in income tax cuts, including a reduction of the personal income tax rate from 5.95% to 5% over three years. See "COMMONWEALTH REVENUES – State Taxes; *Income Taxes*."

The proposed budget assumes non-tax revenues of \$6.412 billion, which represents an increase of approximately \$340 million over fiscal 2000. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs most affect the Commonwealth's budgetary considerations. These payments are projected to total \$3.808 billion in fiscal 2001. This level of federal payments represents an increase of \$202 million, or 5.6%, over fiscal 2000, the result primarily of changes in federal reimbursement for Medicaid programs. Fiscal 2001 departmental revenues are projected at \$1.309 billion, representing an increase of approximately \$10.8 million from fiscal 2000 projections. Consolidated transfers, the third category of non-tax revenue, consists primarily of state lottery profits which are distributed to cities and towns. Consolidated transfers are projected to increase by \$126.4 million over fiscal 2000 levels. Lottery profits are expected to increase by \$14 million in fiscal 2001.

The Governor's budget proposal generally provides for maintaining current levels of service for most state programs but recommends increased spending for certain priority areas, including a \$133 million increase in direct education, \$206.7 million in additional local aid to cities and towns and \$227 million for inflation in the traditional Medicaid program and expansion of the MassHealth program.

The Governor's fiscal 2001 budget recommendation includes \$922 million for the state's pension funding schedule and also includes an additional \$100 million reserve to account for increased pension liabilities due to the conversion to new actuarial software. See "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations*."

Under the Governor's proposed fiscal 2001 budget, the Commonwealth is expected to spend approximately \$985 million on public assistance programs. In fiscal 2001, the Commonwealth is projected to collect \$507.5 million in Temporary Assistance for Needy Families (TANF) federal block grant moneys, including the \$459.4 million block grant, \$30.6 million in TANF high-performance bonus awards and \$17.5 million in unspent funds from prior years' block grants. The Department of Transitional Assistance is projected to spend \$180.6 million for Transitional Aid to Families with Dependent Children (TAFDC) benefits, employment assistance programs and emergency assistance programs. A new Department of Children, Families and Learning proposed in the budget is projected to spend \$179.6 million for child care and family support services provided to TAFDC families who are required to work and to other low-income working families, as well as \$112.2 million that will be transferred from the TANF block grant to the Child Care Development Fund block grant. The Department of Social Services is projected to spend \$26.3 million and the Department of Public Health is projected to spend \$8.6 million for programs to prevent out-of-wedlock pregnancies.

Beginning in fiscal 2001, the Governor's budget recommends increasing the percentage of annual payments received from the national settlement with the tobacco industry that will be expended from 30% to 50%, which would still leave a Health Care Security Trust Fund balance of approximately \$1 billion by fiscal 2004. In fiscal 2001 the Governor recommends that the Trust Fund support a variety of health care initiatives, including \$29.4 million to provide enhanced dental services to MassHealth recipients.

The Governor's fiscal 2001 budget proposal recommends significant changes to the school building assistance program. See "OTHER COMMONWEALTH LIABILITIES – School Building Assistance." A new School Facilities Fund would be administered by the Massachusetts State College Building Authority, which would be renamed the Massachusetts School Building Authority. A seven-member School Facilities Commission would administer a revamped school facilities program, with state subsidies tied to per capita income and equalized property valuations in recipient communities as well as to specified incentive categories designed to promote re-use of existing buildings. The Massachusetts School Building Authority would be authorized to administer a pooled loan program within the School Facilities Fund.

The Governor's fiscal 2001 budget recommendations are now being evaluated by the House Committee on Ways and Means, the first legislative step in the process of approving a budget for fiscal 2001.

### **COMMONWEALTH REVENUES**

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1999 on a GAAP basis, approximately 66.3% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 16.0% of such revenues, with the remaining 17.2% provided from departmental revenues and transfers from non-budgeted funds.

#### **Distribution of Revenues**

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1995 through 1999 and estimated revenues for fiscal 2000.

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

	Fiscal <u>1995</u>	Fiscal <u>1996</u>	Fiscal <u>1997</u>	Fiscal <u>1998</u>	Fiscal <u>1999</u>	Estimated Fiscal <u>2000</u>
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$ 60.7	\$ 59.7	\$ 60.3	\$ 60.2	\$ 61.0	\$ 61.0
Banks	205.9	218.6	140.3	156.0	108.5	112.0
Cigarettes	234.2	232.8	281.7	300.8	284.4	279.0
Corporations	911.0	876.3	963.9	1,066.9	1,008.9	1,029.0
Deeds	40.3	41.0	51.6	79.7	98.0	110.2
Income	5,974.2	6,706.9	7,181.8	8,031.9	8,036.6	8,716.0
Inheritance and Estate	209.3	188.0	202.7	191.3	173.9	177.0
Insurance	292.6	294.1	297.8	310.8	336.3	341.5
Motor Fuel	577.5	598.8	602.8	621.3	636.5	669.0
Public Utilities	88.7	132.9	109.2	131.9	132.5	108.0
Racing	12.7	11.4	10.2	9.2	8.3	8.8
Room Occupancy	68.8	72.9	80.5	96.2	119.4	136.0
Sales - Regular	1,796.6	1,886.7	2,087.7	2,122.0	2,351.2	2,529.0
Sales - Meals	344.3	358.0	381.4	392.5	436.2	455.0
Sales - Motor Vehicles	<u>340.4</u>	<u>365.4</u>	<u>407.0</u>	<u>448.0</u>	<u>482.4</u>	<u>536.0</u>
Sub-Total-Sales	2,481.3	2,610.1	2,876.1	2,962.5	3,269.8	3,520.0
Miscellaneous	<u>6.2</u>	<u>5.7</u>	<u>5.6</u>	<u>7.6</u>	<u>17.4</u>	<u>20.6</u>
<b>Total</b>	<b><u>11,163.4</u></b>	<b><u>12,049.2</u></b>	<b><u>12,864.5</u></b>	<b><u>14,026.3</u></b>	<b><u>14,291.5</u></b>	<b><u>15,288.0</u></b>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements (2)	2,969.7	3,039.1	3,019.6	3,361.2	3,442.9	3,606.0
Departmental and Other Revenues	1,273.1	1,208.1	1,267.9	1,286.4	1,297.8	1,298.3
Interfund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>981.0</u>	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,167.9</u>
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<b><u>5,223.8</u></b>	<b><u>5,278.3</u></b>	<b><u>5,305.5</u></b>	<b><u>5,773.6</u></b>	<b><u>5,873.5</u></b>	<b><u>6,072.2</u></b>
<b>Budgeted Revenues and Other Sources</b>	<b><u>16,387.2</u></b>	<b><u>17,327.5</u></b>	<b><u>18,170.0</u></b>	<b><u>19,799.8</u></b>	<b><u>20,165.0</u></b>	<b><u>21,360.2</u></b>
Mass Transit Assessments from Municipalities	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Sources (3)	<u>399.7</u>	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>394.2</u>
<b>Total Revenues and Other Sources</b>	<b><u>\$16,930.8</u></b>	<b><u>\$18,371.3</u></b>	<b><u>\$19,223.3</u></b>	<b><u>\$21,404.6</u></b>	<b><u>\$21,566.9</u></b>	<b><u>\$21,918.3</u></b>

SOURCE: Fiscal 1995-1999, Office of the Comptroller, fiscal 2000, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Includes \$231.9 million in fiscal 1995, \$212.5 million in fiscal 1996, \$221.0 million in fiscal 1997, \$265.5 million in fiscal 1998, \$184.7 million in fiscal 1999, \$179.0 million in fiscal 2000, and a projected \$155.0 million in fiscal 2001 resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.

(3) Interfund transfers represent accounting transfers which reallocate resources among funds. See "Federal and Other Non-Tax Revenues" below. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$27.9 million, \$177.4 million, \$234.3 million, \$317.4 million and \$165.6 million in fiscal 1995, 1996, 1997, 1998 and 1999 respectively. Of the \$177.4 million transferred to the Stabilization Fund in fiscal 1996, \$81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

## State Taxes

The major components of state taxes are the income tax, which accounted for approximately 56.2% of total tax revenues in fiscal 1999, the sales and use tax, which accounted for approximately 22.9%, and the business corporations tax which accounted for approximately 7.1%. Other tax and excise sources accounted for the remaining 13.8% of total fiscal 1999 tax revenues.

*Income Tax.* The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.85% is applied to most types of income; the tax rate on capital gains from the sale of assets held for one year or less and from the sale of collectibles is 12%, and the tax rates on capital gains from the sale of assets owned more than one year range from 5% to 2%. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Prior to January 1, 1999, a different rate was applied to "Part A" income (generally, interest and dividends) and "Part B" income (generally, "earned" income from employment, professions, trades, businesses, rents and royalties). The rate on Part A income was 12% prior to January 1, 1999; it was reduced to 5.95% as of January 1, 1999 and as of January 1, 2000 is the same as the rate on Part B income. The rate on Part B income was 5.95% prior to January 1, 2000, when it was reduced to 5.85%, and it is scheduled to be reduced to 5.80% on January 1, 2001 and 5.75% on January 1, 2002.

In December, 1994, Governor Weld approved legislation modifying the capital gains tax by phasing out the tax for assets held longer than six years and increasing the no-tax status threshold for personal income tax purposes. The capital gains tax change did not become effective until January 1, 1996. Accordingly, it is estimated by the Executive Office for Administration and Finance to have decreased fiscal 1996 revenues by \$40 million, fiscal 1997 revenues by \$150 million, fiscal 1998 revenues by approximately \$250 million and fiscal 1999 revenues by approximately \$360 million. It is expected to decrease fiscal 2000 tax revenues by approximately \$450 million. The no-tax status change is estimated to have reduced fiscal 1995 tax revenues by approximately \$5.5 million, and subsequent years tax revenues by \$13.3 million.

As part of the fiscal 1997 budget the Legislature established a tax deduction for the amount by which tuition payments to two- or four-year colleges, net of financial aid, exceed 25% of the taxpayer's adjusted gross income. The Department of Revenue estimates that this deduction resulted in no revenue reduction in fiscal 1997 and will result in an approximately \$14 million reduction on an annualized basis thereafter.

The fiscal 1998 budget contained three tax cuts with an aggregate fiscal 1998 cost estimated by the Department of Revenue to have been \$60.9 million - an increase in the child dependent deduction from \$600 to \$1,200 for children up to age 12 (\$15.3 million), a tax credit of up to \$6,000 over four years for septic tank improvements (\$17 million) and an earned income tax credit amounting to 10% of the federal credit (\$28.6 million). The fiscal 1999 impact of these tax cuts is estimated to have been \$15.3 million, \$18 million and \$30 million, respectively. The fiscal 2000 impact is estimated to be \$15 million, \$18 million and \$30 million, respectively.

On November 6, 1997, Acting Governor Cellucci approved legislation exempting military pensions from the state income tax, effective January 1, 1998. The Department of Revenue estimates that this exemption resulted in a fiscal 1998 revenue reduction of \$25.0 million and an approximately \$18 million reduction on an annualized basis thereafter.

On July 21, 1998, Acting Governor Cellucci approved legislation reducing the rate of tax on Part A income from 12% to 5.95%, effective January 1, 1999. The fiscal 1999 cost is estimated to have been \$117 million; the fully annualized cost is estimated to be \$239 million. The legislation also phased in a doubling of the personal exemptions applicable to the Part B income tax, effective January 1, 1998, with an estimated fiscal 1999 cost of \$600 million (which includes costs for January 1, 1998 to June 30, 1998) and an estimated fully annualized cost of \$492 million. In addition, the legislation conformed state tax law to federal law with respect to Roth and educational IRA's, deferred compensation, capital gains on the sale of a personal residence, travel and entertainment deductions and the definition of short-term capital gains. The estimated aggregate fiscal 1999 cost of these additional changes is estimated to have been less than \$5 million, and the estimated aggregate annualized cost, excluding the Roth IRA, is also estimated to be less than \$5 million. The full impact of the Roth IRA change will only be felt as those now contributing to Roth IRA's withdraw their investments, over a period starting more than 20 years from now. The

amount of the tax cut due to the Roth IRA change depends on many factors, including the amounts invested, rates of return earned on those investments and the period over which the earnings are withdrawn. No definite estimate is currently available for events so far into the future.

An initiative petition changing the income tax rate on Part A income (12% at the time the petition was filed) to whatever rate applies to Part B income, starting January 1, 2000, was approved by the voters in November, 1998.

On August 10, 1998, Acting Governor Cellucci also approved legislation providing for the transfer of \$200 million to the Tax Reduction Fund as of June 30, 1998. The legislation directed the Commissioner of Revenue to increase 1998 tax year personal exemptions so as to reduce aggregate taxes by the balance in the Tax Reduction Fund as of December 31, 1998, including any interest earned on the fund's balances (which amounted to approximately \$10 million). The personal exemption increases authorized under this legislation were for the 1998 tax year only.

The fiscal 2000 budget contained several tax law changes, three of which are anticipated to reduce tax revenues in fiscal 2000. The budget reduced the income tax rate from 5.95% to 5.75% over three years, with a 5.85% rate effective January 1, 2000, a 5.80% rate effective January 1, 2001 and a 5.75% rate effective January 1, 2002. The Department of Revenue estimates that the budgetary cost of these provisions will be approximately \$65 million in fiscal 2000, \$166 million in fiscal 2001, \$244 million in fiscal 2002 and \$293 million in fiscal 2003 and annually thereafter.

A second set of provisions that is expected to affect revenue collections in fiscal 2000 allows taxpayers, retroactively to 1996, to use capital losses more comprehensively to offset capital gains and interest and dividend income. In the absence of sufficient data to estimate precisely the potential retroactive cost of these provisions, the Department of Revenue has indicated that they could result in total reduced tax liabilities in a range of \$73 million to \$103 million for tax years 1996, 1997 and 1998. The timing of taxpayers' refund and abatement claims for previously filed tax returns is uncertain, however. The Executive Office for Administration and Finance has reduced its estimate of fiscal 2000 tax collections by approximately \$40 million to account for such potential claims. Most of the costs of the capital gains offset provisions were previously included in the baseline fiscal 2000 tax estimate of \$14.850 billion which was in place at the time the budget was enacted. The costs not previously included, which are related primarily to the ability of taxpayers to use capital losses to offset interest and dividend income above \$1,000, are estimated to be approximately \$10 million annually for fiscal 2000 and thereafter.

The fiscal 2000 budget also provided for the elimination of the "pay-to-play" provisions of Massachusetts tax law, whereby a taxpayer is required to pay a state tax assessment before appealing the ruling to the Appellate Tax Board or the courts. This proposed change is consistent with prior proposals made by the Governor. The elimination of such "pay-to-play" provisions will alter the timing of certain payments, resulting, according to Department of Revenue estimates, in reduced cash receipts during the first three years of implementation and increased cash receipts thereafter. The Department of Revenue estimates the revenue reduction at \$31 million in fiscal 2000, \$18 million in fiscal 2001 and \$3 million in fiscal 2002, with revenue increases of \$8 million to \$10 million projected for succeeding years, subject to the length of time required to settle or adjudicate appeals cases.

Other tax law changes in the fiscal 2000 budget are not expected to affect tax revenues in fiscal 2000. Taxpayers who claim at least one over-65 exemption on their returns will be eligible for a tax credit of up to \$750 to the extent that their property tax and water and sewer payments exceed 10% of their income or if 25% of their rent payments exceed 10% of their income. To qualify for the credit, a taxpayer's income cannot exceed \$40,000 for single filers, \$50,000 for head of household filers and \$60,000 for joint filers and the assessed value of a taxpayer's residence (for taxpayers who are homeowners) cannot exceed \$400,000. The Department of Revenue values the reduction at \$30 million in fiscal 2002, and \$51 million when it is fully implemented in fiscal 2003. Another provision in the budget, also effective January 1, 2001, will increase the rental deduction from \$2,500 to \$3,000 per year. The Department of Revenue values this reduction at \$14 million when it is fully implemented in fiscal 2002. The budget also includes provisions doubling the earned income tax credit (which the Department of Revenue estimates will reduce tax collections by \$7 million in fiscal 2002 and \$15 million in fiscal 2003 and thereafter), increasing the work related dependent deduction (estimated to reduce revenues by \$9 million in fiscal 2003),

increasing the non-work related elder and disabled deduction (which is estimated to reduce revenues by \$28 million in fiscal 2001, \$75 million in fiscal 2002 and \$95 million in fiscal 2003 and thereafter), creating a tax deduction for interest paid on student loans at two and four year colleges (estimated to reduce revenues by \$3 million in fiscal 2001 and \$6 million in fiscal 2002 and thereafter), increasing the deduction for fees paid to adoption agencies (estimated to reduce tax revenues by \$1 million in fiscal 2001 and thereafter) and providing a tax credit to developers of low and moderate income housing (estimated to reduce tax revenues by \$4 million in fiscal 2001 and \$19 million in fiscal 2006 when it is fully implemented – the credit will phase out by fiscal 2011). The budget also includes a provision that extends the investment tax credit for five years.

On December 1, 1999 nine initiative petitions were filed with the Secretary of State containing sufficient signatures (at least 57,100, with no more than 25% from any one county) to place the respective measures before the 2000 session of the Legislature. On January 5, 2000 such petitions were filed with the Legislature and, if the Legislature does not enact such petitions by May 3, 2000, they may be placed before the voters in the November, 2000 election upon the collection by July 5, 2000 of an additional 9,517 signatures. See "THE GOVERNMENT – Initiative Petitions." Three of the petitions would reduce state taxes.

One petition, which was signed by Governor Cellucci and Lieutenant Governor Swift, would set the Part B income tax rate at 5.6% on January 1, 2001, 5.3% on January 1, 2002 and 5% on January 1, 2003 and thereafter. The Governor's fiscal 2001 budget recommendations contain an identical proposal. The Department of Revenue estimates that this proposal would reduce fiscal 2001 revenues by \$135 million, fiscal 2002 revenues by \$457 million and fiscal 2003 revenues by \$883 million. The annualized value of the reduction, once fully effective in fiscal 2004, would be approximately \$1.154 billion.

Another petition would establish credits against personal income taxes and corporate excise taxes for amounts paid as tolls for the use of the Massachusetts Turnpike, the Tobin Bridge or the Sumner, Callahan or Ted Williams Tunnels, as well as a credit against personal income taxes for amounts paid to cities and towns as motor vehicle excise taxes. The credits would take effect on January 1, 2001. The Department of Revenue estimates that the annual cost of this proposal when fully implemented in fiscal 2003 would be approximately \$645 million.

A third petition would create a deduction from Part B income for charitable contributions. The Department of Revenue estimates that the cost of this proposal would be between \$157 million and \$192 million, when fully implemented in fiscal 2002.

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

On October 20, 1997, Acting Governor Cellucci announced that the Department of Revenue would issue regulations changing the payment schedules for approximately 15,000 sales, meals and room occupancy taxpayers that pay over \$25,000 in tax per year. Under the new simplified rules, beginning January 1, 1998, these taxpayers are required to file a tax return and make a tax payment on the 20<sup>th</sup> of each month for taxable sales made during the preceding month. Under the old rules, affected taxpayers were required to forward tax payments on the 27<sup>th</sup> of each month for taxable sales made from the 23<sup>rd</sup> of the preceding month to the 22<sup>nd</sup> of the current month, as well as file a quarterly tax return. While these new regulations do not affect the amount of tax owed, the Department of Revenue estimates that the Commonwealth realized a reduction in fiscal 1998 revenues of approximately \$105 million. This reduction was a one-time event.

Beginning January 1, 1998, sales tax receipts from establishments near the site of the proposed new Boston convention center that first opened on or after July 1, 1997 and sales tax receipts from new hotels in Boston and Cambridge that first opened on or after July 1, 1997 are required to be credited to the Boston Convention and Exhibition Center Fund. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund.*"

Beginning July 1, 2000, pursuant to “forward funding” legislation contained in the fiscal 2000 budget, a portion of the Commonwealth’s receipts from the sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, will be dedicated to the Massachusetts Bay Transportation Authority under a trust fund mechanism that will not permit future legislatures to divert the funds. In his fiscal 2001 budget recommendations, Governor Cellucci has shifted \$645 million off budget in accordance with this legislation. See “COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority.”

*Business Corporations Tax.* Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. The reduction in fiscal 1996 tax revenues from business corporations compared to fiscal 1995 was due primarily to an estimated \$49 million reduction resulting from the application of the “single sales factor” apportionment formula, described below. The fiscal 1997 tax revenue collections reflected an additional \$44 million reduction for the full-year impact of the “single sales” apportionment formula and a \$10 million reduction due to the impact of legislation enacted in August, 1996, which, effective January 1, 1997, changed the computation of the sales factor for certain mutual fund companies, as described below.

On November 28, 1995, Governor Weld approved legislation establishing a “single sales factor” apportionment formula for the business corporations tax. The new formula, when fully implemented, will calculate a firm’s taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The new formula was made effective as of January 1, 1996 to certain federal defense contractors and phased in over five years for manufacturing firms generally. The Department of Revenue estimated that the revision reduced revenues by \$28 million in fiscal 1996, by \$34 million in fiscal 1997, by \$63 million in fiscal 1998 and by \$85 million in fiscal 1999. When the new formula becomes fully effective for all covered businesses in fiscal 2001, the Department estimates that the annual revenue reduction will be approximately \$95 million.

On August 8, 1996, Governor Weld approved legislation making two changes in the apportionment formula for the business corporations tax payable by certain mutual fund service corporations. Effective January 1, 1997, the legislation changed the computation of the sales factor; instead of sourcing sales from the state where the seller bears the cost of performing the services relating to the sale, the corporations will source sales to the state of domicile of the ultimate consumer of the service. Effective July 1, 1997, the legislation changed the prior three-factor formula to a single sales factor formula, just as the November, 1995 legislation had done for certain federal defense contractors and, over time, for manufacturing firms. Under the new law, affected corporations are required to increase their numbers of employees by 5% per year for five years, subject to exceptions for adverse economic conditions affecting the stock market or the amount of assets under their management. The Department of Revenue estimates that the changes resulted in a revenue reduction of approximately \$10 million in fiscal 1997 and will result in revenue reductions of \$39 million to \$53 million on an annualized basis thereafter, starting in fiscal 1998. These estimates do not take into account any increased economic activity that may be stimulated by the tax cuts.

On August 9, 1996, Governor Weld signed legislation providing a tax credit to shippers that pay federal harbor maintenance taxes on cargo passing through Massachusetts ports. The Department of Revenue estimates that there was no impact on revenues in fiscal 1997 as a result of this tax credit and that the annual revenue loss has been approximately \$3 million to \$4 million, beginning in fiscal 1998.

*Bank Tax.* Commercial and savings banks are subject to an excise tax of 12.54%. On July 27, 1995, Governor Weld approved legislation that will reduce the rate over several years to 10.5%, the same effective rate charged to other corporations. The Department of Revenue estimates that the tax cut, when fully implemented in fiscal 2000, will result in an annual \$39 million revenue loss, including the effect of provisions in the proposed legislation that would apply the tax to out-of-state banks and other financial institutions that are not currently taxed and that would lead to an estimated \$18 million annual gain.

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

a 1% tax on gross investment income. On April 30, 1998, the House of Representative approved legislation that would over five years eliminate the 14% surcharge for property and casualty insurers and the tax on investment income for both types of domestic insurers. On August 10, 1998, Acting Governor Cellucci approved legislation that will reduce insurance company taxes over five years in essentially the manner provided in the legislation approved by the House of Representatives on April 30, 1998, though the enacted legislation, unlike the House bill, does not eliminate the 14% surcharge on the gross premium income of property and casualty insurers. The estimated fiscal 1999 cost of these changes is \$5 million, and the estimated fully phased-in aggregate annual value of these tax reductions is \$48 million.

*Other Taxes.* Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources.

On July 24, 1996, the Legislature overrode Governor Weld's veto of legislation imposing a 25¢-per-pack tax increase on cigarettes, as well as a 25% increase in the tax on smokeless tobacco and a 15% tax on cigars and smoking tobacco, all effective October 1, 1996. The Department of Revenue estimates that these changes resulted in approximately \$74 million in additional tax revenue for fiscal 1997 and approximately \$80 million annually thereafter.

In 1992, legislation was enacted by the voters which increased the tobacco excise tax by 1.25¢ per cigarette (25¢ per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco, effective January 1, 1993. Under the legislation, the revenues raised by this excise tax were to be credited to the Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 and fiscal 1994 were \$59.5 million and \$116.4 million and have been \$114 million on an annualized basis since fiscal 1995.

The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The portion of the motor fuel excise tax currently pledged to special obligation bonds is estimated to be approximately \$218.5 million in fiscal 2000. Additional special obligation bonds may be issued in the future secured by additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Highway Fund.*" An additional portion of the motor fuel excise tax, estimated to be approximately \$318.6 million in fiscal 2000, is subject to a contingent pledge relating to grant anticipation notes issued in connection with the Central Artery/Ted Williams Tunnel project, and will be available for the payment of such notes only if nationwide federal highway spending and debt service coverage levels for the notes fall below specified levels. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

On November 17, 1997, the Legislature overrode Acting Governor Cellucci's veto to enact legislation authorizing the Commonwealth to issue special obligation convention center bonds secured by a pledge of certain taxes related to tourism and conventions, including a 2.75% convention center financing fee imposed by the legislation on hotel room occupancy in four Massachusetts cities. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund.*"

### **Tax Revenue Forecasting**

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years, tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in various state court cases affecting tax



collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts.

The fiscal 1995 budget as enacted was based on a joint tax revenue estimate of \$11.328 billion (an increase of \$634 million, or 5.9%, from then-expected tax revenues for fiscal 1994), less \$19.3 million of tax cuts included in that budget. Fiscal 1995 tax revenue estimates were later reduced to \$11.151 billion due to lower than expected tax revenue collections and a \$5.5 million reduction in revenues expected to result from a change in the no-tax status threshold for Massachusetts personal income tax purposes. Actual fiscal 1995 tax revenues were \$11.163 billion, a 5.3% increase over fiscal 1994.

The fiscal 1996 budget as enacted was based on a joint tax revenue estimate of \$11.639 billion (an increase of approximately 4.4% from then-expected fiscal 1995 revenues), plus \$16 million for revenue initiatives and less \$300,000 for sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately \$11.653 billion, adopting the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of \$1.7 million resulting from bank tax reform. On January 23, 1996, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately \$11.604 billion which reflected a further reduction totaling \$44 million resulting from corporate excise tax reforms. In April, 1996 the Secretary of Administration and Finance revised the fiscal 1996 tax revenue estimate to \$11.684 billion, based on stronger than anticipated tax collections. Actual tax revenues for fiscal 1996 totaled approximately \$12.049 billion, a 7.9% increase over fiscal 1995. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by the increase in capital gains resulting from the strong stock market in calendar year 1995.

The fiscal 1997 budget as enacted was based on a joint tax revenue estimate of \$12.177 billion. In October, 1996, the Secretary of Administration and Finance released a fiscal 1997 tax revenue estimate of approximately \$12.123 billion, which reflected various tax law changes enacted after the date of the joint estimate. On January 22, 1997, the Secretary of Administration and Finance released a revised fiscal 1997 tax revenue estimate of approximately \$12.307 billion, based on stronger than anticipated collections through December, 1996 and the assumption that \$84 million in tax cuts initially proposed by Governor Weld for fiscal 1997 would occur in fiscal 1998. On May 20, 1997, the Secretary of Administration and Finance revised the fiscal 1997 tax revenue estimate to \$12.507 billion. Actual tax revenues for fiscal 1997 totaled approximately \$12.865 billion, a 6.8% increase over fiscal 1996. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by stronger than expected economic growth and the increase in capital gains resulting from the strong stock market in calendar year 1996.

The fiscal 1998 budget as enacted was based on a joint tax revenue estimate of \$12.85 billion. The Secretary of Administration and Finance revised the fiscal 1998 tax revenue forecast to \$13.06 billion on July 30, 1997, to \$13.2 billion on October 15, 1997, to \$13.154 billion on January 16, 1998 and to \$13.3 billion on May 5, 1998. The January 16, 1998 estimate included an aggregate \$6 million downward adjustment reflecting tax law changes enacted after October 15, 1997 and a \$140 million downward adjustment reflecting a one-time change in the sales tax payment schedule. Final fiscal 1998 revenues totaled \$14.025 billion.

The fiscal 1999 budget was enacted on the basis of a consensus tax revenue forecast of \$14.4 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in May, 1998. The tax cuts incorporated into the budget, valued by the Department of Revenue at \$990 million in fiscal 1999, had the effect of reducing the consensus forecast to \$13.41 billion. On August 19, 1998, the Executive Office for Administration and Finance raised the fiscal 1999 tax estimate by \$200 million to approximately \$13.61 billion. The fiscal 1999 tax estimate was raised again in the Governor's budget submission, filed on January 27, 1999, to \$14.0 billion. On May 7, 1999, the Executive Office for Administration and Finance increased its fiscal 1999 tax estimate to \$14.160 billion, an increase of \$160 million from its \$14 billion January, 1999 estimate. Fiscal 1999 tax collections totaled approximately \$14.291 billion.

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

## Federal and Other Non-Tax Revenues

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

Departmental and other non-tax revenues are derived from licenses, registrations and fees and reimbursements and assessments for services. In fiscal 1996, a revenue maximization pilot project undertaken by the Comptroller and the Executive Office for Administration and Finance yielded almost \$39.9 million in additional federal reimbursement revenues, net of agency and vendor incentive payments, at the Department of Mental Health, Department of Mental Retardation, Department of Social Services and Division of Medical Assistance. In fiscal 1997, \$41.3 million in additional non-tax revenues resulted in net revenues of \$39.1 million deposited into the General Fund. In fiscal 1998, \$37.4 million in additional non-tax revenue resulted in \$30.9 million of net revenue for the General Fund. In fiscal 1999, \$53.7 million in additional non-tax revenue resulted in \$49.7 million of net revenue for the General Fund. In fiscal 2000, an estimated \$11.2 million in additional non-tax revenue will result in an estimated \$10.2 million of net revenue for the General Fund.

The Commonwealth began in fiscal 1997 to phase in a one-time (rather than annual) passenger vehicle registration fee, which had the effect of reducing fiscal 1998 revenues by \$13.8 million and reducing revenues annually thereafter by approximately \$55 million. (The Commonwealth is still maintaining the requirement that all parking tickets, moving violation citations, excise taxes and insurance premiums be paid before registration renewals are processed, in order to ensure that cities and towns do not lose revenue from the change to one-time vehicle registrations.) Fiscal 2000 revenue estimates assume a reduction of approximately \$11.3 million in passenger vehicle operating license renewal fees, which were scheduled to be reduced on May 1, 2000. The annual cost of the planned reduction would have been approximately \$45 million. On February 9, 2000 the Governor announced that the fees would be maintained at their existing rates.

For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for \$709.5 million, \$727.5 million, \$770.2 million, \$848.4 million and \$870.0 million in fiscal 1995 through 1999, respectively, and which are expected to account for \$858.3 million in fiscal 2000.

In 1994, the voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the Massachusetts Bay Transportation Authority. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for motor vehicle, highway, or mass transportation purposes. On three occasions, the Legislature has postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the "consolidated net surplus." The most recent postponement, enacted in 1998, changed the effective date of the provision to July 1, 2000.

On August 9, 1996, Governor Weld approved legislation authorizing the State Lottery Commission to participate with other states in a multi-jurisdictional lottery. Beginning September, 1996, the Commission joined with the states of Illinois, Georgia, Maryland, Michigan and Virginia in a multi-state game that is estimated to generate an additional \$30 million per year in net lottery revenues.

## Limitations on Tax Revenues

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

Tax revenues in fiscal 1995 through fiscal 1999 were lower than the limit set by Chapter 62F, and the Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 2000 will not reach such limit. For fiscal 1999, as calculated by the State Auditor pursuant to Chapter 62F, net state tax revenues were approximately \$14.302 billion and allowable state tax revenues were approximately \$15.470 billion.

## COMMONWEALTH PROGRAMS AND SERVICES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

### Commonwealth Expenditures - Budgeted Operating Funds (in millions)

<u>Expenditure Category</u>	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Estimated Fiscal 2000</u>
Direct Local Aid	\$ 2,976.2	\$ 3,246.2	\$ 3,558.1	\$ 3,948.9	\$ 4,310.2	\$ 4,644.5
Medicaid	3,398.2	3,415.9	3,455.5	3,665.8	3,856.4	4,091.6
Group Health Insurance	509.7	519.3	522.0	550.0	565.7	604.0
Public Assistance	1,095.0	1,088.8	1,089.7	1,023.1	987.6	996.9
Debt Service	1,230.9	1,183.6	1,275.5	1,213.4	1,173.8	1,196.7
Pensions	968.8	1,004.6	1,069.2	1,069.8	990.2	987.4
Higher Education	703.3	743.9	806.5	861.8	929.8	1,009.7
MBTA and RTA's	516.2	518.5	520.2	530.0	537.7	596.0
Other Program Expenditures	4,811.7	5,118.1	5,266.8	5,659.0	6,153.7	7,074.9
Interfund Transfers to Non-budgeted Funds (1)	<u>40.4</u>	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>180.7</u>
Budgeted Expenditures and Other Uses	<u>16,250.5</u>	<u>16,881.1</u>	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>21,382.4</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	143.9	147.6	151.5	155.6	159.9	163.9
Interfund Transfers among Budgeted Funds and Other Uses (1)	<u>399.7</u>	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>394.2</u>
Total Expenditures and Other Uses	<u>\$ 16,794.1</u>	<u>\$ 17,924.9</u>	<u>\$ 19,002.3</u>	<u>\$ 20,606.5</u>	<u>\$ 21,646.6</u>	<u>\$ 21,940.5</u>

SOURCE: Fiscal 1995-1999, Office of the Comptroller, fiscal 2000, Executive Office for Administration and Finance.

(1) Interfund transfers represent accounting transfers which reallocate resources among funds. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$27.9 million, \$177.4 million, \$234.3 million, \$317.4 million and \$165.6 million in fiscal 1995, 1996, 1997, 1998 and 1999, respectively. Of the 177.4 million transferred to the Stabilization Fund in fiscal 1996, \$81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

### Local Aid

*Proposition 2½.* In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1999, the aggregate property tax levy grew from \$3.346 billion to \$6.753 billion, representing an increase of approximately 101.8%. By contrast,

according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 107.9%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) which permit communities to exceed the limits of Proposition 2½. Override activity steadily increased throughout the 1980's before peaking in fiscal 1991 and decreasing thereafter. In fiscal 1999, 24 communities had successful override referenda which added an aggregate of \$8.7 million to their levy limits. In fiscal 1999, the impact of successful override referenda going back as far as fiscal 1993, was to raise the levy limits of 125 communities by \$67 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

In addition to overrides, Proposition 2½ allows a community, through voter approval, to assess taxes in excess of its levy limit for the payment of certain capital projects (capital outlay expenditure exclusions) and for the payment of specified debt service costs (debt exclusions). Capital exclusions were passed by 20 communities in fiscal 1999 and totaled \$4.6 million. In fiscal 1999, the impact of successful debt exclusion votes going back as far as fiscal 1993, was to raise the levy limits of 250 communities by \$945.8 million.

*Commonwealth Financial Support for Local Governments.* During the 1980's, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2½ on local programs and services. In fiscal 2000, approximately 21.7% of the Commonwealth's budget is estimated to be allocated to direct Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation established a fiscal 1993 state spending base of approximately \$1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately \$2.803 billion in fiscal 2000. All of the budgets in fiscal years 1994 through 2000 have fully funded the requirements imposed by this legislation.

Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct Local Aid, such as highway construction, school building construction, and police education incentives.

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service, pensions for teachers, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties. Beginning July 1, 2000, Commonwealth support for the Massachusetts Bay Transportation Authority will take the form of dedicated tax revenues. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

*Initiative Law.* A statute adopted by voter initiative petition at the November, 1990 statewide election regulates the distribution of Local Aid to cities and towns. This statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds be distributed to cities and towns. Under the law, the Local Aid distribution to each city or town is to equal no less than 100% of the total Local Aid received for fiscal 1989. Distributions in excess of fiscal 1989 levels are to be based on new formulas that would replace the current Local Aid distribution formulas. By its terms, the new formula would have provided for a substantial increase in direct Local Aid in fiscal 1992 and subsequent years. Nonetheless, Local Aid payments remain subject to annual appropriation by the Legislature, and the appropriations for Local Aid since the enactment of the initiative law have not met the levels set forth in the initiative law.

## Medicaid

The Medicaid program provides health care to low-income children and families, low-income adults, the disabled, and the elderly. The program, which is administered by the Division of Medical Assistance (an agency within the Executive Office of Health and Human Services), is 50% funded by federal reimbursements. Beginning in fiscal 1999, payments for some children's benefits are 65% federally reimbursable under the federal Children's Health Insurance Program (CHIP) for states.

During fiscal years 1995, 1996, 1997, 1998 and 1999, Medicaid expenditures were \$3.398 billion, \$3.416 billion, \$3.456 billion, \$3.666 billion and \$3.856 billion, respectively. The average annual growth rate from fiscal 1995 to fiscal 1999 was 3.3%. Fiscal 1999 Medicaid expenditures increased approximately 5.2% from fiscal 1998. This amount includes \$301.3 million for an eligibility expansion of Medicaid benefits to recipients between 100%-133% of the federal poverty level and \$36.9 million in outpatient medical services to recipients of Emergency Aid to the Elderly, Disabled and Children, transferred to Medicaid from the Department of Transitional Assistance. The Executive Office for Administration and Finance projects fiscal 2000 expenditures to be \$4.092 billion, an increase of 6.1% over fiscal 1999. This amount includes \$341.4 million in spending attributable to recipients above 100% of the federal poverty level through the health care expansion.

The Division of Medical Assistance has implemented a number of savings and cost control initiatives including managed care, utilization review, and the identification of third party liabilities. In spite of increasing caseloads, Massachusetts has managed to keep annual growth in per capita expenditures low. From fiscal 1995 through fiscal 1999, per capita costs have increased an average of 2.0% annually over the five-year period. In fiscal 1999, the state expanded eligibility for the Medicaid program, resulting in a total of 943,395 members at the end of fiscal 1999 or a 19.4% increase over the average caseload of fiscal 1998.

One of the primary reasons for the recent modest rates of growth in Medicaid expenditures is the implementation by the Administration of a managed care program. A waiver of federal regulations granting recipients freedom of choice of provider was approved by federal authorities in fiscal 1992. This waiver enables the program to assign recipients to managed care plans that utilize primary care physicians to function as gatekeepers to specialty and inpatient care and enroll recipients in a capitated managed care system for mental health or substance abuse services. In addition, nursing home pre-screening and community service planning for long-term care is concentrated in 27 Aging Services Access Points (ASAP) to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. Other savings initiatives, which are in addition to major rate control initiatives, include standardizing the way outpatient providers bill for services, imposing restrictions, both financial and clinical, on nursing home eligibility.

Medicaid costs for nursing home care increased from \$1.138 billion in fiscal 1995 to approximately \$1.295 billion in fiscal 1999 and currently account for 31.5% of the Medicaid budget. Over 37,800 elderly and disabled citizens were cared for in nursing homes each month through Medicaid in fiscal 1999. The annual cost per beneficiary in a nursing home is approximately \$33,717. On an overall basis, Medicaid pays 70% of all nursing home costs in the Commonwealth. In an effort to control the increasing costs of nursing home services, the Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly community services. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 5.95% between fiscal 1995 and fiscal 1999 on a date-of-service basis.

In addition to a number of successful savings and cost control initiatives the Commonwealth has undertaken in the last five years, the Medicaid program has also expanded and streamlined eligibility criteria for recipients in accordance with the health care reform bills approved by the Legislature in July, 1996, July, 1997 and November, 1997. As a result, beginning in fiscal 1998, the Division was authorized to expand the Medicaid eligibility cutoff to 133% of the federal poverty level for adults and up to 200% of the federal poverty level for pregnant women and children through the age of 18. In addition, the Commonwealth has implemented a program of premium assistance and employer subsidies for purchasing employer-based health coverage for families and childless adults up to 200% of the federal poverty level. These changes resulted in 240,000 additional people becoming enrolled in a Medicaid benefits plan by the end of fiscal 1999. Pharmacy assistance to seniors, a program which began in fiscal 1998, continued to grow in fiscal 1999 with expenditures increasing by 66%.

## Public Assistance

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

### Public Assistance Program Expenditures (in millions)

Category of Public Assistance	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Estimated Fiscal 2000
TAFDC(1)	\$ 782.7	\$ 675.0	\$ 598.8	\$ 513.9	\$ 450.7	\$ 399.7
Child Care (2)	--	111.0	194.1	237.4	269.8	329.6
EAEDC (formerly General Relief)(3)	119.7	105.9	103.7	68.3	63.3	60.7
SSI(4)	192.6	196.9	193.1	203.5	203.8	206.9
Total(5)	<u>\$ 1,095.0</u>	<u>\$ 1,088.8</u>	<u>\$ 1,089.7</u>	<u>\$ 1,023.1</u>	<u>\$ 987.6</u>	<u>\$ 996.9</u>

SOURCE: Fiscal 1995-1999, Office of the Comptroller; fiscal 2000, Executive Office for Administration and Finance.

- (1) Includes expenditures for Transitional Aid to Families with Dependent Children (TAFDC); for the Employment Services Program (ESP); and for Emergency Assistance, a program designed to prevent homelessness and to shelter income-eligible families when they become homeless.
- (2) Child care expenditures were previously included as part of the TAFDC total in fiscal 1996, 1997, 1998 and 1999.
- (3) Includes outpatient medical services to EAEDC recipients in fiscal 1995 through fiscal 1997.
- (4) Includes benefits for blind recipients which are administered by the Massachusetts Commission for the Blind; includes one-time retroactive payments in fiscal 1998 to recipients to reimburse them for fiscal 1997 administrative charges; and includes payments made to SSI recipients out of an EAEDC account in fiscal 1998.
- (5) The TAFDC total includes expenditures for direct services to homeless individuals in fiscal 1995, 1996 and 1997. It does not include expenditures for the Teen Living Program in fiscal 1996 and 1997. The child care total does not include supportive child care for victims of abuse and neglect, informal child care expenditures for child care provided by relatives in fiscal 1996 or certain one-time quality expenditures in fiscal 1998. It includes temporary child care provided at the Trial Court in fiscal 1998 and 1999. Based on the programs contained in the fiscal 1999 estimate, the adjusted Public Assistance total would be \$1,217.1 for fiscal 1995; \$1,110.7 for fiscal 1996; \$1,065.6 for fiscal 1997; and \$1,022.8 for fiscal 1998.

TAFDC expenditures in fiscal 2000 are projected to be \$399.7 million, approximately \$50.9 million less than fiscal 1999. This decrease is due to the continuing decline in the TAFDC caseload and the beginning of cases reaching the end of their two-year time limit on benefits. Child care expenditures for fiscal 2000 are projected to be \$329.6 million, approximately \$61.1 million more than in fiscal 1999. This increase is the result of increasing expenditures on child care services for current and former TAFDC recipients and other low-income families.

The TAFDC caseload has been declining steadily since fiscal 1995, resulting in a 44.2% decrease through fiscal 1999. Massachusetts began implementing welfare reform programs in November 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long-term assistance. With the improved Massachusetts economy, new work incentives, aggressive child support collections, anti-fraud initiatives, and the implementation of the two-year time limit on benefits, the caseload is expected to continue declining through fiscal 2000. The following table illustrates the decline in caseload for public assistance programs.

## Public Assistance Average Caseload

Category of Public Assistance	<u>Fiscal 1995</u>	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Estimated Fiscal 2000</u>
TAFDC(1)	102,782	88,988	79,131	68,813	57,274	47,169
EAEDC (formerly General Relief)	20,395	17,282	16,895	16,305	15,171	14,023
SSI(2)	<u>153,248</u>	<u>159,748</u>	<u>160,924</u>	<u>160,700</u>	<u>162,470</u>	<u>163,271</u>
Total	<u>276,425</u>	<u>266,018</u>	<u>256,950</u>	<u>245,818</u>	<u>234,915</u>	<u>224,463</u>

SOURCE: Department of Transitional Assistance

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

The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

The EAEDC caseload has also been declining steadily since fiscal 1995, resulting in a 25.6% decrease through fiscal 1999. The decline can be attributed to factors similar to those affecting the AFDC/TAFDC caseload, as well as a state initiative to move qualified EAEDC recipients to the more comprehensive SSI program, taking advantage of federal funding not available under the state funded EAEDC program. The fiscal 2000 expenditures for EAEDC are projected to be \$60.7 million, \$2.6 million less than fiscal 1999.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to \$512 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from \$39 to \$454 per month per recipient. The SSI caseload has been increasing over the past five years, due to SSI policy changes, increased advocacy efforts on behalf of disabled populations, and the growing population of aged individuals, but the rate of growth has been declining since fiscal 1994. The fiscal 2000 expenditures for SSI are projected to be \$206.9 million, a \$3.1 million increase over fiscal 1999.

### *Federal Welfare Reform*

The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of AFDC and replaced it with block grant funding for Temporary Assistance for Needy Families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for Massachusetts is \$459.37 million annually for federal fiscal years 1997 through 2002. In addition, Massachusetts will receive approximately \$81.7 million in child care block grant funds to support child care programs. Massachusetts must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. Massachusetts successfully met the MOE requirement in federal fiscal 1997, 1998 and 1999 and is working with the U.S. Department of Health and Human Services in order to maximize the state spending that can count toward the fiscal 2000 requirement.

### *Other Controls and Reforms*

The Department of Transitional Assistance in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC/TAFDC, Emergency Assistance and EAEDC benefits, including implementation of new disability criteria for EAEDC benefits. The Department of Transitional Assistance also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Revenue has improved its collection of child support payments.

The Benefit Eligibility and Control On-Line Network (BEACON) is an integrated recipient eligibility system that automates the public assistance programs administered statewide by the Department of Transitional Assistance. This system will end outdated intake processes and will enable the Commonwealth more accurately to



determine eligibility, provide appropriate services and track recipients through a consolidated process. The statewide rollout of the system is expected to be completed during fiscal 2000.

The Electronic Benefit Transfer (EBT) system provides cash assistance and food stamp recipients with access to benefits via a single magnetic strip card that can be used at bank automated teller machines. The Commonwealth has contracted with a commercial bank to provide EBT services. The statewide implementation was completed in October, 1997.

These projects provide the Commonwealth with the reporting capabilities that are necessary under the federal welfare reform law.

### **Massachusetts Bay Transportation Authority**

The Massachusetts Bay Transportation Authority (MBTA) finances and operates mass transit facilities in eastern Massachusetts. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Historically, the Commonwealth has provided financial support of the MBTA through guaranties of the debt service on its bonds and notes, contract assistance equal to 90% of the debt service on outstanding MBTA bonds and payment of its net cost of service (current expenses, including debt service and lease obligations that are not otherwise provided for, minus current income). The MBTA's net cost of service has been financed by the issuance of short-term notes by the MBTA and by cash advances from the Commonwealth. The Commonwealth has then assessed the net cost of service in arrears on the cities and towns in the MBTA territory after deducting certain contract assistance appropriated in the state budget. Because Proposition 2½, as amended, has generally limited the increase in local assessments from one year to the next to 2.5% of the prior year's assessment, the portion of the MBTA's net cost of service that has ultimately been paid from state appropriations has grown substantially. Additionally, this practice has resulted in substantial cash subsidies paid out by the Commonwealth well in advance of appropriations to fund them.

On November 16, 1999, the Governor approved legislation, enacted as part of the fiscal 2000 budget, containing "forward funding" provisions for the MBTA and rewriting the MBTA's enabling act. Under the new enabling act, which will take effect on July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service will be limited to a portion of the revenues raised by the Commonwealth's sales tax, to be funded from existing sales tax receipts. The sales tax amount, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, will be dedicated to the MBTA under a trust fund mechanism that will not permit future legislatures to divert the funds. The dedicated revenue stream will be disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's current debt service contract assistance obligations relating to MBTA debt and to meet the MBTA's other operating and debt service needs. The Commonwealth will not be liable to pay the MBTA's net cost of service, nor will the Commonwealth be liable for debt service contract assistance on MBTA bonds issued after June 30, 2000.

To retire the MBTA's outstanding operating notes (\$165 million due February 25, 2000 and \$160 million due September 1, 2000) and to finance cash advances on account of the MBTA's net cost of service for calendar year 1999 and the first six months of calendar year 2000, the legislation authorizes the Commonwealth to issue up to \$800 million in general obligation bonds. The legislation also directs the Comptroller to transfer as of June 30, 2000 from the Highway Capital Projects Fund to the General Fund an amount equal to the total outstanding amount advanced by the Commonwealth to the MBTA and to establish by March 1, 2000 a 20-year level-funded schedule of payments projected to fully amortize by July 1, 2020 the liability in the Highway Capital Projects Fund created by the foregoing transfer. The Commonwealth's GAAP basis year-end balance sheet for fiscal 1999 contains a \$477.2 million accrual for MBTA net cost of service subsidies not yet appropriated. The ultimate cost of "forward funding" the MBTA will not be determined until the Commonwealth and the MBTA release their respective financial statements for fiscal 2000 and may be greater than the amount of the aforementioned accrual and note payments.

The new enabling act expands the number of cities and towns required to pay annual assessments to the MBTA, but reduces the aggregate amount of assessments to approximately \$136 million, to be phased in over five years. After the phase-in, aggregate assessments will be adjusted annually for inflation but will not be permitted to increase by more than 2.5% per year. The legislation provides that in order to draw down dedicated sales tax

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

MBTA operating expenses (total expenses less debt service) for fiscal years 1995, 1996, 1997, 1998 and 1999 were approximately \$516.1 million, \$494.5 million, \$520.5 million, \$550.8 million and \$610.5 million, respectively, and are estimated to be approximately \$623.4 million for fiscal 2000. In light of major capital expenditures during recent years, MBTA debt service costs have increased steadily. MBTA debt service expenses for fiscal years 1995, 1996, 1997, 1998 and 1999 were approximately \$233.3 million, \$258.1 million, \$279.7 million, \$301.1 million and \$310.8 million, respectively, and are estimated to be \$326.8 million for fiscal 2000.

Under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1995 through December 31, 1999 (estimated) and for the six months ended June, 2000 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 debt service contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

**MBTA Net Cost of Service Assessments  
(in millions)**

<u>Year Ended December 31</u>	<u>Cost of Service in Excess Of Income</u>	<u>Less: Federal Operating Assistance</u>	<u>Less: Section 28 Contract Assistance (1)</u>	<u>Less: Additional Contract Assistance and Other State Assistance(2)</u>	<u>Subtotal</u>	<u>Interest And Other Charges (3)</u>	<u>Amount Assessed Or to be Assessed</u>
1995	\$585.7	\$13.4	\$208.7	\$240.8	\$122.8	\$11.5	\$134.3
1996	599.6	8.1	237.7	229.2	124.6	13.0	137.6
1997	628.5	7.1	253.2	239.9	128.2	12.8	141.1
1998	674.4	6.1	264.6	271.2	132.6	12.0	144.6
1999 (est.)	745.8	6.5	270.9	335.8	132.6	12.0	144.6

Source: Massachusetts Bay Transportation Authority.

- (1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
- (2) Additional contract assistance and other state assistance provided by the Commonwealth.
- (3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of \$25,000 in each year.

## **Other Programs**

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on other programs and services. A large share of the projected fiscal 2000 spending in this category, \$3.138 billion, consists of spending on human services programs other than Medicaid and public assistance, detailed earlier. This other human services spending for fiscal 2000 includes expenditures for the Department of Mental Retardation (\$857.7 million), Department of Mental Health (\$574.6 million), Department of Social Services (\$539.4 million), Department of Public Health (\$496.0 million) and other human services programs (\$671.1 million). The remaining \$3.936 billion in projected expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary (\$557.7 million), District Attorneys (\$71.8 million) and the Attorney General (\$29.7 million) and for the Executive Offices for Administration and Finance (\$671.9 million), Environmental Affairs (\$233.5 million), Transportation and Construction (\$160.0 million), Public Safety (\$857.3 million) and Elder Affairs (\$163.8 million) and the Department of Housing and Community Development (\$140.0 million).

## **State Workforce**

As of December 25, 1999, the Commonwealth had approximately 71,350 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 365 seasonal FTEs or 111 members of boards and commissions. Approximately 56,472 of these FTEs work in executive branch agencies (including the Commonwealth's state and community colleges and the University of Massachusetts) under the control of the Governor, while the others work in the Legislature, the Judiciary and other entities constitutionally or legally independent of the Governor (such as the offices of the State Treasurer, State Secretary, State Auditor and Attorney General). During fiscal 1999, approximately \$3.1 billion was expended for salaries for state employees funded through the annual operating budget. Between January, 1991 and December, 1999, the size of the standard workforce funded through the annual operating budget was reduced by approximately 844 FTE positions, or 1.2%. Starting in fiscal 1998, certain of the Commonwealth's county governments have been abolished and their sheriffs' departments and deeds registries have become state agencies independent of the Governor. As of December 25, 1999, there were approximately 3,097 FTEs in these agencies. Without the staff of these former county agencies, the net reduction in the state workforce between January, 1991 and December, 1999 would have been approximately 3,941, or 5.5%. Between January, 1991 and December, 1999, the net workforce reduction in agencies under the control of the Governor, including the university and colleges, was approximately 6,372, or 10.1%.

### Budget-Funded Standard Workforce (1)

	<u>June 1988</u>	<u>January 1991</u>	<u>June 1994</u>	<u>December 1999</u>
Executive Office	105	63	88	84
State Comptroller	119	101	103	105
<b>Executive Departments</b>				
Administration and Finance (2)	4,434	3,985	3,412	3,147
Environmental Affairs (3)	3,319	3,019	2,229	2,497
Communities and Development	182	123	108	--
Health and Human Services	38,665	35,441	23,610	23,163
Transportation & Construction	3,146	2,565	1,389	1,268
Library Commissioners	19	14	14	19
Labor and Workforce Development	--	--	--	388
Housing and Community Development	--	--	--	114
Economic Development	--	--	--	88
Consumer Affairs	--	--	--	697
Educational Affairs	--	--	15	--
Department of Education	468	348	195	271
Higher Education	14,654	13,084	13,130	15,179
Public Safety	3,405	2,833	8,827	9,419
Economic Affairs	97	64	99	--
Elder Affairs	60	35	30	35
Consumer Affairs	755	725	614	--
Energy Resources	66	--	--	--
Labor	<u>464</u>	<u>443</u>	<u>390</u>	<u>--</u>
Subtotal under Governor's authority	69,958	62,844	54,255	56,472
Judiciary	6,157	5,856	5,861	7,753
Other (4)	<u>4,224</u>	<u>3,494</u>	<u>3,693</u>	<u>7,125</u>
<b>Total</b>	<u>80,339</u>	<u>72,194</u>	<u>63,809</u>	<u>71,350</u>

SOURCE: Executive Office for Administration and Finance.

- (1) The budget-funded standard workforce 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 filled positions (FTEs), not individual employees as of December 25, 1999. Totals may not add due to rounding.
- (2) Administration and Finance includes the Disabled Persons Protection Commission until 1999.
- (3) Environmental Affairs includes the Low-Level Radioactive Waste Management Board.
- (4) Other includes staff of the Legislature and Executive Council, the offices of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent of the Governor; it excludes elected members of the Legislature and Executive Council, starting in 1998, it also includes the offices of several former county sheriffs which have become state agencies.

In addition to the standard workforce funded by annual operating budget appropriations, as of December 25, 1999, the Commonwealth had approximately 13,331 FTEs whose positions are established in accounts funded from capital projects funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 500 FTEs in the off-seasons to over 2,000 FTEs in mid-summer.

#### Union Organization and Labor Negotiations

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

In most cases, the Trial Court, Lottery Commission and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by higher education management and the Lottery Commission are subject to the review of the Governor and to funding approval by the Legislature. This also applies to collective bargaining involving employees of the Commonwealth's county governments. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 42,135 executive branch full-time-equivalent state employees are organized in twelve bargaining units, the employees of the Commonwealth's colleges and universities are organized in 30 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

In December, 1999, the Commonwealth reached an agreement with the Massachusetts Organization of State Engineers and Scientists (MOSES) for a three year contract which commenced on January 1, 2000 and ends on December 31, 2002. The agreement provides for increases in health and welfare contributions and reimbursement for employee meals. The agreement also provides for salary increases of 3% effective January 2, 2000, 3% effective January 7, 2001 and 2.5% effective January 6, 2002. The contract also contains an additional step increase of 2%. The total estimated cost of the agreement is \$22.5 million.

In November, 1999, the Commonwealth reached agreement with the Alliance, Unit 2, (the American Federation of State, County and Municipal Employees and the Service Employees International Union) representing employees in Unit 2 for a three-year contract commencing January 1, 2000 and ending December 31, 2002. The agreement calls for salary increases of 2% effective January 2, 2000, 2% effective July 2, 2000, 3% effective January 7, 2001, 2.5% effective July 1, 2001 and 0.5% effective July 7, 2002. The agreement also provides for increases in shift differentials and mileage reimbursements as well as a 1% bonus effective January 2, 2000. In addition, the agreement provides for 2% step effective January 7, 2001. The total estimated cost of the agreement is \$109.7 million.

In October, 1999, the Commonwealth reached an agreement with the National Association of Government Employees representing Units 1, 3 and 6 for a three-year contract beginning July 1, 2000 and terminating June 30, 2003. The agreements provide for salary increases of 3% effective January 7, 2001, 3% effective July 1, 2001, and 3% effective July 7, 2002. The agreements also call for an increase in health and welfare contributions effective July 1, 2002 and two 2% steps effective January 6, 2002 and January 5, 2003. The total estimated cost of the agreements is \$95.4 million.

In December, 1999, the Commonwealth reached an agreement with the State Police Association of Massachusetts, representing Unit 5A, for a three-year contract beginning January 1, 2000 and terminating December 31, 2002. The agreement called for salary increases of 2% effective January 2, 2000, 2% effective January 7, 2001, and 2% effective January 6, 2002. Employees are also eligible for a 1% increase for completion of the Department's Physical Fitness Program; a 1% increase for completion of the Department's Firearms Qualification Program; and a 1% increase for completion of the Department's Cruiser Safety Program during each year of the contract. The total estimated cost of this agreement is \$50.0 million.

On July 23, 1998, the Commonwealth signed an agreement with the Massachusetts Nurses Association, representing employees in Bargaining Unit 7, for a three-year period beginning July 1, 1997 and terminating June 30, 2000. The agreement provided for salary increases of 3% effective July 6, 1997, 3% effective July 5, 1998, and 3% effective July 4, 1999. Also included were two one-time bonus payments, of 3.5% effective July 6, 1997 and 3% effective July 5, 1998. The agreement's estimated cost is \$27.8 million through fiscal 2000.

In October, 1998, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union, representing Unit 4, for a three-year contract beginning January 1, 1998, and terminating December 31, 2000. The agreement provides for salary increases of 3.5% effective January 4, 1998, 3.5% effective January 2, 1999 and 3% effective January 2, 2000. Also, a new step worth 2.5% was added to the salary schedule effective July 5, 1998, and another new step, also worth 2.5%, was added effective July 4, 1999. Additionally, increases were made in health and welfare contributions and Transitional Career Award (longevity) pay. The total estimated cost of the agreement is \$77.2 million through fiscal 2001.

In January, 1999, the Commonwealth reached an agreement with the Coalition of Public Safety ("COPS") for a three-year contract beginning July 1, 1998 and terminating June 30, 2001. The agreement provides for salary increases of 3% effective July 5, 1998, 3% effective July 4, 1999 and 3% effective July 3, 2000. The agreement also includes the establishment of a new Step 6 (2%) effective June 30, 2000 and a new Step 7 (2%) effective June 30, 2001. Fringe benefit increases are provided for health and welfare benefits and educational incentive pay. The total estimated cost of the agreement is \$7.5 million through fiscal 2001.

In February, 1999, the Commonwealth signed an Agreement with the Alliance for a two-year contract commencing July 1, 1999 and ending June 30, 2001, covering employees in Units 8 and 10. The agreement provides for a total of 7% in across the board wage increases, with a 2% increase effective July 4, 1999; a 2% increase effective January 2, 2000; and a 3% increase effective January 7, 2001. Additionally, increases were made to employee dental and vision plans and for employee career ladder training. The total estimated cost of the agreement is \$29.4 million through fiscal 2001.

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

### Human Resources Division Bargaining Units(1)(2)

<u>Contract Unit</u>	<u>Bargaining Union</u>	<u>Type of Employee</u>	FTEs	<u>Expiration Dates</u>
1	National Association of Government Employees	Clerical	4,630	6/30/01
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,283	12/31/02
3	National Association of Government Employees	Skilled trades	790	6/30/01
4	Massachusetts Correction Officers Federated Union	Corrections	4,137	12/31/00
5	Coalition of Public Safety	Law enforcement	345	6/30/01
5A	State Police Association of Massachusetts	State Police	1,757	12/31/02
6	National Association of Government Employees	Administrative professionals	7,178	6/30/01
7	Massachusetts Nurses Association	Health professionals	1,937	6/30/00
8	Alliance/Service Employees International Union	Social workers	7,416	6/30/00
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,857	12/31/02
10	Alliance/Service Employees International Union	Secondary education	596	6/30/01
	Corrections Captains(3)	Corrections	<u>70</u>	
TOTAL			<u>41,996</u>	

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of December 25, 1999, whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants, and expendable trusts and other non-appropriated funds).
- (3) Unit designation yet to be determined.

### COMMONWEALTH CAPITAL SPENDING

The Commonwealth finances capital expenditures from a variety of sources, including general obligation bonds and special obligation (gas tax and convention center) bonds issued by the state and federal reimbursements. As a result of the Central Artery/Ted Williams Tunnel Project, certain additional funding sources have been developed, including specified contributions from independent authorities and the issuance of bonds to be repaid from future federal reimbursements. In addition, at the end of the last three fiscal years, the Commonwealth has set aside surplus operating revenues to supplement capital spending. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*" and "FINANCIAL RESULTS – Selected Financial Data –Statutory Basis."

## Five-Year Capital Spending Plan

Since fiscal 1992 the Executive Office for Administration and Finance has maintained a five-year capital spending plan, including an annual administrative limit on the amount of capital spending to be financed by bonds issued by the state. In fiscal 1992 the annual limit was set at approximately \$825 million. During fiscal 1995 the limit was raised to approximately \$900 million and during fiscal 1998 to approximately \$1.0 billion. Actual bond-financed capital expenditures during fiscal years 1995, 1996, 1997, 1998 and 1999 were approximately million, \$902 million, \$908 million, \$955 billion, \$1.0 billion and \$1.0 billion, respectively. The fiscal 1999 figure does not include approximately \$26 million of bond-funded expenditures not counted against the annual limit because of their relationship to a debt defeasance transaction. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Cash Defeasance." The current plan is set forth in the table below and contains current estimates of capital spending of the Commonwealth as well as the projected sources of funding for such capital spending, including federal aid, for fiscal years 2000 through 2004. Capital spending for fiscal years 2000 through 2004 to be financed from debt issued by the state is forecast at \$5 billion, which includes both general obligation bonds and state gas tax bonds, and which is significantly below legislatively authorized capital spending levels. The five-year capital plan contemplates that the projected level of Commonwealth capital spending will leverage approximately \$2.301 billion in federal highway funding. See "Federal Highway Funding" below.

The following table sets forth the Commonwealth's current five-year capital plan. The table assumes that all bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan governs bond-funded expenditures and does not, therefore, include expenditures from the Capital Investment Trust Fund or the Capital Improvement and Investment Trust Fund (see "FINANCIAL RESULTS – Selected Financial Data–Statutory Basis") or capital expenditures from any potential year-end surplus (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*"). Prior to the enactment in November, 1999 of legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth's five-year capital plan also incorporated the MBTA's capital plan because of the Commonwealth's responsibility for paying debt service on the MBTA's bonds. In recent years the MBTA's capital plan has called for expenditures of approximately \$500 million per year, funded by approximately \$300 million of MBTA bonds and approximately \$200 million of federal transit aid. Effective July 1, 2000 Commonwealth support for the MBTA will be limited to a portion of the state sales tax, although the Commonwealth will remain contingently liable for MBTA bonds issued prior to July 1, 2000. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."



**Summary of Five-Year Capital Spending Plan and Plan of Finance  
(in millions)(1)**

<b>USES:</b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>Total</u></b>
<b>Category</b>						
Information Technology	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 245
Infrastructure	217	202	202	202	202	1,023
Environment	139	104	104	104	104	555
Wastewater Treatment	3	11	11	8	8	41
Housing	71	72	72	72	71	356
Transportation						
Central Artery/ Tunnel Project	1,635	1,775	951	559	357	5,307
All Other	<u>579</u>	<u>632</u>	<u>596</u>	<u>572</u>	<u>605</u>	<u>2,984</u>
Transportation Subtotal	2,214	2,407	1,168	909	807	6,925
Public Safety	14	9	9	9	9	50
Economic Development	<u>42</u>	<u>40</u>	<u>40</u>	<u>132</u>	<u>173</u>	<u>429</u>
<b>Total Uses</b>	<b><u>\$ 2,749</u></b>	<b><u>\$ 2,893</u></b>	<b><u>\$ 2,034</u></b>	<b><u>\$ 1,706</u></b>	<b><u>\$ 1,577</u></b>	<b><u>\$ 10,960</u></b>
<b>SOURCES:</b>						
<b>Category</b>						
Commonwealth Long Term Debt	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 5,000
Commonwealth Notes (2)	0	51	21	0	0	72
Additional Debt Capacity (3)	188	73	35	21	17	334
Third Party-Supported Expenditures	492	104	0	11	18	626
Grant Anticipation Notes	489	304	0	0	0	793
Federal Aid	579	781	599	452	387	2,799
Additional Sources Required(4)	<u>0</u>	<u>580</u>	<u>379</u>	<u>222</u>	<u>155</u>	<u>1,366</u>
<b>Total Sources</b>	<b><u>\$ 2,749</u></b>	<b><u>\$ 2,893</u></b>	<b><u>\$ 2,034</u></b>	<b><u>\$ 1,706</u></b>	<b><u>\$ 1,577</u></b>	<b><u>\$ 10,960</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding
- (2) Fiscal 2001 figure includes \$45 million in anticipated pay-as-you-go funding and interest earnings thereon consistent with a supplemental budget filed by the Governor on January 26, 2000.
- (3) See "COMMONWEALTH BOND AND NOTE LIABILITIES - Cash Defeasance."
- (4) See "Central Artery/Ted Williams Tunnel Project; Revised cost estimates."

Beginning in July, 1998, the responsibility for monitoring the five-year capital plan was transferred from the Executive Office for Administration and Finance to the Fiscal Affairs Division within the Executive Office. The Fiscal Affairs Division regularly reviews its five-year capital spending plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. Due to the size and complexity of the Commonwealth's capital program and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

### **Federal Highway Funding**

On June 9, 1998, the President approved the Transportation Equity Act for the 21<sup>st</sup> Century ("TEA-21"), successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991. Technical corrections to TEA-21 were approved by the President on July 22, 1998. TEA-21, as amended, clarifies the amount of federal highway aid the Commonwealth can expect to receive through federal fiscal year 2003. (Federal fiscal years end on September 30.) According to the Federal Highway Administration, Commonwealth apportionments for those years are as follows: \$642.9 million in federal fiscal year 1998, \$497.9 million in federal fiscal year 1999, \$537.2 million in federal fiscal year 2000, \$518.1 million in federal fiscal year 2001, \$529.2 million in federal fiscal year 2002 and \$538.2 million in federal fiscal year 2003. As a result of the annual Congressional appropriations process, it is likely that the Commonwealth will receive an annual obligation authority ceiling at the outset of each year that is less than

100% of the estimated apportionments during the six-year life of the legislation. ("Obligation authority" is the amount of federal funds that a state can obligate in a given federal fiscal year.) Additional funding may be available at the end of each federal fiscal year through Federal Highway Administration redistributions of unused obligation authority from states unable to use their full amount to those states with the greatest need. For federal fiscal year 1998, the amount of obligation authority that the Commonwealth actually received was approximately \$592.0 million, including redistribution. On November 16, 1998, the Commonwealth received an obligation authority amount of \$434.6 million for federal fiscal year 1999. An additional \$100 million was appropriated in the federal fiscal 1999 Omnibus Appropriations Act for transportation projects in the Commonwealth. Approximately \$71 million of these funds will be available for the Central Artery/Ted Williams Tunnel project, with the remainder being used to fund the statewide road and bridge program.

For financial planning purposes in the project finance plans for the Central Artery/Ted Williams Tunnel project, the Federal Highway Administration allows the Commonwealth to assume obligation authority equal to 100% of the annual apportionment, but no redistribution. Accordingly, with regard to this project, the Commonwealth's five-year capital plan assumes federal highway aid equal to 100% of the TEA-21 apportionments for the 2000 fiscal year and beyond. Funding for the 1999 fiscal year is based on available funding of \$438.9 million from TEA-21 and \$100 million from the Omnibus Appropriations Act, and assumes \$12.4 million in Massachusetts redistribution.

The Federal Highway Administration has provided revised estimates of Commonwealth apportionments for federal fiscal years 2000 to 2003, inclusive, under TEA-21. The revised estimate for fiscal year 2000 takes into account a provision in TEA-21 that establishes a budgetary "firewall" between Federal Highway Trust Fund receipts and other discretionary domestic programs. Under this provision, future program authorizations will be based upon actual changes to Federal Highway Fund receipts. The first year of implementation will be federal fiscal year 2000, when the "revenue aligned budget authority," as it is called in TEA-21, will be \$1.456 billion, based on federal fiscal year 1998 receipts. The current estimates of Commonwealth apportionments for federal fiscal years 2000 to 2003, inclusive, are \$537.2 million (including \$22.6 million in revenue aligned budget authority), \$518.1 million, \$529.2 million and \$538.2 million, respectively.

### **Central Artery/Ted Williams Tunnel Project**

The largest single component of the Commonwealth's capital program currently is the Central Artery/Ted Williams Tunnel project, a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north. As described below, the magnitude of the Central Artery/Ted Williams Tunnel project has resulted in the realignment of certain transportation assets in the Commonwealth and the development of additional financing mechanisms to support its completion, including payments from the Massachusetts Turnpike Authority and the Massachusetts Port Authority and state borrowings in anticipation of future federal highway reimbursements. The completed project will be owned and operated by the Massachusetts Turnpike Authority as part of the Metropolitan Highway System which was established in conjunction with the project.

*Revised cost estimates.* On February 1, 2000, the Massachusetts Turnpike Authority revised upward by \$1.398 billion its estimate of the total expenditures expected to be required to complete the project. The Turnpike Authority characterized this revision as preliminary and subject to further review but expressed confidence that the estimate of total expenditures should not be expected to increase further, so long as unanticipated funding delays or other events beyond the scope of the review do not occur. Cash outlays from fiscal 2000 through the completion of the project are now projected to be approximately \$5.388 billion rather than the previous projection of approximately \$3.990 billion. According to the revised estimate, by the time of the project's completion, the project is expected to have required expenditures totaling approximately \$13.1 billion, excluding insurance reimbursements and proceeds from real estate dispositions related to the project that will be received after project completion.

The revised estimates result from an ongoing review of the project by the Turnpike Authority. The Turnpike Authority has engaged outside consultants to undertake an independent assessment of its preliminary findings. The Turnpike Authority expects to finalize its estimate of the cost to complete the project promptly over

the next several months. According to the Turnpike Authority, the \$1.4 billion in current estimated additional project costs is attributable to a number of factors, including an anticipated \$300 million of change orders related to existing contracts, \$315 million in increased estimates for contracts yet to be awarded, \$300 million in additional costs required to maintain the project's scheduled milestones and completion date in 2004, \$260 million for additional project management expenses, \$90 million in previously unanticipated expenses related to utility, transportation and other service contracts, \$72 million in additional right-of-way acquisition costs and \$60 million for additional design services.

In a letter dated February 2, 2000, the Massachusetts Division Administrator of the Federal Highway Administration requested the Turnpike Authority to submit to him as soon as possible, but not later than March 15, 2000, information that details the additional \$1.4 billion in costs, identifies the planned funding sources and demonstrates continued positive annual cash flow ability for each of the remaining years of the project. The letter noted that the ability of the Federal Highway Administration to continue to grant required approvals relating to federal funding of the project would depend on the submission of such information by such date. In a report issued February 10, 2000, the Office of Inspector General of the U. S. Department of Transportation stated that there was a potential for construction costs related to the project to increase by \$942 million over the cost estimates that had been reported by the Turnpike Authority prior to its February 1, 2000 announcement of the \$1.4 billion upward revision in cost estimates. The report contained recommendations generally consistent with the request for information made on February 2, 2000 by the Federal Highway Administration and also contained additional recommendations, including that the Federal Highway Administration should perform an independent validation of all project status and cost data.

On February 17, 2000 the Secretary of the U. S. Department of Transportation announced that he had approved an action plan provided by the Federal Highway Administrator to enhance federal oversight of the project. The plan includes implementation of all of the recommendations proposed in the Inspector General's report, the withholding of further "advance construction" approvals of the eligibility of project segments for federal highway aid until the Federal Highway Administration has approved a new finance plan reflecting the higher costs and revenue sources for completing the project, an evaluation of whether the Federal Highway Administration should freeze all federal-aid obligation authority until it has determined the soundness of the new finance plan and the establishment of a task force to conduct a complete review of Federal Highway Administration oversight processes. The Secretary also indicated that he intends to use his project approval authority to ensure that the Commonwealth maintain the allocation of federal-aid funds to its statewide road and bridge program in the proportions previously agreed upon with the federal government (71% for the Central Artery/Ted Williams Tunnel project and 29% for other projects through 2002 and a 50/50 split thereafter).

Based on the Turnpike Authority's revised estimate, the project's remaining cost is now estimated to total approximately \$5.4 billion through completion, including fiscal year 2000. The project's cash requirements for fiscal 2001 are approximately \$1.817 billion, some \$580 million higher than previously estimated. The remaining additional \$818 million in increased costs are anticipated to occur as follows: \$379 million in fiscal 2002, \$222 million in fiscal 2003, \$155 million in fiscal 2004 and \$62 million in fiscal 2005.

*Proposed plan.* On February 15, 2000 the Secretary of Administration and Finance proposed a revised project finance plan identifying the means of raising additional funding of \$1.460 billion for project costs. The plan calls for the use of \$660 million of Turnpike Authority resources as follows: \$200 million in accumulated cash reserves, \$60 million in cash from the acceleration of certain planned toll increases (from January 1, 2002 to January 1, 2001), \$250 million from proceeds of additional Turnpike Authority revenue bonds (with \$150 million principal amount maturing over 40 years and \$100 million principal amount maturing in 41 to 50 years) and approximately \$150 million from liquidation in 2001 of an insurance trust fund related to the project, which would be replaced by a new risk transfer insurance policy. The plan also calls for \$600 million in new Turnpike Authority bonds to be payable from \$48 million annual appropriations from the Commonwealth's Highway Fund, \$50 million from the Massachusetts Port Authority and \$150 million from federal grant anticipation notes in addition to the \$1.5 billion of such notes previously contemplated. The proceeds of certain Turnpike Authority real estate dispositions and other potential Turnpike Authority revenues anticipated in future years are to be used to reimburse the Commonwealth for its annual Highway Fund debt service appropriations. Much of the plan will require legislative approval, and the Legislature may revise the plan in whole or in part in the course of its deliberations. The payments called for from the Port Authority are subject to further discussions with the Port Authority.

*Massachusetts Turnpike Authority payments.* Legislation enacted in 1995 transferred the Ted Williams Tunnel to the Turnpike Authority, and legislation enacted in 1997, following a year-long feasibility study overseen by state transportation officials, established two "cost centers" within the Turnpike Authority: a western cost center extending from the Massachusetts/New York border to Route 128 and a new Metropolitan Highway System, including the Massachusetts turnpike from Route 128 eastward, the Central Artery portion of Interstate 93 and the Ted Williams, Sumner and Callahan Tunnels under Boston harbor. Pursuant to the 1997 legislation, oversight of project construction was transferred from the Massachusetts Highway Department to the Turnpike Authority in July of that year. By leveraging its assets in the Metropolitan Highway System, the Turnpike Authority has been able to make substantial capital contributions totaling \$1.255 billion to the cost of the project. Pursuant to the current memorandum of understanding dated February 19, 1999 among the Executive Office of Transportation and Construction, the Executive Office for Administration and Finance and the Turnpike Authority, a final additional payment of \$100 million is to be made by June 30, 2000. As noted above, the financing plan announced by the Secretary of Administration and Finance on February 15, 2000 calls for additional payments from the Turnpike Authority.

*Massachusetts Port Authority payments.* Pursuant to a roadway transfer agreement dated March 23, 1999 and effective May 25, 1999 among the Massachusetts Port Authority, the Massachusetts Turnpike Authority and the Massachusetts Highway Department, the Port Authority has agreed to make payments totaling \$300 million for the acquisition of certain roadways related to Logan International Airport. Such payments have been made in the aggregate amount of approximately \$95.1 million; the agreement calls for additional payments of approximately \$104.9 million in fiscal 2003, \$50 million in fiscal 2004 and \$50 million in fiscal 2005. The Commonwealth is authorized to issue general obligation notes in anticipation of future payments from the Port Authority and expects to do so. As noted above, the financing plan announced by the Secretary of Administration and Finance on February 15, 2000 calls for additional payments from the Port Authority totaling \$50 million.

*Federal grant anticipation notes.* Legislation enacted in 1997 and 1998 authorizes the Commonwealth to issue \$1.5 billion of grant anticipation notes in anticipation of future federal highway reimbursements. To date, the Commonwealth has issued approximately \$900 million of such notes. As noted above, the financing plan announced by the Secretary of Administration and Finance on February 15, 2000 calls for the issuance of an aggregate total of \$1.65 billion of grant anticipation notes. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

*Project cash flow.* In determining the appropriate levels of financing contained in the Commonwealth's overall five-year capital spending plan, the Executive Office for Administration and Finance has considered the cash flow needs required to fund the Central Artery/Ted Williams Tunnel project through completion. The table below provides cash flow projections that are consistent with the five-year plan and extend to fiscal 2005, when the project is expected to be completed. These numbers have been adjusted to reflect revisions in the estimates of federal funding and the additional funding needs of the project as described above, although the funding sources for such additional needs have not yet been identified. The table assumes enactment by late February of certain provisions in the transportation bond bill currently pending in the Senate. See "Proposed Capital Spending Authorizations."

The first table below presents the projected sources and uses of funds for the Central Artery/Ted Williams Tunnel project from fiscal 2000 to fiscal 2005. The second table isolates the use of interim debt. The top half of the second table shows the expected draw-down schedule for note proceeds; the bottom half of the table shows the expected repayment schedule for such notes.

**Central Artery Construction Cash Flow**  
(in thousands)(1)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Totals</u>
<b>Project Construction Uses:</b>	\$ 1,634,890	\$ 1,775,137	\$ 950,693	\$ 558,783	\$ 357,085	\$ 111,492	\$ 5,388,083
<b>Project Construction Sources:</b>							
Federal highway reimbursements(2)	428,200	535,137	401,188	264,927	158,135	26,234	1,813,821
Commonwealth GO Bonds/Notes(3)	225,000	251,328	170,505	61,199	25,887	23,258	757,177
Third Party Contributions and BANS	492,245	104,892	0	10,657	18,063	0	625,858
GANS	489,444	303,780	0	0	0	0	793,224
Additional sources required (4)	0	580,000	379,000	222,000	155,000	62,000	1,398,000
<b>Total Sources</b>	<u>\$ 1,634,890</u>	<u>\$ 1,775,137</u>	<u>\$ 950,693</u>	<u>\$ 558,783</u>	<u>\$ 357,085</u>	<u>\$ 111,492</u>	<u>\$ 5,388,083</u>

SOURCE: Executive Office for Administration and Finance and Massachusetts Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) Assumes TEA-21 apportionment.
- (3) Fiscal 2001 figure includes \$45 million in anticipated pay-as-you-go funding and interest earnings thereon.
- (4) See "Central Artery/Ted Williams Tunnel Project, Proposed plan."

**Interim Debt Schedule**  
(in thousands)(1) (2)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>TOTAL</u>
<b>Issuance (3)</b>													
Federal Grant Anticipation Notes	\$295,124	\$411,653	\$489,444	\$303,780	0	0	0	0	0	0	0	0	\$1,500,000
Notes in anticipation of third-party payments	0	0	162,974	13,192	0	0	0	0	0	0	0	0	176,166
Bond anticipation notes	0	0	0	6,329	\$ 20,505	0	0	0	0	0	0	0	26,833
<b>Total proceeds</b>	<u>\$295,125</u>	<u>\$411,653</u>	<u>\$652,418</u>	<u>\$323,301</u>	<u>\$ 20,505</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$1,703,000</u>
<b>Interim Debt Retirement</b>													
Federal reimbursements	0	0	0	0	0	0	\$183,777	\$269,090	\$269,090	\$269,090	\$269,090	\$239,863	\$1,500,000
Third party payments	0	0	0	0	0	\$ 94,229	31,938	50,000	0	0	0	0	176,166
General obligation bonds	0	0	0	0	0	801	18,113	7,919	0	0	0	0	26,833
<b>Total Retirement</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,030</u>	<u>\$233,828</u>	<u>\$327,009</u>	<u>\$269,090</u>	<u>\$269,090</u>	<u>\$269,090</u>	<u>\$239,863</u>	<u>\$1,703,000</u>

SOURCE: Executive Office for Administration and Finance

- (1) Totals may not add due to rounding.
- (2) Does not reflect proposed plan released by Secretary of Administration and Finance on February 15, 2000. See "Central Artery/Ted Williams Tunnel Project, Proposed plan."
- (3) Dates reflect drawdown schedule of proceeds.

## Historical Capital Spending

The Commonwealth has expended significant sums on an annual basis to undertake capital projects in the state. Expenditures on capital projects have increased from approximately \$2.3 billion in fiscal year 1995 to approximately \$2.7 billion in fiscal year 1999. Transportation related spending constitutes the bulk of the Commonwealth's capital expenditures, accounting for 80% percent of all expenditures over the last five years. The Central Artery/Ted Williams Tunnel project has become the single largest part of the Commonwealth's capital spending, totaling some \$5.6 billion over the last five years, increasing from \$878 million in fiscal year 1995 to \$1.515 billion in fiscal year 1999. The table below sets forth the sources of funds for capital spending in the Commonwealth from fiscal 1995 to fiscal 1999. The table is organized to present the spending in a format consistent with the administration's overall capital plan. The table excludes payments of refunding bond proceeds paid to refunding escrow agents. Interfund transfers within the capital projects funds have also been eliminated. During fiscal 1996 and 1997, activity in the Capital Expenditure Reserve Fund was reported as a special revenue fund. In fiscal year 1998, the fund was reclassified to a capital project fund. Activity in this fund is included in this table for all fiscal years.

The table below assumes that all bonds related to a particular year's expenditures were issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year. Because of recently enacted legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the table does not include expenditures or debt of the MBTA. See "COMMONWEALTH PROGRAMS AND SERVICES - Massachusetts Bay Transportation Authority."

### Commonwealth Capital Expenditures (in millions)(1)

USES:	1995	1996	1997	1998	1999	Total
Information technology	\$ 21	\$ 17	\$ 56	\$ 86	\$ 111	\$ 291
Transportation (2)	1,464	1,438	1,675	1,969	2,029	8,575
Environment	116	118	104	141	132	612
Wastewater treatment	22	20	25	9	7	83
Housing	47	66	62	80	82	337
Public Safety	34	23	21	16	12	106
Infrastructure	98	137	222	237	224	917
Economic development	48	24	64	110	91	337
<b>Total Uses</b>	<u>\$ 1,851</u>	<u>\$ 1,842</u>	<u>\$ 2,230</u>	<u>\$ 2,648</u>	<u>\$ 2,687</u>	<u>\$ 11,259</u>
<b>SOURCES:</b>						
Commonwealth Long Term Debt(3)(4)	\$ 902	\$ 908	\$ 1,055	\$ 1,000	\$ 1,000	\$ 4,865
Grant Anticipation Notes	--	--	--	295	412	707
Additional Debt Capacity(5)	--	--	--	--	26	26
Operating Revenues	--	--	80	159	252	491
Third-Party Payments	--	43	60	405	412	920
Federal Reimbursements	949	890	1,036	788	586	4,250
<b>Total Sources</b>	<u>\$ 1,851</u>	<u>\$ 1,842</u>	<u>\$ 2,230</u>	<u>\$ 2,648</u>	<u>\$ 2,687</u>	<u>\$ 11,259</u>

(1) Totals may not add due to rounding.

(2) Includes Central Artery/Ted Williams Tunnel project spending of \$878 million, \$802 million, \$971 million, \$1.428 billion and \$1.515 billion in fiscal years 1995 through 1999, respectively.

(3) Fiscal 1997 includes \$100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payment was received June 28, 1998.

(4) Fiscal 1998 includes \$19 million for the Worcester Convention Center.

(5) See "COMMONWEALTH BOND AND NOTE LIABILITIES - Cash Defeasance."

Source: Office of the Comptroller. Breakdown of Central Artery/Ted Williams Tunnel project spending: Central Artery/Tunnel Project.

## Proposed Capital Spending Authorizations

On February 12, 1999, Governor Cellucci filed legislation authorizing \$75 million of Commonwealth general obligation bonds for grants to cities and towns to finance the renovation of public libraries. The bill is currently pending before the House Long-Term Debt and Capital Expenditures Committee.

On February 17, 1999, the Governor filed a comprehensive transportation bond bill. The Governor's bill would have authorized approximately \$4.491 billion of transportation-related capital spending to occur over several years, including approximately \$1.623 billion to be funded by federal reimbursements, approximately \$1.806 billion to be funded by Commonwealth general obligation bonds and approximately \$1.062 billion to be funded by MBTA bonds. The bill would also have authorized an additional \$600 million in spending to be funded by federal grant anticipation notes. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes." A portion of the transportation bond bill was released by the Legislature's Transportation Committee on July 26, 1999. After further amendments by the House and Senate, the truncated bill was enacted by the Legislature on August 5, 1999 and approved by the Governor, with certain vetoes, on August 12, 1999. The approved legislation authorized an additional \$450 million in spending to be funded by federal grant anticipation notes. As enacted by the Legislature, the legislation also authorized \$150 million for local road and bridge projects, to be funded by Commonwealth general obligation bonds. The Governor reduced the latter authorization to \$100 million, but on September 29, 1999 the Legislature overrode the reduction. On October 22, 1999 the Transportation Committee released in amended form the remainder of the bill filed by the Governor, and on November 10, 1999 the House approved the bill with further amendments. As approved by the House, the bill would provide for approximately \$3.230 billion of capital spending, to be funded by approximately \$1.606 billion of Commonwealth general obligation bonds and approximately \$1.623 billion of federal highway grants. The House bill included an additional \$150 million spending authorization associated with the federal grant anticipation notes. On February 15, 2000 the Senate Committee on Ways and Means approved an amended form of the House bill. The Senate Ways and Means Committee bill would provide for approximately \$1.847 billion of capital spending, to be funded by approximately \$1.321 billion of Commonwealth general obligation bonds and approximately \$526.4 million of federal highway grants. The Senate committee bill does not include additional spending authorizations related to federal grant anticipation notes. Most of the difference in spending authorizations between the House bill and the Senate Ways and Means Committee bill relates to proposed spending for the Central Artery/Ted Williams Tunnel project, for which the Senate bill would appropriate only \$200 million. The Senate bill would also require the Governor to submit to the Legislature by March 15, 2000 a comprehensive finance plan for the Central Artery/Ted Williams Tunnel project that includes \$400 million in annual spending for other road and bridge projects throughout the state. Based on the level of spending contained in the Senate Ways and Means Committee bill, the project may face delays and additional costs by mid-April, 2000.

On March 8, 1999, the Governor filed legislation which would authorize \$126 million of Commonwealth general obligation bonds for the purpose of preserving and maintaining certain real property assets of the Commonwealth. On June 23, 1999, the bill was reported favorably by the Long-Term Debt Committee and is now being considered by the House Committee on Ways and Means.

On May 24, 1999, the Governor filed an environmental bond bill. This bill would authorize \$247 million in general obligation bonds, including \$124 million for maintenance and repairs of state forests and parks, recreational facilities, dams and other environmental assets, \$45 million for acquisition and improvement of watershed areas, \$16 million for environmental remediation at the Metropolitan District Commission, \$32 million for agricultural preservation and \$30 million for eminent domain payments. On February 15, 2000, the House Committee on Long-Term Debt and Capital Expenditures released its version of the bill, which would authorize \$116.8 million in general obligation bonds, including \$30 million for eminent domain takings and associated costs. The remaining items in the bill were reduced to reflect two years of authorization instead of the five years proposed by the Governor. The bill would also deauthorize a like amount of bonds related to environmental purposes.

On July 19, 1999 Governor Cellucci re-filed legislation that had been filed by Governor Weld in June, 1997 that would authorize \$10 million of Commonwealth general obligation bonds to finance design costs related to planned renovations to the Saltonstall State Office Building, a 30-year-old, 775,669-square foot building located in

downtown Boston. Under the legislation, the renovations themselves would be financed by the issuance by the Massachusetts Development Finance Agency of up to \$100 million of lease revenue bonds; the Commonwealth would convey the building to the Agency and lease it back under a financing structure similar to that used for the Massachusetts Information Technology Center. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Indirect Obligations; *City of Chelsea Commonwealth Lease Revenue Bonds*." Pursuant to legislation approved by the Governor on September 2, 1999, the Commonwealth is currently considering proposals from developers to renovate the Saltonstall Building. Based on these proposals, the Secretary of Administration and Finance will recommend a renovation plan and authorizing legislation to the Legislature. Office workers are currently being relocated in anticipation of legislative authorization to perform the renovation.

It is the plan of the Executive Office for Administration and Finance to approve expenditures from all pertinent general obligation bond authorizations in a manner consistent with the five-year capital spending plan.



## COMMONWEALTH BOND AND NOTE LIABILITIES

### Overview

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

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

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

*Other Commonwealth Bond and Note Liabilities.* Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth-supported debt, (b) Commonwealth-guaranteed debt or (c) indirect obligations. Commonwealth-supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the Massachusetts Bay Transportation Authority (including the Boston Metropolitan District), the Steamship Authority and certain regional transit authorities, the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank), the Massachusetts Water Pollution Abatement Trust and the Foxborough Industrial Development Financing Authority. Because of recent legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth will, beginning in fiscal 2001, no longer make direct debt service payments on the MBTA's bonds, but the Commonwealth will remain obligated to pay such debt service if the MBTA cannot. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." Commonwealth-guaranteed debt consists of certain liabilities arising out of the Commonwealth's guaranties of the bonds of the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. Indirect obligations consist of (i) obligations of the Commonwealth to fund capital reserve funds pledged to certain Massachusetts Housing Finance Agency bonds, (ii) the obligation of the Commonwealth, acting through the Board of Higher Education, to fund debt service, solely from moneys otherwise appropriated for the community colleges, on certain community college program bonds issued by the Massachusetts Health and Educational Facilities Authority, (iii) the obligation of the Commonwealth, acting through the Board of Higher Education, to fund debt service, solely from moneys otherwise appropriated for the state colleges, on certain bonds issued by the Massachusetts State College Building Authority, (iv) the obligation of the Commonwealth, acting through the Executive Office of Public Safety, to fund debt service from amounts appropriated by the Legislature to the Executive Office of Public Safety, on certificates of participation issued to finance the Plymouth County Correctional Facility, (v) the obligation of the Commonwealth to make lease payments from amounts appropriated by the Legislature with respect to the Massachusetts Information Technology Center in the city of Chelsea and (vi) the anticipated obligation of the Commonwealth to make lease payments related to the planned reconstruction of state highway Route 3 North. See "Indirect Obligations." The Commonwealth is also obligated to reimburse the

Massachusetts Turnpike Authority for certain operating and maintenance costs related to roadways acquired by the Turnpike Authority from the Commonwealth. In addition, the Commonwealth has liabilities under certain tax-exempt capital leases. See "OTHER COMMONWEALTH OBLIGATIONS – Long-Term Capital Leases."

*Outstanding Bond and Note Liabilities.* The following table sets forth the Commonwealth bond and note liabilities outstanding as of January 1, 2000.

**Commonwealth Bond and Note Liabilities  
January 1, 2000  
(in thousands)**

	<u>Long-Term</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$ 9,898,527(1)	\$ 175,000 (4)
Special Obligation Debt	585,730	0
Federal Grant Anticipation Notes	<u>921,720(2)</u>	<u>0</u>
Subtotal Commonwealth Debt	11,405,977	175,000
<b>COMMONWEALTH-SUPPORTED DEBT</b>		
Massachusetts Bay Transportation Authority	3,510,915 (3)	325,000 (5)
Massachusetts Convention Center Authority	72,214	0
Massachusetts Development Finance Agency	80,000	0
Boston Metropolitan District	33,471	0
Steamship Authority	47,075	0
Regional Transit Authorities	<u>0</u>	<u>75,106</u>
Subtotal Supported Debt	3,743,675	400,106
<b>COMMONWEALTH-GUARANTEED DEBT</b>		
Higher Education Building Authorities	<u>214,891</u>	<u>0</u>
Subtotal Guaranteed Debt	214,891	0
<b>TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES</b>	<u>\$ 15,364,543</u>	<u>\$ 575,106</u>

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

- (1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See "Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES – Long-Term Capital Leases." Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2000 through their maturity in the amount of \$252.5 million.
- (2) Includes capital appreciation interest on Federal Highway Grant Anticipation Notes accrued from January 1, 2000 through their maturity in the amount of \$46.7 million.
- (3) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations. Because of recent legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth will, beginning in fiscal 2001, no longer make direct debt service payments on the MBTA's bonds, but the Commonwealth will remain obligated to pay such debt service if the MBTA cannot. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."
- (4) Commercial paper issued in December, 1999 as bond anticipation notes; expected to be retired from the proceeds of general obligation bonds to be issued on February 24, 2000.
- (5) Includes \$165 million of notes due February 25, 2000 and \$160 million of notes due September 1, 2000, which are expected to be retired by the Commonwealth from the proceeds of general obligation bonds to be issued on February 24, 2000. In addition, as of February 1, 2000, the MBTA had outstanding \$66 million of commercial paper issued as bond anticipation notes, which is expected to be retired by the MBTA from the proceeds of bonds to be issued during fiscal 2000. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

**Long-Term Bond Liabilities (1)(2)**  
**Commonwealth Debt and Commonwealth -Supported Debt**  
**(in thousands)**

<u>June 30</u>	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Federal Grant Anticipation Notes	Commonwealth Long-Term Debt Subtotal (4)	MBTA Bonds	Other Supported Debt (5)	Total (4)
1995	\$8,614,766	\$618,980	\$394,720	--	\$9,628,466	\$2,399,780	\$273,410	\$12,301,656
1996	9,147,353	382,965	535,260	--	10,065,578	2,283,330	256,916	12,605,824
1997	9,620,633	129,900	520,760	--	10,271,293	3,043,815	223,882	13,538,990
1998	9,872,598	--	606,005	\$ 600,000	11,078,603	3,210,730	275,019	14,564,352
1999	10,301,011	--	585,730	921,720	11,808,461	3,310,915	232,760	15,352,136

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

- (1) Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1995 – \$331.6 million, fiscal 1996 – \$331.4 million; fiscal 1997 – \$198.6 million; fiscal 1998 – \$305.8 million; fiscal 1999 – \$315.4 million.
- (4) Totals may not add due to rounding.
- (5) Includes bonds of the Massachusetts Convention Center Authority, the Steamship Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

*Long-Term Debt Analysis.* The following table sets forth outstanding long-term Commonwealth debt and Commonwealth-supported debt as of the end of the fiscal years indicated and the ratio of such indebtedness to certain economic indicators.

**Long-Term Debt Analysis (1)(2)**  
**Commonwealth Debt and Commonwealth -Supported Debt**  
**(in thousands)**

<u>June 30</u>	Amount (1)(2) (in thousands)	Net of CAB Interest Yet to be Accrued (in thousands)	Per Capita(3)	Ratio to Full Value of Real Estate (4)	Ratio to Personal Income (5)
1995	\$12,301,656	\$11,970,088	\$1,975	3.28%	7.04%
1996	12,605,824	12,284,394	2,018	3.26	6.83
1997	13,538,990	13,340,390	2,180	3.54	6.99
1998	14,564,352	14,258,569	2,331	3.78	7.05
1999	15,552,136	15,252,931	2,470	3.74	7.27

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

- (1) Includes Commonwealth general obligation bonds, dedicated income tax bonds, Special Obligation Bonds, and Federal Grant Anticipation Notes and bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority, the Steamship Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
- (2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See table of "Long-Term Bond Liabilities; footnote 3" above.
- (3) Based on United States Bureau of Census resident population estimates for Massachusetts of 6,060,566 for 1995, 6,085,395 for 1996, 6,117,520 for 1997 and 1998 and 6,175,169 for 1999.
- (4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of \$365.2 billion for 1995, \$377.2 billion for 1996 and 1997, and \$408.2 billion for 1998 and 1999.
- (5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of \$170.1 billion for 1995, \$179.9 billion for 1996, \$190.9 billion for 1997 and \$209.8 billion for 1998.

*Maturities of Short-Term Debt.* The following table sets forth the maturities of the Commonwealth's short-term liabilities outstanding as of January 1, 2000.

**Maturities of Short-Term Liabilities  
January 1, 2000  
(in thousands)**

<u>Year Due</u>	<u>Commonwealth</u>	<u>MBTA</u>	<u>Regional Transit Authorities</u>	<u>Total</u>
Fiscal 2000	\$175,000(1)	\$165,000 (2)	\$ 19,635	\$359,635
Fiscal 2001	--	<u>160,000</u>	<u>55,471</u>	<u>215,471</u>
Total	<u>\$175,000</u>	<u>\$325,000</u>	<u>\$ 75,106</u>	<u>\$575,106</u>

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

(1) Commercial paper with various maturities; expected to be retired from the proceeds of Commonwealth general obligation bonds to be issued on February 24, 2000.

(2) Expected to be retired by the Commonwealth from the proceeds of general obligation bonds to be issued on February 24, 2000.

**General Obligation Debt**

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

*Notes.* The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth currently has liquidity support for a \$600 million commercial paper program for general obligation notes, through a \$200 million letter of credit which expires on October 31, 2000, a \$200 million credit line available through September 27, 2001 and a \$200 million credit line available through September 27, 2002.

*U. Plan.* The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year in a manner appropriate to the purposes of one or more college savings programs. Pursuant to such authorization, the Commonwealth has outstanding approximately \$82.6 million of bonds (not including accreted interest) in conjunction with the Massachusetts College Savings Program (known as the "U. Plan") administered by the Massachusetts Educational Financing Authority. Under the program, such bonds are issued annually on August 1; the Commonwealth issued approximately \$26.1 million of such bonds in 1995, approximately \$19.0 million in 1996, approximately \$19.9 million in 1997, approximately \$17.7 million in 1998 and approximately \$12.9 million in 1999. To facilitate the goals of the program, such bonds bear deferred interest at a variable rate equal to the percentage change in the Consumer Price Index plus 2%, together with current interest at the rate of 0.5%.

*Minibonds.* The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding \$50 million net proceeds per year) in the form of small denomination bonds, or "minibonds," which are redeemable at the option of the holder on any business day prior to maturity (five years or less). The Commonwealth has not issued minibonds since 1990, and all minibonds previously issued have matured.

## Special Obligation Debt

*Highway Fund.* Section 20 of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed \$1.125 billion. As of January 1, 2000, the Commonwealth had outstanding \$585.7 million of such special obligation bonds, including \$14.4 million of such bonds secured by a pledge of 2¢ of the 21¢ motor fuels excise tax and three series of bonds, \$144.8 million (issued in June, 1994), \$135.5 million (issued in March, 1996), and \$291.1 million (issued in October, 1997, of which \$187.4 million were refunding bonds) secured by a pledge of an additional 4.86¢ of the motor fuels excise tax and certain other moneys. The bonds issued in October, 1997 advance refunded a portion of the bonds issued in 1992, such that after June 1, 2002, all outstanding special obligation highway bonds will be secured by a pledge of 6.86¢ of such excise tax.

*Boston Convention and Exhibition Center Fund.* Chapter 152 of the Acts of 1997 authorizes \$676.9 million of special obligation bonds to be issued for the purposes of a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$48.5 million) and the Worcester convention center (\$19 million). The bonds are to be payable from moneys credited to the Boston Convention and Exhibition Center Fund created by legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued.

## Federal Grant Anticipation Notes

The Commonwealth is authorized to issue federal grant anticipation notes to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel project in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The notes are not general obligations of the Commonwealth. The legislation authorizes the issuance of notes yielding aggregate net proceeds of up to \$1.5 billion, to mature no later than June 30, 2015, although the amount of related spending authorizations are currently capped at \$1.35 billion. An additional \$150 million spending authorization is contained in legislation that has been approved by the House of Representatives but is still pending in the Senate Committee on Ways and Means. See "COMMONWEALTH CAPITAL SPENDING – Proposed Capital Spending Authorizations." The Commonwealth has issued grant anticipation notes with a face amount of \$921,720,000, yielding net proceeds of approximately \$900.0 million and maturing between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, which will secure the entire \$1.5 billion program, aggregate annual debt service on grant anticipation notes may not exceed \$216 million. Such notes are secured by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. On February 15, 2000 the Secretary of Administration and Finance announced a revised financing plan for the Central Artery/Ted Williams Tunnel project that included the issuance of \$150 million of federal grant anticipation notes in addition to the \$1.5 billion previously contemplated. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project."

### **Synthetic Fixed Rate Bonds**

In connection with the issuance of certain general obligation bonds that were issued as variable rate bonds, the Commonwealth has entered into interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable rate payment on the related bonds and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty, and the Commonwealth is responsible for making the interest payments to the variable rate bondholders. The effect of the agreements is to fix the Commonwealth's interest payment obligations with respect to the variable rate bonds. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap agreements are terminated. Termination of a swap agreement may also result in the Commonwealth's making or receiving a termination payment. The variable rate bonds associated with such swaps are supported by stand-by bond purchase liquidity facilities with commercial banks which require that the applicable bank purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime rate. In addition, the Commonwealth would be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities expire well before the final maturity date of the related bonds and are expected to be renewed. As of January 1, 2000, the amount of such variable rate bonds outstanding was \$770.8 million.

### **Debt Service Requirements on Commonwealth Bonds**

The following table sets forth, as of January 1, 2000, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement.

**Debt Service Requirements on Commonwealth Bonds**  
**January 1, 2000**  
(in thousands)(1)

Fiscal Year	General Obligation Bonds			Federal Grant Anticipation Notes			Special Obligation Bonds			Total Debt Service Commonwealth Bonds	
	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest		Sub Total
2000	\$206,406	\$31,835	\$210,764	\$449,005	-	\$21,285	\$21,285	\$21,245	\$15,439	\$36,684	\$ 506,974
2001	666,448	14,122	463,540	1,144,110	-	42,570	42,570	22,290	29,830	52,120	1,238,800
2002	600,165	45,416	429,117	1,074,697	-	42,570	42,570	23,415	28,708	52,123	1,169,390
2003	610,480	48,650	399,932	1,059,063	-	42,570	42,570	24,865	27,258	52,123	1,153,757
2004	595,264	68,020	371,136	1,034,421	-	42,570	42,570	26,070	26,051	52,121	1,129,112
2005	661,628	9,338	341,508	1,012,475	-	42,570	42,570	27,370	24,758	52,128	1,107,173
2006	681,448	4,164	308,195	993,808	\$ 73,165	41,733	114,898	28,805	23,315	52,120	1,160,825
2007	694,420	4,588	272,773	971,781	76,785	38,114	114,899	30,350	21,774	52,124	1,138,804
2008	685,761	4,896	238,771	929,428	80,580	34,319	114,899	31,995	20,126	52,121	1,096,448
2009	676,379	5,705	201,779	883,864	84,840	30,061	114,901	33,675	18,444	52,119	1,050,884
2010	608,458	5,344	166,793	780,595	89,160	25,741	114,901	35,335	16,791	52,126	947,622
2011	611,041	5,857	134,322	751,220	93,715	21,180	114,895	37,300	14,829	52,129	918,244
2012	457,237	5,952	101,495	564,684	98,640	16,260	114,900	39,320	12,813	52,133	731,716
2013	458,031	6,742	77,652	542,425	102,985	11,913	114,898	41,470	10,650	52,120	709,443
2014	344,943	4,684	58,819	408,446	108,495	6,405	114,900	37,530	8,369	45,899	569,245
2015	330,190	3,915	41,212	375,317	113,555	1,544	114,899	39,455	6,440	45,895	536,111
2016	292,252	2,604	26,860	321,715	-	-	-	41,530	4,368	45,898	367,613
2017	208,520	1,344	16,102	225,966	-	-	-	43,710	2,186	45,896	271,862
2018	143,862	623	7,811	152,295	-	-	-	-	-	-	152,295
2019	83,724	192	2,322	86,238	-	-	-	-	-	-	86,238
2020 and thereafter	7,855	22	320	8,198	-	-	-	-	-	-	8,198
<b>TOTAL</b>	<b>\$9,624,513</b>	<b>\$274,014</b>	<b>\$3,871,224</b>	<b>\$13,769,751</b>	<b>\$921,720</b>	<b>\$461,404</b>	<b>\$1,383,124</b>	<b>\$585,730</b>	<b>\$312,147</b>	<b>\$897,877</b>	<b>\$16,050,752</b>

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

(1) Totals may not add due to rounding.

## Cash Defeasance

On October 13, 1999, the Commonwealth expended approximately \$400.0 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain existing debt of the Commonwealth. The purchased securities, which included securities issued by the federal government and certain federal agencies, as well as other securities allowed under state finance law, were deposited in an irrevocable trust fund with a third-party trustee. Various Commonwealth general obligation bonds maturing through 2009 were defeased, with an approximate principal amount (maturity amount in the case of capital appreciation bonds) of \$512.6 million. See "FINANCIAL RESULTS – Selected Financial Data – Statutory Basis."

## Statutory Debt Limit on Direct Debt

Legislation enacted in December, 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of \$6.8 billion, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, \$287.2 million of Commonwealth refunding bonds issued in September and October, 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 127 of the Acts of 1999, bonds issued to pay the operating notes issued by the Massachusetts Bay Transportation Authority are not to be counted in computing the amount of the bonds subject to this limit. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." The statutory limit on "direct" bonds during fiscal year 2000 is \$10,549,031,869. The outstanding Commonwealth debt amounts excluded from the limit as of January 1, 2000 are shown in the table below:

### Calculation of the Debt Limit (amount in thousands)

	<u>Bonds Outstanding</u>
Balance as of January 1, 2000	\$11,405,977
Less amounts excluded:	
Discount and issuance costs	(407,593)
Federal grant anticipation notes	(899,991)
Assumed county debt	(2,105)
Chapter 5 of the Acts of 1991 refunding bonds	(114,761)
Special obligation bonds	(582,410)
Outstanding Direct Debt	<u>\$ 9,399,117</u>

SOURCE: Office of the Comptroller.



The following table shows the amount of outstanding "direct" debt of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect and as of January 1, 2000.

**Statutory Debt Limit on Direct Debt  
(in thousands)**

<u>Date</u>	<u>Outstanding Direct Debt</u>	<u>Statutory Limit on Direct Debt</u>
July 1, 1990	\$6,010,063	\$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
July 1, 1995	7,583,823	8,678,715
July 1, 1996	8,094,713	9,112,650
July 1, 1997	8,696,918	9,568,283
July 1, 1998	8,982,072	10,046,697
July 1, 1999	9,248,432	10,549,032
January 1, 2000	9,399,117	10,549,032

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

**Limit on Debt Service Appropriations**

In January, 1990, legislation was enacted to impose a limit on debt service appropriations in Commonwealth budgets beginning in fiscal 1991. The law, which is codified as Section 60B of Chapter 20 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth. The limit did not apply to the Fiscal Recovery Bonds. Section 60B is subject to amendment or repeal by the Legislature at any time and may be superseded in the annual appropriations act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated.

**Debt Service Expenditures  
(in millions)**

<u>Fiscal Year</u>	<u>Debt Service(1)</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1995	\$ 953.0	\$ 16,250.5	5.9%
1996	905.1	16,881.1	5.4
1997	997.6	17,949.0	5.6
1998	1,079.3	19,001.7	5.7
1999	1,173.8	20,244.7	5.8
2000 (estimate)	1,196.7	21,382.4	5.6

SOURCE: Fiscal 1995-1999, Office of the Comptroller; fiscal 2000. Executive Office for Administration and Finance.

(1) Excludes \$277.9 million in fiscal 1995, \$277.9 million in fiscal 1996, \$277.9 million in fiscal 1997 and \$134.1 million in fiscal 1998 for interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.

## Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Overview of Capital Spending Process and Controls." Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. The table below presents authorized but unissued debt at year end. See "COMMONWEALTH CAPITAL SPENDING."

<u>Fiscal Year</u>	<u>Authorized But Unissued Debt</u>
1995	\$ 5,942,807
1996	8,182,844
1997	11,954,142
1998	12,316,738
1999	12,004,017

SOURCE: Office of the Comptroller

As of January 1, 2000, there was approximately \$10.4 billion of authorized but unissued general obligation debt.

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

There is \$50 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. There is also \$676.9 million of authorized but unissued debt under Chapter 152 of the Acts of 1997 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Boston Convention and Exhibition Center Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, at the discretion of the Governor and the State Treasurer. The aggregate amount of such authorizations as of January 1, 2000 (included as Authorized but Unissued General Obligation Debt in the table above) is \$2.7 billion.

An additional \$600 million of grant anticipation notes may be issued under the federal highway grant anticipation note program. The program authorizes the issuance of notes yielding aggregate net proceeds of up to \$1.5 billion, but the related spending authorizations are currently capped at \$1.35 billion. Notes issued to date have yielded aggregate net proceeds of \$900 million. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

In November, 1999, the Governor approved legislation that de-authorized approximately \$1.9 billion in authorized but unissued general obligation debt of the Commonwealth.

## Commonwealth-Supported Debt

*Massachusetts Bay Transportation Authority.* The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Historically, the Commonwealth has supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service will be limited to a portion of the revenues raised by the Commonwealth's sales tax, although the

Commonwealth will remain contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000. Such bonds are currently scheduled to mature annually through fiscal 2028, with annual debt service in the range of approximately \$220 million to \$270 million through fiscal 2013 and declining thereafter. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

*Regional Transit Authorities and Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.* There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (i) a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (ii) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (iii) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments.

*Massachusetts Convention Center Authority.* The Massachusetts Convention Center Authority was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of the Hynes Convention Center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 2000, the Convention Center Authority had \$72.2 million of outstanding bonds on which the Commonwealth will pay approximately \$24.7 million in debt service contract assistance payments in fiscal 2000.

*Massachusetts Development Finance Agency, as successor to the Massachusetts Government Land Bank.* On September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency ("MassDevelopment"). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power, and the Commonwealth is required to provide contract assistance payments for debt service obligations of MassDevelopment of up to \$6 million per fiscal year for a period of 12 fiscal years, concluding in fiscal 1999, plus contract assistance necessary to defray the debt service on up to \$80 million of bonds issued to redevelop the former federal military base at Fort Devens. Like the Massachusetts Convention Center Authority assistance contract, the contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of January 1, 2000, MassDevelopment had \$80 million of bonds outstanding which are secured by the contract assistance from the Commonwealth, as described above.

*Massachusetts Water Pollution Abatement Trust.* The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. A significant portion of such financial assistance is provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for the Clean Water Act program providing for annual contract assistance payments to the Trust of up to \$46 million in the aggregate in each fiscal year. The Safe Drinking Water Act program provides for annual contract assistance payments to the Trust of up to \$9 million in the aggregate per fiscal year for new water treatment projects. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit are pledged, and the Trust's right

to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations.

*Foxborough Industrial Development Financing Authority.* On April 27, 1999, after discussions with representatives of the National Football League, the Governor, the Speaker of the House and the President of the Senate announced agreement in principle on a proposal to provide for the construction of a new football stadium in Foxborough, Massachusetts. Legislation to implement the proposal was filed by the Governor on May 11, 1999, enacted by the Legislature on May 18, 1999 and signed by the Governor on May 24, 1999. Under the legislation, a new stadium estimated to cost \$225 million is to be financed privately, and \$70 million in capital expenditures for related infrastructure improvements are to be financed by the Foxborough Industrial Development Financing Authority through the issuance of bonds supported by Commonwealth contract assistance. The Commonwealth is to receive \$400,000 per year in parking fees for stadium-related events and an administrative fee of \$1 million per year from the stadium lessee, and will be entitled to recover from the stadium lessee a portion of its contract assistance payments if professional football ceases being played at the stadium during the term of the bonds.

#### **Turnpike Authority Contract Assistance**

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

#### **Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt**

The following table sets forth, as of January 1, 2000, the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Convention Center Authority, MassDevelopment, the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. (The table does not include appropriations to the Commonwealth Sewer Rate Relief Fund which are provided to mitigate sewer rate increases due to debt service on indebtedness incurred by local and regional issuers to finance water pollution abatement projects required by certain federal environmental laws. For fiscal 2000, such appropriations total approximately \$53.9 million, and for fiscal 2001 the Governor has recommended approximately \$53.9 million.)

**GENERAL OBLIGATION CONTRACT ASSISTANCE REQUIREMENTS (1)**  
(in thousands)

<u>Fiscal Year</u>	<u>Convention Center Authority</u>	<u>Massachusetts Development Finance Agency</u>	<u>Massachusetts Water Pollution Abatement Trust</u>	<u>Turnpike Authority(3)</u>	<u>Total</u>
2000(2)	\$25,435	\$13,282	\$ 15,655	--	\$54,372
2001	25,035	13,285	39,471	\$ 2,500	79,791
2002	20,369	13,280	39,187	5,000	77,836
2003	16,378	13,280	39,174	16,700	85,532
2004	16,337	13,283	38,894	18,100	86,614
2005	16,302	13,281	38,633	25,000	93,216
2006	14,735	13,280	38,184	25,000	91,199
2007	2,532	10,162	38,435	25,000	76,129
2008	2,534	--	38,070	25,000	65,604
2009	2,534	--	37,987	25,000	65,521
2010	2,534	--	37,814	25,000	65,348
2011	2,534	--	37,215	25,000	64,749
2012	2,533	--	37,020	25,000	64,553
2013	2,536	--	34,489	25,000	62,025
2014	2,536	--	31,604	25,000	59,140
2015	--	--	30,034	25,000	55,034
2016	--	--	25,333	25,000	50,333
2017	--	--	18,290	25,000	43,290
2018	--	--	13,005	25,000	38,005
2019	--	--	12,763	25,000	37,763
2020	--	--	7,049	25,000	32,049
2021	--	--	--	25,000	25,000
2022	--	--	--	25,000	25,000
2023	--	--	--	25,000	25,000
2024	--	--	--	25,000	25,000
2025	--	--	--	25,000	25,000
2026	--	--	--	25,000	25,000
2027	--	--	--	25,000	25,000
2028	--	--	--	25,000	25,000
2029	--	--	--	25,000	25,000
2030	--	--	--	25,000	25,000
2031	--	--	--	25,000	25,000
2032	--	--	--	25,000	25,000
2033	--	--	--	25,000	25,000
2034	--	--	--	25,000	25,000
2035	--	--	--	25,000	25,000
2036	--	--	--	25,000	25,000
2037	--	--	--	25,000	25,000
2038	--	--	--	25,000	25,000
2039	--	--	--	25,000	25,000
2040	--	--	--	25,000	25,000
2041	--	--	--	25,000	25,000
2042	--	--	--	25,000	25,000
2043	--	--	--	25,000	25,000
2044	--	--	--	25,000	25,000
<b>Total</b>	<b><u>\$156,582</u></b>	<b><u>\$111,652</u></b>	<b><u>\$648,304</u></b>	<b><u>\$1,042,300</u></b>	<b><u>\$2,058,240</u></b>

SOURCES: Massachusetts Water Pollution Abatement Trust, Massachusetts Convention Center Authority and MassDevelopment columns – Office of the State Treasurer; Turnpike Authority column – Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) Partial year.
- (3) Projected operating and maintenance costs to be reimbursed by the Commonwealth.

## **Commonwealth-Guaranteed Debt**

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

## **Indirect Obligations**

*Massachusetts Housing Finance Agency (MHFA) and Massachusetts Home Mortgage Finance Agency (MHMFA).* The legislation establishing the MHFA limits the outstanding indebtedness of MHFA issued for the purpose, among others, of financing certain multi-family housing projects within the Commonwealth to \$2.7 billion of bonds or notes (excluding certain notes issued for construction financing) and limits the proportion of such indebtedness that may be evidenced by notes rather than bonds.

MHFA also provides mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and MHMFA place a \$1.7 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single family housing. MHMFA no longer has any bonds outstanding, and the issuance of additional debt of MHMFA is not currently contemplated.

Bonds and notes issued by MHFA are solely the obligations of MHFA, payable directly or indirectly from, and secured by a pledge of, revenues derived from MHFA's mortgage on or other interest in the financed housing. MHFA's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

As of December 31, 1999, multi-family obligations of the MHFA totaled approximately \$2.41 billion (of which approximately \$665 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately \$1.38 billion (none of which was secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately \$286 million for multi-family bonds and approximately \$323 million for single-family bonds.

*HEFA Community Colleges Program Bonds.* The Massachusetts Health and Educational Facilities Authority (HEFA) issued, on April 1, 1998, \$17,515,000 of its Refunding Revenue Bonds, Community Colleges Program Issue, Series B (the "Community Colleges Bonds") in order to advance refund bonds that it had issued in 1992 to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Board of Higher Education, entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, the Board of Higher Education is obligated to provide financial assistance, from moneys legally available to it, if the revenues collected on behalf of HEFA are insufficient to pay debt service on the Community Colleges Bonds. Pursuant to the contract, the financial assistance will be provided solely from funds otherwise appropriated

for the applicable community college in the Commonwealth's operating budget. The financial assistance does not constitute either a general obligation, or a so-called "moral obligation," of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys to the Board, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

*MSCBA Project Revenue Bonds.* Massachusetts State College Building Authority ("MSCBA") issued, on August 12, 1999, \$37,816,966.40 of its Project Revenue Bonds, Senior Series 1999-A, and \$45,915,000 of its Project Revenue Bonds, Series 1999-1 (the "State Colleges Bonds") in order to fund repair and renovation projects and new construction projects at the State Colleges. The primary security for the State Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the State Colleges Bonds, each Series of Bonds is secured by a pledge of certain funds and accounts established under its respective Trust Agreement and Series Resolution. As additional security, the Board of Higher Education has pledged a portion of the applicable State College's gifts, grants and trust funds and any funds appropriated by the legislature for the applicable State College. This pledge does not constitute either a general obligation, or a so-called "moral obligation," of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys for the state colleges, and the credit of the Commonwealth is not pledged to the State Colleges Bonds.

*Plymouth County Certificates of Participation.* In May, 1992, Plymouth County caused to be issued \$110,535,000 of certificates of participation (the "1992 Plymouth COPs") to finance the construction of the 1,140-bed Plymouth County Correctional Facility (the "Facility"). In March, 1999, Plymouth County caused to be issued \$140,065,000 of certificates of participation (the "1999 Plymouth COPs") to advance refund the 1992 Plymouth COPs, construct an administration office building and auxiliary facilities near the Plymouth County Correctional Facility and to fund repairs and improvements to the Facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, entered into a Memorandum of Agreement with Plymouth County, under which the Commonwealth is obligated to pay for the availability of 380 beds of the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the 1999 Plymouth COPs, but are subject to appropriation of said amounts by the Legislature to the Executive Office of Public Safety. The obligation of the Commonwealth under the Memorandum of Agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth.

*City of Chelsea Commonwealth Lease Revenue Bonds.* In November, 1993, the City of Chelsea, acting through its industrial development financing authority, issued \$95,750,000 aggregate principal amount of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and under an interest rate swap agreement that was entered into at the time, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease which provides for the payment of debt service on the bonds and other expenses and costs associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The bonds are limited obligations of the city of Chelsea and do not constitute a debt or pledge of the faith and credit of the city.

*Route 3 North.* On August 12, 1999, the Governor approved legislation to provide for the widening and improvement of state Route 3 North by means of a design/build procurement and private financing. The legislation is similar to bills passed by each of the houses of the Legislature in 1998. Pursuant to the legislation approved by the Governor, the Secretary of Transportation and Construction has solicited proposals from private developers to enter into a lease/lease-back arrangement with the Massachusetts Highway Department for a term of up to 30 years after completion and final acceptance of the project. The credit of the Commonwealth will not be pledged to the payment of any debt instruments issued for the project, and tolls are prohibited. If the total anticipated cost of the project, excluding ongoing maintenance expenses and interest payments, exceeds \$200 million, if the selected developer plans to issue taxable bonds or if the state's annual payments are expected to exceed \$14 million at any time, the Secretary of Transportation and Construction is required to notify the Legislature's Transportation Committee, which can then call the parties to a public meeting to discuss the matter.

## OTHER COMMONWEALTH LIABILITIES

### Retirement Systems and Pension Benefits

*Commonwealth Responsibility for Pension Costs.* The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers' retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost of living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. The members of these state and local retirement systems do not participate in the federal Social Security System. On June 6, 1997 Governor Weld approved legislation removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems. The legislation provided that local retirement systems fund future cost-of-living adjustments.

*Pension Reserves and Employee Contributions.* The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996, and 9% for those hired on or after July 1, 1996, 12% for members of the state police hired after July 1, 1996 plus an additional 2% of compensation above \$30,000 per year for all those members hired on or after January 1, 1979.

The systems were originally established as “pay-as-you-go” systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years.

*Pension Funding Plan.* Comprehensive pension funding legislation approved in January, 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities to zero by June 30, 2028. The legislation was revised in July, 1997, as part of the fiscal 1998 budget, to require the amortization of such liabilities by June 30, 2018. The legislation requires the Secretary of Administration and Finance to prepare a funding schedule that provides for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

Funding schedules are to be filed with the Legislature triennially by March 1 and are subject to legislative disapproval. Under the pension legislation, if a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

*Current Funding Schedule and Actuarial Valuations.* The most recent funding schedule that has been approved by the Legislature was filed by the Secretary of Administration and Finance on February 25, 1999. The schedule was based on an actuarial valuation dated as of January 1, 1998, which was released by the Public Employee Retirement Administration Commission (PERAC) on October 26, 1998.



**February 25, 1999 Funding Schedule for Pension Obligations  
(in thousands)**

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
1999	\$ 898,461	2009	\$1,033,177
2000	910,024	2010	1,045,891
2001	922,050	2011	1,058,986
2002	934,557	2012	1,072,475
2003	947,564	2013	1,086,368
2004	961,092	2014	1,100,677
2005	975,160	2015	1,115,416
2006	989,792	2016	1,130,597
2007	1,005,008	2017	1,146,234
2008	1,020,833	2018	552,962

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

The funding schedule above was based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1998. The unfunded actuarial accrued liability based on this valuation is \$4.371 billion for state employees and state teachers, \$519.9 million for Boston teachers and \$912 million for cost-of-living increases granted for local systems prior to July, 1997, for a total unfunded liability of \$5.803 billion. The valuation as of January 1, 1998 was based on actuarial assumptions including future investment earnings at a rate of 8.25% per year, annual salary increases at 6% and annual cost-of-living increases for pensioners at the rate of 3% on the first \$9,000 of benefits. The valuation study determined the actuarial value of assets by phasing in a five-year average value rather than current market value at the time of valuation. "Actuarial accrued liability" is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

On June 6, 1997, Governor Weld approved legislation that provides, subject to legislative approval, for annual increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. All of the funding schedules for the state systems described herein assume that such annual increases will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules.

See "INVESTMENT POLICIES" for information regarding the investment policies relating to the Commonwealth's pension funds. On August 9, 1996, Governor Weld approved legislation authorizing the transfer to the Pension Reserves Investment Management Board of all assets of the state employees' and teachers' retirement systems then managed by the State Treasurer. Such transfer occurred on November 7, 1996.

On April 28, 1999 a pension valuation report prepared by independent actuarial consultants to the Pension Reserves Investment Management (PRIM) Board was released. Using the same data and assumptions employed by PERAC in its October, 1998 valuation report (based on an actuarial valuation of assets and liabilities as of January 1, 1998), the independent report found the unfunded actuarial liability to be \$6.346 billion (rather than \$4.371 billion) for state employees and state teachers and \$583.3 million (rather than \$519.9 million) for Boston teachers, making the total unfunded liability \$7.841 billion rather than \$5.803 billion. The new study did not re-evaluate the earlier findings with respect to cost-of-living increases granted for local systems prior to July, 1997. The report ascribed the differences between the consultants' results and PERAC's results to deficiencies in the actuarial valuation software used by PERAC for its valuation. PERAC has since converted to a new actuarial software system and has produced results approximating those reported by the PRIM Board consultants.

The April 28, 1999 report is included within a larger report prepared by the same consultants which was presented to the PRIM Board on November 23, 1999. In preparing the larger report, the consultants undertook to review the economic and demographic assumptions used by PERAC in its October, 1998 valuation report, to test those assumptions by means of an experience study of the actual experience of the relevant retirement systems and to project the resulting data forward from January 1, 1998 to January 1, 1999 and June 30, 1999. (Although the 1988 pension funding legislation requires an experience study to be conducted every six years, none has ever been undertaken.) After revising certain actuarial assumptions on the basis of the experience study (the salary growth assumption, certain demographic assumptions related to turnover and retirement and certain assumptions related to post-retirement mortality), the PRIM Board consultants recalculated the January 1, 1998 unfunded actuarial liability to be \$8.975 billion for state employees and state teachers and \$717.1 million for Boston teachers, making the total unfunded liability \$10.604 billion. Projecting forward to January 1, 1999 and June 30, 1999, the comparable total unfunded liability figures were calculated to be \$10.398 billion and \$9.483 billion, respectively.

PERAC intends to complete an experience study by the summer of 2000.

The appropriations contained in the fiscal 2000 budget and in the Governor's fiscal 2001 budget recommendations are consistent with the February 25, 1999 funding schedule. The Governor has requested \$50 million in additional fiscal 1999 appropriations and \$100 million in additional fiscal 2001 appropriations for a reserve to supplement pension funding pursuant to a revised schedule to be filed with the Legislature by the end of March, 2000. See "2000 FISCAL YEAR" and "2001 FISCAL YEAR." That schedule will be based on actuarial valuations as of January 1, 1999 and is expected by the Executive Office for Administration and Finance to become the official funding schedule for the next three years.

The Commonwealth has now completed the transition from a pay-as-you-go system to an actuarially funded system. Accordingly, as contemplated by the pension funding legislation approved in January, 1988, amounts required to be appropriated in the eleventh and later years of the funding schedule need not be sufficient to cover the benefit costs payable in those years. In fiscal 1998 the benefit costs exceeded the amount appropriated by approximately \$20.4 million, which was disbursed from the Pension Reserves Investment Trust Fund to cover such costs. For fiscal 1999, a similar disbursement of approximately \$132 million was necessary. For fiscal 2000, it is estimated that \$281 million will be disbursed from the PRIT Fund.

### Long-Term Operating Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1999, rental expenditures under these operating leases totaled approximately \$108.4 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1999 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

#### Operating Leases June 30, 1999 (in thousands)

<u>Fiscal Year</u>	<u>Operating Leases</u>
2000	\$101,120
2001	81,377
2002	65,703
2003	46,649
2004	19,239
2005 and thereafter	<u>32,739</u>
Total	<u>\$346,827</u>

SOURCE: Office of the Comptroller.

### Long-Term Capital Leases

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases. Typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles.

Long-term total principal and interest obligations at June 30, 1999 related to capital leases are as follows:

#### Capital Lease Obligations June 30, 1999 (in thousands)

<u>Fiscal Year</u>	<u>Capital Leases</u>
2000	\$27,910
2001	23,278
2002	16,371
2003	10,761
2004	5,142
2005 and thereafter	<u>9,636</u>
Total	<u>\$93,098(1)</u>

SOURCE: Office of the Comptroller.

(1) As of June 30, 1999, the principal amount of these obligations was \$78.0 million.

### School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain

reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of July 1, 1999. In his fiscal 2001 budget recommendations, the Governor has proposed a major restructuring of the school building assistance program. See "2001 FISCAL YEAR."

**School Building Assistance Obligations  
(in thousands)**

<u>Fiscal Year</u>	Budgeted School Building Assistance Obligations	<u>Fiscal Year</u>	Budgeted School Building Assistance Obligations
2000	\$273,978	2011	\$257,608
2001	324,699	2012	235,163
2002	320,328	2013	223,405
2003	317,681	2014	206,875
2004	312,771	2015	192,056
2005	307,058	2016	177,896
2006	301,551	2017	159,034
2007	297,249	2018	127,055
2008	291,464	2019	98,802
2009	281,175	2020	<u>53,439</u>
2010	272,397	Total	<u>\$5,031,685</u>

SOURCE: Department of Education, School Facilities Service Bureau.

**Unemployment Compensation Trust Fund**

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of January 31, 2000 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.792 billion. The Division of Employment and Training's January, 2000, quarterly report indicated that the contributions provided by current law should rebuild reserves in the system to \$2.203 billion by the end of 2004. See Exhibit A, "Economic Information," under the heading "Employment-Unemployment."

**INVESTMENT POLICIES**

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1999 statutory basis financial statements contained in the Statutory Basis Financial Report included by reference as Exhibit B and Note 3 to the fiscal 1999 GAAP-basis financial statements contained in the Comprehensive Annual Financial Report included by reference as Exhibit C.

**LITIGATION**

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

*Commonwealth Programs and Services.* From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded

levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Webby v. Dukakis* (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June, 1993. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid; *Commonwealth Financial Support for Local Governments*." On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. It cannot be determined at this time what further action, if any, the plaintiffs in *McDuffy* may take or whether the court will order any further relief.

*Lopez v. Board of Education, et al.* (Supreme Judicial Court for Suffolk County No. 98-584). Plaintiff students in certain school districts on Cape Cod invoked the decision of the Supreme Judicial Court in *McDuffy, supra*, and challenged the constitutionality of the school financing formula contained in the education reform act. The plaintiffs seek declaratory relief, additional appropriations and damages. The court dismissed the Senate, the House of Representatives and the State Treasurer as defendants in the case, but permitted plaintiffs to amend their complaint, upon motion, to add the Commonwealth as a defendant. The plaintiffs have moved for summary judgment. In June, 1999, the Commonwealth filed a cross-motion for summary judgment.

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

*Rolland v. Cellucci* (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The court approved a settlement agreement entered into by the parties which will provide certain benefits to nursing home residents with mental retardation and other developmental disabilities over the next seven years. The Department of Mental Retardation estimates that the agreement will cost approximately \$5 million per fiscal year for seven years.

In *Ramos v. McIntire* (Suffolk Superior Court No. 98-2154), plaintiffs allege that the Department of Transitional Assistance violated state and federal law, including the Americans with Disabilities Act, by failing to accommodate welfare recipients with learning disabilities in its Employment Services Program. The court has denied, without prejudice, plaintiffs' motions for class certification and injunctive relief. If the case remains limited to the two existing plaintiffs, potential liability will likely be under \$50,000. However, if the Court at some point allows a motion for class certification, potential liability could increase to \$33.5 million. The Court denied a renewed motion for class certification.

The DMA is also engaged in four related lawsuits in which numerous hospitals seek injunctive and declaratory relief from DMA's implementation of its prepayment review program and its postpayment review program. The hospitals also seek damages consisting of the value of all claims for payment previously denied by DMA under these two review programs, where the basis for the denial was DMA's determination that the claims were not medically necessary. In *Athol Memorial Hospital, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2325-F), the plaintiffs seek injunctive and declaratory relief. In *Baystate*

*Medical Center v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2115-E), the plaintiff seeks injunctive and declaratory relief and monetary damages. In *Massachusetts Hospital Association, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2324-E), the plaintiffs seek injunctive and declaratory relief. *Salem Hospital v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-0750-C), is an alleged class action seeking declaratory relief and monetary damages.

In the *Baystate Medical* case, the Court dismissed the claims under 42 U.S.C. § 1983 on December 16, 1999. In the *Athol* and *Salem* cases, the Court dismissed the claims under 42 U.S.C. § 1983 on December 29, 1999. In the *Salem* case, the Court denied the motion for class certification on December 29, 1999.

The remaining claims for declaratory and injunctive relief could prevent DMA from continuing to implement the prepayment and postpayment review programs under its new regulations. Since continued implementation of these programs would save the Division between \$6 million and \$11 million annually, DMA's expenditures would increase by that amount if it is barred from implementing these programs. The remaining claims for damages could reach approximately \$40 million.

*Valerie Anderson v. Cellucci* (U.S. District Court C.A. No. 99-10617-DPW), is a class action against the Department of Mental Retardation and the Division of Medical Assistance asserting that the Commonwealth has an obligation under the Medicaid Home and Community Based Services Waiver Program to provide group residences for adult mentally retarded individuals who currently reside with their parents. The Department of Mental Retardation estimates that the cost of eliminating its existing waiting list for placements would be \$50 million. Cross motions for summary judgment are pending.

*Environmental Matters.* The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately \$3.142 billion in current dollars, with approximately \$601 million to be spent after June 30, 1997. With CSO costs, the MWRA anticipates spending approximately \$901 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

On February 12, 1998, the U.S. Department of Justice filed a complaint in federal district court seeking to compel the MWRA to build a water filtration plant for the metropolitan Boston water supply and, together with the MDC, to take certain watershed protection measures. *United States v. MWRA* (U.S. District Court C.A. No. 98-10267). The MWRA Board of Directors has voted to apply to the state Department of Environmental Protection for a ruling that it not be required to filter water; a decision by DEP is expected by the end of 1998. The federal district court has issued a scheduling order under which it will decide in March, 1999 whether the Safe Water Drinking Act compels the MWRA to build a filtration system or whether the MWRA can demonstrate that its data entitles it to avoid building such a system. It is too early to predict what remedy the court will order if it decides adversely to the MWRA. The U.S. District Court issued a decision on May 5, 1999 allowing the U.S. government's motion for summary judgment by finding the MWRA liable under the Safe Drinking Water Act, but denying its motion for summary judgment on the remedy issue. A trial on appropriate remedies, if any, including filtration, took place in January, 2000.

Wellesley College is seeking contribution from the Commonwealth for costs related to environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. Such costs may reach \$35 million. Currently, the Commonwealth and Wellesley College are mediating this potential claim for contribution. As of February 17, 2000, no litigation against the Commonwealth has been filed.

*Taxes and Other Revenues.* In *The First National Bank of Boston v. Commissioner of Revenue* (Appellate Tax Board No. F232249), the First National Bank of Boston challenges the constitutionality of the former version of the Commonwealth's bank excise tax. In 1992, several pre-1992 petitions filed by the bank, which raised the same issues, were settled prior to a board decision. The bank has now filed claims with respect to 1993 and 1994. The bank claims that the tax violated the Commerce Clause of the United States Constitution by including its worldwide income without apportionment. The Department of Revenue estimates that the amount of abatement, including interest, sought by the First National Bank of Boston, could total \$144 million.

In addition, there are several other tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. Approximately \$80 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

*Eminent Domain.* In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Central Artery/Ted Williams Tunnel project. On March 13, 1998, the Superior Court entered judgment for the Commonwealth dismissing the complaint. The plaintiff has appealed the Superior Court's dismissal of the complaint. In December, 1999, the Spaulding Rehabilitation Hospital filed an eminent domain action concerning the same property. *Spaulding Rehabilitation Hospital Corp. v. Commonwealth* (Suffolk Superior Court No. 99-5733-E).

*Thomas Rich v. Commonwealth of Massachusetts* (Norfolk Superior Court No. 94-2319) and *Shea v. Commonwealth* (Norfolk Superior Court No. 97-1070-B) are eminent domain cases concerning property in the city of Quincy. *Thomas Rich* has been settled for \$6.2 million. In *Shea*, Commonwealth faces a potential liability of \$10 million. The cost of remediation of contaminated soil will also be an issue.

*Patricia I. Barletta and John G. Bulman, as Trustees of the Vincent D. Barletta 1971 Trust v. Commonwealth* (Worcester Superior Court C.A. No. 99-0657C). This case concerns a taking of land in Douglas, Massachusetts in which the plaintiffs claim at least \$46 million.

*Receivership.* On January 4, 2000, the Attorney General, at the request of the Commissioner of Insurance, obtained a court order from the Massachusetts Supreme Judicial Court placing Harvard Pilgrim Health Care, Inc., Pilgrim Health Care, Inc. and Harvard Pilgrim Health Care of New England, Inc. (collectively, "HPHC") into temporary receivership. HPHC is one of the largest nonprofit managed care operations in the United States, providing care and coverage to more than 1.2 million members in New England, approximately 1.1 million of whom are Massachusetts residents. As the temporary receiver, the Insurance Commissioner has taken control of HPHC for the purpose of rehabilitating HPHC and conserving its assets. On January 17, 2000, the temporary receiver engaged an investment banker to identify and evaluate all viable options to recapitalize HPHC and ensure continuity of care and coverage to HPHC members, including a merger or other affiliation, a sale/leaseback or other leasing transaction, a third-party capital infusion or a sale. In the temporary receiver's first status report, submitted to the Supreme Judicial Court on January 28, 2000, the temporary receiver and the Attorney General proposed to continue the process of identifying and evaluating possible options to recapitalize HPHC and to report to the Court when a desirable approach is available. While the receivership statute does not require state financial assistance, various health care providers and other interested parties have publicly discussed public participation in the resolution of this matter.

## MISCELLANEOUS

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

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

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

## CONTINUING DISCLOSURE

The 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.

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 home page located at [www.state.ma.us/osc](http://www.state.ma.us/osc).

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, 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.



## AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12<sup>th</sup> floor, Boston, Massachusetts 02108, telephone 617/367-3900 (x. 564), or to Paul E. Ladd, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/348-1720.

### THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Shannon P. O'Brien  
Shannon P. O'Brien  
Treasurer and Receiver-General

By /s/ Andrew S. Natsios  
Andrew S. Natsios  
Secretary of Administration and Finance

February 17, 2000

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## ECONOMIC INFORMATION

The information in this section was prepared by the Massachusetts Institute for Social and Economic Research ("MISER") at the University of Massachusetts Amherst and may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth of Massachusetts. MISER is designated as the Commonwealth's State Data Center and archives much of the data about Massachusetts. The demographic information and statistical data, which have been obtained by MISER 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. **Information is current as of December 30, 1999.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

<u>Statistical Overview</u>		
	<u>Massachusetts</u>	<u>United States</u>
<b><u>Population (p. A-2)</u></b>		
Percentage Change in Population, 1997-1998	0.5%	1.0%
<b><u>Personal Income, Consumer Prices, and Poverty (p. A-7)</u></b>		
Per Capita Personal Income, 1998	\$32,902	\$26,482
Average Annual Pay, 1998(p)	\$37,787	\$31,908
Percentage Change in CPI-U, 1997-1998*	2.3%	1.6%
Percentage Change in CPI-U, July 1998-July 1999*	3.4%	2.6%
Poverty Rate, 1998	10.4%	12.7%
Average Weekly Manufacturing Earnings, Nov. 1999 (p)	\$607.85	\$591.93
Percentage Change in Manufacturing Earnings, Nov. 1998-Nov. 1999 (p)	3.1%	3.8%
<b><u>Employment (p. A-15)</u></b>		
Unemployment Rate, 1998	3.3%	4.5%
Unemployment Rate, Nov. 1999	3.2%	4.1%
<b><u>Economic Base and Performance (p. A-24)</u></b>		
Percentage Change in Gross State Product, 1996-1997	4.4%	4.3%
Business Failures Per 10,000 Existing Businesses, 1997	69	88
Percentage Change in International Exports, 1997-1998	-4.6%	-1.0%
Percentage Change in Housing Permits Authorized, 1997-1998	8.0%	10.5%
<b><u>Human Resources and Infrastructure (p. A-39)</u></b>		
Expenditure Per Pupil, 1997	\$7,331	\$5,924
Percentage Adults with a Bachelor's Degree, March 1998	31.0%	24.4%

\*Note: Percentage change in CPI-U data is for Boston and the U.S.

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, low rates of unemployment, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty years, significant changes have occurred in the age distribution of the population: dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in 2015 and 2025. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher rates 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. While economic growth in Massachusetts slowed considerably during the recession of 1990-1991, indicators such as retail sales, housing permits, construction, and employment levels suggest a strong and continued economic recovery.

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

## **POPULATION CHARACTERISTICS**

Massachusetts is a densely populated state with a comparatively large percentage of its residents living in metropolitan areas. According to the 1990 census, the population density of Massachusetts is 767.6 persons per square mile, as compared to 70.3 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranks third among the states in percentage of residents living in metropolitan areas: 96.2 percent of Massachusetts residents live in metropolitan areas, compared with a national average of 79.4 percent.

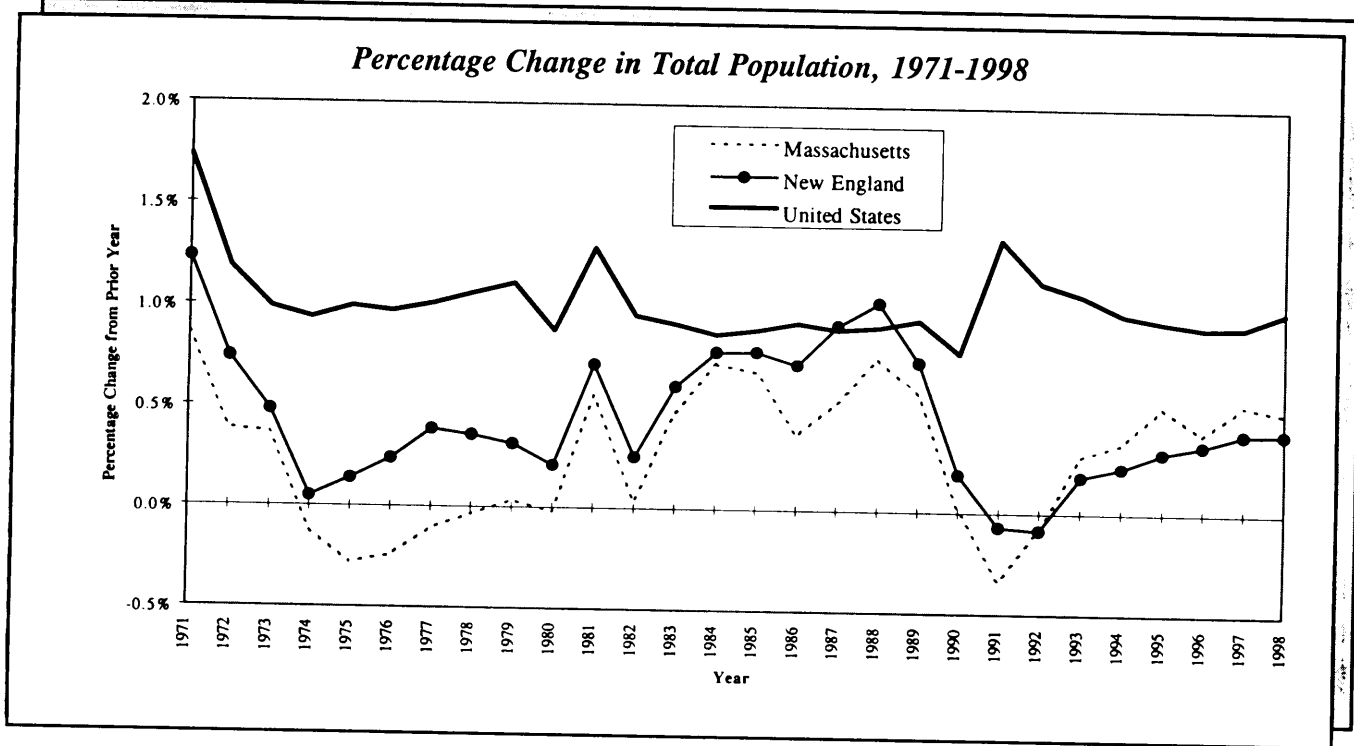
The State's population is concentrated in its eastern portion. The City of Boston is the largest city in New England, with a 1990 population of 574,283. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area ("CMSA"), which also includes all of southeastern New Hampshire, as well as towns in Maine and Connecticut, and which had a total population in 1990 of 5,455,403, over 40 percent of the total New England population. The Boston, MA-NH Primary Metropolitan Statistical Area ("PMSA")—which stretches from the Cape Cod Canal south of Boston to southern New Hampshire—is the largest component of that CMSA, with a total population in 1990 of 3,227,707, the vast majority (3,220,464) of whom live in Massachusetts and comprise more than one-half the total population of Massachusetts.

The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 1990 population of 478,384. Worcester, situated approximately 40 miles west of Boston with a 1990 population of 169,759, is the second largest city in New England. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve other colleges and universities.

The largest Metropolitan Statistical Area ("MSA") within Massachusetts which is not a part of this larger CMSA is the Springfield MSA, with a 1990 population of 587,884. Springfield, the third largest city in the Commonwealth with a 1990 population of 156,983, is located in the Connecticut River Valley in western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for

the United States over the same period of time. Between 1990 and 1992, the rate of population growth in Massachusetts was zero or negative. Between 1993 and 1998, however, the population of Massachusetts grew by 2.3 percent, compared to a 4.9 percent increase for the United States.

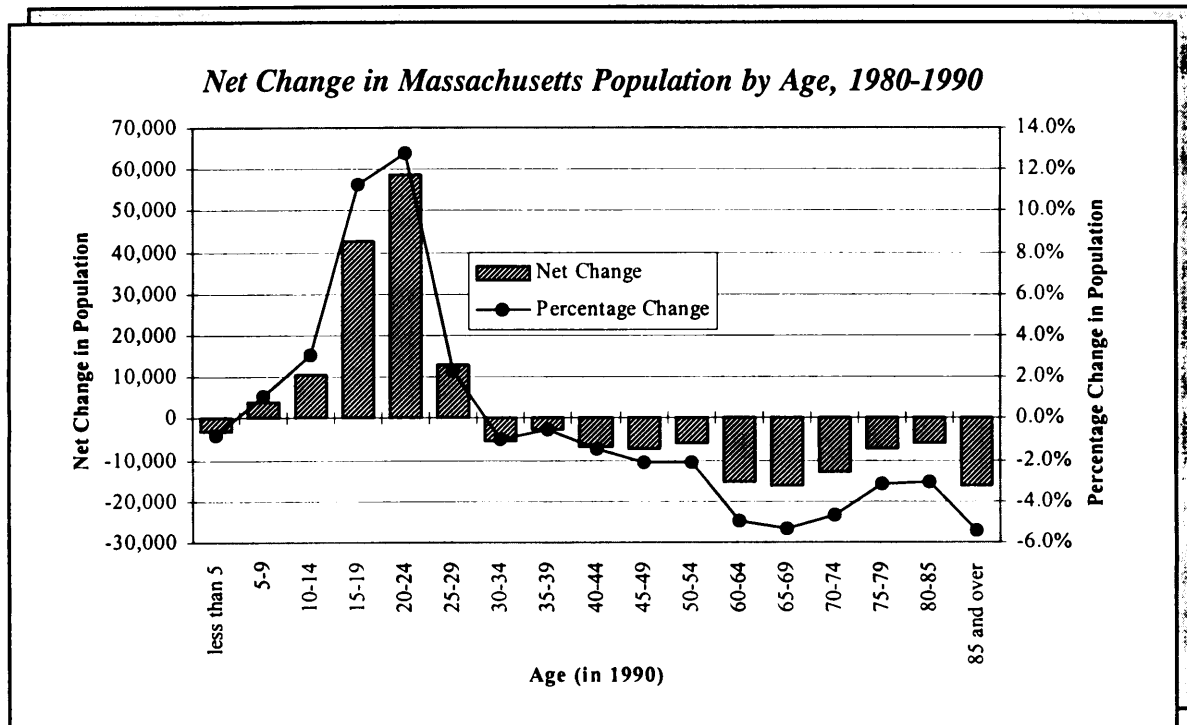


The following table compares the population level and percentage change in population level of Massachusetts with those of the New England states and the United States.

<b>Population, 1970-1998</b> (in thousands)						
<b>Year</b>	<b>Massachusetts</b>		<b>New England</b>		<b>United States</b>	
	<b>Total</b>	<b>Percentage Change</b>	<b>Total</b>	<b>Percentage Change</b>	<b>Total</b>	<b>Percentage Change</b>
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,765	0.8%
1991	5,997	-0.3%	13,197	-0.1%	252,127	1.4%
1992	5,992	-0.1%	13,183	-0.1%	254,995	1.1%
1993	6,008	0.3%	13,208	0.2%	257,746	1.1%
1994	6,027	0.3%	13,233	0.2%	260,289	1.0%
1995	6,058	0.5%	13,271	0.3%	262,765	1.0%
1996	6,083	0.4%	13,319	0.4%	265,190	0.9%
1997	6,114	0.5%	13,372	0.4%	267,744	1.0%
1998	6,147	0.5%	13,430	0.4%	270,299	1.0%

SOURCE: United States Department of Commerce, Bureau of the Census.  
Note: 1970, 1980, and 1990 estimates are as of April 1; estimates for other years are as of July 1.

Net migration has not significantly contributed to changes in the Commonwealth's total population during the last decade, although preliminary evidence suggests that out-migration increased during the Commonwealth's recent economic downturn. However, net migration has reduced the age profile of the Massachusetts population. Between 1980 and 1990, considerable increases in the population of younger age groups (10 years to 30 years) coincided with smaller decreases in the population of all age groups representing people over thirty. The following chart shows the net change in Massachusetts population between 1980 and 1990, by five year classifications of ages. Between 1980 and 1990, Massachusetts lost more citizens over age 30 through migration than it gained. But in-migration of younger people, particularly in the college age and young adult groups, offset the number of older citizens moving away.



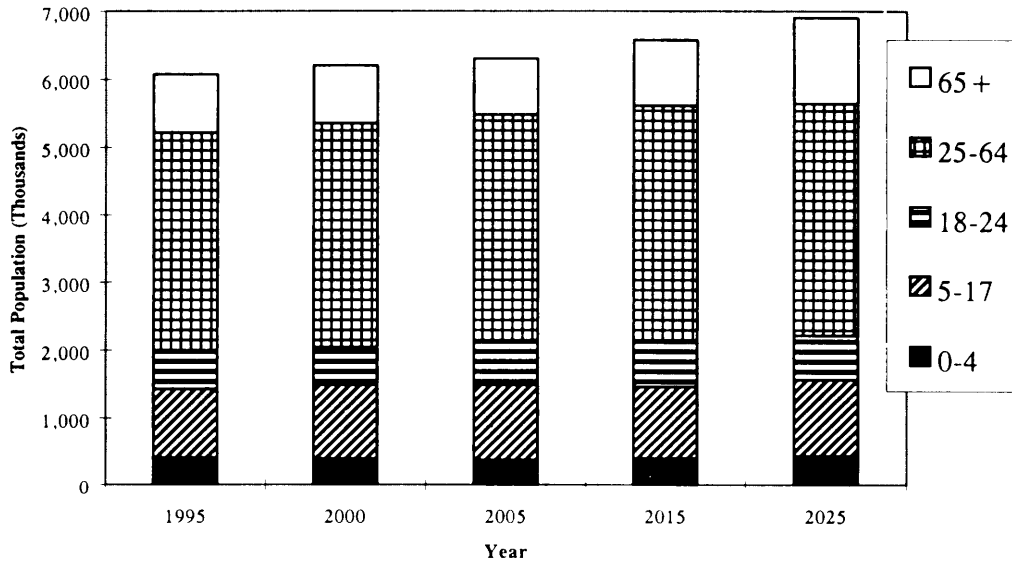
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025 than it was in 1995. The chart and table show the projected population by age for Massachusetts for 1995 through 2025.

### Projected Massachusetts Population By Age Group, 1995-2025 (in thousands)

Year	0-4	5-17	18-24	25-64	65+
1995	413	1,019	537	3,244	861
2000	400	1,096	549	3,311	843
2005	382	1,106	633	3,362	827
2015	411	1,053	681	3,464	965
2025	439	1,128	650	3,433	1,252

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

*Projected Massachusetts Population By Age Group, 1995-2025*



*Massachusetts Population by County*

*12 Month Percentage Change and Percentage Change Since 1990 Census*

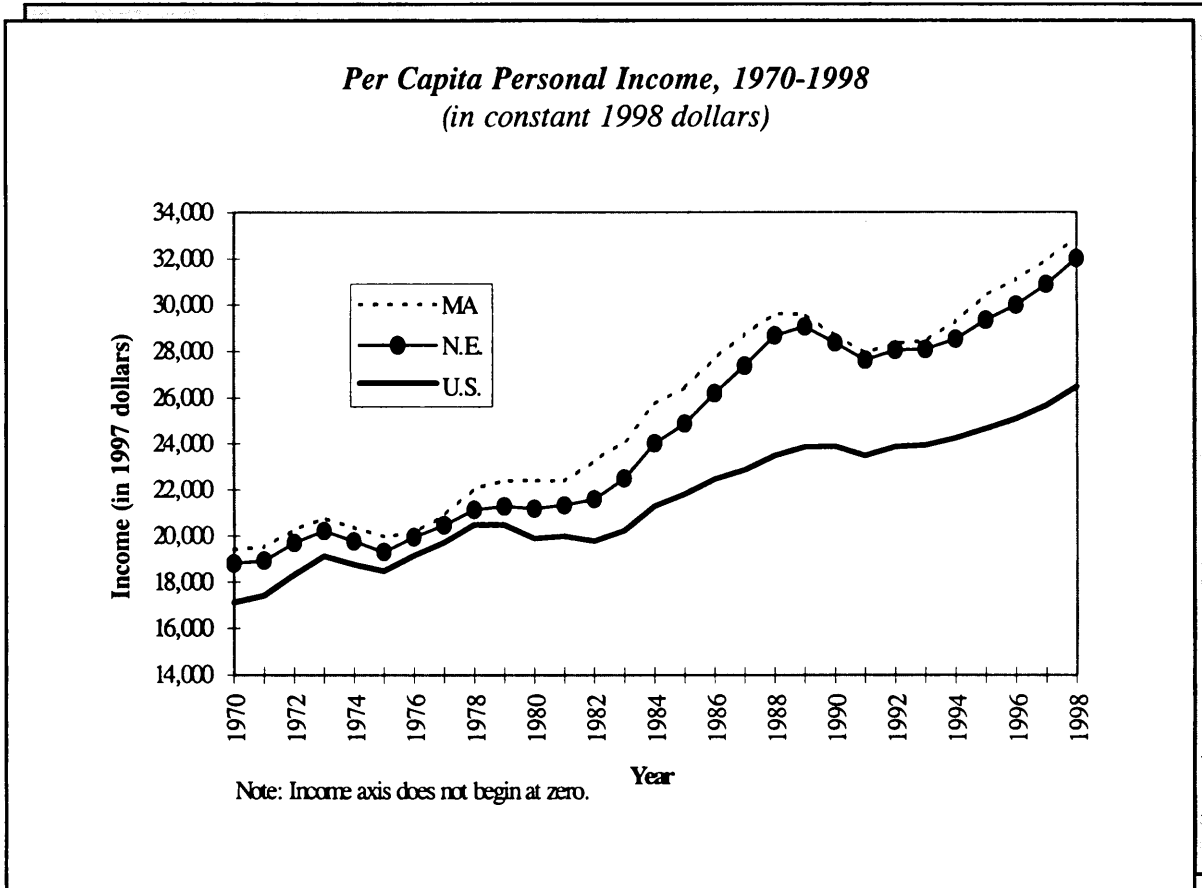
County	1990 Census	1997	1998	% Change 1997-98	% Change 1990-98
Barnstable	186,605	204,978	208,418	1.7%	11.7%
Berkshire	139,352	133,943	133,038	-0.7%	-4.5%
Bristol	506,325	514,944	517,543	0.5%	2.2%
Dukes	11,639	13,588	13,888	2.2%	19.3%
Essex	670,080	692,064	698,806	1.0%	4.3%
Franklin	70,092	70,749	70,597	-0.2%	0.7%
Hampden	456,310	440,472	439,609	-0.2%	-3.7%
Hampshire	146,568	149,376	149,384	0.0%	1.9%
Middlesex	1,398,468	1,418,060	1,424,116	0.4%	1.8%
Nantucket	6,012	7,489	7,844	4.7%	30.5%
Norfolk	616,087	639,705	642,705	0.5%	4.3%
Plymouth	435,276	461,569	467,588	1.3%	7.4%
Suffolk	663,906	642,126	641,715	-0.1%	-3.3%
Worcester	709,705	725,377	731,881	0.9%	3.1%
<b>Total</b>	<b>6,016,425</b>	<b>6,114,440</b>	<b>6,147,132</b>	<b>0.5%</b>	<b>2.0%</b>

SOURCE: U.S. Department of Census.



## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

**Personal Income.** Since 1970, 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 have increased faster than the national average between 1993 and 1997, showing growth rates between 0.3 and 3.8 percent in this period. Both real and nominal income levels in Massachusetts are now at their highest rates ever, and both remain well above the national average. In fact, Massachusetts had the third highest level of per capita personal income in the United States in 1998. The following chart illustrates 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 1970-1998.

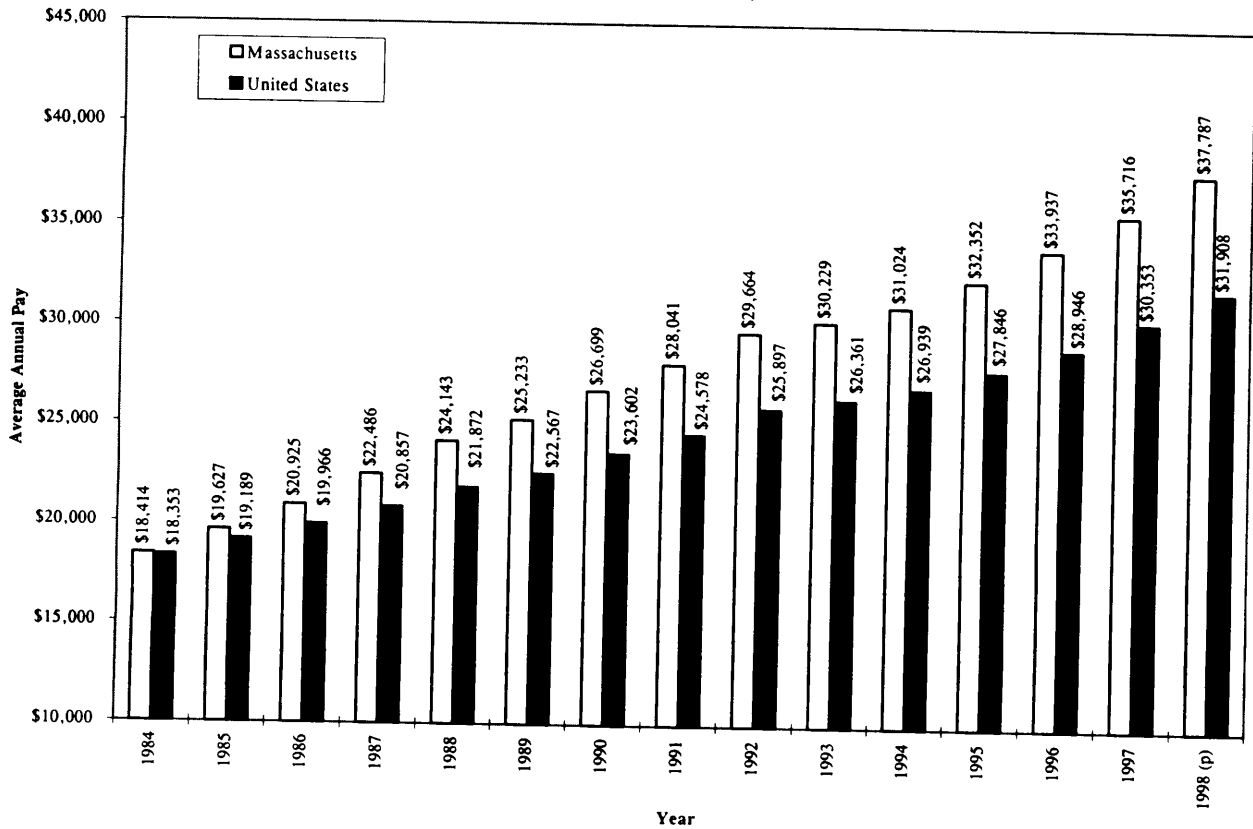
*Per Capita Personal Income, 1970-1998*

Year	Nominal Income (in current dollars)			Real Income (in 1998 dollars)			Percentage Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,547	\$4,479	\$4,077	19,421	18,816	17,128			
1971	4,804	4,702	4,327	19,546	18,924	17,415	0.6%	0.6%	1.7%
1972	5,162	5,054	4,699	20,282	19,708	18,324	3.8%	4.1%	5.2%
1973	5,600	5,504	5,211	20,767	20,206	19,130	2.4%	2.5%	4.4%
1974	6,074	5,978	5,676	20,369	19,765	18,766	-1.9%	-2.2%	-1.9%
1975	6,495	6,375	6,100	19,986	19,315	18,481	-1.9%	-2.3%	-1.5%
1976	7,042	6,962	6,690	20,152	19,944	19,165	0.8%	3.3%	3.7%
1977	7,684	7,606	7,334	20,909	20,458	19,727	3.8%	2.6%	2.9%
1978	8,536	8,455	8,196	22,073	21,138	20,490	5.6%	3.3%	3.9%
1979	9,552	9,478	9,118	22,405	21,280	20,472	1.5%	0.7%	-0.1%
1980	10,780	10,705	10,062	22,408	21,176	19,904	0.0%	-0.5%	-2.8%
1981	11,978	11,899	11,144	22,403	21,337	19,983	0.0%	0.8%	0.4%
1982	12,945	12,787	11,715	23,274	21,599	19,788	3.9%	1.2%	-1.0%
1983	14,009	13,748	12,356	24,102	22,499	20,221	3.6%	4.2%	2.2%
1984	15,703	15,319	13,571	25,752	24,033	21,290	6.8%	6.8%	5.3%
1985	16,842	16,420	14,410	26,433	24,874	21,829	2.6%	3.5%	2.5%
1986	18,100	17,610	15,106	27,698	26,190	22,466	4.8%	5.3%	2.9%
1987	19,600	19,075	15,945	28,739	27,370	22,879	3.8%	4.5%	1.8%
1988	21,417	20,810	17,038	29,608	28,673	23,476	3.0%	4.8%	2.6%
1989	22,634	22,103	18,153	29,598	29,055	23,862	0.0%	1.3%	1.6%
1990	23,210	22,741	19,156	28,691	28,361	23,890	-3.1%	-2.4%	0.1%
1991	23,590	23,078	19,623	27,934	27,619	23,484	-2.6%	-2.6%	-1.7%
1992	24,538	24,150	20,547	28,352	28,057	23,871	1.5%	1.6%	1.6%
1993	25,333	24,903	21,220	28,448	28,091	23,937	0.3%	0.1%	0.3%
1994	26,433	25,934	22,056	29,300	28,524	24,259	3.0%	1.5%	1.3%
1995	28,097	27,439	23,059	30,418	29,347	24,663	3.8%	2.9%	1.7%
1996	29,591	28,872	24,164	31,113	29,994	25,103	2.3%	2.2%	1.8%
1997	31,239	30,427	25,288	31,946	30,901	25,682	2.7%	3.0%	2.3%
1998	32,902	32,007	26,482	32,902	32,007	26,482	3.0%	3.6%	3.1%

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

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. 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. Following a period between 1985 and 1992 in which average annual pay levels in Massachusetts grew at a rate between 5 and 7 percent, growth slowed to less than 3 percent in 1993 and 1994. However, growth levels have exceeded 4 percent in the past four years and, as a result, preliminary estimates show that the level of annual pay in Massachusetts in 1998 was eighteen percent higher than the national average: \$37,787 compared to \$31,908. In 1998, average annual pay levels in Massachusetts were the fourth highest in the nation, and the growth rate was the eighth highest in the nation.

**Average Annual Pay, 1984-1998**  
(in current dollars)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.  
(p) = preliminary estimates.

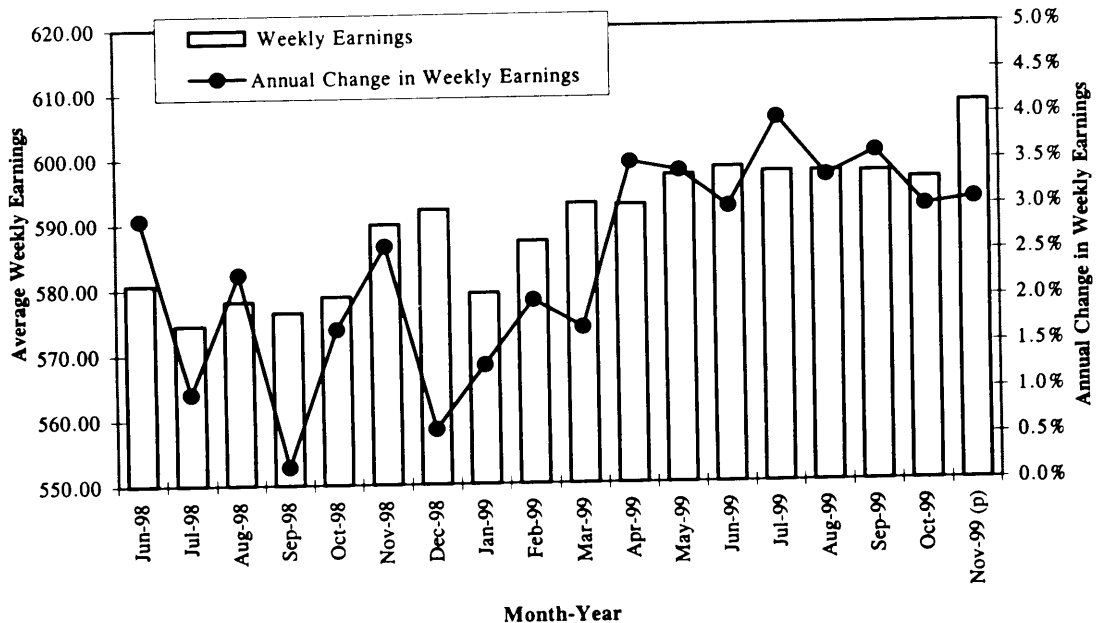
**Manufacturing Hours and Earnings.** Recent increases in manufacturing employment have been accompanied by increases in manufacturing earnings, with weekly earnings in the manufacturing sector growing at a rate of 3.1 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from \$13.91 in November 1998 to \$14.37 in November 1999(p)), it is important to note that employees in the manufacturing sector have averaged 42 or more work hours per week in 7 of the past 18 months. However, there does not appear to be a clear pattern of growth in the average number of hours worked per week in the manufacturing sector, as average weekly hours in only one of the past six months have exceeded levels from the same month in the prior year. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

**Average Weekly Manufacturing Hours and Earnings in Massachusetts,  
June 1998-November 1999**  
(not seasonally adjusted)

Month	Weekly Hours	Hourly Earnings	Weekly Earnings	Annual Change in Weekly Earnings
Jun-98	42.2	13.76	580.67	2.9%
Jul-98	41.6	13.81	574.50	1.0%
Aug-98	41.8	13.83	578.09	2.3%
Sep-98	41.5	13.89	576.44	0.2%
Oct-98	41.7	13.88	578.80	1.7%
Nov-98	42.4	13.91	589.78	2.6%
Dec-98	42.5	13.93	592.03	0.6%
Jan-99	41.4	13.99	579.19	1.3%
Feb-99	41.9	14.01	587.02	2.0%
Mar-99	42.1	14.08	592.77	1.7%
Apr-99	41.9	14.14	592.47	3.5%
May-99	42.1	14.18	596.98	3.4%
Jun-99	42.0	14.24	598.08	3.0%
Jul-99	41.8	14.29	597.32	4.0%
Aug-99	41.8	14.29	597.32	3.3%
Sep-99	41.7	14.32	597.14	3.6%
Oct-99	41.6	14.33	596.13	3.0%
Nov-99 (p)	42.3	14.37	607.85	3.1%

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

**Average Weekly Manufacturing Earnings in Massachusetts,  
June 1998—November 1999**  
(not seasonally adjusted)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.  
Note: Vertical axis does not begin at zero.

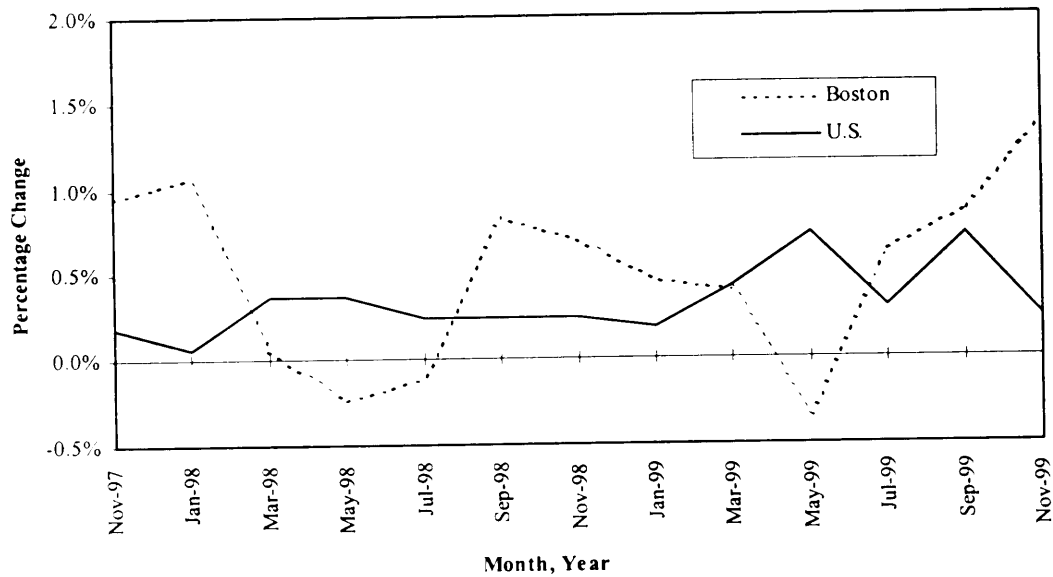
**Consumer Prices.** Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 1998. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 1998, the CPI-U for Boston increased 2.3 percent compared to an increase of 1.6 percent for the United States as a whole. The latest available data for July 1999 show that the CPI-U for the Boston metropolitan area grew at a rate of 2.7 percent from July 1998 compared with 2.1 percent for the U.S.

**Consumer Price Index for all Urban Consumers (CPI-U), 1970-1998  
(1982-1984=100)**

Year	Boston		U.S.	
	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%
Nov-98	173.3		164.0	
Nov-99	179.2	3.4%	168.3	2.6%

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

***Bi-Monthly Percentage Change in Consumer Price Index  
for all Urban Consumers, November 1997—November 1999***



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

***Consumer Confidence, Present Situation, and Future Expectations.*** These three measures offer different insight into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The measures for Boston are conducted in a similar manner and published by the New England Economic Project (NEEP), based on the polling of 500 adult residents of Massachusetts. “Consumer confidence” is a measure of consumer optimism regarding overall economic conditions. “Future expectations” focuses on consumers’ attitudes regarding business conditions, employment, and employment income for the coming six months. “Present situation” measures the same attitudes as future expectations but at the time of the survey. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 1995.

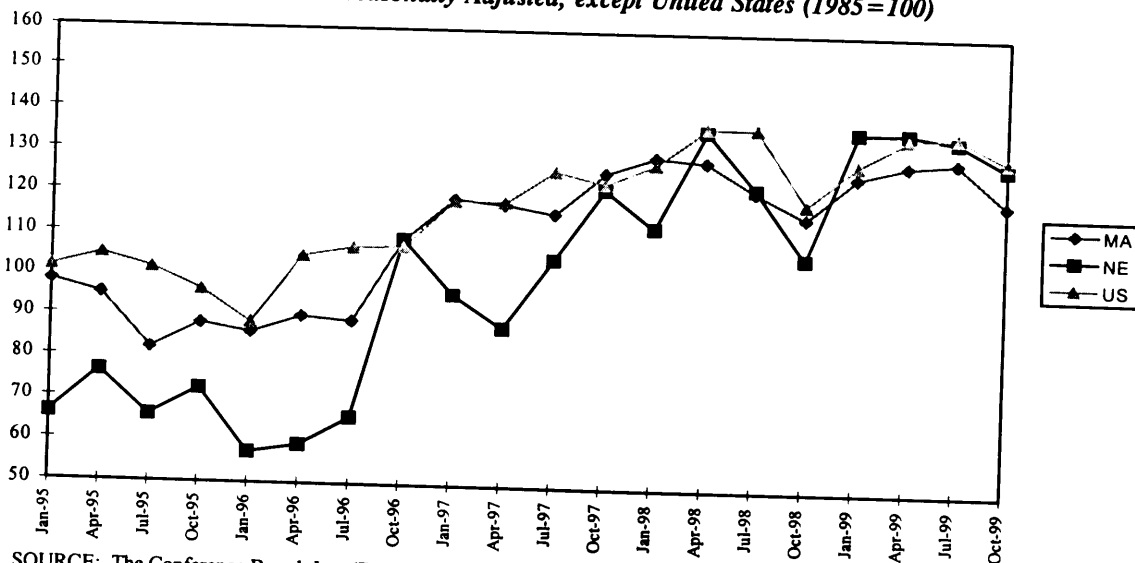
**Tri-Monthly Consumer Confidence, Present Situation, and Future Expectations  
for Massachusetts, New England, and the U.S., 1995 - 1999**  
*Not Seasonally Adjusted, except United States (1985=100)*

	Consumer Confidence			Present Situation			Future Expectations		
	MA	NE	US	MA	NE	US	MA	NE	US
Jan-95	98.0	66.1	101.4	64.0	51.5	111.4	121.0	75.8	94.8
Apr-95	95.0	76.3	104.6	96.0	45.7	116.2	94.0	96.7	97.0
Jul-95	82.0	65.8	101.4	65.0	62.6	119.9	93.0	67.9	89.1
Oct-95	88.0	72.3	96.3	68.0	68.0	105.9	101.0	75.1	89.9
Jan-96	86.0	57.3	88.4	60.0	48.4	101.1	103.0	63.2	79.9
Apr-96	90.0	59.2	104.8	72.0	42.4	118.2	102.0	70.4	95.9
Jul-96	89.0	65.8	107.0	81.0	73.7	125.0	95.0	60.8	95.0
Oct-96	109.0	109.1	107.3	100.0	114.5	124.6	114.0	105.5	95.7
Jan-97	119.0	95.9	118.7	116.0	105.8	141.2	122.0	89.3	103.8
Apr-97	118.0	88.0	118.5	123.0	90.1	141.6	115.0	86.6	103.2
Jul-97	116.0	104.9	126.3	123.0	141.6	154.5	110.0	80.5	107.6
Oct-97	126.0	122.1	123.4	133.0	151.2	147.5	121.0	102.7	107.3
Jan-98	130.0	113.0	128.3	142.0	144.2	159.3	122.0	92.2	107.7
Apr-98	129.0	136.5	137.2	145.0	168.2	169.3	119.0	115.4	115.8
Jul-98	122.0	122.7	137.2	145.0	166.9	172.9	107.0	93.2	113.4
Oct-98	116.0	106.1	119.3	141.0	170.4	165.2	101.0	63.3	88.7
Jan-99	126.0	136.8	128.9	148.0	173.2	172.9	111.0	112.6	99.6
Apr-99	129.0	136.9	135.5	148.0	185.4	175.5	116.0	104.6	108.8
Jul-99	130.0	135.1	136.2	150.0	194.9	179.2	116.0	95.3	107.6
Oct-99	120.0	128.8	130.5	154.0	181.6	173.9	98.0	93.6	101.5

SOURCE: The Conference Board, Inc. (for U.S. and N.E. measures) and the New England Economic Project (for Boston measures).

**Consumer Confidence for Massachusetts, New England, and the U.S.  
1995 - 1999**

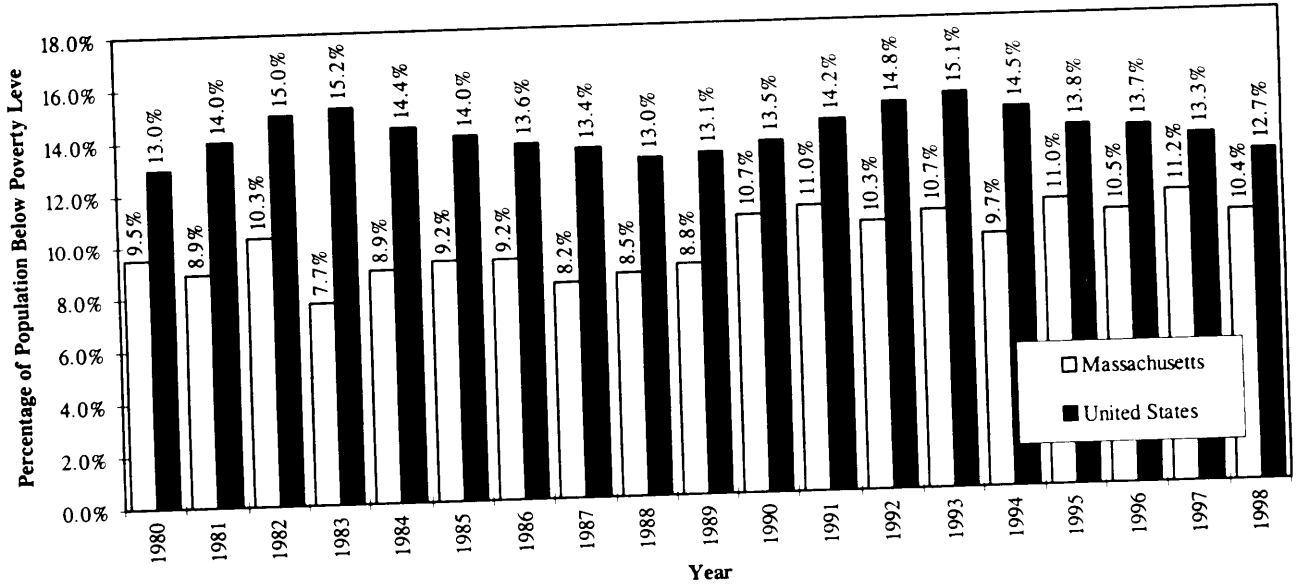
*Not Seasonally Adjusted, except United States (1985=100)*



SOURCE: The Conference Board, Inc. (For U.S. and N.E. measures), New England Economic Project (for Boston measures).

**Poverty.** The Massachusetts poverty rate remains significantly below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.2 percent. During the same time, the national poverty rate varied between the current 12.7 percent and 15.2 percent. In 1998, the poverty rate in Massachusetts was 10.4 percent while the poverty rate in the United States was 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 its recent high of 0.84 in 1997. In 1998, the ratio was 0.82. 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 compared with the national average from 1980 through 1998.

**Poverty Rate, 1980-1998**



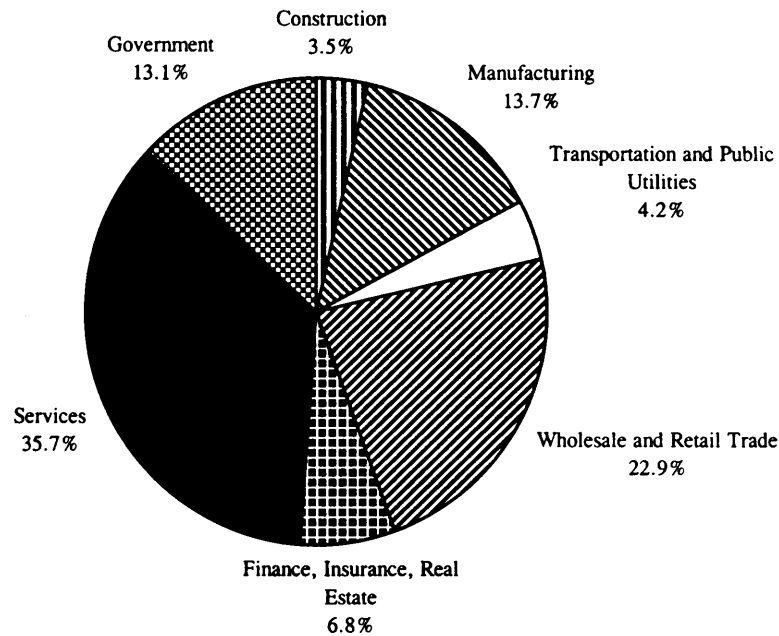
SOURCE: United States Department of Commerce, Bureau of the Census.



## EMPLOYMENT

**Employment by Industry.** The Massachusetts services sector, with 35.7 percent of the non-agricultural work force in November 1999, is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.9 percent), manufacturing (13.7 percent), and government employment (13.1 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for November 1999.

**Massachusetts Non-Agricultural Employment by Industry, Nov. 1999 (p)**  
(not seasonally adjusted)



Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government and finance, insurance and real estate ("FIRE") sectors. The economic recovery that began in 1993 has been accompanied by increased employment levels; since 1994, total employment levels in Massachusetts have increased at yearly rates greater than 2.0 percent. In 1998, employment levels in every industry increased or remained constant. The most rapid growth in 1998 came in the construction sector and the services sector, which grew at rates of 7.6 percent and 2.8 percent, respectively. Total non-agricultural employment in Massachusetts grew at a rate of 1.9 percent in 1998.

The following table demonstrates the changes in employment by sector from 1982 through 1998.

**Massachusetts Non-Agricultural Employment by Industry, 1982-1998**  
(in thousands)

Year	Construction		Manufacturing		Transportation and Public Utilities		Wholesale and Retail Trade		Finance, Insurance, Real Estate		Services		Government		Total Employment	
	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change
1982	78.4		636.5		120.1		579.2		168.7		683.5		374.7		2642.0	
1983	82.6	5.4%	629.0	-1.2%	118.2	-1.6%	612.7	5.8%	171.8	1.8%	705.8	3.3%	375.4	0.2%	2696.5	2.1%
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.1	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.1	8.8%	454.8	-2.3%	124.0	2.1%	648.4	1.2%	201.5	2.4%	942.8	3.2%	387.5	1.3%	2840.2	1.6%
1994	86.0	7.4%	447.2	-1.7%	127.4	2.7%	669.4	3.2%	206.9	2.7%	975.7	3.5%	390.0	0.6%	2903.8	2.2%
1995	89.8	4.4%	446.1	-0.2%	127.0	-0.3%	687.2	2.7%	205.3	-0.8%	1024.9	5.0%	395.1	1.3%	2976.6	2.5%
1996	94.0	4.7%	444.7	-0.3%	129.1	1.7%	695.1	1.1%	208.2	1.4%	1063.2	3.7%	400.0	1.2%	3035.4	2.0%
1997	100.3	6.7%	447.9	0.7%	132.9	2.9%	706.9	1.7%	212.2	1.9%	1103.1	3.8%	404.6	1.2%	3118.7	2.7%
1998	107.9	7.6%	448.0	0.0%	136.0	2.3%	720.5	1.9%	216.8	2.2%	1134.5	2.8%	412.1	1.9%	3177.2	1.9%

SOURCE: Massachusetts Department of Employment and Training. Annual averages of monthly figures. Data are subject to revision.

The following table presents changes in non-agricultural employment by sector between November 1998 and November 1999. Total non-agricultural employment increased by 1.4 percent during that period.

**Massachusetts Non-Agricultural Employment by Industry, Nov. 1998-Nov. 1999**  
(in thousands)

Employment Sector	Nov. 1998	Pct. of Total	Nov. 1999	Pct. of Total	Pct. Change
					Nov. 1998-Nov. 1999
Mining	1.4	0.0%	1.3	0.0%	-7.1%
Construction	114.0	3.5%	119.8	3.7%	5.1%
Manufacturing	442.2	13.7%	435.8	13.3%	-1.4%
Transportation and Public Utilities	137.0	4.2%	138.8	4.2%	1.3%
Wholesale and Retail Trade	739.8	22.9%	748.5	22.9%	1.2%
Finance, Insurance, Real Estate	218.8	6.8%	222.8	6.8%	1.8%
Services	1151.8	35.7%	1179.0	36.0%	2.4%
Government	424.3	13.1%	427.2	13.1%	0.7%
<b>Total Employment</b>	<b>3,229.3</b>	<b>100.0%</b>	<b>3,273.2</b>	<b>100.0%</b>	<b>1.4%</b>

SOURCE: Massachusetts Division of Employment and Training.

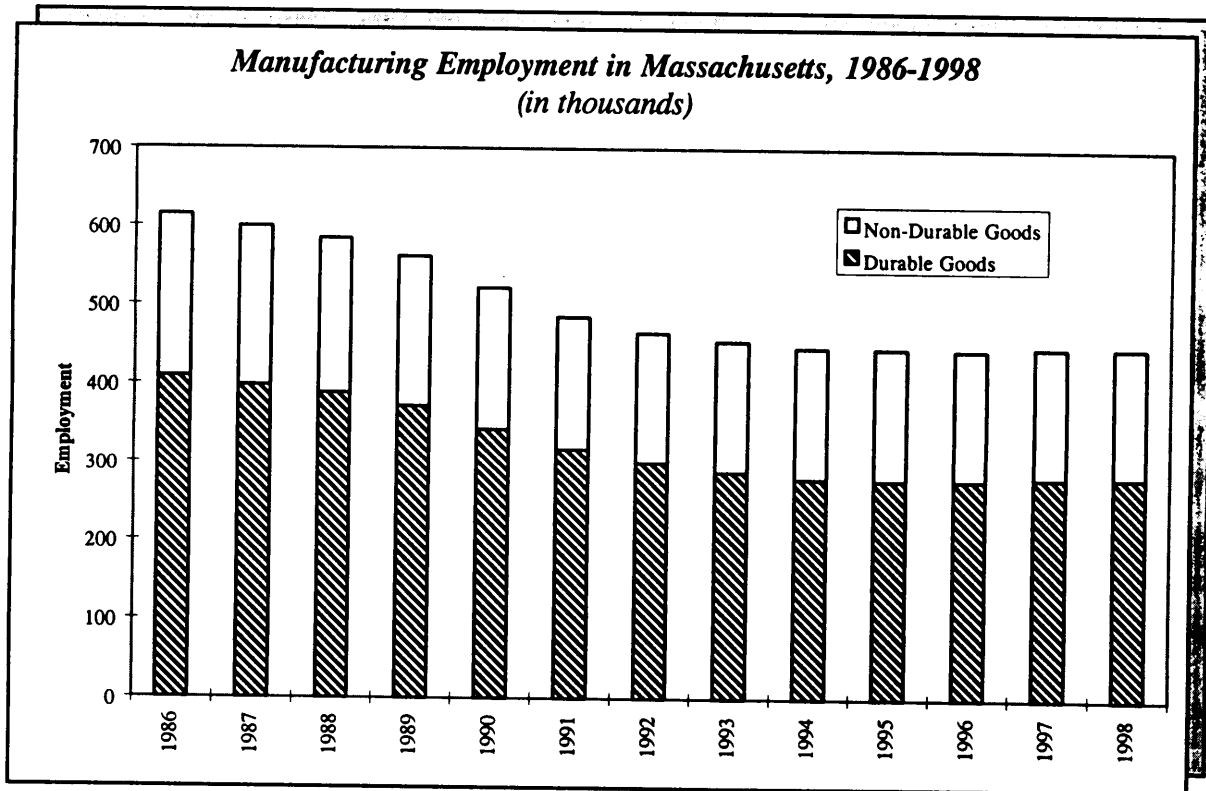
Notes: 1999 figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. Figures are not seasonally adjusted.

**Services Employment.** The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 1998. Between November 1998 and November 1999, the services sector saw an increase in employment of 2.4 percent, and in November 1999, services sector employment (not seasonally adjusted) was 1,179,000, representing 36.0 percent of total non-agricultural employment. Health services is the largest component of the services sector in terms of employment. In 1990, the health services sector numbered

270,900 workers, with 128,600 of those employed by hospitals. Health services employment continued to grow during the economic downturn in the early 1990s and by 1998 had reached 329,200 workers. The fastest growing category within the services sector between November 1998 and November 1999, and the second largest component of the services sector was the business services category, which grew at a rate of 3.5 percent and employed 248,700 workers in November 1999.

**Wholesale and Retail Trade Employment.** In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in each of the last five years, including a 1.4 percent increase in 1998. In November 1999, wholesale and retail trade was the second largest employment sector in Massachusetts with 748,500 employees, 1.2 percent above November 1998 levels. The retail trade sector, which employed 571,200, increased by 1.6 percent between November 1998 and November 1999 while the wholesale trade sector, which employed 177,300 employees in November 1999, declined 0.2 percent during that period.

**Manufacturing Employment.** Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1996, falling a total of 33.4 percent. However, growth rates have improved considerably in recent years—from levels at or below -7.0 percent in 1990 and 1991 to -0.2 percent and -0.3 percent in 1995 and 1996, respectively—and employment in the manufacturing sector remained constant between 1997 and 1998. Between November 1998 and November 1999, however, manufacturing employment declined 1.5 percent.



**Manufacturing Establishment Employment by Industry in Massachusetts, 1986-1998**  
(selected industries, in thousands)

Industry	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Durable Goods</b>	409.1	398.0	388.1	372.1	342.7	317.0	299.6	287.0	278.2	276.3	276.8	279.6	280.9
<b>Percentage Change</b>	-6.2	-2.7%	-2.5%	-4.1%	-7.9%	-7.5%	-5.5%	-4.2%	-3.1%	-0.7%	0.2%	1.0%	0.5%
<b>Primary Metals</b>	15.8	15.6	12.9*	12.3	11.3	10.3	9.3	9.1	9.2	9.6	10.2	10.5	10.2
<b>Fabricated Metals</b>	42.8	41.7	45.0*	43.2	40.9	37.9	36.2	35.6	35.8	36.6	36.4	36.9	37.1
<b>Industrial Machinery</b>	107.4	102.3	100.0	95.8	85.2	76.6	72.5	67.3	63.6	63.4	64.2	64.1	64.9
<b>Electronic &amp; Elec.</b>	107.4	105.2	82.2*	79.3	72.9	68.5	63.9	59.9	59.5	60.2	60.9	62.2	62.0
<b>Transportation Equip.</b>	37.1	35.4	32.4	30.6	27.8	26.0	24.1	21.9	19.2	18.3	18.8	19.2	19.5
<b>Stone, Clay, &amp; Glass</b>	10.8	10.7	10.7	10.0	8.7	7.8	7.9	8.0	8.1	8.3	8.2	8.4	8.8
<b>Instruments</b>	55.1	54.5	72.4	71.2	69.4	65.6	61.6	60.4	57.8	55.0	53.9	53.7	53.7
<b>Non-Durable Goods</b>	205.3	201.1	196.5	189.0	178.6	168.0	166.1	168.1	168.9	169.7	167.9	168.2	167.1
<b>Percentage Change</b>	-3.9	-2.0%	-2.3%	-3.8%	-5.5%	-5.9%	-1.1%	1.2%	0.5%	0.5%	-1.1%	0.2%	-0.7%
<b>Apparel</b>	27.8	25.4	23.7	22.0	19.2	17.7	17.7	17.2	16.8	16.0	15.1	14.1	13.2
<b>Food &amp; Kindred Prod.</b>	22.7	21.4	21.0	20.5	20.1	19.6	19.3	19.8	20.3	21.1	21.7	21.5	21.7
<b>Chemicals</b>	17.2	18.0	18.6	18.4	17.7	17.3	16.5	16.9	16.3	16.0	17	17.5	17.6
<b>Printing &amp; Publishing</b>	54.2	55.6	55.8	55.0	52.2	48.9	47.3	47.5	48.0	49.0	48.6	49.1	49.0
<b>Textile Mill Prod.</b>	17.7	17.1	16.3	15.5	14.6	14.1	14.6	15.1	15.4	15.2	14.8	14.6	14.1
<b>Paper &amp; Allied Prod.</b>	24.8	24.7	24.3	23.4	22.5	21.1	20.7	20.3	19.9	19.8	19.3	19.3	19.3
<b>Rubber &amp; Misc. Plastics</b>	29.4	28.7	26.9	25.3	23.8	22.1	22.9	24.4	25.3	26.4	25.7	26.6	27.2
<b>Total Man. Employ.</b>	614.4	599.1	584.7	561.1	521.3	485.0	465.7	454.8	447.2	446.1	444.7	447.8	448.0
<b>Percentage Change</b>	-2.7	-2.5%	-2.4%	-4.0%	-7.1%	-7.0%	-4.0%	-2.3%	-1.7%	-0.2%	-0.3%	0.7%	0.0%

SOURCE: Massachusetts Division of Employment and Training.

\* Break in series; 1988 and subsequent data are not comparable with previous years for this industry.

**Government Employment.** Federal, state, and local government employed 427,200 workers in November 1999, which accounted for 13.1 percent of total non-agricultural employment in Massachusetts. The majority of these workers (270,100) were employed in local government, which grew at a rate of 1.9 percent between November 1998 and November 1999.

**Finance, Insurance, and Real Estate Employment.** While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates between 1.4 and 2.7 percent, with the exception of a 0.8 percent decline in 1995. With an increase of 2.2 percent in 1998 and increases in 1999, employment levels in this sector have risen above 1988 levels for the first time. As of November 1999, total employment in the FIRE sector was 222,800, an increase of 1.8 percent from November 1998.

**Construction Employment.** Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 1998. In November 1999, the construction sector employed 119,800 people, an increase of 5.1 percent over November 1998 levels.

**Largest Employers in Massachusetts.** The following table lists the twenty-five largest private sector employers in Massachusetts based upon employment data for the second quarter of 1998. New to this list is Demoulas Supermarkets which replaced Harvard Community Health Plan. It should also be noted that what was listed as Massachusetts General Hospital in previous years is now listed as General Hospital Corporation.

***Twenty-five Largest Private Sector Massachusetts Employers in June 1998***

Bank of Boston	Massachusetts Institute of Technology
Beth Israel-Deaconess Hospital	May Department Stores
Big Y Foods	New England Telephone & Telegraph Co.
Boston University	Polaroid Corporation
Brigham & Women's Hospital, Inc.	Raytheon Company
Demoulas Supermarkets	S & S Credit Company, Inc.
Digital Equipment Corporation	Sears, Roebuck, & Company
Friendly Ice Cream Corporation	Shaw's Supermarkets, Inc.
General Electric Company	Star Markets Company
General Hospital Corporation	State Street Bank
Harvard University	The Marsh & McLennan Management Co.
Lucent Technologies	United Parcel Service
Marsh & McLennan Management Co.	Wal-Mart Associates

SOURCE: Massachusetts Division of Employment and Training.

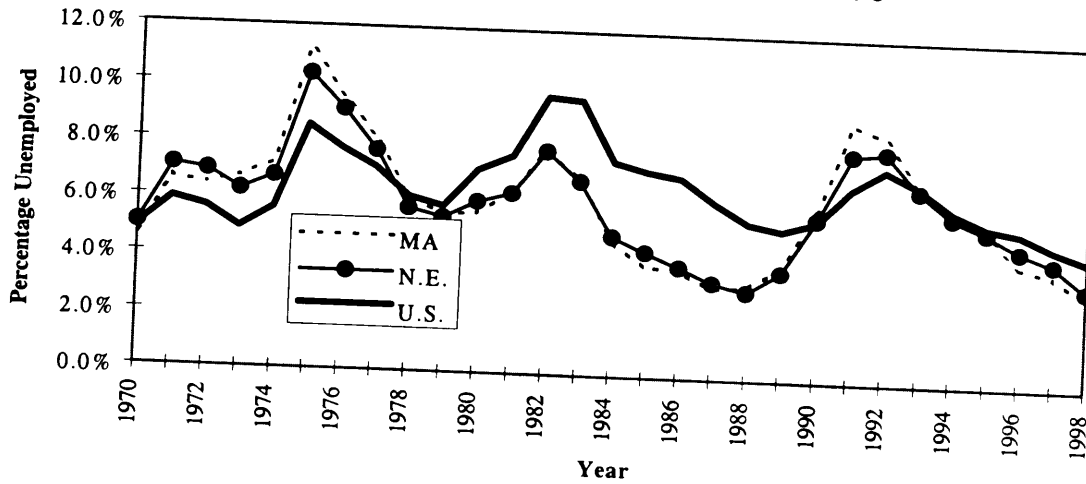
**Unemployment.** While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began in 1993 has caused unemployment rates in Massachusetts to decline faster than the national average. As a result, since 1994 the unemployment rate in Massachusetts has been below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 1998.

**Annual Average Civilian Labor Force and Unemployment, 1970-1998**  
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as Pct. of U.S.
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,024	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,954	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,956	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	7,004	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,118	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,114	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%

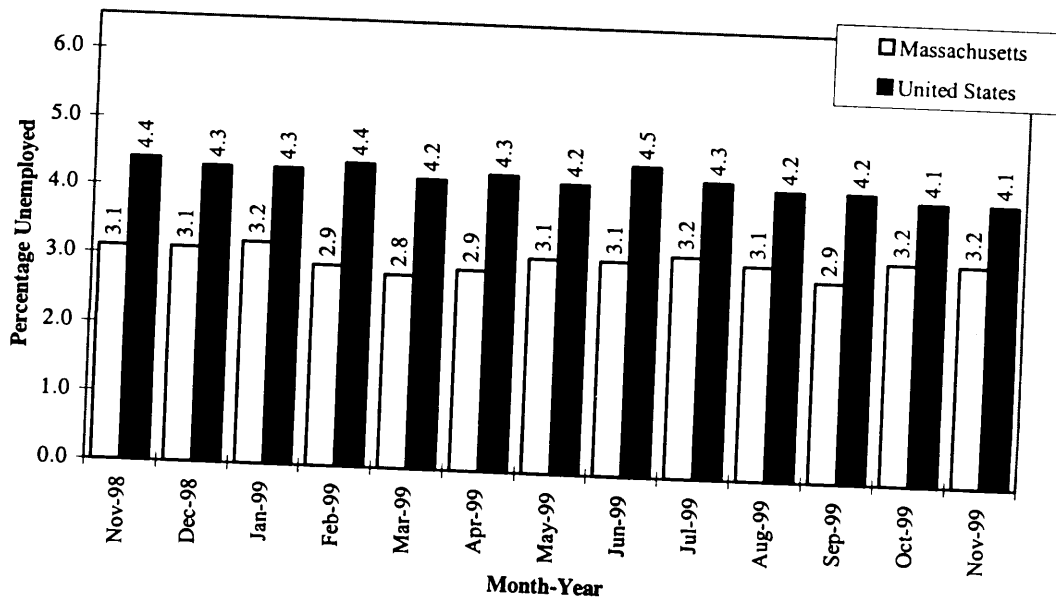
SOURCE: United States Department of Labor, Bureau of Labor Statistics.

*Average Annual Unemployment Rate, 1970-1998*



The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months, remaining near 4 percent before falling below 4 percent in October 1997. Unemployment levels in the United States as a whole and in the New England region have shown similar declines in the last year: the unemployment rate in Massachusetts fell from 3.4 percent in June 1998 to 3.1 percent in June 1999 and the United States unemployment rate remained the same between June 1998 and June 1999. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

*Monthly Unemployment Rate, November 1998—November 1999  
(seasonally adjusted)*



SOURCE: Massachusetts Division of Employment and Training.

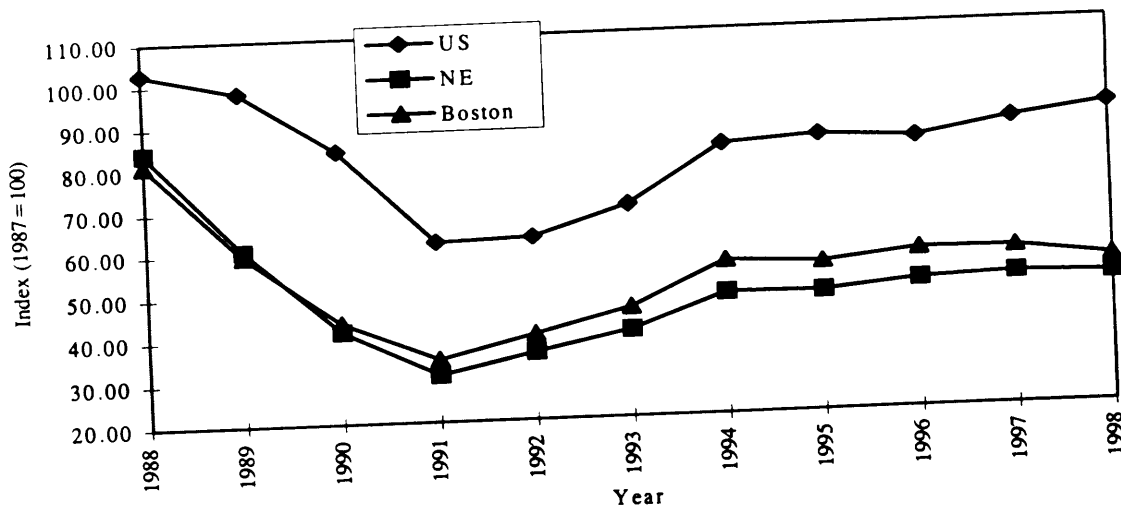
**Help Wanted Advertising Index, 1988-1998**  
(Seasonally Adjusted)

	US	% Change	NE	% Change	Boston	% Change
1988	102.92		84.25		81.50	
1989	98.00	-0.05	60.83	-0.28	59.50	-0.27
1990	83.83	-0.14	41.50	-0.32	43.50	-0.20
1991	62.00	-0.26	31.00	-0.25	34.67	-0.20
1992	62.50	0.01	35.75	0.15	39.92	0.15
1993	69.42	0.11	40.25	0.13	45.42	0.14
1994	82.92	0.19	48.08	0.19	55.42	0.22
1995	84.25	0.02	47.75	-0.01	54.50	-0.02
1996	83.17	-0.01	49.75	0.04	56.83	0.04
1997	87.00	0.05	50.58	0.02	56.67	0.00
1998	89.92	0.03	50.00	-0.01	54.00	-0.05
Nov-98	89.00		51.00		56.00	
Nov-99	85.00	-0.04	55.00	0.08	63.00	0.13

SOURCE: The Conference Board, Inc.

**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. Correlations are particularly strong when a trend is observed over several months.

**Help Wanted Advertising Index, 1988-1998**  
(Seasonally Adjusted)



SOURCE: The Conference Board, Inc.

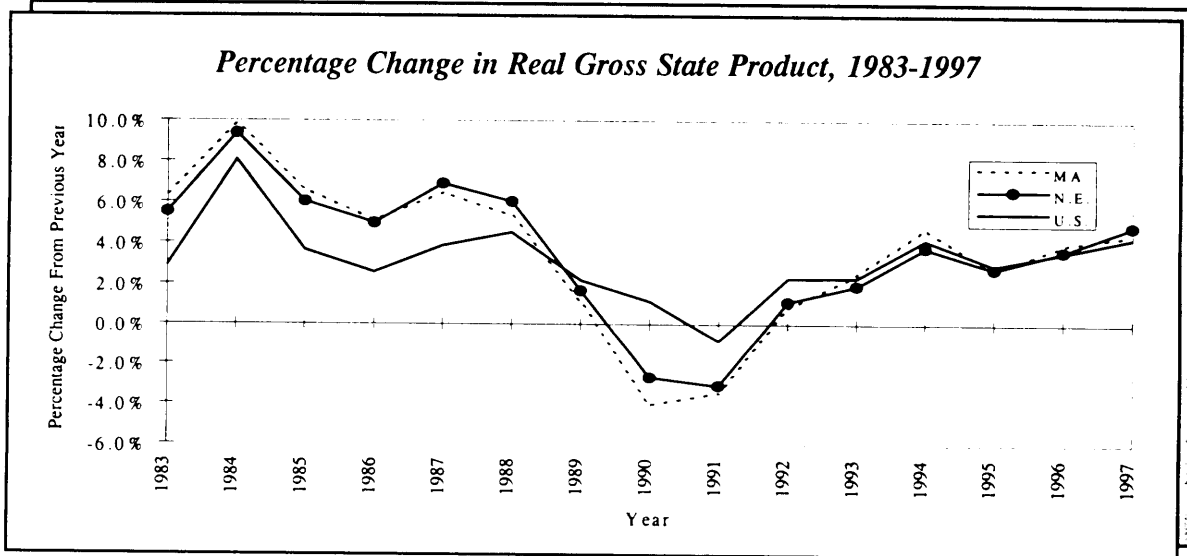


***Unemployment Compensation Trust Fund.*** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. As of November 30, 1999, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.869 billion, and the Division of Employment and Training's October 1999 quarterly report indicates that the contributions provided by current law should rebuild reserves in the system to \$2.414 billion by the end of 2003.

***Employment and Unemployment by County.*** Despite an overall unemployment rate that was lower than the national average of 4.5 percent in 1998, Massachusetts showed some intra-state variation in unemployment, with ten counties experiencing unemployment rates at or above the average state unemployment rate of 3.3 percent and four counties experiencing unemployment rates below 3.3 percent. The lowest unemployment levels in the state in 1998 were in Nantucket (1.8 percent), Hampshire (2.8 percent), Middlesex (2.5 percent), and Norfolk (2.4 percent) Counties. The highest levels of unemployment in the state were the southeastern counties of Barnstable and Bristol, which experienced unemployment rates of 4.9 percent and 5.0 percent, respectively.

## ECONOMIC BASE AND PERFORMANCE

Between 1982 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, both Massachusetts and New England experienced growth rates significantly below the national average. Since then, growth rates in Massachusetts and New England have improved to levels on par with the rest of the nation. In 1997, the economies of both Massachusetts and New England grew at a faster pace than the nation as a whole for the first time since 1988. The Massachusetts economy has been the strongest in New England, making up an average of 47.7 percent of New England's total Gross Product and an average of 2.8 percent of the nation's economy over the decade and a half.



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, 1982-1997**  
(millions of chained 1992 dollars)

Year	Massachusetts		New England		United States	
	GSP	Percentage Change	GSP	Percentage Change	Total GSP	Percentage Change
1982	\$119,228		\$250,329		\$4,559,704	
1983	126,835	6.4%	264,074	5.5%	4,691,327	2.9%
1984	139,274	9.8%	288,780	9.4%	5,069,768	8.1%
1985	148,500	6.6%	306,187	6.0%	5,254,856	3.7%
1986	156,087	5.1%	321,393	5.0%	5,390,219	2.6%
1987	166,159	6.5%	343,542	6.9%	5,598,489	3.9%
1988	175,047	5.3%	364,207	6.0%	5,851,161	4.5%
1989	177,054	1.1%	370,324	1.7%	5,978,566	2.2%
1990	169,885	-4.0%	360,426	-2.7%	6,046,514	1.1%
1991	164,007	-3.5%	349,258	-3.1%	5,995,715	-0.8%
1992	165,325	0.8%	353,141	1.1%	6,133,012	2.3%
1993	169,432	2.5%	359,865	1.9%	6,274,538	2.3%
1994	177,462	4.7%	373,481	3.8%	6,535,632	4.2%
1995	182,193	2.7%	383,743	2.7%	6,726,590	2.9%
1996	189,385	3.9%	397,640	3.6%	6,965,494	3.6%
1997	197,798	4.4%	416,834	4.8%	7,262,914	4.3%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.  
 Note: New England and United States figures include Massachusetts and New England GSP, respectively.  
 Chained dollars are utilized by the BEA as it serves as a more accurate measure of real GSP in an extended time series comparison.

The Bureau of Economic Analysis of the U.S. Department of Commerce also publishes projections for future Gross State Product levels. Their most recent projections for Gross State Product in Massachusetts and the U.S. are compared below. As the table indicates, the real Gross State Product in Massachusetts is expected to rise steadily for the next fifty years. Over the same period, however, the Commonwealth's portion of the nation's gross state product is expected to decline steadily.

**Projected Gross State Product, 2000-2045**  
(millions of constant 1987 dollars)

Year	MA	U.S.	Percentage MA of U.S.
2000	\$159,984	\$6,025,600	2.66%
2005	174,114	6,635,000	2.62%
2010	187,627	7,219,400	2.60%
2015	200,057	7,754,500	2.58%
2025	222,631	8,723,700	2.55%
2045	289,426	11,455,400	2.53%

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

The commercial base of Massachusetts is anchored by the seventeen 1998 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The *Fortune* 500 firms are ranked according to total revenues in 1997.

**Massachusetts Companies in the 1999 Fortune 500**

Ranking		Company	Industry	1998 revenues (in millions)
1999	1998			
69	100	Raytheon (Lexington)	Electronics, Electrical Equipment	\$19,530.0
124	132	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	13,166.0
153	162	Mass. Mutual Life Ins. (Springfield)	Insurance: Life and Health (Mutual)	10,668.1
159	155	Gillette (Boston)	Metal Products	10,056.0
161	193	Fleet Financial Group (Boston)	Commercial Banks	10,002.0
179	191	John Hancock Mutual Life (Boston)	Insurance: Life and Health (Mutual)	8,911.7
208	208	TJX (Framingham)	Specialty Retailers	7,949.1
218	238	BankBoston Corp. (Boston)	Commercial Banks	7,609.0
236	303	Staples (Westborough)	Specialty Retailers	7,123.2
365	394	Harcourt General (Chestnut Hill)	General Merchandisers	4,235.3
366	419	State St. Boston Corp. (Boston)	Commercial Banks	4,234.0
386	477	EMC (Hopkinton)	Computer Peripherals	3,973.7
394	409	Thermo Electron (Waltham)	Scientific, Photo, and Control Equipment	3,867.6
421	443	BJ's Wholesale Club (Natick)	Food and Drug Stores	3,552.2
433	423	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Mutual)	3,432.5
458	402	Reebok International (Stoughton)	Apparel	3,224.6

SOURCE: *Fortune*, April 26, 1999.

With sixteen *Fortune* 500 companies, Massachusetts ranks ninth among all states. The 1999 list remains very much the same as it appeared in 1998. Among Massachusetts firms from the 1998 *Fortune* 500, only Digital Equipment (F98-118) failed to appear in the 1999 as it was acquired by Compaq Computer of Houston, TX.

Along with the sixteen 1999 *Fortune* 500 companies with headquarters in Massachusetts, five of *Fortune*'s 1999 Top 100 fastest growing companies in the country are based in Massachusetts. Only

California (25), Florida (11), and Texas (7) had more firms on the list. The 1999 *Fortune* Top 100 firms are ranked according to annual growth rates in earnings per share, revenue, and total return in stock price.

### Massachusetts Companies in the 1999 Fortune Top 100

(Fortune Top 100 measures fastest growing U.S. companies)

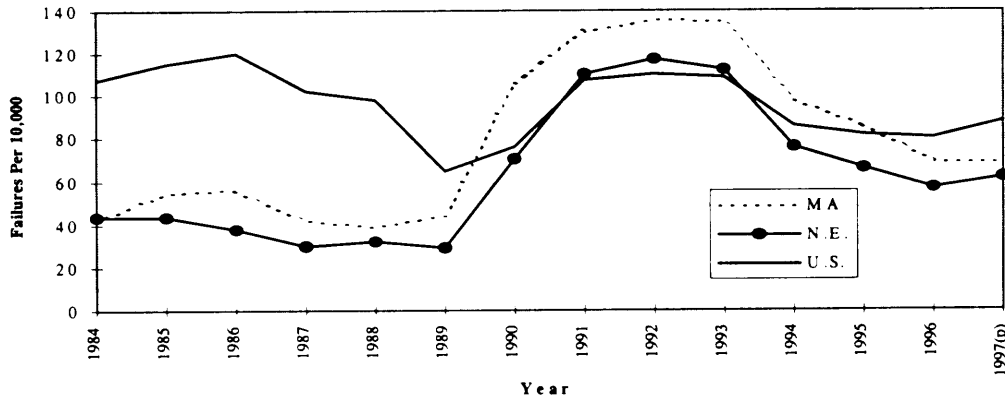
Ranking		Company	Industry	Earnings Per Share Annual Growth Rate	Sales
1999	1998				Past Four Quarters (in Millions)
19	--	Polymedica (Woburn)	Health Care	147%	\$115.7
41	17	Biogen (Cambridge)	Health Care	73%	675.0
63	--	Sapient (Cambridge)	Technology	40%	216.3
63	91	SLI (Canton)	Industrial	40%	799.5
68	--	Keane (Boston)	Technology	77%	1,150.2

SOURCE: *Fortune*, September 6, 1999.

The current restructuring of the Massachusetts economy due to the economic recovery has brought many new business opportunities. Entrepreneurial activity in Massachusetts, as measured by business starts, declined from a high of 6,264 in 1986 to a low of 3,602 in 1990. By 1994, business starts had rebounded to 5,091, but have since declined to 3,425 in 1998.

According to Dun & Bradstreet, the business failure rate in Massachusetts, which was significantly lower than the national average between 1984 and 1989, increased to a rate higher than that of the United States between 1990 and 1995. In 1996, however, the business failure rate in Massachusetts again dropped below the national average and remained well below the national average in 1997. The following chart and table show total business failures and business failures per 10,000 existing businesses through 1997, and total business starts through 1998 for Massachusetts, New England, and the United States.

#### Business Failures Per 10,000 Existing Businesses, 1984-1997



### *Business Starts and Business Failures, 1980-1998*

Year	Business Starts			Business Failures			Failures Per 10,000		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1980	NA	NA	NA	235	464	11,742	NA	NA	NA
1981	NA	NA	NA	226	553	15,694	NA	NA	NA
1982	NA	NA	NA	331	650	24,908	NA	NA	NA
1983	NA	NA	NA	398	831	31,334	NA	NA	NA
1984	NA	NA	NA	513	1,203	52,078	42	44	107
1985	5,222	11,609	249,770	683	1,228	57,253	54	43	115
1986	6,264	14,083	253,092	725	1,109	61,616	56	38	120
1987	5,426	13,054	233,710	633	1,021	61,111	42	30	102
1988	4,437	10,407	199,091	555	1,052	57,097	39	32	98
1989	4,455	10,716	181,645	771	1,282	50,361	44	29	65
1990	3,602	8,606	158,930	1,913	3,087	60,747	106	70	76
1991	3,631	8,328	155,672	2,839	5,654	88,140	130	110	107
1992	4,244	9,263	164,086	3,031	6,214	97,069	136	117	110
1993	3,967	8,826	166,154	2,712	5,339	86,133	135	112	109
1994	5,091	10,838	188,387	2,100	3,771	71,558	98	76	86
1995	4,419	9,250	168,158	1,927	3,395	71,128	86	66	82
1996	4,351	8,960	170,475	1,612	3,064	71,931	69	57	80
1997(p)	3,766	7,979	166,740	1,667	3,445	83,384	69	62	88
1998(p)	3,425	7,584	155,741	NA	NA	NA	NA	NA	NA

SOURCE: The Dun & Bradstreet Corporation, Department of Economic Analysis.

NA=Data not available for these years.

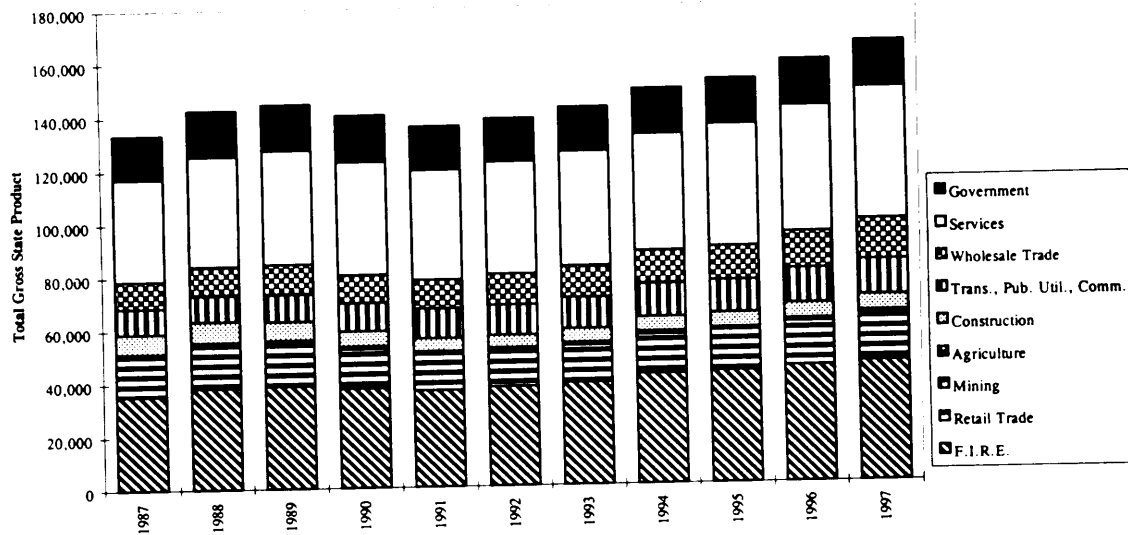
(p)=Business Failures and Failures per 10,000 are preliminary for 1997.

Business Starts for 1998 are preliminary data.

### **Economic Base and Performance – Sector Detail**

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy contributed roughly the same percentage of the total Massachusetts Gross State Product in 1996 as they did in 1986. In 1996, the three largest sectors of the Massachusetts economy (services, FIRE, and manufacturing) contributed 65.7 percent of the total Massachusetts Gross State Product while the remaining six sectors contributed 34.3 percent. In 1986, these same three largest sectors contributed 63.4 percent of the total Massachusetts Gross State Product. The data below show the contributions to the Massachusetts real Gross State Product of several industrial and non-industrial sectors.

**Sector Composition of Massachusetts Gross State Product, 1987-1997**  
(millions of chained 1992 dollars)



**Gross State Product by Industry in Massachusetts, 1987-1997**  
(millions of chained 1992 dollars)

<i>Industrial Sector</i>	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Agriculture</b>	\$1,051	\$1,055	\$970	\$1,027	\$1,061	\$1,086	\$1,003	\$1,080	\$1,022	\$1,089	\$1,206
<b>Mining</b>	116	113	82	68	72	97	106	122	124	136	149
<b>Construction</b>	7,616	7,934	7,218	5,817	4,818	4,810	5,069	5,411	5,502	5,824	5,975
<b>Manufacturing</b>	32,416	32,354	32,514	29,870	28,524	27,445	27,906	29,574	30,789	31,207	32,992
<b>Trans., Pub. Util., Comm.</b>	9,687	9,794	10,209	10,548	11,331	11,310	11,971	12,445	12,195	12,938	13,198
<b>Wholesale Trade</b>	10,082	10,950	11,301	10,652	10,831	11,534	11,697	12,573	12,920	13,952	15,251
<b>Retail Trade</b>	14,849	15,985	16,075	14,717	13,533	13,562	14,035	14,761	15,224	16,333	17,526
<b>F.I.R.E.</b>	35,231	38,167	38,651	37,409	36,266	37,208	38,316	41,216	41,964	43,604	44,950
<b>Services</b>	38,398	41,278	42,720	42,345	41,192	42,299	42,968	43,761	45,581	47,154	49,311
<b>Government</b>	16,278	17,165	17,173	17,469	16,378	15,975	16,574	16,863	16,902	17,173	17,419
<b>Total GSP</b>	\$166,159	\$175,047	\$177,054	\$169,885	\$164,007	\$165,325	\$169,432	\$177,462	\$182,193	\$189,385	\$197,798

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

**Services.** The services sector remains the largest contributor to the Massachusetts Gross State Product comprising 24.9 percent of the Commonwealth's Gross State Product in 1997. After increasing at yearly rates of 7.5 percent and 3.5 percent in 1988 and 1989, growth in the services sector declined 0.9 percent and 2.7 percent in 1990 and 1991, respectively. The sector experienced moderate growth between 1992 and 1994 with growth rates between 1.6 percent and 2.7 percent each year. Growth accelerated in 1995, 1996, and 1997 with yearly growth rates of 4.2 percent, 3.5 percent, and 4.6 percent, respectively. The health care industry is the largest contributor to the services sector and continues to play an important role in the Massachusetts economy, contributing 6.5 percent of the Gross State Product in 1997.

**Finance, Insurance, Real Estate.** The FIRE sector has been the second largest contributor to the Massachusetts Gross State Product over the last decade. In 1997, it contributed 22.7 percent of the Gross

State Product. A growth rate of 8.3 percent in 1988 was followed by slower growth in 1989 (1.3 percent) and negative growth rates of -3.2 percent and -3.1 percent in 1990 and 1991, respectively. The FIRE sector has grown at least 1.8 percent every year since 1991 with a peak growth rate of 7.6 percent in 1994.

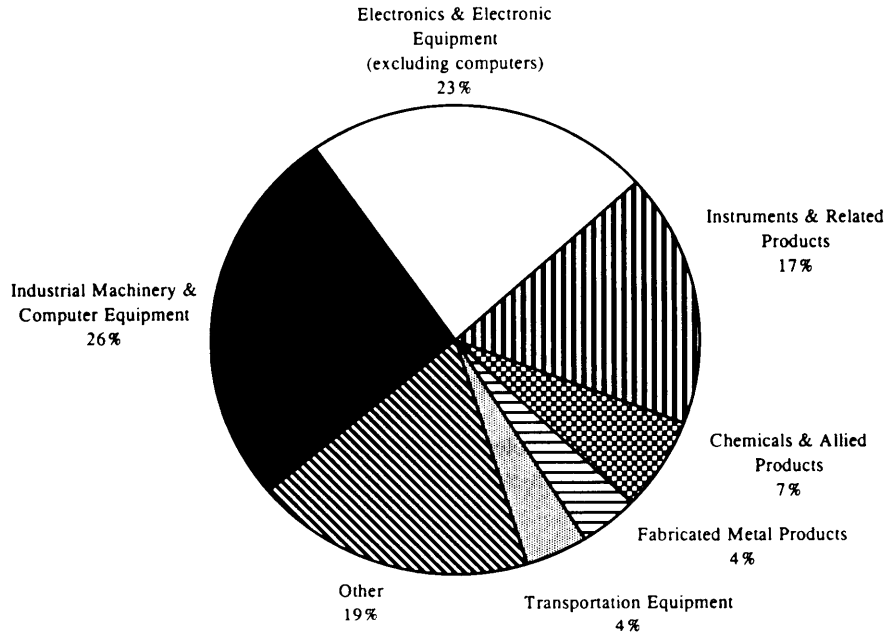
**Manufacturing.** The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 1997, contributing 16.7 percent of the Gross State Product. Because of more rapid growth in other sectors in the late 1980s and early 1990s, this sector's share of the Gross State Product declined every year between 1987 and 1993. This trend appears to have ended more recently, however, as the manufacturing sector's share of the Gross State Product has remained between 16.5 percent and 16.9 percent for the last six years. In 1997, the manufacturing sector grew by 5.7 percent.

**Wholesale and Retail Trade.** Taken together, the wholesale and retail trade sectors contributed 16.6 percent of the Massachusetts Gross State Product in 1997, with retail trade contributing 8.9 percent and wholesale trade contributing 7.8 percent. Growth within these sectors varied significantly between 1988 and 1996, with the wholesale trade sector experiencing a growth rate as high as 8.6 percent in 1988 and as low as -5.7 percent in 1990. Growth in the retail trade sector was as high as 7.7 percent 1988, and as low as -8.4 and -8.0 percent in 1990 and 1991. In 1997, the wholesale trade sector grew faster than at any point in the previous decade with a growth rate of 9.3 percent while the retail trade sector almost matched the feat growing at a rate of 7.3 percent.

**Trade and International Trade.** A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked thirteenth in the United States, and first in New England, with nearly \$17.2 billion in international exports in 1998. This represents a 4.6 percent decline from the previous year's exports from the Commonwealth while national exports declined by 1.0 percent in the same period. The Commonwealth's exports in the third quarter of 1999 were 3.6 percent higher than exports in the third quarter of 1998. This was better than national exports in the same period as national exports increased by just 0.7 percent. 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' most important exports, as shown in the following chart, are industrial machinery and computer equipment, electronics and electric equipment, and instruments and related products.

### Composition of Massachusetts Exports by Industry Group, 1998



SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts at Amherst.

Massachusetts' five most important trading partners for 1998 were: Canada, which purchased \$3.5 billion worth of products; Japan, which bought \$1.9 billion; the United Kingdom, which purchased \$1.8 billion; Germany, which bought \$1.2 billion; and the Netherlands, which purchased \$960 million worth of products. Between 1997 and 1998, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Mexico, Germany, France, and the United Kingdom, which increased 17.3 percent, 9.3 percent, 6.1 percent, and 4.4 percent, respectively.

### Value of International Shipments from Massachusetts, 1992-1998 (top ten industry groups ranked by value of 1998 sales, in millions)

Major Industry Group	1992	1993	1994	1995	1996	1997	1998
Industrial Machinery & Computer Equip.	\$4,174.0	\$3,874.0	\$4,065.1	\$4,482.5	\$4,558.9	\$5,212.5	\$4,515.9
Elec. & Elec. Equip. (excl. Computers)	2,082.1	2,240.5	2,799.5	3,638.9	3,550.8	4,012.3	3,996.6
Instruments & Related Products	1,848.3	1,867.0	1,897.9	2,080.2	2,451.1	2,838.5	2,972.7
Chemicals & Allied Products	496.3	534.1	632.4	741.0	842.3	1,048.7	1,118.1
Transportation Equipment	479.0	499.1	416.4	632.6	814.3	707.3	697.9
Fabricated Metal Products	726.9	625.8	622.9	619.1	763.8	854.1	669.2
Rubber & Misc. Plastic Products	236.8	373.8	417.1	416.0	378.3	436.3	447.4
Primary Metal Industries	200.0	211.5	232.9	265.1	320.8	381.2	427.2
Paper & Allied Products	243.1	242.8	258.7	293.7	306.2	353.1	372.9
Food & Kindred Products	128.9	133.2	148.4	161.8	237.6	290.6	274.1
<b>Total from Above Industries</b>	<b>\$10,615.5</b>	<b>\$10,601.7</b>	<b>\$11,491.3</b>	<b>\$13,330.9</b>	<b>\$14,224.1</b>	<b>\$16,134.6</b>	<b>\$15,492.0</b>
<b>Total from All Industries-Massachusetts</b>	<b>\$12,157.6</b>	<b>\$12,194.8</b>	<b>\$13,064.8</b>	<b>\$15,065.3</b>	<b>\$15,998.6</b>	<b>\$18,027.6</b>	<b>\$17,190.6</b>
<b>Percentage Change</b>	<b>2.2%</b>	<b>0.3%</b>	<b>7.1%</b>	<b>15.3%</b>	<b>6.2%</b>	<b>12.7%</b>	<b>-4.6%</b>

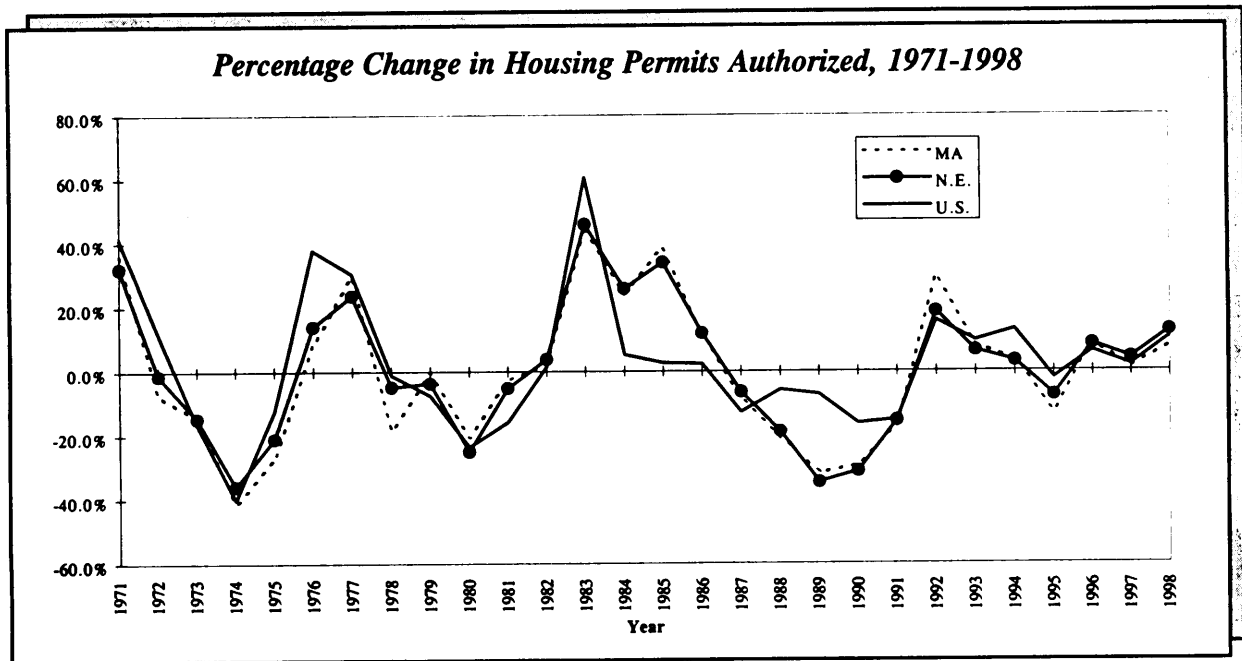
SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts at Amherst.

Note: Algorithm was revised beginning with 1996 data. Data for prior years may not be consistent.



**Construction and Housing.** In 1997, construction activity contributed 3.0 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1992 with growth as low as -19.4 percent and -17.2 percent in 1990 and 1991. Beginning in 1993, however, the sector rebounded and has grown every year since, reaching growth rates between 1.7 percent and 6.7 percent over the past five years.

The following chart and table show the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. While the growth in the number of housing permits authorized in Massachusetts declined each year between 1992 and 1995, the number of housing permits authorized in 1998 grew for the third straight year in Massachusetts, New England, and in the United States, reaching its highest level in Massachusetts since 1989.



### Housing Permits Authorized, 1970-1998

Year	Massachusetts		New England		United States	
	Total Permits	Percentage Change	Total Permits	Percentage Change	Total Permits	Percentage Change
1970	38,330		74,068		1,354,746	
1971	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
1972	48,261	-7.4%	96,517	-1.3%	2,138,862	11.8%
1973	41,422	-14.2%	82,306	-14.7%	1,782,526	-16.7%
1974	24,397	-41.1%	52,718	-35.9%	1,067,065	-40.1%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1976	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
1977	24,872	29.6%	58,658	23.6%	1,678,629	30.4%
1978	20,315	-18.3%	55,733	-5.0%	1,657,933	-1.2%
1979	20,164	-0.7%	53,654	-3.7%	1,533,436	-7.5%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,444,583	1.8%
1998	18,958	8.0%	47,342	12.6%	1,596,000	10.5%

SOURCES: Massachusetts Institute for Social and Economic Research; Federal Reserve Bank of Boston; United States Department of Commerce.

Both the economic recession of 1989 and 1990 and the subsequent economic recovery were reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 12.0 percent and 34.9 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 3.1 percent in 1994 and declined 1.0 percent in 1995. In 1996 and 1997, however, growth in existing home sales in Massachusetts again outpaced the national average with rates of 18.2 percent and 17.1 percent, respectively. This strong growth continued in 1998 with a rate of 9.0 percent while growth in existing home sales in was 13.7 percent - the highest annual growth rate since 1983. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

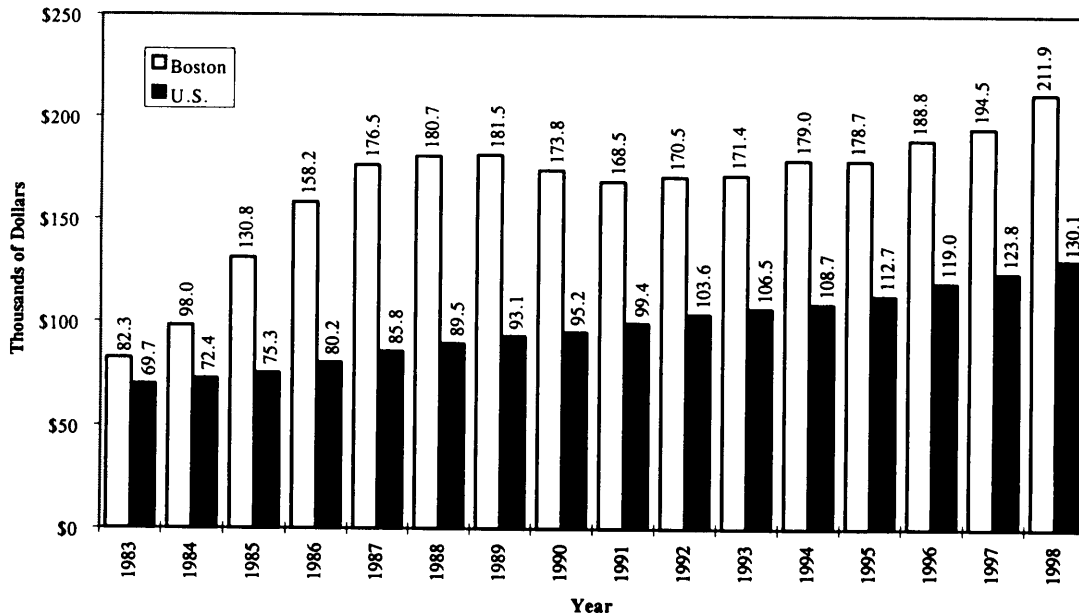
**Existing Home Sales, 1981-1998**  
(seasonally adjusted annual rates, in thousands)

Year	Massachusetts		New England		United States	
	Sales	Percentage Change	Sales	Percentage Change	Sales	Percentage Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.9%	98.6	-6.8%	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	14.0%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.3%	178.5	2.3%	3,882.5	3.1%
1989	67.4	-12.0%	142.8	-20.0%	3,727.5	-4.0%
1990	43.9	-34.9%	NA	NA	3,560.0	-4.5%
1991	49.6	13.0%	NA	NA	3,560.0	0.0%
1992	57.7	16.3%	139.5	NA	3,887.5	9.2%
1993	66.7	15.6%	159.8	14.6%	4,205.0	8.2%
1994	68.8	3.1%	171.2	7.1%	4,382.5	4.2%
1995	68.1	-1.0%	NA	NA	4,230.0	-3.5%
1996	80.5	18.2%	183.7	NA	4,560.0	7.8%
1997	94.3	17.1%	NA	NA	4,726.3	3.6%
1998	102.8	9.0%	NA	NA	5,374.5	13.7%

SOURCES: Federal Reserve Bank of Boston; National Association of Realtors.  
NA = Not Available.

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. Boston home prices remained 62.9 percent above the national average in 1998.

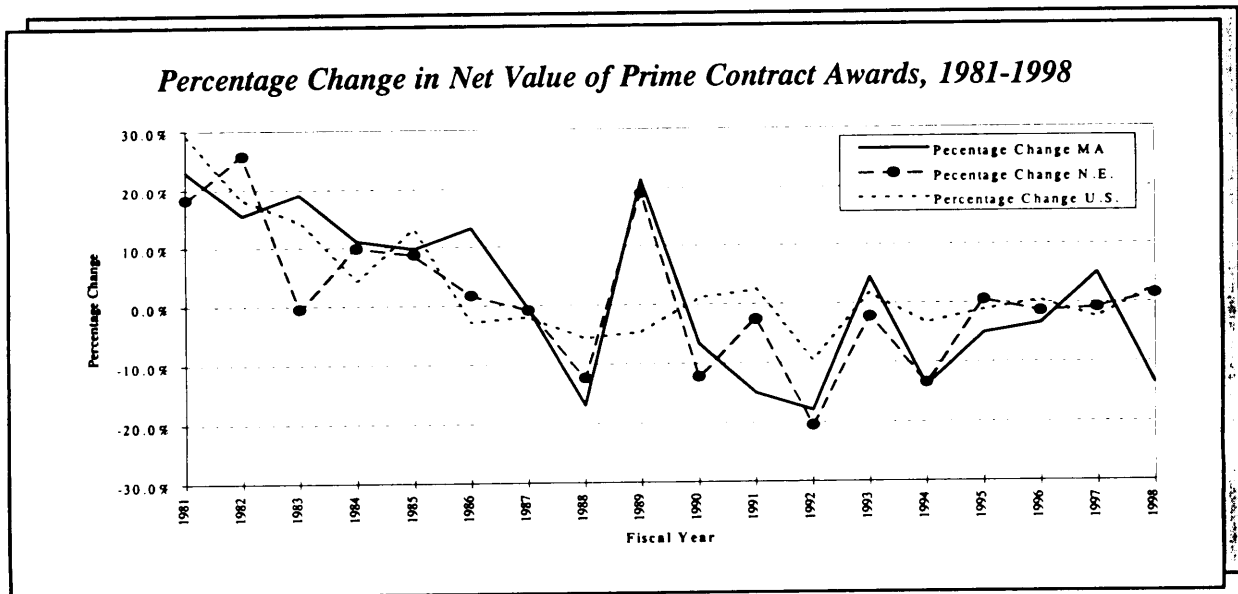
**Average Annual Home Prices, 1983-1998**  
(in thousands of current dollars)



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

**Defense.** Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of \$8.7 billion, defense-related contracts declined 17.2 percent by fiscal 1988 to \$7.2 billion. By fiscal 1996, the value of defense-related prime contracts had declined to \$4.7 billion. Despite an increase for the first time in four years in 1997, the net value of prime contract awards in Massachusetts continued to decline in 1998 reaching its lowest point since 1980.

The importance of the defense industry to the Massachusetts economy is reflected in the following chart and table, which show the value of Department of Defense prime contract awards between 1980 and 1998. Since the early 1980s, the Commonwealth's share of New England's prime contract awards from had remained around or above 50 percent. In 1998, however, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent. While the net value of prime contract awards in New England increased marginally in 1998, the net value remains well below 1980s levels. In 1998, the Commonwealth's share of the national total decreased to its lowest level since such records have been kept.



**Net Value of Department of Defense Prime Contract Awards, 1980-1998**  
(in millions)

<i>Fiscal Year</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>Percentage MA of N.E.</i>	<i>Percentage MA of U.S.</i>
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%

SOURCE: United States Department of Defense.

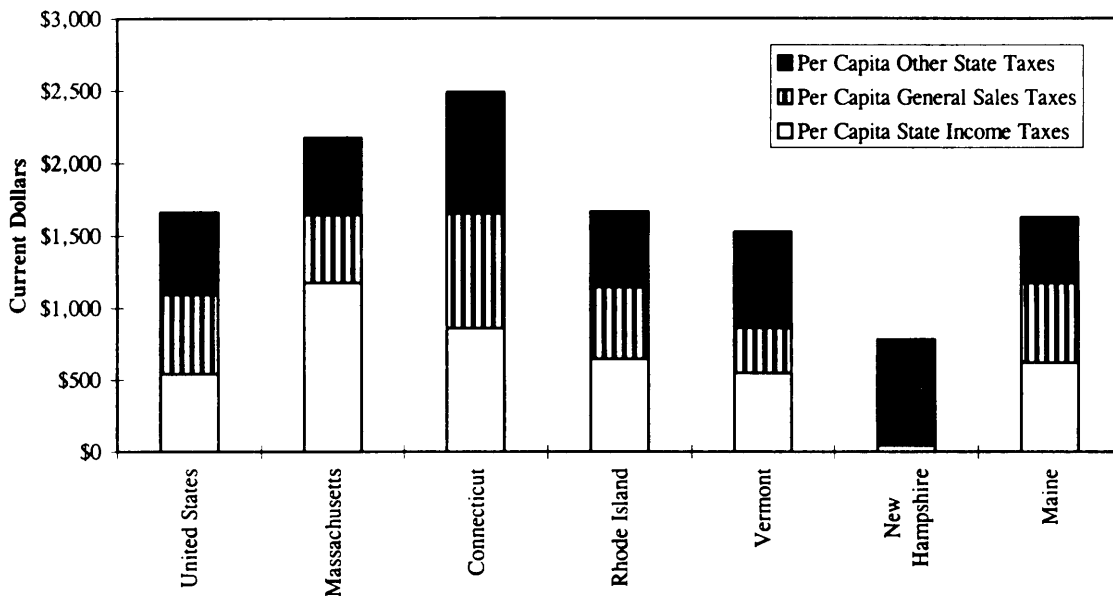
\*Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

**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 represents New England's most popular destination, as the site of many popular and historic attractions including the New England Aquarium, Boston's Museum of Fine Arts, Boston's Museum of Science, the U.S.S. Constitution, the Kennedy Library and Museum, and Faneuil Hall Marketplace.

The Massachusetts Office of Travel and Tourism estimates that 28.2 million people traveled to or within the Commonwealth in 1997, a decrease of 3.7 percent from 1996. Of these, 1.9 million were international visitors. In 1998, Massachusetts attracted more domestic visitors than in 1997, approximately 26.7 million. The latest available economic impact data indicates that spending by visitors to Massachusetts is on the rise, however. In 1997, domestic and international visitors to Massachusetts generated \$10.8 billion in direct expenditures, an increase of 6.0 percent over the 1996 level.

**State Taxes.** State taxes in Massachusetts are significantly higher than the national average. In 1997, the total per capita state tax bill in the United States was \$1,659.77. Citizens of the Commonwealth, however, paid \$2,174.81 on average. In New England, only citizens in Connecticut paid more per capita: \$2,491.07. Over half of the state taxes in Massachusetts come from the state income tax. Per capita income taxes in Massachusetts were \$1,173.88, representing the highest level of per capita income tax in the nation. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes. The chart below displays total per capita state taxes, per capita state income taxes, and per capita general sales taxes for the United States and each of the New England states.

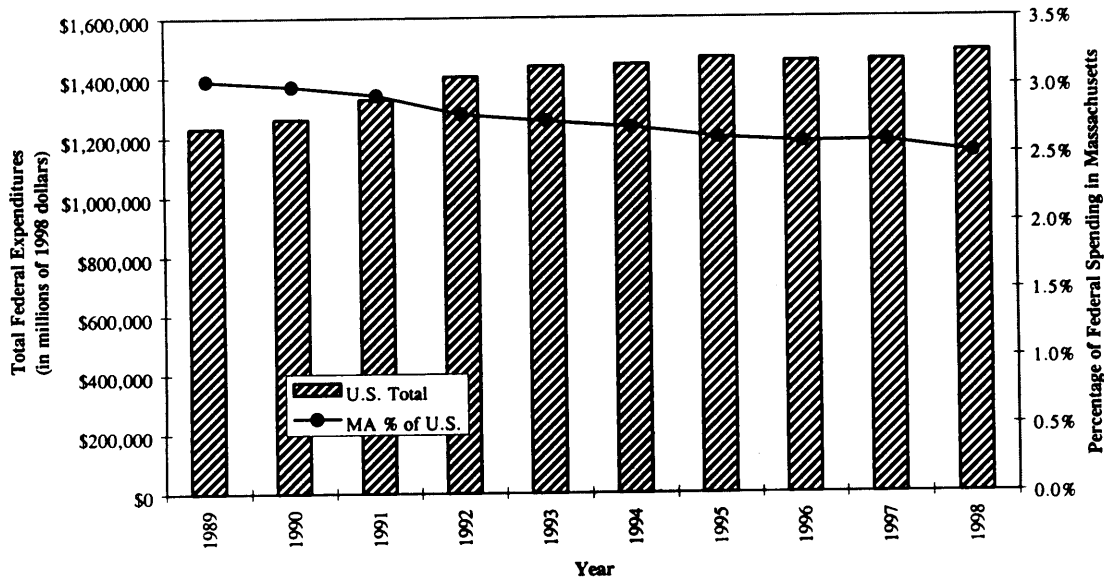
### Fiscal 1997 Per Capita State Taxes



SOURCE: U.S. Bureau of the Census.

**Federal Government Spending in Massachusetts.** Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 1998, Massachusetts ranked ninth among states in per capita distribution of federal funds, with total spending of \$6,047 per person. According to data compiled by the United States Department of Commerce, Massachusetts' share of total federal spending declined steadily between 1989 and 1998. By 1998, Massachusetts' share of total federal spending had dropped to 2.5 percent from 3.0 percent 9 years earlier. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 1998 dollars by MISER using Consumer Price Index data for the United States. 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 which can be associated with individual states and territories.

**Total Real Federal Expenditures and  
Percentage of Federal Expenditures in Massachusetts, 1989-1998**  
(in millions of constant 1998 dollars)

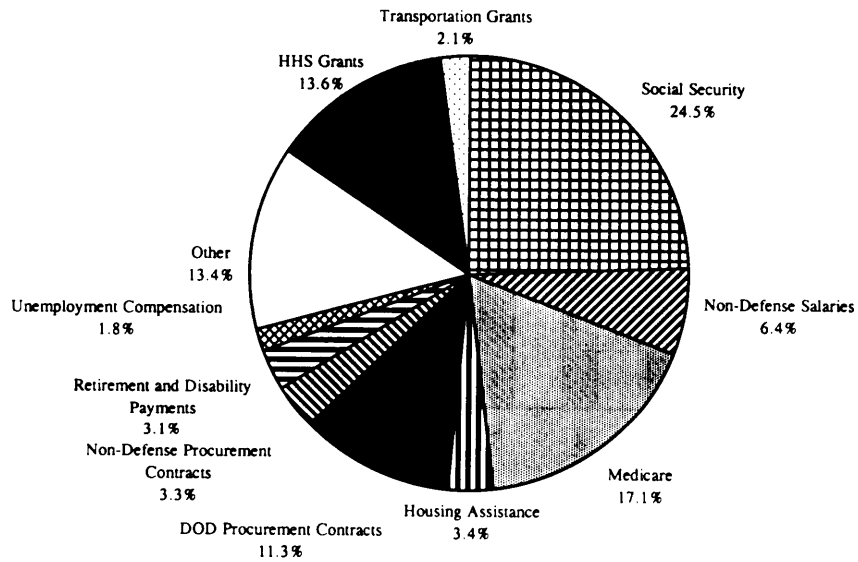


SOURCE: United States Department of Commerce, Bureau of the Census.

A large percentage of federal spending in Massachusetts in 1998 was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$1,305 per capita compared to a national average of \$996. Per capita federal spending on salaries and wages in 1998 was lower in Massachusetts than in the rest of the nation (\$462 compared to a national average of \$630) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$3,394 compared to a national average of \$3,091). Massachusetts ranked tenth among states in per capita procurement contract awards (\$887 compared to a national average of \$774) in 1998.

The following chart shows the composition of federal spending within Massachusetts in fiscal 1998.

*Composition of Federal Spending in Massachusetts by Program, Fiscal 1998*

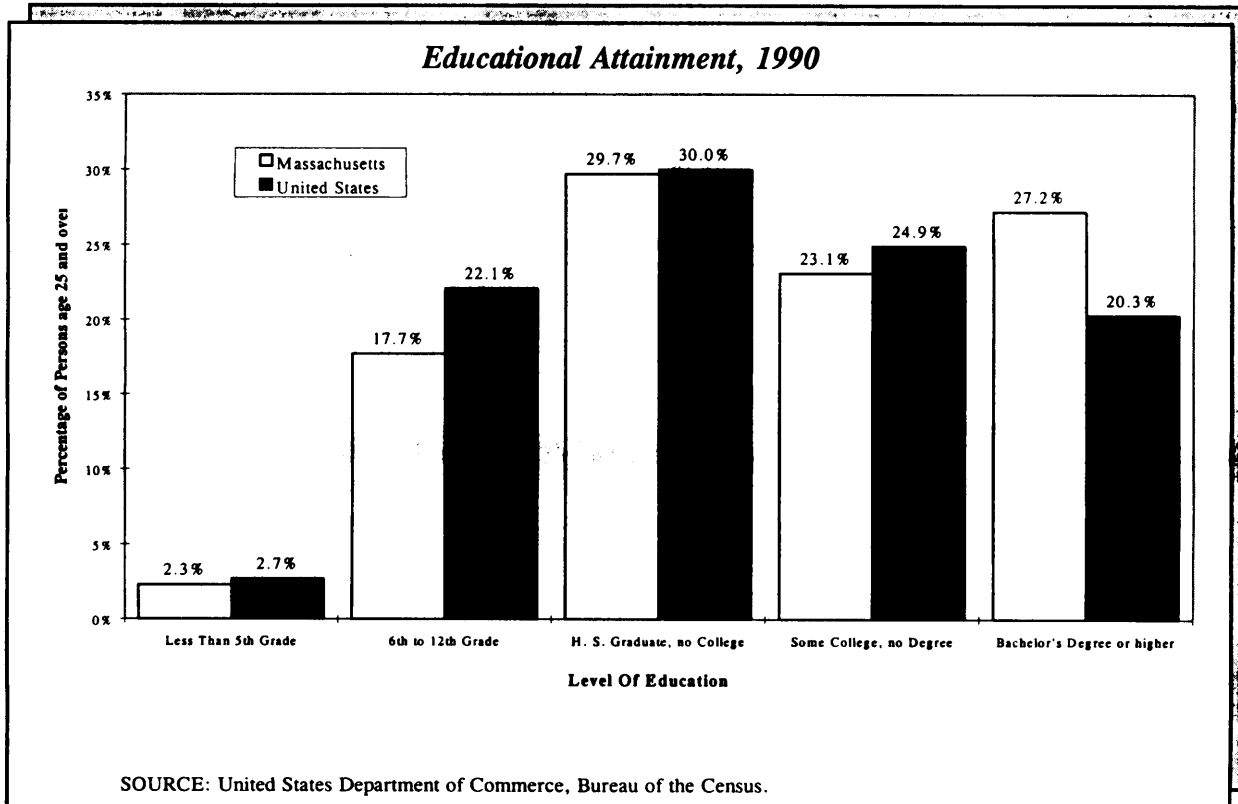


SOURCE: United States Department of Commerce, Bureau of the Census.



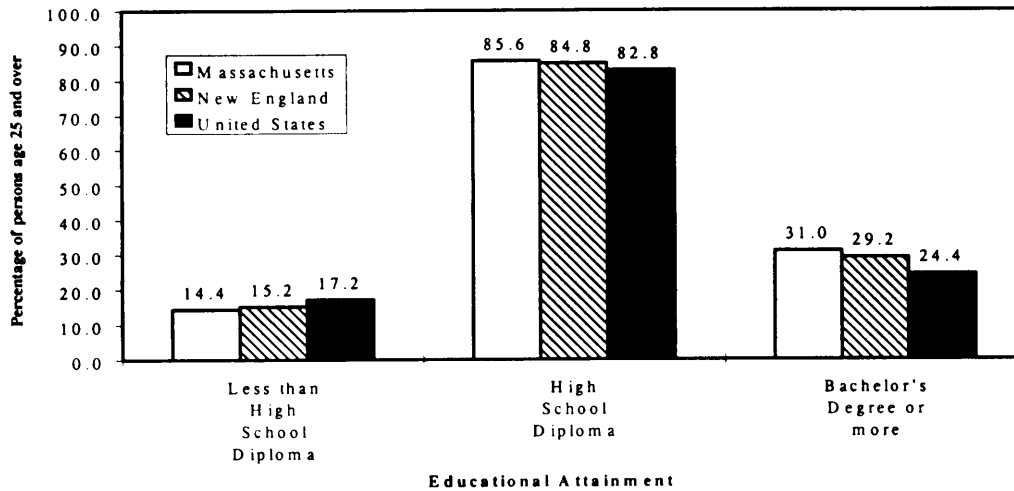
## HUMAN RESOURCES AND INFRASTRUCTURE

**Human Resources.** The availability of a skilled and well-educated population is an important resource for Massachusetts. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In both Massachusetts and the United States, less than three percent of the population over age 25 received less than a fifth grade education. The most significant difference between Massachusetts and the United States is the percentage of people over age 25 with a Bachelor's Degree or higher: 27.2 percent in Massachusetts as compared to 20.3 percent for the United States as a whole. The following chart shows this difference:



While developing this detailed evaluation of educational attainment every ten years, the Bureau of the Census prepares a less detailed analysis of educational attainment between the years of the national census. This analysis follows a representative sample of all fifty states. The most recent analysis for Massachusetts and the United States is March 1998. While this is not an exhaustive study, the following chart shows that Massachusetts continues to rank highly in persons attaining a high school diploma and among the highest in persons completing a bachelor's degree or more.

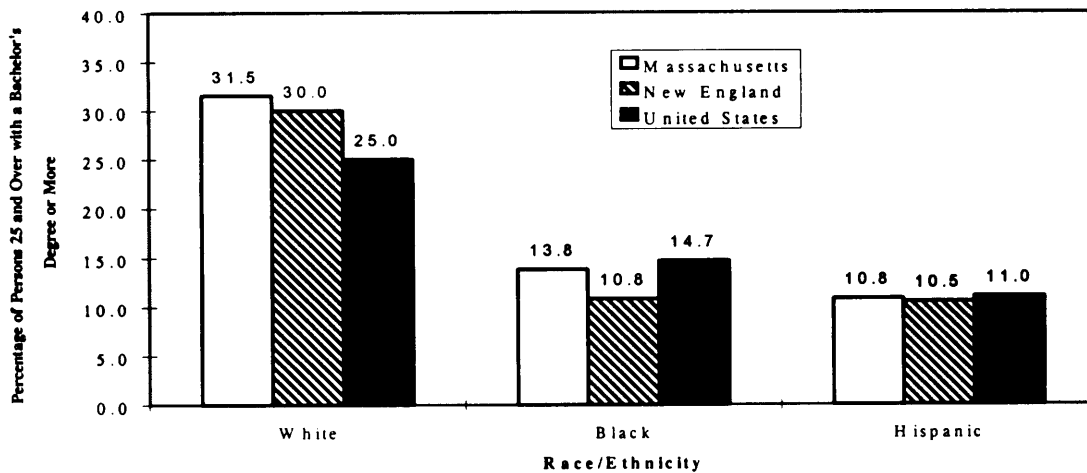
### Educational Attainment by Persons Age 25 and Over, March 1998



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

Massachusetts has a smaller percentage of persons who have not completed high school than New England or the United States as a whole and a higher percentage of persons with a bachelor's degree or more. Massachusetts ranks eighteenth in the nation in percentage of its population having received a high school diploma or more. The Commonwealth ranks fourth among the fifty states in percentage of persons over 25 with a bachelor's degree or more. However, these data obscure significant differences in educational attainment across racial and ethnic lines. While blacks and Hispanics fare worse than whites in educational attainment throughout the nation, the difference is particularly pronounced in Massachusetts. As the chart below indicates, a far higher percentage of whites have a bachelor's degree or more in Massachusetts than in the rest of the nation, but blacks and Hispanics in Massachusetts trail the national average.

### Persons 25 and Over With a Bachelor's Degree or More By Race/Ethnicity, March 1998



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

In the 1998 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th graders and 8th graders around the nation were given standardized exams in reading. Among 4th graders, only students in Connecticut achieved statistically significant higher reading scores than students

in Massachusetts while among 8th graders, no state had statistically significant higher reading scores than Massachusetts. In a similar 1996 study, 4th and 8th graders were given standardized exams in mathematics and science. In science, only 8th graders in Maine, North Dakota, and Montana achieved statistically significant higher scores than 8th graders in Massachusetts. In mathematics, only 4th graders in Maine, Minnesota, Connecticut, Wisconsin, and North Dakota achieved higher average scaled scores than Massachusetts 4th graders. Massachusetts 8th graders also performed well in mathematics, achieving the 10th highest average scaled score among states.

Although spending on education is not necessarily an indication of results, since at least 1981, Massachusetts has spent more per pupil on primary and secondary education than the national average. Between fiscal years 1981 and 1997, the ratio of Massachusetts spending to the national average has varied between 1.12 and 1.27. In fiscal 1997, this ratio remained essentially the same after rising for four straight years. Massachusetts spent 24 percent more on public elementary and secondary education than the United States average in fiscal 1997: \$7,331 per student compared to a national average of \$5,924 per student. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
1981	\$2,735	\$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,924	1.24

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

Massachusetts is an internationally recognized center for higher education, with 411,676 students in undergraduate, professional and graduate programs in 1996, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 1998 was 27,121, representing 5.6 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 173,854 students in 1996. In addition, Massachusetts has a system of private higher education that accounted for 57.8 percent of total enrollment in Massachusetts in 1996. 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. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 1996, 16,455 first-time freshmen migrated into the Massachusetts higher education system from outside New England, representing 26.4 percent of all incoming freshmen in that year. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 1996, Massachusetts institutions conferred a total of 2,376 doctoral degrees. This

represents 5.3 percent of the total number of doctoral degrees conferred in the United States and an increase of 9.4 percent over the number of doctoral degrees conferred in Massachusetts in 1991.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 5.2 percent of total national expenditures on R&D at such institutions in fiscal 1998, ranking Massachusetts fifth in the nation behind only California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 8.1 percent (\$2,045,003,000) of the total research and development funds (\$25,341,760,000) spent by such institutions in fiscal 1998. Massachusetts institutions spent 64.6 percent of these funds (\$1,322,092,000).

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. According to the National Science Foundation, of the \$887,147,000 of total fiscal 1997 federal obligations for science and engineering research to universities and colleges in Massachusetts, 51.4 percent was from the Department of Health and Human Services, 18.3 percent was from the National Science Foundation, 11.4 percent was from the Department of Defense, 9.1 percent was from the Department of Energy, and 5.9 percent was from the National Aeronautics and Space Administration.

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with telephone, computer, and internet access. In 1998, 95.5 percent of homes in Massachusetts had telephones compared with 94.1 percent of homes in the United States. Among homes in Massachusetts, 43.4 percent had a computer compared with 42.1 percent nationally, and 28.1 percent of homes in Massachusetts had internet access while 26.2 percent of homes nationwide had such access. In New England, New Hampshire fares better than Massachusetts in all three measures, and Vermont and Connecticut both have a higher percentage of homes with computers and internet access.

**Major Infrastructure Projects.** The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand. According to the Massachusetts Turnpike Authority, when completed, the Central Artery will accommodate an estimated 245,000 vehicles per day. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. Construction of the Ted Williams Tunnel began in 1992 and stretches under Boston Harbor from South Boston to Logan Airport. The tunnel opened to commercial traffic in late 1995 and is expected to be open to all traffic by December 2001. Currently, an average of more than 20,000 vehicles use the tunnel every weekday. The Central Artery Project is expected to be completed by 2004 at an estimated total cost of \$10.8 billion, with 70 percent to be paid by the federal government and 30 percent to be paid by the Commonwealth. As of November 1999, final design is 98 percent complete and construction is 61 percent complete.

Massachusetts is also home to Logan International Airport and the Port of Boston. In fiscal year 1999, 26.5 million passengers and nearly 950 million pounds of cargo and mail passed through Logan. A \$1 billion modernization program is currently underway to prepare the airport for the future, including expansion of terminal space. In 1998, 1,118,760 tons of containerized cargo moved through the Port of Boston, representing a 0.4 percent increase from the previous year's volume.

The Massachusetts Water Resources Authority is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. According to the MWRA, the

construction portion of the Boston Harbor Project is 98 percent complete. The harbor cleanup project is estimated to cost \$3.6 billion. Work on the project began in 1988 and is expected to be completed in Sept., 2001, though all process facilities will be completed in 2000. The centerpiece of the project is a new sewage treatment plant on Deer Island. The first half of the plant, portions of which became operational in January 1995, is a larger, more effective primary treatment plant to replace the existing one. The majority of the project's expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. According to the MWRA, through fiscal 1999, the Boston Harbor Project had received \$834 million in federal and state grant funding.

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FORM OF BOND COUNSEL OPINION

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

**PALMER & DODGE LLP**

One Beacon Street, Boston, MA 02108-3190

TELEPHONE: (617) 573-0100

FACSIMILE: (617) 227-4420

[Date of Delivery]

The Honorable Shannon P. O'Brien  
Treasurer and Receiver-General  
The Commonwealth of Massachusetts  
State House - Room 227  
Boston, Massachusetts 02133

(The Commonwealth of Massachusetts  
General Obligation Bonds, Consolidated Loan of 2000, Series A)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of \$496,305,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2000, Series A, dated February 1, 2000 (the "Bonds").

The Bonds mature and bear interest and are subject to redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds. The Bonds are immobilized in the custody of The Depository Trust Company and a book entry system is being used to evidence ownership and transfer on the records of The Depository Trust Company and its participants.

We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion. On the basis of this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of The Commonwealth of Massachusetts and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of The Commonwealth of Massachusetts 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.

The Honorable Shannon P. O'Brien

[Date of Delivery]

Page 2

2. 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.

3. The interest on the Bonds (including any original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

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

Yours faithfully,



Commonwealth of Massachusetts

General Obligation Bonds  
Consolidated Loan of 2000, Series A

Continuing Disclosure Undertaking

[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated February 17, 2000 (the "Information Statement"), as it appears in the Official Statement dated February 17, 2000 relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 2000, Series A, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

<b>Financial Information and Operating Data Category</b>	<b>Reference to Information Statement for Level of Detail</b>
6. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"COMMONWEALTH PROGRAMS AND SERVICES - State Workforce"
7. Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL SPENDING - Historical Capital Spending"
8. Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities"
9. Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities"
10. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
11. 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	"COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds"
12. Five-year summary presentation of authorized but unissued general obligation debt	"COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt"
13. Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt"
14. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits"
15. Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases"
16. Summary presentation of long-term capital leases for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases"
17. Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - School Building Assistance"

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

accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Commonwealth.

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties<sup>1/</sup>;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to the rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities<sup>2/</sup> and
- (xi) rating changes.

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

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with

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

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

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.

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MSRB

FORM G-36 (OS) - FOR OFFICIAL STATEMENTS

**SECTION I - MATERIALS SUBMITTED**

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one)

1.  A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies):(a) DATE RECEIVED FROM ISSUER: 02/22/2000 (b) DATE SENT TO MSRB: 02/22/20002.  AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies):

(a) DATE RECEIVED FROM ISSUER: \_\_\_\_\_ (b) DATE SENT TO MSRB: \_\_\_\_\_

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, CHECK HERE (include copy of original Form G-36(ARD)): **SECTION II - IDENTIFICATION OF ISSUE(S)**Each must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here: 

A.	NAME OF ISSUER:	THE COMMONWEALTH OF MASSACHUSETTS	STATE:	MA
	DESCRIPTION OF ISSUE:	GENERAL OBLIGATION BONDS CONSOLIDATED LOAN OF 2000A	DATED	02/01/2000
B.	NAME OF ISSUER:	_____	STATE:	_____
	DESCRIPTION OF ISSUE:	_____	DATED	_____
C.	NAME OF ISSUER:	_____	STATE:	_____
	DESCRIPTION OF ISSUE:	_____	DATED	_____
			DATE:	_____

**SECTION III - TRANSACTION INFORMATION**

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 02/01/2020

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 02/17/2000

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 02/24/2000

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE:   
A separate Form G-36 (ARD) and copies of the advance refunding document must be submitted for each issue advance refunded.

**SECTION IV - UNDERWRITING ASSESSMENT INFORMATION**

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER: SALOMONSMITHBARNEY SEC REG. NUMBER: 8-08177

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$ 496,305,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): \$ \_\_\_\_\_

D. CHECK ALL THAT APPLY:

1. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
2. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
3. This offering is exempt from SEC Rule 15c2-12 under section (d)(1)(i) of that rule. Section (d)(1)(i) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment, and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

CONTINUED ON OTHER SIDE

**SECTION V – CUSIP INFORMATION**

MSRB rule G-34 requires that CUSIP numbers be assigned to each issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

**A. CUSIP-9 NUMBERS OF ISSUE(S)**

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
02/01/01	575827 XC9	02/01/08	575827 YD6	02/01/15	575827 XS4
02/01/02	XD7	02/01/09	XL9	02/01/15	YL8
02/01/03	XE5	02/01/09	YE4	02/01/16	XT2
02/01/03	XY1	02/01/10	XM7	02/01/17	XU9
02/01/04	XF2	02/01/10	YF1	02/01/18	XV7
02/01/04	XZ8	02/01/11	XN5	02/01/19	XW5
02/01/05	XG0	02/01/11	YG9	02/01/20	XX3
02/01/05	YA2	02/01/12	XP0		
02/01/06	XH8	02/01/12	YH7		
02/01/06	YB0	02/01/13	XQ8		
02/01/07	XJ4	02/01/13	YJ3		
02/01/07	YC8	02/01/14	XR6		
02/01/08	XK1	02/01/14	YK0		

**B. IF ANY OF THE ABOVE SECURITIES HAS A CUSIP-6 BUT NO CUSIP-9, CHECK HERE AND LIST THEM BELOW**   
 (Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED \_\_\_\_\_

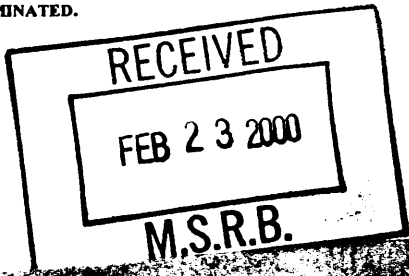
State the reason why securities have not be assigned a "Cusip-9" \_\_\_\_\_

**C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE**

State the reason why securities have not be assigned a "Cusip-9" \_\_\_\_\_

**SECTION VI – MANAGING UNDERWRITER’S CERTIFICATION AND SIGNATURE**

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED CERTIFIES THAT THE MATERIALS WILL BE PUBLICLY DISSEMINATED.



ON BEHALF OF \_\_\_\_\_

SIGNED: \_\_\_\_\_

NAME: \_\_\_\_\_

PHONE: \_\_\_\_\_

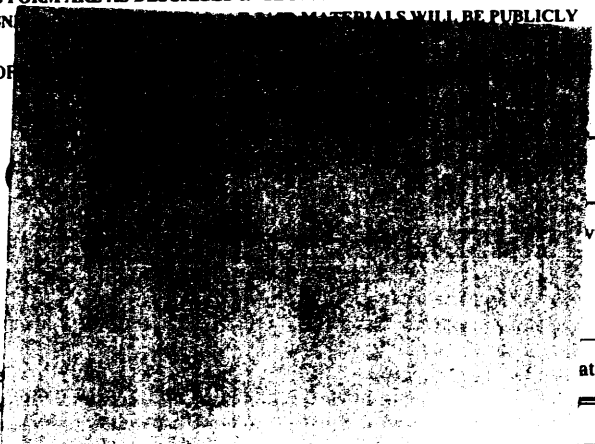
most likely to be re \_\_\_\_\_

for detailed in \_\_\_\_\_  
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his form and ... \_\_\_\_\_

the meaning of rule G-36. \_\_\_\_\_

g materials to MS B, MSIL System, 1640 King Street, Suite 300. Alexandria, Virginia



(writer.)

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